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The Executive and Collective Bargaining

By LEO WOLMAN*
Professor of Economics
Columbia University

Stressing incentives as essential to greater production, Dr. Wolman contends collective bargaining transfers authority from the employer to union and, unless curbed, will convert nation to socialistic system.

I am going to talk briefly to you about the labor problem, which you all know is an important problem. I shall talk particularly about "Collective Bargaining," and I want to make a few preliminary remarks before I plunge into what I have on my mind.

Prof. Leo Wolman

In the first place, the labor problem in a democratic country, which is what we still are, is an insoluble problem. You can do anything you like and you don't solve the problems, and the reasons for that

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*An address by Dr. Wolman at Employee Relations Luncheon of Personnel Committee at 30th Annual Convention of American Gas Association, Atlantic City, N. J., Oct. 7, 1948.

PICTURES taken at recent meeting of the Bond Traders Club of Kansas City, Mo., will be found on page 12.

The Foremost Problem of ERP

By WALTER SULZBACH

Political economist maintains ERP is being operated under assumption exchange controls result from so-called "dollar shortage," whereas actually converse is true. Maintains controls causing reduction in trade between European nations and paralysis of markets at home. Declares ERP cannot achieve its purpose and "dollar shortage," which is not result of war, will go from bad to worse, as long as exchange controls are allowed to persist. Says we should restrict help to countries who sacrifice their "money prejudices" and follow honest policy of making their currencies convertible.

The European Recovery Program is the answer of the United States to the outcry of the Western European nations that they are short of dollars. It is an attempt on the part of the American people to solve the "dollar shortage" problem. Once the Congress had voted funds for the ERP either of two possible procedures might have been adopted. The ECA might have called in a number of economists (economists, not statisticians) and asked them to find out the meaning of the "dollar scarcity" concept; and no action would have been taken before this concept had been clarified. Or the ECA might have started right away shipping goods to Europe leaving it to the economic implications of its efforts to take care of themselves.

Walter Sulzbach

The ECA has chosen to adopt the second course. In a field where a grain of thought should have been more highly appraised than a ton of exportable goods, action was taken immediately and no thought appears to have been given to the meaning of the "dollar scarcity" which we are trying to heal. As a result, billions of

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Investment Probabilities Under a Labor Government

By G. M. LOEB
Partner, E. F. Hutton & Company
Members, New York Stock Exchange

Mr. Loeb holds Truman victory was no ordinary election, but represents end of Republicanism in U. S., and, as result, markets must now consider prospects of reduced corporate earnings. Does not see any immediate prospect of "a bust," but predicts business at fairly high levels with lower profits. Concludes unfavorable side of picture is likely to be overdone.

The election of President Truman plus a Democratic Congress has far more significance than any election since that of 1932. In 1932 we embraced what President Roosevelt labeled a "New Deal." Actually, he achieved a very effective redistribution of wealth as between different sectors of the nation's population. President Roosevelt and his party represented all the American citizenship yet actually he and his supporters arbitrarily favored some above others. In the main, his yardstick was the numerical voting strength of different population groups which meant favoring the lower income groups.

G. M. Loeb

All over the world the "revolt of the masses" has been under way in some form or another. As always, thought seems to travel westward starting like time at "Greenwich." It seemed a few days ago as if this nation might

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EDITORIAL

As We See It

The Election — Some Second Thoughts

At the very beginning let us freely admit that we were as much surprised as the other one hundred and forty-odd million with the outcome of the Presidential election. Let us further assert quite candidly that we were and still are disappointed. We had felt and still feel that a change in Washington was needed. While far from enthusiastic about the particular change which would have occurred had Governor Dewey won, we believed and still believe that there was more to be said for it than against it. With this much on the record, we may proceed to certain observations without risk of being accused either of talking "sour grapes" or of indulging in excessive rationalization.

Our first observation is this: The country has once again confirmed its choice of a definitely New Dealish philosophy —and would have done so in almost equal degree had it chosen the Republican candidate for the Presidency. Indeed, there would have been no clear rejection of the Rooseveltian dogma even if a Republican "conservative," such as Senator Taft, had been elected. So powerful has the world-wide trend toward socialistic notions, and, in this country in par-

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Open-End Trusts Buy, Closed-Ends Sell

By HENRY ANSBACHER LONG

Open-end funds purchase utilities, oils, rails and bank stocks. Half of all trusts increase cash and governments, while others decrease liquid reserves. Managers now report watchful-waiting period pending clarification of new Administration's political program.

Sixty-five per cent of the open-end investment funds purchased common stocks on balance during the third quarter of the current year, while in contrast all but two of the closed-end companies reviewed in this survey sold equities. These latter two companies, Adams Express and American International Corporation, which are jointly sponsored, committed themselves, moreover, only to very light purchase balances, even though their cash reserves amounted to substantial percentages of total assets. Approximately half the number of funds in each of the three groupings of balanced, common stock and closed-end categories increased cash reserves during the three-month period.

Henry A. Long

Oil stocks still maintained their popularity and, exclusive of portfolio additions resulting from stock dividends, were purchased in volume equal to that of the preceding quarter. Volume of selling transactions, however, was 25% below that in the previous three-month period. Utilities were also in marked favor and purchases of both rail and bank stocks took a noticeable upturn. The nonferrous metals continued to be well liked, although the number of purchases was down one-half from the June quarter. Managers were also bullish on the steels, tobaccos and aircraft companies and, among individual issues there was a relatively large number of increases in portfolio holdings of both General Motors and General Electric. Sales were concentrated in the shares of companies in the beverage and food fields.

Total transactions decreased by a third in volume from that of the preceding quarter, but the decline in the number of sales was almost twice that of purchases. Thus, in the quarter under review the number of additions to portfolios exceeded eliminations by 30% as contrasted with a like figure of 30% in the preceding three months.

Since these operations were based on the outlook previous to the elections, the question arises as to subsequent shifts in appraisal of the financial and economic picture and changes in investment policy. An attempt has been made at clarification by obtaining the opinions of a quarter of the managements whose sponsored funds are covered in this survey one week after the people of the nation registered their will at the polls. In general, officers of funds and boards felt it was too soon to make any substantial alterations in portfolio composition and even the feeling that changes might be subsequently necessitated by the unanticipated political results was not uniformly shared. To appreciate this latter point of view we quote from the third quarter report to shareholders of the Axe-Houghton Fund, submitted by Ruth Houghton Axe. No opinion has been submitted by the Axe firm as to their policy since the re-election of Mr. Truman and his acquisition of a Congressional working majority, but this statement points up the similarities to and contrasts with the post-election picture as reflected in the subsequent replies furnished by fund executives.

Dated Oct. 26, the Axe statement reads: "So far as we can see at the present time the outlook may be summarized as follows:

"(1) Business activity in the heavy industries is likely to remain at about capacity levels for some time.

"(2) The semi-durable goods industries are likely to fluctuate about the way they have over the past two years. Elsewhere, readjustment is likely to continue piecemeal while activity in general remains high.

"(3) Some further readjustment in agricultural commodity prices is likely to occur, but it is unlikely to have an important general effect.

"(4) Profit margins may decline moderately in some industries, but the general level of earnings is likely to remain fairly high.

"(5) Price-earnings ratios are at a very low level. This is due partly to the fact that some investors still imagine, as they did in 1922-24, that the general price-level and earnings will sooner or later return to prewar levels. But the main cause of low price-earnings ratios is fear of war. . . . The forces making for continued business activity and moderate further inflation have been somewhat strengthened during the last six months. In the long run these economic fundamentals are likely to have an effect on stock prices even though their immediate course will probably be influenced largely by psychological factors."

In order to evaluate post-election investment sentiment, although admittedly somewhat premature, the following two general questions were asked managements:

First—"What changes had been made generally in cash and investment position during the month of October?"

Second—"What general shifts if any do you presently contemplate in cash, type security, industry group in view of elections?"

As pointed out earlier in this article, the majority view indicated a policy of waiting clarification of legislative and executive programs, particularly in regard to taxes, price controls and allocations, with emphasis on importance placed in that order. Opinion in most instances was that there would be a higher corporation tax, but not in the form of an excess-profit levy. Those companies, both open and closed-end, heavily committed in equities, with minor cash reserves, foresaw no drastic alterations in their present industry groupings. Light purchases were made during October by some open-end funds in this category from cash received through sales of their own participations to the public. Larger closed-end trusts with substantial cash reserves were "husbanding their liquidity" and pursuing a very cautious policy. One of these companies which previous to the election planned to buy around the 176 D-J industrial average now has decided to wait for a lower level at which to commence placing purchase commitments. Another smaller closed-end fund which had a comfortable cash position at the end of the quarter increased its liquidity both previous to and immediately following the election. Two open-end funds of the balanced type operated divergently since the elections, although both had excellent cash positions on the first of November. Wellington Fund increased its equity position, while the Russell Berg Fund lightened its common stock holdings.

With respect to individual industry groups, three managements expressed the opinion that there would be little affect on utilities, other than temporary unreasoned liquidation. One executive said there was little to fear from either the FPC, SEC or local regulatory bodies—that was for the most part water over the dam during the last 10 years. Outlook towards bank stocks was less sanguine and a squeeze was generally anticipated in equities of food and other companies that supply essential cost of living items. The outlook was more optimistic on the heavier industries, metals and oils.

The following statements have been made by executives of several of the leading investment companies in reply to our query:

BALANCED FUNDS:

Charles M. Werly, Trustee of The George Putnam Fund—(Slight change in balance during October. Purchased National Biscuit and United Aircraft; eliminated Babcock and Wilcox). "Any discussion of the investment consequences of the elections seems almost like a case of 'Fools walk in where angels fear to tread.' We do not anticipate any drastic change in the investment policies of the Fund as a result of the elections. We are trying to view the situation realistically and not to come to any snap judgments. Our preliminary reaction is to cut back somewhat on the Fund's equity position which is now around 60% and to change the weighting of certain industries. The Fund's backlog of 23% is highly liquid being primarily in short-term Treasury certificates and commercial paper."

Carl A. R. Berg, President Russell Berg Fund—"Have reduced common stock commitments to about 45%, a 10% reduction having taken place just after elections on the rally before the second break in the market. Believe capital expenditures of corporations may be reduced in view of

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The Money Mill and Prices

By E. M. ZIMMERMAN

Laying currency inflation to the New Deal, Mr. Zimmerman asserts prices do not go up but value of dollar goes down, because of "too much money." Traces inflation history and indicates price controls have never halted inflation. Says inflation acts as anesthetic and it is hard nut to crack by either Republican or Democratic parties and there is, accordingly, a search for a scapegoat.

THREE DOLLARS FOR ONE! Yes—sixty, one dollar bills for a single twenty dollar gold piece! Sounds fantastic, like a tale from "Alladin's Lamp" doesn't it? But, it's true as gospel. You can go into the gold and exchange market in Paris, the one legitimate free gold market in the world, and change your United States $20 gold piece for 60 paper dollars with George Washington's picture on them.


E. M. Zimmermann

Step aboard a plane and the next day take yourself to your New York butcher shop with your paper dollars and he'll charge you $1 a pound for a good juicy porterhouse. Now — what would happen if you could just reverse this process? How would it operate if you could take your 60 U. S. paper dollars to the free gold market in France and change them with a $20 gold piece? Why, your butcher, if he knew money values, would let you have the same kind of porterhouse for 33 cents a pound in gold. Also, some Federal officer would tap you on the shoulder and invite you to come along with him and be the guest of the government at Fort Levenworth, or Atlanta, or even Uncle Sam's famed Summer resort off the coast of California—Alcatraz. How come? Because your Uncle says that you are a criminal if you own gold in this country unless you are a jeweler or tooth carpenter or in some other business which requires the use of the yellow metal.

For the past 15 years it has been illegal for any of us to have more than a gold pocket piece in our possession. Meanwhile, there have been floods of paper money, green seal Federal Reserve notes; brown seal Federal Reserve Bank "assignats"; blue seal silver notes; yellow seal "Invasion" bills; brown seal Hawaiian notes; red seal "greenbacks," and, most of all, interest-bearing currency of large denomination. Billions of such currency floating around! Paper money galore!

Prices Not Going Up

But, what's all this got to do with $1 porterhouse? Just this. The figures on the price tags—eggs at 95 cents a dozen, steak at $1 a pound and a $4,000 house selling at $12,000 and all the other prices which have trebled since 1933, have not done so because of profiteering big business; cannot be blamed on greedy labor unions or put on the shoulders of the grasping farmers. Such prices are really the fault of each and every one of us because we have allowed our servants at the nation's capital to print too many dollars. Prices are not going up! The value of our dollar is going down! It has been doing so for 15 years. The unsound and absurd monetary and fiscal policies of the New Deal have destroyed about two-thirds of the value of our dollar. It is now worth about 33 cents in gold. This same value for the dollar is shown in the index of the U. S. Bureau of Labor Statistics which currently stands around 305-306 with 1939 as 100.

There is just no use trying to kid ourselves or in letting the politicos pull the wool over our eyes any longer. The sooner we all waken up to the fact that today's high prices are caused by our dollar going down—and down —and down the better it will be for all of us. Let's stop it.

The present hullabaloo about the high cost of living, however, is historical. Throughout the ages in periods of inflation people have not realized what was happening to their currencies. They thought prices were going up, when the truth was that their money was going down. In Germany's 1913-1923 inflation orgy, the people did not waken up to what was going on until their mark was approaching extinction.

Too Many Dollars

In the very last analysis inflation is merely a phase of the immutable, unchangeable and invariable law of supply and demand. In inflation, however, the supply is in the amount of money of all kinds outstanding. We now have just too much money. The late Dr. Kemmerer, than whom there was no greater authority on money in the Western hemisphere, defined inflation in these simple words: "Inflation is too much money."

When there is too much money the value of each piece goes down in what it will buy, just as our dollar has lost about 60-70 cents of its buying power. In the early Thirties you could go to your butcher and buy a three pound prime rib roast for 75 cents. Now the same beef costs you $2.40-$3. When you passed 30 cents over the counter your grocer would hand you a dozen fresh grade "A" eggs. Now they cost you more than three times as much. Twenty-nine cents bought a pound of butter; 20 cents a pound of sliced bacon and 16 cents a pound of pork chops. The tripling and quadrupling of such prices in today's markets is because the value of your dollar is going down. It cannot be repeated too often, or with too much emphasis that the reason the dollar is going down is

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Monetary Reconstruction

By ALLAN SPROUL*

President, Federal Reserve Bank of New York

Asserting soundness of dollar is cornerstone of world monetary reconstruction, Federal Reserve executive lays inflation more to rapid velocity of monetary circulation than to large money supply. Admits government bond support hampers credit restriction, but points to large public and private expenditures as heaviest inflation pressure which cannot be coped with by tougher monetary policy. Sees no immediate danger to dollar soundness and predicts dollar deficit abroad beyond 1952. Holds stable exchange rates less important than unemployment, and difficult task of International Monetary Fund is to get nations to abide by disciplines required by an international monetary standard.

Since the Chairman of your New York Convention Committee has been a sometime critic of our policies of monetary reconstruction in the United States, I am tempted to begin my remarks with some reference to domestic monetary matters. This is not so foreign to a foreign trade convention as it might seem. The cornerstone of monetary reconstruction in the world, after two destructive world wars, has been and is the United States dollar. To reestablish a world monetary system there must be some fixed point of reference, and in the world today that fixed point of reference is the dollar—and through the dollar it is gold. If we undermine the stability of the United States dollar, we shall not serve the cause of international monetary reconstruction.

Allan Sproul

No one would have the temerity, I assume, to say that the dollar is not presently a sound currency—and so long as we keep our fiscal house in order and so long as our international balance of payments does not pass permanently into deficit, a most unlikely contingency, the dollar will remain a sound currency. What is asserted or charged or implied, however, is that by following a faulty and inconsistent policy of combined restraint of bank credit expansion and support of the government security market, we are contributing to a decline in domestic purchasing power of the dollar—to inflation—and risking eventual damage to the international position of the dollar, and to the international position of the country at a critical time. Specifically the charge has been made that there has been an increase in the money supply since the war, that this increase has come about largely because of our support of the government security market, and that this has been the cause of inflation. Our more sophisticated critics, of course, do not make such bald statements, but I am dealing here with the product in the rough.

Gross National Product and Money Supply

We could all agree, I suppose, that when purchasing power, both accumulated and currently becoming available, is in excess of the existing supply of goods and services, valued at current prices, and when that purchasing power is pressing on the market, you will have a form of inflation. Even here, however, we must keep in mind a distinction between the total money supply and the intensity of its use. Because of the increases which have taken place in production and in prices during the war and post-war years there has been a tremendous increase in the gross national product of the United States, expressed in dollars, and the relation of our money supply to gross national product is not far from what it has been in times past. In other words we have, to a considerable extent, grown up to the increased money supply which the necessities of war finance forced upon us. If the existing money supply were to contribute actively and urgently to further inflationary pressures, it would have to express itself largely in an increase in the velocity of money, and the impetus for such an increase would have to come from outside the supply of money itself. It might be said that a real labor of Sisyphus is trying to combat a rise in the velocity of money by forcing a contraction in the volume of credit.

That is the kind of reasoning which was behind my testimony before the Senate Banking and Currency Committee that expansion of bank credit since the end of the war has not been a major element in the inflationary pressures which have been generated in our economy. I said:

"Some of that expansion of credit was necessary and the rest played a minor part in creating existing inflationary pressures. The present inflationary movement received its main impetus from sharply rising food prices, from a first, second, and third round of wage increases, and from a high level of capital expenditures, all operating against the background of wartime deferred demands and accumulated liquid funds of our people, and the heavy demand for our products from all parts of the world."

In partial support of this statement, which I know involves some elements of the chicken and egg argument, I gave the committee comparative figures of total demand deposits adjusted and currency outside of banks, which is one definition of the money supply. Figures as of June 30, 1948 showed that the money supply, so defined, was $108.3 billion, which was a reduction of approximately $5.3 billion since Dec. 31, 1947, and a reduction of $133 million since June 30, 1947. In other words, I said, the rise in the general price level during the past year has occurred without any increase in the money supply.[1] If I had taken the nearest date to the end of the war (end of August, 1945), the comparison with the figures for June 30, 1948, would have shown an increase of $8.3 billion or 8.3% in nearly three years.

Effect of Low Interest Policy

It may well be argued, of course, that there should have been no expansion of the money supply during this period or that there should have been some contraction, growing out of the use of a substantial budgetary surplus for anti-inflation purposes. That is where some of our critics say we have been mostly at fault, and that the fault grows out of our support of the government security market and our alleged addiction to low interest rates. I would have to agree that support of the government security market has restricted our freedom of action with respect to restraining any expansion of bank credit or the money supply. But, before our support policy is changed or abandoned in the interests of a more restrictive credit policy, I should want to look further down the road which is being pointed out to us, and further down the road our country must travel in these critical days.

What do our critics suggest? Some say that we are wrong to support government securities at par or slightly above—that this invites selling in a supported market, whereas if the support price were slightly below par, say 99, it would deter selling since the seller, in most cases, would have to show a loss on his sales. Other counselors, also wise in the ways of timid investors, say, however, that another engineered drop in prices, which would create this loss-sale situation, would also lead to further selling of government securities to prevent possible further losses. They say the urge to cut losses is at least equal to or stronger than the urge to take a small profit.

That leads to a second group of critics who say that the engineered decline in prices should be to a point at which the yield on long-term government bonds would be about 2¾%—that such a yield would provide a living for insurance companies and other institutional investors, that faced with a loss on sales and a living wage on purchases, they would soon become buyers instead of sellers of long-term governments, and thus our support problem would disappear. I am not going into the social-economic question of "providing a living for institutional investors." Quite apart from such broad considerations, this suggestion resolves itself into a matter of judgment, or opinion, as to the level at which the whole market, including the institutional investor market, with whatever aid we might give, would regain approximate balance under present conditions. Would it be at a price of 95 and a yield of slightly over 2¾% or at 91½ and a yield of 3% or at 83½ and a yield of 3½% or where? Opinions differ

*Address of Mr. Sproul before 35th National Foreign Trade Convention, New York City, Nov. 8, 1948.

1 Preliminary estimates for July—September 1948 show an increase in the money supply but at a lesser rate than in 1947, so that the year-to-year comparison would still show a decline.

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On Behalf of Air Transportation

By W. A. PATTERSON*

President, United Air Lines

Using springboard that air transportation has become a necessity in social and economic life, Mr. Patterson describes its progress and accomplishments. Lays principal responsibility for airline difficulties to Civil Aeronautics Board, which has failed to assist air lines to obtain increase in mail rates to cover higher operating costs over last two years and calls for investigation of its stewardship over air lines.

Bankers not only in Iowa but throughout the rest of the United States should interest themselves in air transportation together with its problems, because air transportation today has become a necessity in our social and economic life. I wonder how many of you realize what has been accomplished in air transportation during the past 20 years, and who may be responsible for the accomplishment. It was necessary first that we have in private business men like my predecessors, Messrs. W. E. Boeing and P. G. Johnson of the Boeing Airplane Co. and the Boeing Air Transport, Inc., pioneers of air transportation and aircraft manufacturing in the West.

W. A. Patterson

We must also recognize that in the early 1920s we had men in government who, like Mr. Boeing and Mr. Johnson, had faith in the airplane and its usefulness in commerce as well as National Defense. Those farsighted men decided that the commercial development of air transportation could best be fostered under private initiative. Through the Post Office Department, which had actually pioneered the air mail service after World War I, contracts were made with private companies to fly the air mail. When commercial airlines began in the middle '20s, we flew air mail almost exclusively, with single-engined airplanes operating at speeds of about 80 miles an hour and with almost no aids to navigation. It was a hazardous enterprise, and literally hundreds of men lost their lives in the pioneering effort of the Post Office and the first commercial airlines.

We realized that we could never develop major passenger traffic or other sources of revenue until we found effective means of communication with the airplane in the air. The technical experts of the day advised us that telephone communications between the air and the ground could not be accomplished. Through the determination and ingenuity of Thorpe Hiscock, an early associate in predecessor companies of United Air Lines and a man without any formal technical training in the field of electronics, two-way aircraft radio communication was developed. This accomplishment became a reality within three years after we were assigned the task of developing commercial aviation.

During the same period we were also working on new airplanes, and at about the same time that radio was developed, the airlines introduced multi-motored passenger planes. Some of these planes were developed by United Air Line's affiliated company—the Boeing Aircraft Company. Another plane was developed by the Ford Motor Company—the famous Ford tri-motor. With these planes, we advanced from a speed of 80 miles an hour to 110 miles an hour, and increased our passenger capacity from a maximum of four to fourteen passengers. Two years later, we introduced the first modern low-wing, high speed transport plane known as the Boeing 247. Again the speed was increased from 110 miles an hour to 150 miles an hour.

Progress Accomplished

This progress was accomplished within a period of five years from the time we were assigned the responsibility of developing commercial air transportation. A few years later another advance was made — the introduction of the Douglas DC-3 transport plane, a gain from 150 to 180 miles an hour in cruising speed and an increase in carrying capacity from 10 to 21 passengers. The Douglas DC-4 airplane with a speed of 230 miles per hour and a capacity of 44 passengers, was conceived before the war, and construction of a fleet was under way when the war started. This same plane, designated by the Army as the C-54, became the backbone of our military transport fleet.

The National Defense value of air transportation has always been stressed as one of the overall objectives of the Federal aviation program. The airlines' National Defense value became a reality in World War II. The first call we in United Air Lines received was at the time of the attack by the Japs on Dutch Harbor in Alaska. We were ordered to fly supplies and ammunition to that island off the Alaskan coast known as Umnak. There were no facilities for navigation. We performed our mission and continued service throughout Alaska during most of the war period.

We were then advised that a service was required from San Francisco to Australia via intermediate points in the Pacific, and such service was to be provided daily. None of the personnel of United Air Lines had ever been engaged in over-ocean flying, and yet within five weeks from the time we received the request for service it was established and operating daily. Beyond this there were hundreds of men in United Air Lines called into the military service. It was to a great extent around airline pilots that the Army and Navy's great Transport Command and Naval Air Transport service were established. Others were selected to become leaders in the airborne Troop Command. Practically every important mission during this war involving the movement of troops by air was led by airline pilots of the United States. The National Defense value of air transportation in America was proven beyond a doubt in World War II.

Even before the end of the war, plans were completed by the airline and the manufacturers for the construction of the Douglas DC-6 with a cruising speed of 300 miles an hour and a capacity of 52 passengers plus cargo.

Costs of Starting Air Line

You may be interested in the relative cost of starting in the air transportation business in 1927 compared with today. The first air mail planes we used cost us $14,000 apiece. The Douglas DC-6 today will cost us $1,000,000 to replace, and the Boeing Strato-

*An address by Mr. Patterson before the 62nd Iowa Bankers Convention, Des Moines, Iowa, Oct. 27, 1948.

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The State of Trade and Industry

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

The intrusion of Election Day the past week had a slightly depressing influence on over-all industrial production, but notwithstanding this, manufacturing output compared favorably with the high level which obtained in the corresponding week a year ago.

As was true of previous weeks, strikes last week again adversely affected production in some lines, as did shortages of skilled labor, which continue unabated in some industries. For industry as a whole employment and payrolls remained moderately steady at a high level.

* * *

The stock market on Wednesday and Friday of last week gave ample evidence of the investing public's feelings over the outcome of the Election when stock prices on both of those days broke intermittently and left values close to their low September levels.

Following the initial shock of the unlooked for defeat of Governor Dewey of New York for the Presidency by the present incumbent, President Truman, business in general must assume a waiting attitude until the 81st Congress convenes.

Should President Truman carry through his campaign promises, business can expect the revision or outright repeal of the Taft-Hartley Act, higher corporate taxes, new minimum wage legislation and credit controls, price controls, Federal Housing and stepped-up government spending both at home and abroad.

Such a program can only add to the inflationary spiral that already besets our domestic economy and make more difficult the return of some semblance of stability of the economies of Europe.

* * *

Farm income, after advancing to a new postwar high in September, reversed its course in October and showed a drop in receipts from the sale of farm products of 3% under those of October last year, the Department of Agriculture reports.

It further states that this was the first time since the end of the war that farm income fell below that of the corresponding month of the previous year.

For the first 10 months of 1948, total income was reported to be about 4% above the like period last year, reflecting increases over last year during the first eight months of this year. September income was about the same as last year.

The income for the 10-month period was reported at $25,000,000,000. However, not all farmers fared better than last year. Receipts from livestock and livestock products increased 9%, while income from crops dropped 3%.

This difference between livestock and crops reflected the fact that prices for the former increased, while prices for crops declined. Record crops pulled down prices, but livestock supplies continued relatively short, causing some further price advances.

* * *

Although Election Day promotions encouraged favorable consumer response to many seasonal items the past week, total retail volume fell fractionally. Dollar volume continued to be slightly above that of the corresponding 1947 week. Consumers were interested largely in Fall and Winter apparel and in gift items. Men's and women's furnishings and accessories were frequently sought and home furnishings continued to sell well.

Total wholesale volume last week was close to the high level of recent weeks and declines in some sections were generally offset by advances in others. Prompt delivery was requested by numerous buyers. Winter apparel continued to be ordered in considerable volume with numerous orders for Spring styles booked.

STEEL OUTPUT CURRENTLY SCHEDULED AT HIGHEST RATE IN HISTORY OF THE INDUSTRY

The election caught all steelmakers off base on their hopes and predictions, so they will find the next four years just as difficult to take as they have the last 16, according to "The Iron Age," national metalworking weekly, in its current summary of the steel trade.

Voluntary allocations, which the industry thought it had settled, are anything but settled. Most steel officials had expected that by the end of February that plan would be out the window, but, states the magazine, the voluntary allocation plan is now the only thing that stands in the way of a straitjacket, government imposed allocation plan—something that would be extremely hard to get rid of once it was fastened down.

Some form of allocations is in order as long as the steel shortages exists, and this trade authority predicts that it will exist for the next six months at least, and maybe much longer. If steel heads can convince the Administration that they again have faith in the voluntary allocation plan—with a few reservations—there is a chance that there will be no strict law.

Steel people have claimed, and still claim, that steel prices must be tuned to raw material, freight and wage costs. If these go up so will steel prices, say steel leaders. That may be true—it would have been truer if Mr. Dewey had won. Cautiousness will be the watchword on steel prices for the simple reason that a bear trap with price teeth in it threatens the industry.

Steel prices may not be advanced on an overall basis until and unless steel wages go up again. There is no bar to changes in "extra" charges to bring special services into line with higher costs. This may be in the offing at any time.

Possible Taft-Hartley bill changes mean little to steel people. The strength of the United Steelworkers prevents any change in relations between steel companies and the union. The only possible part a revision might play would be in strike provision changes. As the law stands now it is highly improbable that steel labor would strike over social security or pension controversies—or even over wages. But if the law should be changed to make strikes easier for labor, one might develop in steel next year—if a wage impasse comes, the magazine points out.

Hearings now on the basing point vs. f.o.b. mill will be no

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Observations . . . .

By A. WILFRED MAY

MORE ELECTION ERRORS!

As With Great Britain, Whistling-in-the-Dark Over the Results Will Make Us Deserve Socialization

Millions of words and tons of newsprint are of course being poured forth in explanation of the universal mis-forecasting of the Election results. But of even greater importance is it that in the not-too-distant future reams of excuses will again be poured forth—but this time for our present mistaking of the true *implications* of what actually happened on Nov. 2.

A. Wilfred May

For, whether or not motivated by wishful whistling-in-the-dark, the air is being filled with most unrealistic minimization of the portent from even staunch believers of free enterprise.

Such self-soothing consolation is taking the form of assertions like the following:

(1) Campaign oratory and promises can be discounted.

(2) Truman is not a Communist.

(3) Dewey's "right" wing-ism would have set the stage for Communism in 1952.

(4) Dewey's "concealed" left wing-ism would have made the New Deal perpetual.

(5) Dewey and Truman are really Tweedle-dum and Tweedle-dee; and Dewey (a district attorney-with-moustache) would not have made a better President than Truman.

(6) Dewey with a Democratic Congress would have been even more disastrous.

(7) Truman's promised farewell-to-office after this term will lessen his demagoguery.

(8) A press poll (!) concluding that the new Congress will strike price-control from Truman's program, indicates that anticipations of its radicalism are exaggerated.

(9) By Wall Streeters—high Federal spending, inflated national income and Keynesian weapons-in-the-closet may after all entail a higher stock market.

The Close-Fitting British Pattern

Apart from the traditional worldwide foible of shutting our eyes to a program clearly stated by a Lenin or written in a Mein Kampf in the comforting faith that "somehow it can't be so," the clear pattern for our present behavior was set in the British public's attitude toward the victory of the Labor party in the elections of 1945 (whose result was almost equally surprising).

It is this writer's deep conviction that it is absolutely vital for Americans caring for our freedoms in this November of 1948, to stop-look-and-listen in detailed examination of the British public's complacency toward its impending slide into full-scale planning and collectivism. The *apologias* of the Beveridges, the Laskis and the Shinwell's were of course to be taken for granted: it is the completely misguided judgments and inferences by the middle-grounders and the liberal pro-capitalists that are so significant.

As an instance of the post-election complacency of Britishers the London correspondent of the New York "Times" cabled the following on-the-spot interpretation July 26, 1945, the day after the election results were announced:

"TIME HELD TO BAR LABORITE REFORM

"British Business Gives Regime 5-Year Limit, with Little Chance of Nationalization

"LONDON—Britain's business community is taking the Labor party victory in stride because it is convinced that the new Government will find no time in the next five years to experiment with nationalization of industries other than coal or power . . ."

That "Muddle-Through" on Both Sides of the Atlantic

The following day, July 27, the "Times" reported this highly significant reaction from London:

"Today, as on the day after a national election in America [sic], the Conservatives conceded they had over-stated their fears in the heat of election and were ready to grant that the country could 'muddle through' without disaster regardless of the party in power."

The many good Americans comforting themselves with the supposed harmlessness of our New Dealism and "mildness" of our laborites of the PAC and PAC-type, will get scant comfort from the following on-the-spot analogy offered by our British brethren:

"LONDON, Aug. 8, 1945—What has happened in British politics in the last month can be translated into American terms by imagining that Sidney Hillman's Political Action Committee, having

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N. Y. Security Dealers To Hold Annual Dinner

The New York Security Dealers Association will hold their annual dinner Dec. 10 in the Grand Ball Room of the Waldorf - Astoria Hotel, at 7:30 p.m. Tickets are $12.50.

George A. Searight

George Searight, Aetna Securities Corp. is Chairman of the dinner. Melville S. Wien, M. S. Wien & Co., is Vice-Chairman. Chester E. de Willers, C. E. de Willers & Co., is Chairman of Special Events, and Michael Growney, Growney & Co., is in charge of Hotel Reservations. John J. O'Kane, Jr., John J. O'Kane, Jr. & Co., is Chairman of the Entertainment Committee.

Business Man's Bookshelf

I Quit Monster Business—An appeal for independent, decentralized enterprise, with specific plans for preventing trend toward collectivism being produced, the author believes, by huge private "economic states"—Public Relations, Inc., 522 Fifth Avenue, New York 18, N. Y. — paper — 50c — (lower rate for quantity orders).

Crime of Inflation, The—How to restore the Purchasing Power of the Dollar—Edwin Hopkins—Edwin Hopkins, 255 West 43d Street, New York 18, N. Y.—paper—$4.00.

Employment, Production and Income in the Chicago Industrial Area—W. E. Hoadley, Jr., and C. G. Wright—Federal Reserve Bank of Chicago, 230 South La Salle Street, Chicago, Ill.—paper.

Industry Wide Bargaining — Leo Wolman—The Foundation for Economic Education, Inc., Irvington-on-Hudson, New York—paper.

With J. A. White & Co.

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, O.—William E. Stanton has become affiliated with J. A. White & Co., Union Central Bldg. He was formerly with the Provident Savings Bank & Trust Company.

With Browning & Co.

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, O. — Browning and Company, Union Trust Bldg., have added Jay W. Dick to their staff.

Spahr Replies to Leffingwell

Executive Vice-President of Economists' National Committee on Monetary Policy takes issue with statements by Chairman of Board of J. P. Morgan & Co., regarding restoration of redeemable gold currency.

Dr. Walter E. Spahr, Professor of Economics at New York University, and Executive Vice-President of the Economists' National Committee on Monetary Policy, in the November issue of "Monetary Notes," published by this organization, replies serially to statements of Mr. R. C. Leffingwell, Chairman of the Board of J. P. Morgan & Co., relating to a gold currency as contained in an article in "Fortune," which also appeared in the "Chronicle," issue of Oct. 7, 1948 (p. 6).

Walter E. Spahr R. C. Leffingwell

The text of Dr. Spahr's observations follows:

In an article on "How to Control Inflation" in "Fortune" (October, 1948), Mr. Russell C. Leffingwell, Chairman of the Board of J. P. Morgan & Co., in a section on "Gold Currency," said:

"Some suggest as a remedy for inflation the return to gold currency. Yet gold circulation never gave immunity from booms and busts. It did not do so in the hundred years of peace from Napoleon to the Kaiser. It did not prevent the inflation of the late Twenties or the deflation of the early Thirties.

"Our gold reserves are sufficient now to maintain a sound currency, if they are conserved for the support of that currency, and limited to use to meet our external obligations.

"The dollar is the most generally acceptable currency in the world. As such it has to bear the burden of much of the world's trade; and the best hope of the future is that other currencies will ultimately be based on a dollar exchange standard. That would mean our gold reserves would become in effect the world's gold reserve.

"We have a very sound gold standard currency today. It has proved itself able to meet the gold export demands of the greatest war of all time, when we were buying and spending heavily abroad and were lendleasing our exports and not being paid for them; a currency able so far to meet the postwar world adjustments in what is the gravest peacetime economic crisis the world has ever endured. Our job today is to keep our currency good for our own needs and for our world responsibilities, in peace or war, not to tinker with it.

"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. This would weaken our defenses in case of war, and might convert a possible recession into a disastrous deflation in time of peace.

"The place for our gold is in the reserves of our Federal Reserve Banks, not in the pockets of the people. In the reserves it gives confidence at home and is available to meet our obligations, and perhaps our necessities, abroad. We do not need a gold coin or gold certificate currency, but a gold standard currency. That is what we have. Let us not meddle with it."

The opinions expressed by Mr. Leffingwell are widely held today. At the same time there are many people who believe that the United States should return to a redeemable money and a thorough-going gold standard. It is important that as many people as possible, particularly Congress and the Federal Administration, understand the issues involved in these two systems so that the adoption of either may be the result of an understanding of the virtues and defects inherent in each.

Since Mr. Leffingwell is a man of wide experience and responsibility in the fields of monetary and fiscal affairs, his opinions deserve, and doubtless will receive, careful consideration. If the opposing views have validity it would seem to follow that it is desirable to measure them against his statements thus making as clear as possible the basic issues involved.

The specific statements of Mr. Leffingwell on which I wish to comment follow:

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Leffingwell: "Some suggest as a remedy for inflation the return to gold currency. Yet gold circulation never gave immunity from booms and busts. It did not do so in the hundred years of peace from Napoleon to the Kaiser. It did not prevent the inflation of the late Twenties or the deflation of the early Thirties."

Spahr: I should state the issue involved here as follows: The causes of booms and busts arise not from one force but from several or many. Similarly, the counteracting or corrective forces are several or many. There is, apparently, no valid basis for the assumption, sometimes advanced, that the introduction of a certain single program or mechanism can prevent a boom or its termination.

No monetary system thus far employed by man ever "gave immunity from booms or busts." A gold standard cannot prevent rising or falling prices or a boom or a business recession, but it should be helpful in at least two ways: (a) in holding down an over-extension of credit and (b) in encouraging production and long-time commitments because of the soundness of the nation's money. This point (b) is of greatest importance to us all, but it is almost completely ignored today.

One may not properly suggest that a gold currency system is defective because it does not give the immunities mentioned. Our present type of monetary system, so widely approved, has not given immunity from a boom, nor did it give immunity from the business recession of 1937-1938 which was sharper, for the period involved, than that of 1920-1921. Nor is there any good basis, apparently, for supposing that the present monetary system can provide immunity against a future business recession.

If, therefore, a gold currency system is to be condemned on the ground that it does not give "immunity from booms and busts," so should every other monetary system be similarly condemned, including our present one.

There is probably no institution known to man that cannot be undermined or destroyed if mankind (usually government officials) abuses it sufficiently. But it is a mistake to blame the gold standard and system for man's abuse of credit, for his widespread destructiveness in going to war, for the mismanagement of a nation's economy by government officials.

A pertinent question is this: Has the world suffered more from irredeemable paper money or more from a redeemable currency in so far as the monetary system is a contributing factor to business confidence, stability, recessions, and depressions? I believe the evidence is clear that next to war, irredeemable paper money has been one of the greatest evils that have afflicted mankind, and that gold and silver have had a very different history if it is properly interpreted.

A gold standard and redeemable paper money contribute to confidence, if there is any proper basis for it, not to booms. It is badly

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U. S. and U. K. Trade With the East

By DR. MAX WINKLER
Bernard, Winkler & Co.

International finance authority cites data showing extent to which we are handing over our trade with Russian orbit to England because of our ideological qualms.

Dr. Max Winkler

Although the United Kingdom is primarily responsible for the policy which the so-called Western Bloc, headed by the United States, has been pursuing with respect to Moscow, it is significant that Britain does not permit her ideological difference with the Kremlin to interfere with her economic and financial interests. Her trade for the current year with the U.S.S.R. and the countries within the Russian orbit is expected to amount to £122,680,000 (or about $595 million) compared with £100,990,000 (or about $407 million) last year and £66,730,000 (or about $269 million) for 1946, gains of 21.04% and 83.85%, respectively.

Effect on U. S. Trade

In the United States, the East-West tension is permitted to influence rather markedly commercial relations between the two areas. On the basis of January-June figures, U. S. trade with the principal members of the Eastern Bloc is expected to amount to $360,826,000 compared with $525,100,000 in 1947 and $936,589,000 in 1946, declines of 31.28% and 61.47%, respectively.

Details are presented hereunder:

U. K. Trade With the Eastern Bloc
(Figures are in million pounds)

Total Trade With	**1948*	*1947*	*1946*
Albania	£0.04	£0.55	£0.50
Bulgaria	0.36	0.14	----
Czechoslovakia	16.74	16.43	8.52
Finland	40.36	39.55	22.48
Hungary	7.44	4.15	0.31
Poland	17.66	11.56	11.48
Rumania	3.36	0.22	0.09
Russia	29.46	21.89	16.12
Yugoslavia	7.23	6.50	7.23
Total U. K. Trade	£3,602.00	£2,984.00	£2,266.00
Trade with East	122.68	100.99	66.73
Percent of Total	3.43%	3.38%	2.95%

* Estimated on basis of January-June figures.

U. S. Trade With Eastern Bloc
(Figures in thousand dollars)

Total U. S. Trade With	**1948*	*1947*	*1946*
Czechoslovakia	$102,970	$72,391	$125,483
Finland	59,990	99,090	43,334
Poland	†64,968	†90,052	‡184,014
Russia	122,072	226,605	458,275
Yugoslavia	10,826	36,962	125,483
Total U. S. Trade	$20,088,066	$14,676,171	$14,319,406
Trade with East	360,826	525,100	936,589
Percent of Total	1.80%	3.58%	6.57%

* Estimated on basis of January-June figures.
† Represents only U. S. exports to Poland.
‡ Includes U. S. exports of $183,849,000 and imports of only $165,000.

One is tempted to speculate as to the extent to which England is benefiting economically at the expense of the United States which is permitting her ideological differences with Moscow to affect her trade with the East, thereby depriving American business of securing legitimate profits which would be accruing if economics could be divorced from politics which the British appear to have been able successfully to achieve.

Mid-West Market Merger Still Under Discussion

Detroit Stock Exchange withdraws from discussions of proposed consolidation, but Homer P. Hargrave, Chairman of Chicago Stock Exchange, says study of plan will continue. New Orleans Stock Exchange may enter combination.

Despite the announcement on Oct. 20, by the Governing Committee of the Detroit Stock Exchange, that the membership had voted to discontinue discussions relative to the proposed foundation of a Mid-West Stock Exchange, a sub-committee that has been studying the mechanical aspects of a proposed new consolidation will meet in Chicago on Nov. 12, Lloyd Birchard, Chairman of the group, has announced in Cleveland.

Homer P. Hargrave

As noted in previous issues of the "Chronicle," a plan has been under consideration of merging six exchanges in the Mid-West area, which would include in addition to Detroit, the exchanges of Chicago, Cleveland, Cincinnati, St. Louis and Minneapolis. According to a dispatch of the Associated Press of Oct. 21, Homer P. Hargrave, Chairman of the Chicago Stock Exchange, said the decision by the Detroit exchange to withdraw from discussions of the proposed merger "will not affect further study of the plan." "The proposed merger," said Hargrave, "is in a preliminary study stage, and the study will go right along. It may be completed by the middle of November or first of December." It is reported that representatives from the New Orleans Exchange also would be invited to attend the next general meeting of the general committee on the consolidation to be held in the near future.

From Washington Ahead of the News

By CARLISLE BARGERON

From all of the heartaches and grief caused by the unexpected outcome of the election, there comes at least one story which this correspondent is happy to report—the reemergence of Jouett Shouse into the national political picture. It was he who took over the Democratic wreckage after the 1928 election and built up an organization which made it possible for Roosevelt to win in 1932. He got kicked around pretty badly by the Roosevelt crowd because of his association with Al Smith, and before the 1936 campaign had formed the Liberty League, which sought to defeat Roosevelt for a second term. He had been off the party reservation ever since, having been a Willkie Democrat in 1940.

Carlisle Bargeron

But he always insisted he was still a Democrat and this year when the days were darkest for Truman he announced his support of him. His friends thought there must be something perverse in his political nature, that he just couldn't stand being with a winner. He contributed to Truman's campaign when contributors were sorely needed and helped otherwise.

When the Washington correspondents indulge in their usual pastime of picking a Cabinet they had better keep Jouett in mind. He is of that calibre.

As an example of what is now to come among the Republicans, one of Stassen's henchmen has lost no time in planting a story in a Washington newspaper to the effect that "party big-wigs" all over the country have moved on Stassen urging him to take over the task of rebuilding the party. His youth and vigor and liberal ideas, etc. These "party big-wigs," we are told, are prepared to back him to the limit financially.

In the first place, it is doubtful if these "big-wigs" have yet been able to get out of the steamrooms and the hands of their rubbers. But we shall be hearing more of Mr. Stassen. Notwithstanding the Republicans nominated a "Liberal" in '40 and Dewey as a "Liberal" in '44 and '48, apparently they haven't yet gone "Liberal" enough.

Some day, maybe, they will get around to nominating a Republican. The fact is, of course that the word "Republican" figured only slightly, if any, in the recent campaign. It was a Dewey-Warren campaign, something separate and apart from the Republican Party. In several States, notably Tennessee, there were Dewey-Warren organizations working at cross purposes with the Republican State organizations.

Day by day, Mr. Truman hammered at the record of the 80th Congress. Bob Taft, a Republican, would have torn him to pieces on this issue. Dewey, apparently, considered it to be the business of "those Republicans" with whom he had but slight association, no more than he had to have for appearance's sake.

From the outset, the Republican high command knew, regardless of the polls that control of the Senate was in jeopardy and within the last two or three weeks, were prepared to write off a loss in the House, though not control. This apparently did not disturb them. It never occurred to them that this meant Dewey, himself, was in trouble.

It takes organization and issues to win elections. We are so mentally confused by the one-man rule of Roosevelt that we lose sight of this. Each candidate for Congress and for the Senate is an integral part of a National campaign. It was the work of the scores of Democratic Congressional candidates, helped by Labor, that brought about Mr. Truman's triumph. Labor did not consider him personally worth an investment.

The columnists and commentators throughout the campaign drummed away at the theme that Dewey was something different from the party, that he intended to get rid of the "reactionary" and "isolationist" elements when he got in. Dewey never repudiated this; instead, his actions supported it.

Regardless now of the Governor's position as titular leader, whatever that is, and of the push to be made for Stassen, the remnants of the party are in the hands of Bob Taft and Joe Martin. They are the ones that are in office. And it is this writer's guess that they intend to hold onto it. They are the ones that day by day do the work, make the party record. They did it in the past only to have their party nominee ignor, in fact, try to escape, what they had done.

There is considerable talk of putting Carroll Reece back as chairman of the National committee. He is unquestionably the best organizer the party has had in that job in this writer's memory. And he is the only one under whom the party has gained a victory in 18 years. He isn't one of those "Liberals" and his appointment would cause a wailing and gnashing of teeth on the part of the columnist propagandists. But some day in some way, the Republicans have got to be Republicans.

Fred Beck Associated With Chiles, Huey Co.

(Special to THE FINANCIAL CHRONICLE)

OMAHA, NEB.—Fred Beck has become associated with Chiles, Huey Co., Omaha National Bank Building. Mr. Beck was formerly manager of the trading department for Burns, Potter & Co., Inc.

A. W. Zucker Co. Is Formed in New York

Abraham W. Zucker has formed A. W. Zucker Co., with offices at 37 Wall Street, New York City, to act as municipal bond brokers. Mr. Zucker was formerly corporation and municipal trader for Mackenzie & Co., Inc., with which he had been associated for many years.

Baker & Co. Formed in NYC

Baker & Co. is being formed with offices at 40 Wall Street, New York City to engage in the securities business.

Let's Have Freedom to Compete

By JOHN M. HANCOCK*

Partner Lehman Brothers, Members New York Stock Exchange

Pleading for freedom to compete in order to preserve nation's economic vitality, prominent investment banker tells Senate Committee virtual identity of prices can result from competition as well as conspiracy. Combats assumption most businessmen are inherently law violators and advocates creating public confidence that legislation will not casually change or interfere with rules of business or that energy and enterprise will not be frustrated by legal uncertainty or administrative tinkering.

The hopes of the free world rest on the American economy. The vitality of our economy demands that the individual businessman be given every reasonable freedom to compete and every encouragement to do so. Because I believe that the future of the democratic way of life—where it still exists—is inevitably bound up with the maintenance of American free enterprise—and never before was this so clearly true as now—I have accepted your gracious invitation to appear here today to discuss with members of the subcommittee your responsibilities under Senate Resolution 241.

John M. Hancock

I speak for no one except myself. I am appearing for no company, no organization, and no special interest other than that of an American citizen proud of the achievements of American industry—in peace and in war—and interested in the fostering of the free enterprise system as a way of life. By American industry I mean all those who comprise it—investors, labor, management, and the farmers who supply much of the raw material—but not forgetting that all of these must truly serve the broadest public interest, primarily our own American consumers.

While these ideas and opinions are my own, I do hope they will commend themselves to you.

The resolution directing this inquiry states that its purposes "directly affect the welfare of broad segments of our population."

No matter how important at first glance you may regard pricing policies to be, this inquiry goes far deeper. The areas you must explore and the questions you will have to probe are not only complicated and delicate—they reach ultimately to the bedrock of the principles and premises upon which the American way of life is founded.

Your task is truly formidable. As I see it, these questions as to what are to be the legal rules of pricing touch every businessman, large and small. On their sound resolution by the Congress turns the future development of thousands of cities and towns in which the savings of our citizens have been invested in plant facilities. What affects those factories will affect the workers in them—their jobs, their accumulated technical experience, their homes, their families, and the communities in which they live. The wider ripples of Congressional action will largely affect the nation's transportation system.

You are not dealing with a transitory problem. You must deal with it on a "long range" basis—not on the basis of what is good for America today, but on the basis of what is best for America over many decades ahead.

Your determinations will also have an inescapable bearing on the problems of national security which are so intimately bound up with the vitality of our industrial structure.

There is a quite obvious desire to have industry decentralized, but there are grave questions whether, in the present line of thinking by Government, there may not be a serious handicap to developing our industrial might beyond its present state. The primary desire, as I see it, should be to increase our industrial strength—and the truly secondary object should be to decentralize it, if that can also be attained. This problem will naturally come before the National Resources Planning Board, but the problem is not one for a hasty answer.

Because of the detailed impact of these questions upon all business, the answers which Congress will provide will measurably control the venturing of risk capital in new enterprises.

Above all, the boundaries which you mark out on the freedom to compete will become important sign posts either to continued democratic freedom or to economic statism.

This is not theory nor pure speculation. According to a recent Dun & Bradstreet survey the court and commission decisions which you are examining will control the pricing and operations in a majority of basic industries. The list runs from automobile parts to transportation equipment. It includes iron, steel, and nonferrous metals—machinery of all kinds—rubber, leather, and textile products—food, tobacco, and beverages—containers of all types—lumber, cement and paper—and many other products.

These policies will apply not only to plants now in being, but to plants needed over the years for an expanding economy and a growing population. More than that, they will determine whether these plants are to be built at all.

Every thread in the industrial fabric may be strained or stretched or torn apart on some of the theories now said to be part of the law of the land.

As a conservative estimate the industries affected represent an aggregate of over $50,000,000,000 of American investment. They employ approximately 16,000,000 of American workers. Their factories are located in every State of the Union.

Thus the scope of your inquiry makes it doubly important that you do not lose the forest for the trees—that you do not forget cardinal principles.

Necessarily, you will have to marshal a vast array of economic data. You must also disentangle a raveled skein of legal concepts and knotty verbal wool.

Simple and Important Principles

But vast as may be the economic reach of these questions, however prickly may be the legal arguments, there are, I believe, several simple and important principles controlling the inquiry. With your permission I should like to develop a few of these as a modest contribution to your labors.

First, your inquiry is not, I believe, and should not be in any sense an attack upon the antitrust laws. I have never heard any American businessman urge that the Serman Antitrust Act be repealed.

The idea of free competition is part of the American soil. Since the very beginnings of American trade in the days of the Colonies—from the time that Conestoga wagons crossed the Alleghanies carrying goods from seaboard to the new interior—since the time that flat boats first floated goods up and down the Ohio and the Mississippi—in the opening of the West by wagon train and railroad—the abhorrence of monopoly and the refusal to permit conspiracies in restraint of trade have been articles of political faith of the American people.

The American businessman wants to compete and not to conspire. He does not believe in price-fixing conspiracies, and he knows that they do not work in his interest. He knows that competition is good for business be-

(Continued on page 38)

*A statement made by Mr. Hancock before the Senate Trade Policies Committee, Washington, D. C., Nov. 9, 1948.

Is Electric Utility Industry Approaching Maturity?

By EDWARD J. DOYLE*
President, Commonwealth Edison Company

Mr. Doyle points out growth in uses of electricity is not ended, and though depressions may temporarily halt it, generating and distribution capacity must be expanded. Holds most serious problem is necessity of expansion in face of uncertain earnings and rising costs, but looks for greater use of reserve capacity and improved load ratios, along with greater operating efficiency, as counter-balancing factors. Says atomic energy use will aid utilities in solution of fuel problem, while new plant construction, though high in relation to past will have longer life. Urges avoidance of excessive debt expansion and new rate adjustments.

I do not have to tell you that more and more of the capital which is essential to the support and expansion of the American industrial system is being supplied under the guidance of skillful investment management. Trust companies, insurance companies and pension trustees manage the savings of a larger and larger number of citizens each year. Individual investors have learned the advantages of professional assistance and are making use of it. On the other hand, business management welcomes a high level of understanding on the part of those who own its securities and is happy to inform them and their counsellors as fully as possible of its problems and prospects.

Therefore, I think it appropriate that the rest of my remarks today be thought of as a report to security holders. This report, however, will be somewhat unconventional as I shall talk more about the future of our industry than its past. I shall do so because I assume that you, as trust officers, have a particular interest in what is ahead. You examine the present and the past merely to discover the key to the future. This discussion, therefore, will be of matters which will influence the development of the electric utility industry. While, in general, I shall speak of the industry as a whole, I shall have to refer to my own company from time to time in order to illustrate a particular point.

Just what is the present and the probable prospective economic environment in which the electric utility industry must live? Is it one of continued price inflation or of deflation? Is it one of technological development and increased demand for electricity or of retrenchment? Is it one in which the sources of capital can be freely tapped or in which money will be scarce? Time alone will answer these questions. There is little doubt, however, that the utility industry can do as well as well as most in an economy of retrenchment, shrinking money supply and lower prices.

The Real Problem

The real problem, in a nutshell, is this. Can the regulated utility industry survive the present period of unprecedented expansion in an inflationary economy without burdening itself for the indefinite future with too much capacity, a high cost plant, a lopsided capitalization and insufficient earnings on invested capital?

I think it can because the permanent long-term demand for our service is still growing, because we are building efficiently to meet it, because we are avoiding excessive debt and, finally, because there are evidences that regulatory bodies and the public will recognize the necessity of increased charges for our services if, due to a continuing trend of rising costs, a fair return on investors' money cannot be earned.

The electric power industry is still indisputably dynamic. As far as I can see, it has been growing just about as rapidly this year as it has grown at any time in the last 20. According to reports, revenues increased more in 1947 over the previous year than they had since the early twenties and for the 12 months ended June, 1948, the increase was greater than for the 12 months ended December, 1947. I think the increase in kilowatt-hours generated was slightly larger in several of the war years than in the last year, but when one considers the additions to industrial plant in that period, this fact is not remarkable.

The growth in the use of electric power has been so persistent as to assume the appearance of a natural force. However, as we all know, maturity comes eventually to all industries. It is the business of management and it is your business as investors to observe the growth factor and to detect maturity and decline in their earliest phases. It is, therefore, perhaps worthwhile to examine the expansion which has taken place and to decide whether it will continue.

Let me take Edison as an example. Demands on our system have increased 778,000 kilowatts, or 48% since 1940, while additions to generating capacity have been limited to slightly over 420,000 kilowatts, all that could be added during the war and immediate postwar period. Thus, demand has grown faster than supply. On several occasions recently, the power demands on the system have equalled available capacity. In other words, our customary reserve is gone. We have even asked 7,000 of our larger industrial and commercial customers to prepare to reduce their demands if temporary periods of emergency occur. This condition exists in many parts of the country. It presents real operating problems but it illustrates vividly that electric utility growth is not yet finished.

Residential use will certainly continue to rise. You have all read of electric home heating either by means of the heat pump or by ceiling panels. The economic feasibility of this method of heating is not yet proven but if it should come into general use, it would increase the kilowatt-hours supplied to the average residential customer by from 7 to 12 times, with obviously revolutionary effects on the distribution systems of the industry. But even if one forgets home heating completely, residential use undoubtedly will be doubled through broader utilization of such well-accepted appliances as the range, the home freezer, the water heater, the dishwasher, the clothes dryer and the electric blanket. Market saturation in these devices is a long way off. Even in the field of home lighting, some experts expect present intensities to be at least doubled. In addition to these well known uses, there are others which will surely emerge from the laboratory with the passage of time.

The President of Hotpoint, whose company is just completing here in Chicago a plant which alone will be able to produce more electric ranges than were produced in the whole country before the war, recently pointed out that the era of the domestic servant has gone for good, and that labor-saving devices are the only answer to the housewife's problem. Mechanization of the home offers a tremendous market for both the appliance manufacturer and the utility.

In this connection, it is interesting to observe that while the average monthly residential electric bill in the United States has increased from $2.99 in 1939 to $3.80 in June of 1948 due to increased use, the $3.80 represents a smaller portion of the average man's budget than the $2.99 did. The Bureau of Labor Statistics says that electricity costs amount to 9/10ths of 1% of the average man's budget today as opposed to 1.6% before the war. Thus, an optimist might predict that when the electric utilities through increases in capacity are able again to promote use vigorously, they will regain their former share of the market. If they succeed, they will receive from the average residential customer about $75 per year against about $36 in 1939 and about $44 in 1947.

Rural and Commercial Use of Electricity

Rural use has been growing very rapidly. Rural customers and the manufacturers of electrical equipment are just beginning to appreciate the labor saving possibilities of electricity on the farm. The average farmer in our own territory already uses more than twice as much as the average home and it is expected that his use will continue to expand more rapidly.

Commercial use of electricity has been expanding vigorously. These customers offer extensive opportunity for the application of air conditioning, air cleaning, elevators, electric stairways and improved lighting. Each remodeling job in an office building or an apartment is accompanied by the installation of new kilowatts of demand and an increase in use. One company has recently moved to new quarters in a loop office building. The new offices are completely air conditioned. They have modern fluorescent lighting of adequate intensity. The kilowatt hours used in this space are now three times as great as before the remodeling.

Mechanization, labor saving and increased use of electricity go hand in hand with industrial progress. Apparently the big electrical equipment manufacturing companies are turning out small motors, air conditioning, drying, heat processing and other electricity consuming equipment in quantities almost great enough to absorb fully the kilowatts of generating capacity turned out by their turbine shops.

It looks then, without going further, that the growth in uses of electricity is by no means complete. Depressions may retard it temporarily but not for long. It is obvious that intelligent management and intelligent investors must include expansion in their plans for and analysis of the future.

It is this probability of growth which holds our confidence high while challenging our managerial ability. Generating capacity must be expanded. Distribution systems must be enlarged correspondingly. Money to finance the necessary construction program, estimated for the entire industry

(Continued on page 42)

*An address by Mr. Doyle at the 17th Mid-Continent Trust Conference of the American Bankers Association, Chicago, Ill., Nov. 4, 1948.

Dealer-Broker Investment Recommendations and Literature

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

Bank Stocks—Comparative figures as of Sept. 30 on New York City banks—First Boston Corp., 100 Broadway, New York 5, N. Y.

Business Booms and Depressions—Chart—Hannaford & Talbot, 519 California Street, San Francisco 4, Calif.

Electric Light and Power Industry—Discussion of outlook with special reference to a group of unlisted issues—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Also available is a leaflet on **North American Light & Power** and a study of **Missouri Pacific Reorganization Plan** and the **Bond Market.**

Insurance Stocks — Analysis — William R. Staats Co., 640 South Spring Street, Los Angeles 14, Calif.

Market Outlook — Leaflet of comment—Cohu & Co., 1 Wall Street, New York 5, N. Y.

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

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

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Admiral Corp.—Circular—Carl M. Loeb, Rhoades & Co., 61 Broadway, New York 6, N. Y.

Atlantic City Electric Co.—Circular—Newburger & Co., 1342 Walnut Street, Philadelphia 7, Pa.

Central of Georgia Railroad Co. —Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

Electric Power & Light—Leaflet —C. D. Robbins & Co., 810 Broad Street, Newark 2, N. J.

In the same leaflet is brief information on **Empire District Electric Co.**

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

Eureka Corp., Ltd. — Summary —A. G. Edwards & Sons, 61 Broadway, New York 6, N. Y.

Also available is a special report on **Guayana Mines, Ltd.**

Ferry-Morse Seed Co.—Circular —Wm. C. Roney & Co., Buhl Building, Detroit 26, Mich.

Firemen's Fund Insurance Co. — Circular — Brush, Slocumb & Co., 1 Montgomery Street, San Francisco 4, Calif.

Lone Star Gas Co. — Data — Rauscher, Pierce & Co., Mercantile Bank Building, Dallas 1, Tex.

Also available is a circular on **National Tank Co.** and **Republic Natural Gas Co.**

Glenn L. Martin Company — Bulletin—John H. Lewis & Co., 63 Wall Street, New York 5, N. Y.

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.

N. O. Nelson Compapny—Analysis—Edward D. Jones & Co., 300 North Fourth Street, St. Louis 2, Mo.

Northern States Power Company, Minn.—Special write-up—A. C. Allyn and Company, Inc., 100 W. Monroe Street, Chicago 3, Illinois.

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

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

Also available is an analysis of **Sharp & Dohme, Inc.** and a bulletin on current **Railroad** developments.

Portsmouth Steel Corp.—Circular—Otis & Co., 120 Broadway, New York 5, N. Y.

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

Railroad Capital Needs — Discussion — H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Also available are data on **American Airlines, Inc., Wheeling & Lake Erie,** and **New Orleans, Texas & Mexico.**

Scruggs - Vandervoort - Barney, Inc. —Circular—Dempsey-Tegeler & Co., 407 North Eighth Street, St. Louis 1, Mo.

Texas Company — Analysis—E. F. Hutton & Co., 61 Broadway, New York 6, N. Y.

United Kingdom 4% Refunding Loan—Write-up—Zippin & Company, 208 South La Salle Street, Chicago 4, Ill.

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.**

COMING EVENTS

In Investment Field

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.)
Investment Women's Club of Philadelphia dinner meeting.

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.

Nov. 22, 1948 (New York, N. Y.)
Bond Club of New York luncheon meeting at the Bankers Club.

Nov. 24, 1948 (Newark, N. J.)
Bond Club of New Jersey luncheon meeting at Robert Treat Hotel.

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

Dec. 10, 1948 (New York, N. Y.)
New York Security Dealers Association Annual Dinner at the Waldorf-Astoria.

Election's Effect on Business

By RAYMOND RODGERS*

Professor of Banking, New York University

Dr. Rodgers, after analyzing significant changes in the domestic and international political and economic structure which affect future of business, foresees business readjustment due to: (1) end of agricultural boom; (2) downward swing in demand for consumer goods; and (3) end of accumulation of inventories. Sees export and housing boom tapering off and other weak spots appearing in business activity, and concludes our enormous debt and military machine require high level of economic activity to maintain them.

The title of this talk promises considerably more than I can deliver. Application of economic and psychological principles to current statistical data, enables us to form an opinion as to probable business developments in the near future, that is, for six months or so; but for the distant future, we must rely almost entirely on faith. In between these extremes is business "terra incognita," or at least largely unknown ground.

Raymond Rodgers

In recent years, however, there have been great fundamental changes in the domestic and international political and economic structures which will profoundly affect business in the future. In fact, these changes are so basic that they can almost be said to be controlling factors. By analyzing some of the more important of these changes, we can get a fairly accurate idea of their impact on future business activities. Let us make a quick survey of the more significant changes.

Increasing Socialization of Government

One of the greatest changes of our times has been the increasing socialization of government. This has been a world-wide trend and we have been affected less than other countries—England, for example. But the fact remains that we do have a socially minded government. This use of the power of government in the fields of social security, education, labor, and regulation of business, will continue — in fact, may grow. Opinions may differ as to the ultimate desirability and need of these socially inspired activities, but there can be no question as to their cost. More government means more expense regardless of political promises to the contrary.

The heavy cost of the armed peace is another economic factor of the greatest importance. In the fiscal year ending July 1949, the military establishment will cost us approximately $13 billion. Participation in international affairs, especially foreign aid financing—which it is claimed are forms of national defense—will cost an additional $7 billion, it is estimated. Thus, we are spending annually some $20 billion because of the world political uncertainty. It may come as a shock to some of you to hear this terrific cost of preparing for future wars! But consider also that the expenditures for past wars, in the form of veterans' benefits and interest on the public debt, will require nearly $13 billion more. This gives us a combined annual total of some $33 billion which cannot be reduced very much in the near future. As a matter of fact, it will, in all probability, be increased. And, of course, the many other operations of government will cost a few more billion.

Amortization of our public debt of more than $250 billion will, on a very minimum basis, require an additional $3 to $5 billion annually, if we start to amortize it —and we certainly should.

*An address by Dr. Rodgers before the Triple Cities Association of Credit Men, Binghamton, N. Y., Nov. 10, 1948.

Inevitably, the Federal budget of the future will be several times the prewar total. To be specific, it is difficult to visualize a national budget of less than $35 to $40 billion in the foreseeable future.

High Taxes to Stay

This means that high taxes are here to stay! In fact, we shall not be able to maintain the present tax rate unless we can keep armament expenditures at reasonable levels, and can control inflation, and can refrain from embarking on new spending programs. As a matter of fact, rearmament and other military expenditures in 1949-50 now promise to unbalance the budget or to force a tax increase.

While we hope that rigid economy and increased efficiency in government will free us from a continuation of the "increased taxes, increased borrowing" philosophy of recent years, let us not deceive ourselves; most of the large items in our budget can be slashed but little, if any.

The economic implications of our $250 billion public debt are not fully appreciated by most Americans. Throughout our entire history, we were fortunate enough to escape the many burdens of a large public debt. Now, when we, almost overnight, find ourselves burdened with the greatest public debt the world has ever known, we find it difficult to realize what it means to us and to our children. Yet our debt is so large that we must manage it or it will manage us.

Effects of Debt Management

Debt management, however, sooner or later forces the government to enter, and at times dominate, the fields of money, credit, and investment. Our high debt makes the Treasury more powerful in money and credit than the commercial bankers or the Federal Reserve authorities, our traditional money and credit managers. For example, the Federal Reserve efforts to contract credit and fight inflation are largely nullified by the necessity of supporting the market prices of government bonds. Since last November, more than $8 billion of government bonds were purchased in the market support program. Fortunately, during the same period they were able to sell Treasury bills and Certificates of Indebtedness in such volume that their holdings of government issues declined about $1 billion, so that there was at least some reduction of Federal Reserve credit.

Maintenance of artificially low interest rates on our public debt—which means market support of current issues—has been possible during the past year, because of the cash surplus of the Treasury. So long as we have a cash budget surplus, credit restrictive measures can be applied with one hand and market support given with the other. But once the cash surplus disappears—and it may disappear in the near future — market support will have to be abandoned, unless the monetary authorities are given new powers by the Congress.

It is highly improbable that the low interest rates will be abandoned, because of the great size of the debt. This means that the fight on inflation will not be pressed too vigorously by the monetary authorities, unless inflation gets completely out of hand, and, barring war, I see little prospect of that. Of course, it is possible that the Congress may be willing to take the responsibility for deflation and vote new credit and other controls, but I, personally, doubt it.

If, however, despite our best efforts the armed peace should be succeeded by armed war, then we should expect a great deal more of inflation, or government controls of all sorts, such as rationing, allocation, control of manpower, and so on. These controls, particularly those on business, will undoubtedly be far more drastic than in World War II. In fact, business will be so controlled by the government that it is idle to speculate on just what the business pattern would be. I hasten to add that I do not expect war. I am convinced that the Russians do not want war as they believe we are headed for such a serious depression that their American stooges will be able to take over without difficulty.

If, as I anticipate, we shall have no war, and, of course, no hysterical preparation for war with expenditures in excess of those I enumerated earlier, then it seems to me that a business readjustment is in the making.

Grounds of Business Readjustment

My belief that we are approaching a business readjustment is based on many reasons and facts, the more important of which I shall now discuss.

The agricultural boom, which has exerted so much inflationary pressure because of the effect of rising food prices on wages, has come to an end. A record harvest, nearly 13% greater than last year and 8% greater than the previous peak yield of 1946, has brought back our great prewar economic headache of farm product surpluses. The increased yield of some of the more important crops is really phenomenal. Corn, for example, with a yield of 3,567,955 000 bushels, is 49% higher than last year and 27% more than the 1937-46 10-year average. Oats produtcion of 1,492,957,-000 bushels is 22% greater than last year, and 21% over the 10-year average. Wheat production of 1,285,770,000 bushels, while 6% less than last year, is nevertheless 36% above the 10-year level. The cotton crop of 15.2 million bales is 28% larger than the 11.9 million bales of last year, and 27% higher than the 1937-46 average yield.

As you might expect from such bumper crops, there have been spectacular breaks in their market prices, ranging from a decline of 48% from the 1948 high for oats to a 20% drop for cotton. Wheat has actually dropped 1.5% below the government support level and cotton is resting on the government price. Corn is still somewhat above the support level, but that is largely because hogs are nearly 50% above their price floor and, as you know, most corn goes to market in the form of pork.

Cash income of farmers, which ranged from $7 billion in 1935 to nearly $9 billion in 1937 and averaged $8 billion in the 1935-39 period, reached a record high level of more than $30 billion last year. Despite this extremely high level and the greatest crop of all time, farm income cannot shrink disastrously as it did in 1921 and the early 30s because of government price support. Nonetheless, the agricultural price honeymoon is over and the psychology of the farmers will be adversely affected.

With the big exception of automobiles, the consumer goods boom seems to have reached the end of the upward swing. Increasing sales pressure is necessary to maintain volume in the household appliance field. Discounts from list prices are being given here and there. Contests, bonuses, and all of the old-fashioned sales razzle-dazzle are being used. None-automatic washing machines are backing up in the warehouses. Vacuum cleaner sales in September dropped 15.5% below last year. Serious price cutting has started in men's suits. Price reductions are being used more and more to move women's wear. Sales volume has been down for several months on shoes. In cotton textiles, the New England mills are now beginning to go on a reduced schedule because of lack of orders, and as early as last May the Southern mills reduced production somewhat because demand has been overtaken in some lines. Luxury goods of all kinds have felt the pinch of declining sales for several months. In fact, soft spots are beginning to appear in nearly all lines as supply catches up with demand.

In the used-car market, especially in the case of new cars, there has been a precipitous decline in volume and in price in the last two months. Even in the new car market, in most places you can get quick delivery of the more expensive cars and also of most trucks.

While most retail sales figures in dollars continue to show increases over last year, they are liable to be misleading because the increases are nearly all due to the higher prices of 1948. Physical volume in most cases has actually declined. This, of course, is very unhealthy from an economic standpoint. More and more prices and less and less goods can only mean social tragedy if continued too far. That is why, under present circumstances, we welcome evidence of breaks, such as I have described in the price structure.

Although I have little statistical evidence on which to base my conclusion that the inventory boom is about over, surely I can't be far wrong, as it seems inconceivable that it can go much farther. Total business inventories have reached the utterly fantastic total of $53 billion, which is a whole lot of inventory any way you look at it! Manufacturers' inventories alone have climbed to a total of more than $30 billion.

This inventory situation is beginning to be reflected in pressure for sales. Large gaps have begun to appear between the *quoted* industrial prices and the actual prices at which large contracts are closed in cotton textiles, stainless steel, hardwood lumber, secondary brass and aluminum and some vegetable oils. Even more significant from a business forecasting standpoint is the August statistics showing that the index of the value of factory output has risen 9.8% above the index of farm income, which is generally considered a good indicator of the normal demand for manufactured products. This alone indicates the need for a downward readjustment in prices or volume, or both, but when to this evidence we add the certainty of a sizable shrinkage in farm income the over-extended condition of manufacturing activity is apparent.

Export and Housing Boom Tapering Off

The export boom has tapered off because of what is euphemistically termed the "shortage of

(Continued on page 43)

Illinois Brevities

The Peoples Gas Light & Coke Co., Chicago, is offering to its stockholders of record Oct. 22, 1948, the right to subscribe pro rata at par for $16,400,000 of 3% convertible debentures due Dec. 1, 1963, in the ratio of $100 of debentures for each four shares of capital stock held. Any debentures not subscribed for under the terms of the offering, which expires at 3 p.m. (CST) on Dec. 1, 1948 will be taken by Halsey, Stuart & Co. Inc., who may or may not offer them publicly. The net proceeds received by Peoples Gas Light will be used to pay for construction, etc.

Largely, as the result of special non-recurring account entries, consolidated net income of Peoples Gas and its subsidiaries decreased from $911,664, or $1.39 per share for the third quarter of 1947 to $554,458, or 85 cents per share for the three months ended Sept. 30, 1948. For the first nine months of the current year, net totaled $4,598,068, or $7.01 per share, compared with $4,916,596, or $7.49 per share, for the corresponding period last year.

* * *

Halsey, Stuart & Co. Inc. was the sole underwriter of two utility issues which were publicly offered during the past month, viz: On Oct. 15, $5,000,000 first mortgage 4½% bonds, due July 1, 1978, of Interstate Power Co. at 103 and interest; and on Oct. 20, $7,000,000 first mortgage bonds, series D 3¼% due 1978, of Public Service Co. of New Hampshire at 102⅜ and interest. The net proceeds of both issues will be used to pay for new construction, etc.

* * *

Griesedieck Western Brewery Co., Belleville, on Oct. 28 filed a registration statement with the Securities and Exchange Commission covering 50,000 shares of 5% cumulative convertible preferred stock, par $30, which will be publicly offered through Edward D. Jones & Co., St. Louis. The net proceeds are to be used to prepay a portion of the long-term bank loan to Hyde Park Breweries, Inc., with which Griesedieck will merge, and to finance expansion.

* * *

A. C. Allyn & Co., Inc., Chicago, Stifel, Nicolaus & Co., Inc., St. Louis, Mo., and E. H. Rollins & Sons, Inc., New York, N. Y., it was announced this month, have placed privately with two insurance firms the following securities of United States Sugar Corp.: $2,500,000 4% mortgage promissory notes due Sept. 1, 1959 and $1,500,000 serial notes due Sept. 1, 1949 to 1951.

* * *

Armour & Co., Chicago, has just recently placed privately through Kuhn, Loeb & Co., New York, N. Y., an issue of $40,000,000 3½% sinking fund debentures due Sept. 1, 1968, the net proceeds to be used to increase working capital to meet the higher prices of livestock and other raw material supplies.

* * *

A. C. Allyn & Co., Inc., Central Republic Co. (Inc.), Paul H. Davis & Co. and Carter H. Harrison & Co. were included on Oct. 14 in an underwriting group which publicly offered 30,000 shares of $2.50 cumulative preferred stock, no par value, of Central Electric & Gas Co. at $48 per share and dividends. The net proceeds are to be used to pay for construction.

* * *

Harris Brothers Co., Chicago, on Oct. 27 filed a letter of notification with the Securities and Exchange Commission covering 10,000 shares of common stock to be offered pro rata to present stockholders at $10 per share. The net proceeds will be used for working capital.

* * *

A. C. Allyn & Co. Inc. and Central Republic Co. (Inc.) were included in the list of investment bankers headed by Dillon, Read & Co. Inc. who underwrote the following securities of the Black Hills Power & Light Co.: 5,000 shares of 5.40% cumulative preferred stock, par $100, and 33,730 shares of common stock, par $1. The preferred shares were publicly offered on Oct. 27 at par and dividends. The common shares were first offered to common stockholders of record Oct. 27, 1948 at $15.25 per share, the rights expiring on Nov. 9. The net proceeds are to be used to pay for additions and improvements.

* * *

Central Illinois Public Service Co., Springfield, reports for the three-month period ended Sept. 30, 1948, a net income, before preferred dividends but after provision for depreciation, of $914 926, as compared with $1,031,339 in the corresponding period of 1947. For the 12-month period ended Sept. 30, 1948, net was $4,451,574, against $4,108,951 in the previous 12-month period.

* * *

Included among the Chicago investment bankers offering 141,490 shares of common stock (par $5) of Otter Tail Power Co. common stock at $18.75 per share on Oct. 20 were Glore, Forgan & Co., A. G. Allyn & Co., Inc., Central Republic Co. (Inc.), William Blair & Co., Harris, Hall & Co. (Inc.), Straus & Blosser, First Securities Co. of Chicago, Mason, Moran & Co., Holley, Dayton & Garnon and Mullaney, Wells & Co.

* * *

The directors of Wm. Wrigley, Jr. Co., Chicago, on Nov. 3 declared a special dividend of 50 cents per share, payable Dec. 1 to stockholders of record Nov. 20, 1948. This is in addition to the regular monthly dividend of 25 cents previously declared for payment on the same date. Three additional dividends of 25 cents each were also declared, payable Jan. 3, Feb. 1 and March 1, 1949 to stockholders of record the 20th day of each preceding month.

* * *

On Oct. 20, Central Republic Co. (Inc.), A. C. Allyn & Co., Inc. and Kebbon, McCormick & Co. were included in the group of investment bankers who publicly offered at $11 per share 300,000 shares of common stock (no par value) of Central Arizona Light & Power Co.

* * *

A letter of notification was filed with the Securities and Exchange Commission on Oct. 25 covering 6,000 shares of Exco Products Co., Chicago, common stock, par $2.50, to be offered at $12.50 per share. The net proceeds will be used for additional working capital. There will be no underwriting.

* * *

Harris, Hall & Co. (Inc.) and William Blair & Co. participated with two groups of underwriters in the public offering of the following securities: On Oct. 15, $9,500,000 first lien and refunding mortgage bonds, series C, 3¼%, due Oct. 1, 1973, of the Virginian Ry. Co. at 100½ and interest; and on Oct. 20, $10,000,000 first mortgage bonds, 3⅛% series due 1978, of Public Service Co. of Colorado at 102.06% and interest. The latter bonds have all been sold.

* * *

A banking syndicate headed by Harris, Hall & Co. (Inc.), and including, among others, Glore, Forgan & Co., Chicago, has underwritten the offering of 319,916 shares of Bucyrus-Erie Co. (South Milwaukee, Wis.) common stock (par $5) to the latter's stockholders of record Oct. 28, 1948 at $15 per share on the basis of one share for each four shares held. Rights will expire at 3 p.m. on Nov. 15. The net proceeds will be used to pay for expansion.

* * *

The Chicago investment bankers participating in the public offering on Oct. 20 of $75,000,000 Michigan Bell Telephone Co. 40-year 3⅛% debentures due Oct. 15, 1988 at 102¼ and interest, were: Glore, Forgan & Co., Harris, Hall & Co. (Inc.), A. G. Becker & Co. Inc., Central Republic Co. (Inc.), The Illinois Co. and Julien Collins & Co.

* * *

Ex-Cell-O Corp., on Oct. 15 filed a registration statement with the Securities and Exchange Commision covering 27,000 shares of common stock, par $3, to be issued in exchange for the outstanding 1,500 shares of Robins Engineering Co., Detroit, common stock, par $10, Ex-Cell-O plans to operate the Robins firm as a subsidiary.

* * *

Included in the underwriting group which on Oct. 21 publicly offered 250,000 shares of common stock (par $20) of Oklahoma Gas & Electric Co. at $34.25 per share, were Central Republic Co. (Inc.), Harris, Hall & Co. (Inc.), H. M. Byllesby & Co. (Inc.), Farwell, Chapman & Co. and Carter H. Harrison & Co. These shares were part of 750,000 shares which have been owned by Standard Gas & Electric Co.

* * *

Aldens, Inc., Chicago, showed increases in both sales and profits for the three-month period ended Oct. 1, 1948, according to Robert W. Jackson, its President. Consolidated mail order and retail sales for the third quarter of 1948 were $19,991,115 representing a gain of $517,382 or 2.7% over the total of $19,473,733 for the similar period in 1947. Net profits after Federal taxes totaled $348,980, or 87 cents per common share, against $305,452, or 74 cents per common share for the corresponding 1947 period.

For the first three quarterly periods ended Oct. 1, 1948, consolidated net sales amounted to $56,948,424, and net profits after taxes $652 623, compared with sales of $55,226,547 and profits after taxes of $518,415 in the same period last year.

* * *

An issue of $1,000,000 3.75% sinking fund debentures due 1958, of Thor Corp., Chicago, has been placed privately with two insurance concerns through Julien Collins & Co., Chicago. The net proceeds, plus $497,291 treasury funds, were used to purchase and retire 88,723 shares of Thor common stock from the estate of the late E. N. Hurley, formerly Chairman of the Board. This was at the rate of $16.87½ per share. Net profit after taxes amounted to $796,532, or $1.81 per share, for the quarter ended Sept. 30, 1948, as against $676,746, or $1.53 per share, for the the same period last year.

* * *

For the year ended Aug. 31, 1948, Masonite Corp., reported net sales of $36,472,950, against $25,338,958 in the previous fiscal year. Net profits for the fiscal year 1948 transferred to earned surplus after deducting $4,253,000 for Federal income taxes, $460,000 for State income taxes and $583,158 for depreciation and depletion and amortization of patents, amounted to 7,027,335, which was equal to $11.71 a share on 600,000 shares of common stock outstanding, compared with $4,381,142 or $7.30 a share for the fiscal year 1947.

* * *

Central Republic Co. (Inc.) also on Oct. 25 participated in the public offering of $1.40 cumulative convertible preferred stock, par $25, of California Water & Telephone Co. at $28 per share flat.

* * *

Net profit of General Portland Cement Co. for the nine months ended Sept. 30, 1948 totaled $3,051,200, after provision for Federal income taxes, equal to $4.04 per share on 1,007,303 shares of common stock outstanding at the end of the period. This compares with a net profit of $1,775,100, or $1.75 per share (based on the same number of shares) for the corresponding period in 1947. Net sales totaled $14,891,600, against $10,310,600 for the first nine months of last year. Costs and expenses increased to $8,983,700 from $7,408,500, and Federal income taxes for the first nine months of 1948 were up to $1,871,000, compared with $1,089,000 provided in the corresponding 1947 period.

* * *

H. M. Byllesby & Co. (Inc.) on Oct. 27 further participated in the public offering of $350,000 shares of common stock (par $1) of San Diego Gas & Electric Co. at $13.50 per share.

With Prugh, Combest Co.

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—Francis G. Kulleck has been associated with Prugh, Combest & Land, Inc., 1016 Baltimore Avenue. In the past, Mr. Kulleck was a partner in Kulleck, Wheeler & Co. and prior thereto was associated with W. C. Pitfield & Co., Inc.

NSTA Notes

LAST CALL FOR DALLAS

The Dallas Bond Club is sending the following letter to all traders planning to attend the National Security Traders Association Convention Nov. 14-18:

"You have been hearing a great deal lately about the entertainment and activities planned for you at our NSTA Convention Nov. 14 through 17. But, lest you overlook anything, here's a final reminder to help prepare you for your biggest date of the year.

"If you're not up on your golf, you may wish to bring along a tennis racket, for some pretty good competition will be provided on the courts. Those of you not inclined toward the exertion of those sports may relax with gun to shoulder and participate in the trap or skeet shoot—a heckling contest of 100 birds.

"The normal average temperature in Dallas the middle of November is 65 to 70 degrees. By then we are wearing tweeds and gabardines, the latter of which should be quite comfortable. However, since it is not altogether unlikely that a 'norther'—a cold windy change of temperature—may develop about that time, it would be well to bring along a light topcoat.

"Checking over our schedule of events you will see that a 'Chuck Wagon' party will be held Tuesday, Nov. 16. For this occasion you might toss in some very informal clothes. Most of the local members will be wearing loud plaid sport shirts, blue-jeans, Texas boots and hats, or similar 'cowboy' regalia, and the ladies plaid skirts or square-dance dresses, and boots or sports shoes without heels. We'll probably be rolling in the hay part of the time on this, our Western Night, and plan to dress accordingly. The last night of the Convention will be a semi-formal banquet and dance, for which you may, if you like, wear a tuxedo. So, during your stay in Dallas we suggest, for the men, one heavy and one or two medium-weight suits, a topcoat, and a tux if you care. For the ladies, customary fall clothes and a formal. For all, some casual Western night clothing.

"Internationally famous geologist and oilman Everette L. DeGolyer will feature the Corporate Forum with a discussion of The Natural Gas Industry, while Austin J. Tobin, Executive Director of the Port of New York Authority, will address the Municipal Forum. Many other nationally-known figures will be presented.

"You can see that we are promising you the BEST convention ever and very sincerely hope to have you on hand with us."

SCHEDULE OF EVENTS

Sunday, Nov. 14—
- Convention Special Train Arrives Dallas 4:00 p.m.
- Informal Cocktail Party 6:30 p.m.

Monday, Nov. 15—
- Open House Financial District.
- Field Day—Golf Tennis—Skeet.
- Cocktail Party.
- Dinner.
- Style Show by Neiman-Marcus.

Tuesday, Nov. 16—
- Opening Meeting for Delegates.
- Afternoon Corporate Forum—Guest Speaker, E. L. DeGolyer, Internationally-famous geologist. Subject: "The Natural Gas Industry."
- Chuck Wagon Dinner.
- Old Fashioned Square Dance.

Wednesday, Nov. 17—
- Past Officers' Breakfast.
- Meeting for Delegates.
- Afternoon Municipal Forum—Guest Speaker, Austin Tobin, Executive Director, Port of New York Authority.
- Cocktail Party.
- Formal Dinner Dance (Tuxedo optional).

(Additional Activities for Ladies)

FOR SPECIAL ARRANGEMENTS:

To Register—Carrol M. Bennett, Dallas Rupe & Son.
For Sleeping Quarters—Rogers Ray, Rauscher, Pierce & Co.
Information—Jas. Walker Davis, E. F. Hutton & Co.
Entertainment—Wire John Canavan, Rauscher, Pierce & Co.
General Complaints—Talk to Jim Jacques, First Southwest Co.
Sports — Golf, Johnny Cornell, Dallas Rupe & Son; Tennis, Jesse Sanders, Sanders & Newsom; Skeet, Hugh Bradford, Lynch Allen & Co.

BOND TRADERS CLUB OF KANSAS CITY

The Bond Traders Club of Kansas City held its annual Fall Party and Dinner at the Quivira Country Club, Quivira, Kansas. Members of the National Security Traders Association from Topeka, Kans also attended. John Latshaw, Harris, Upham & Co., is President of the Kansas City Club.

Pictures taken at the party appear elsewhere in today's issue of the "Chronicle."

Murphy to Manage Dept. For Dallas Nat'l Bank

DALLAS, TEX. — Robert P. Murphy, who has been with the Dallas National Bank, Main at Stone, for the past 18 years, has been appointed manager of the Bond Department. He succeeds Will Miller who is now with the Bank Correspondent Division.

L. F. Hohmann With Swan, Stickley Co.

BOSTON, MASS.—Swan, Stickley & Co., 75 Federal Street, announce that Lawrence F. Hohmann has become associated with them as general manager. Mr. Hohmann was formerly with Hayden Stone & Co. and George-son & Co.

High Rate of Spending Will Keep Business Going

By WESLEY LINDOW*

Vice-President, Irving Trust Company, New York City

Asserting business outlook for 1949 is excellent, despite popular uneasiness over election results, Mr. Lindow, points to high rate of government, business and individual spending as chief factor in maintaining high level of economic activity. Says uneasiness about boom has provided healthy restraint on speculation and may help to alleviate extremes of boom-and-bust cycle.

Ever since the end of the war there have been intermittent waves of optimism and pessimism about the business situation. The mood tends to change quickly and the swings in business sentiment tend to be overdone. Now the election upset introduces a brand new factor of uncertainty. I am not going to try to make a lot of predictions about what the election is going to mean to business—but I venture to say that we shall hear a great deal about this subject in the next few weeks. And I think it will be wise to be very skeptical in evaluating such predictions — which have as much chance for error as the political forecasts did this fall.

Wesley Lindow

In thinking about the business situation, it is a good idea to try to look through the recurring swings of sentiment to the more basic underlying factors of demand. We should seek to determine what changes in the pattern of demand are in prospect from the point of view of the whole economic machine. I shall try to do this briefly by a birds-eye analysis of all the elements of spending in this country this year.

The total volume of spending will amount to something like $273 billions in 1948, as the accompanying table shows. I am including here all spending on the part of government, on the part of individuals for consumers goods and for new houses, on the part of business for plant and equipment and inventories, and spending in this country by foreign purchasers using their own money. These figures make up what we may call the gross expenditure stream. If we analyze them carefully, I think they will throw some light on the business situation in 1949.

First of all, consider spending by government. This year, the Federal Government is spending about $39 billion, and the state and local governments are spending another $16 billion, making about $55 billion for all levels of government.

The outlook for 1949 suggests an increase in government spending by several billions. It is generally agreed that the Federal Government will enlarge its expenditures on national defense next year. In addition, there is a good possibility that some kind of program will be instituted to help Western Europe bolster its military defenses. We can also count on a continuation of expenditures under ECA at a high level. Finally, expenditures by state and local governments on schools, highways, and other construction are expected to increase next year.

Individual Spending

Next, we come to spending by individuals. This year, individuals are spending $177 billion for consumers goods and services, and about $7 billion is going into the construction of new residential dwellings, including both houses and apartments. Of course, there is a good deal of talk about consumers' resistance to high prices. It seems to be frequently overlooked, however, that such resistance is spotty and specialized, rather than general. The resistance does not lead to lower spending by consumers in the aggregate, but only to a different pattern of spending. This is obvious from the fact that total consumer spending has gone steadily up and up. What has happened is that there have been tremendous shifts in the kinds of spending; some stores and some classes of goods have lost ground, but others have gained.

The weaknesses in retail sales have received more than their share of attention in public discussion. The tendency is to play them up without giving adequate attention to the overall strength of the business picture. Many of the weak spots, incidentally, are short-lived; they represent situations in which adjustments are taking place in moving from a sellers' market to a temporary buyers' market, and then to a balanced market.

Next year, consumers will probably continue to spend the bulk of their income just as they always have. I do not think we shall see consumers leading us into a recession because of a reduction in their spending.

New Construction

Now, as to housing, no one can be certain that the $7 billion of new construction this year will be repeated in 1949. Prices are high, and there are signs of weakness in the more expensive classes of homes. However, there is still an enormous backlog of demand for new houses in the lower-priced categories. It seems reasonable to expect that next year's residential construction will be concentrated in less expensive units and the total volume may come pretty close to this year's figure.

Business Spending

Business spending in 1948 is running about $31 billion. This includes $28 billion of new plant and equipment, and about $3 billion of additions to inventory units held.

Many people think that business spending has reached its peak and will decline next year. It is argued that a large part of the postwar expansion program by business has been completed. Thus far, there are few statistics to back up this view or to oppose it. It is interesting to note, however, that plant and equipment expenditures this year are turning out to be higher than were expected. Moreover, some industries, such as public utilities and petroleum, are working on a long-range expansion program, which

Gross Expenditures Stream in 1948
(In Billions of Dollars)

Government Expenditures:	
Federal	39
State and Local	16
Total	55
Nongovernment Expenditures:	
Individuals:	
Consumer goods and services	177
New residential dwelling units	7
Business:	
Plant and Equipment	28
Additions to Inventory Units Held	3
Foreign Purchases (spending in U. S. financed by gold, dollars, etc.)	3
Total	273

Technical Note—The total exceeds the estimated gross national product of $250 billion by including $23 billion of government expenditures for interest, pensions, and other items which are not counted as part of the gross product.

(Continued on page 40)

*Summary of remarks by Mr. Lindow before the Middle Atlantic Division of the Association of Bank Women, New York City, Nov. 5, 1948.

Bond Traders Club of Kansas City, Mo.

Pete Hunter, *Geo. K. Baum & Co.;* Walter I. Cole, *Beecroft, Cole & Co.*, Topeka; R. E. Fritz, *Estes & Co.*, Topeka

Russell Sparks, *Harris, Upham & Co.;* Don Belcher, *Martin-Holloway-Belcher;* Laurence B. Carroll, *Prescott, Wright, Snider Co.;* Milton Luce, Jr., *Burke & MacDonald*

George Baum, *George K. Baum & Co.;* James McKim, *City National Bank & Trust Co.;* Walter I. Cole, *Beecroft, Cole & Co.*

Frank North, *Barrett, Fitch & Co.;* J. Peter Soden, *Soden-Zahner & Co.;* Fred Armentrout, *McDonald & Co.;* Jack Charmley, *B. C. Christopher & Co.*

Vic Zahner, *Soden-Zahner Co.;* Art Hanni, *Seltsam & Co.*, Topeka; Ben Schifman, *Kansas City Star;* Jack Charmley, *B. C. Christopher & Co.;* Don Seltsam, *Seltsam & Co.*, Topeka

Claude McDonald, *McDonald & Co.;* C. L. Overbay, *Securities & Exchange Commission;* John Latshaw, *Harris, Upham & Co.*

Ted Wagner, *Harris, Upham & Co.;* Leonard White, *Wahler, White & Co.;* B. F. Piercy, *Stern Brothers & Co.;* G. H. Lounsbery, *Herrick, Waddell & Reed, Inc.*

Members of the club harmonizing, with Earl Combest at the piano

John Latshaw, *Harris, Upham & Co.*, President of the Bond Traders Club of Kansas City; Earl Combest, *Prugh, Combest & Land*, Treasurer; Don Belcher, *Martin-Holloway-Belcher*, Secretary; Harry L. Coleman, *H. O. Peet & Co.*

Pete Hunter, *George K. Baum & Company;* Earl Combest, *Prugh-Combest & Land;* Vic Zahner, *Soden-Zahner & Co.;* George Baum, *George K. Baum & Company;* Ben Schifman, *Kansas City Star*

Is Lack of Equity Financing Overstressed?

Stanley L. Miller, Economist of Federal Reserve Bank of New York, writing in Harvard Business Review, contends relative dearth of new equity financing has thus far had no serious consequences for corporate financial positions. Says chief source of corporate funds has been ploughing back profits and because of this seeking equity funds in unfavorable market has been avoided.

"The relative dearth of new equity financing and the substantial reliance on debt instruments characteristic of corporate financial practice in the postwar years have thus far had no serious consequence for corporate financial positions." This is the conclusion of Stanley L. Miller, economist of the Federal Reserve Bank of New York, writing on "The Equity Capital Problem" in the November number of the "Harvard Business Review."

Mr. Miller begins his article by citing the conclusion of the New York Stock Exchange in its "Economic Progress: Tax Revision and Capital Markets" to the effect that, because of an inadequate supply of venture capital, there is grave danger that "industry will have to resort, far beyond the limits of sound policy, to debt financing instead of equity financing." There is fear, he explains, that "corporate financial positions may become top-heavy with debt, short and long-term, and that any setback in business will find enterprises forced to liquidate current assets, perhaps at unfavorable prices, to pay off near-term borrowings. Corporations may also become saddled with relatively heavy fixed charges in the form of interest and amortization payments which will be difficult to meet in times of business slack. Thus, readjustment and recovery will be delayed and losses widened unnecessarily."

"On the other hand," Mr. Miller points out, "It has also been stated that the lack of equity financing has been overstressed. Upon making certain adjustments to the data on new stock flotations to exclude issues sold for purposes other than the expansion of new plant, equipment, or of working capital—notably by excluding issues of investment trusts and holding companies—it has been found by one investigator that the proportion of new money stock issues to total new money security offerings in 1946 and 1947 approximated that prevailing during the 1920's except for the years 1928 and 1929. . . . In other words, it is argued that as compared with most of the 1920's there has been no dearth of venture capital in recent years, and apparently it is presumed that to issue as large a volume of new common stocks as in 1928 and 1929 would necessitate a 'roaring' bull market, which would be undesirable."

To understand the present situation in the face of these conflicting views, Mr. Miller feels, it is necessary to look closely at three major factors: (1) the larger capital requirements of today, (2) the trend toward business borrowing from banks, and (3) the use, particularly in the early postwar years, of the substantial amounts of liquid assets accumulated by corporations during the war.

In his examination of corporate capital requirements the author states: "While equity financing relative to total financing through new issues has been higher in recent years than in the past, this fact has little significance at present in view of the much larger capital requirements of business in recent years. . . . Security financing of all kinds provided a smaller proportion of capital requirements in the past two years than in the earlier periods. Business capital expenditures alone in 1946 and 1947 averaged more than twice the 1922-1927 average expenditures; and undoubtedly the increase in working capital needs, particularly with higher corporate inventories, in the postwar years averaged much larger relative to 1922-1927 than did the growth of capital expenditures. . . . If the volume of common stock flotations in recent years had maintained the same relationship to capital expenditures that it did in the 1920's, the dollar volume would have been 20% larger than it actually was."

Of the external sources of financing, Mr. Miller says: "The volume of outside financing has been larger than in the 1920's and even larger than in 1929. . . . There has been a trend toward business borrowing from the banks since the middle 1930's, and the increases in business loans in 1946 and in 1947 were the largest for any years on record. The expansion in 1947 was over 60% greater than the increase in 1946 and more than twice the 1941 growth, which was the largest gain for any prewar year. . . . These developments — the swing away from bank borrowings to the capital markets (including equity issues) in the 1920's and the increased reliance on the banks for funds in recent years—give an entirely different picture with respect to the proportion of equity capital in the total financing of corporations through external sources of funds. The proportion is increased during the 1920's and decreased in the postwar years. Thus equity financing in the postwar period has been small in relation not only to total corporate capital requirements but also to total external sources of funds."

In comparing the availability of venture capital in the 1920's with that in recent years, Mr. Miller observes that "much of what has been termed venture capital as related to the earlier years was actually credit. The volume of credit available to investors and speculators in the 1920's for purchasing and carrying new and outstanding securities, particularly common stocks, was well above that available in recent years. And the huge flotations of stocks during 1928 and 1929 reflected as much the abundance of credit as the investment of savings. During the 1920's and particularly in the last two years of that decade the investing public went into debt, while in the current period corporations have been going into debt. . . .

"The chief source of corporate funds," Mr. Miller demonstrates, "has been the profits generated by the enterprises themselves. Whether because of a dearth of venture capital, or as the result of a deliberate policy, corporate managements have been meeting their needs for funds largely through ploughing back earnings into their operations. . . . In 1946 slightly more than half the earnings after taxes were paid out to stockholders, as compared with almost three-fourths in 1939 and two-thirds in 1929. With undistributed profits and depreciation allowances providing considerably more funds than corporations have raised through external sources in recent years, managements have to a considerable extent avoided the necessity of seeking equity funds in an unfavorable market or of creating financial structures top-heavy with debt.

"High surtax rates on personal incomes and the lower rate on long-term capital gains no doubt contributed to this change in corporate financing practice. Divi-

(Continued on page 43)

What to Do Now About Inflation!

By DR. LEO BARNES*
Chief Economist, Prentice-Hall, Inc.

Holding inflation mainsprings have lost their punch, and money supply and overall price level are in balance while goods shortages are tapering off, Dr. Barnes sees price outlook more deflationary than inflationary. Says armament expenditure, unless greatly stepped up, will not be inflationary factor, and immediate danger is not more inflation, but action by government and fiscal authorities stepping on the brake and throwing economic gears in reverse. Upholds present peg on government bonds.

My attitude toward our subject—inflation—is a trifle on the unorthodox side. Frankly, I have a sneaking suspicion that the vast majority of us don't really want to stop inflation. If we had really wanted to do so, we would have succeeded. Inflation, in short, is not entirely an involuntary evil.

Dr. Leo Barnes

Of course, price stability is a wonderful ideal. But under our system of comparatively unregulated free enterprise, isn't that ideal pretty much a will-of-the-wisp?

It seems to me that continuous price stability at high levels of employment requires more government controls than probably most Americans — and surely most businessmen — care to tolerate. Therefore I believe the only choices we have on inflation or deflation are four: (1) Runaway inflation; (2) Moderate inflation; (3) Moderate deflation; and (4) Sharp deflation.

Of these four realizable possibilities, I think that, in practice—regardless of what people say—the vast majority of Americans prefer No. 2, namely moderate inflation, such as we have been experiencing in the last few months.

To be sure, even mild inflation causes a lot of grumbling because of rising living costs. At the same time, however, practically everybody is at work and the real incomes of most elements in the community have never been higher. By contrast, think of the consequences of mild deflation. In industrial areas, it means income losses to businessmen, unemployment for some and lowered take-home-pay for many workers; so that even though living costs might come down somewhat, the decline in incomes usually causes more suffering and discomfort than the gains to some consumers made possible by lower prices.

You have a good example of this fact in the recent reaction of people to falling clothing prices, much publicized in past few weeks. Well, isn't it that just what people have been shouting for? Yet once clothing and textile prices started coming down many of the same people who had been crying for the need for lower prices are now beginning to get a little panicky because falling prices signify to them the beginning of a recession like 1920-21.

The upshot of all this is simply that, granting the undesirability of both wild runaway inflation and drastic deflation, as between mild inflation and mild deflation—mild exhilaration or mild depression, if you will—most people are in fact if not in thought happier in a condition of mild inflation.

If we accept this scale of economic preference, then it seems to me that what we have to strive for are measures that tend to prolong the present boom; and that what we have to try desperately to avoid are measures that will convert that boom into a recession or depression. Over-stressing the dangers of inflation may well make us fall into the trap of precipitating deflation. At this stage of the post-war boom—and that boom has been perched at its peak longer than any other in our history—the real danger is not another burst of inflation, but rather that, in striving to avert this imagined danger, the government, and in particular the monetary authorities, will terminate the boom and start a downward readjustment.

Inflation Mainsprings Have Lost Punch

Let me explain a little more in detail why I don't go along with the view that more inflation is inevitable. Probably the prevailing opinion is that the present military rearmament program, plus proposed increases in that program and the start of military lend-lease shipments to Western Europe, together practically assure indefinite prolongation of the present boom, and carry with them the constant threat of more inflation.

As we all know, there are three chief mainsprings of inflation: (1) Too much money; (2) Basic supply shortages; and (3) Rising wage rates and other mounting production and distribution costs.

Prices tend to move up when any one of these factors operates. The basic economic reason why our postwar inflation was so spectacular in 1947 was that all three of these causes were operating at the same time.

Yet today these three mainsprings of inflationary pressure seem to have lost most of their punch. Let's take the first one—too much money. That's the traditional cause of inflation, especially in countries which have lost wars and in more primitive Latin American or Oriental economies. In the United States the enormous increase in the money supply—it has more than tripled since 1939—has been due largely though not entirely to the huge volume of deficit financing which the government employed during the war years. If we had financed our war program 100% through taxation, the money supply would not have increased anywhere near as much as it has, and the increase in prices over prewar levels would have been nowhere as great as it has been. Unfortunately — and this is more than just crying over spilled milk—many of us who are horrified by deficit financing are also strongly opposed to higher government taxes. For that reason it was simply a political impossibility to avoid deficit financing during the war—neither the Republicans nor the Democrats would have voted for it.

Be that as it may, it seems to me that at the present time the total money supply and the overall price level are just about in balance. The inflationary impact of war deficit financing has just about spent itself. It has been mainly counteracted by the higher prices which it itself produced, and which in turn caused the liquidation of much of the savings accumulated during the war by individuals and business firms. It probably has also been slightly counteracted by moderately tighter bank and consumer credit in recent months.

Appraising the situation with some overall statistics, it seems that today the total money supply is about 342% of the amount that prevailed just before World War II began in June, 1939. At the same time, total production—combining the physical volume of industrial production, agricultural output and construction—has increased to about 165% of the 1939 level. Divide 342 by 165 and you get 208. In other words the supply of money has increased a little more than twice as fast—208% to be exact—as the supply of goods. In accordance with the old quantity theory of money, prices might therefore be expected to rise to 208% of the June, 1939, level. As a matter of fact, wholesale prices are today 218% above June, 1939.

Basic Supply Shortages

Now let's take the second main cause of inflation—basic supply shortages in relation to current demand. As most of us know, sellers' markets have virtually vanished except in a handful of areas—automobiles, steel and nonferrous metals. Even the housing boom is beginning to taper off. Fortunately, prices in most of these few areas of remaining shortages are what economists call "administered," that is, they move up or down comparatively slowly. In the most explosive price areas—farm products and foods—the largest combined grain crop in U. S. history means the end of virtually all U. S. food shortages in 1949. This in turn implies that the major upward pressure on the cost-of-living has come to an end, and that, accordingly, the cost-of-living index has just about reached its peak for the present boom.

It is the third main source of inflation which remains most active—though this force too has weakened. I refer to the inflationary impact of rising wage rates and other rising production and distribution costs. Unions seem to have gotten into the habit of asking for a wage increase each year. They regard it as part of their members' due, regardless of what the price, profit, or sales outlook for a business may be. Management has helped to establish this labor habit because of its willingness to go along in the years since V-J Day. Sellers' markets due to the general excess of demand over supply made it easy to do so. We all know that it will be much tougher for most managements to go along in 1949, when the question of the fourth round comes up. Fortunately, management will be aided by the fact that, since meat prices and other food prices have stopped rising and are turning downward, the chief legitimate argument for wage boosts greater than those that might be warranted by small increases in productivity disappears.

In any event, in many areas where labor and other costs are still on the rise, slackening customer demand is preventing the full reflection of increased costs in higher prices. This implies that the inflationary consequences of our third mainspring of inflation are also petering out.

Outlook Deflationary

For all these reasons, it seems to some of us, at least, that the combined overall price outlook for the next few months at least is somewhat more deflationary

(Continued on page 42)

*An address before the Annual Conference of Society for the Advancement of Management, New York City, Oct. 28, 1948, with minor modifications made by Dr. Barnes at the request of the "Chronicle" in view of Mr. Truman's reelection.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week — Bank Stocks

The announcement of last week that the National City Bank of New York plans to increase its capital by a transfer of funds from surplus once again calls attention to the capital position of all banks.

For the past several years bank supervisory officials, both Federal and State, have exerted pressure on banks to increase their capital accounts. The reason for this has been the sharp rise in deposits, loans and investments during and since the war.

However, the considerable discount from book values at which most bank stocks have been selling for the past two years (20-30% in the case of New York City bank stocks at the present time), and the relatively low rate of return on capital accounts, have made it unattractive to obtain supplementary capital funds by selling additional stock to the public.

As a result capital funds have been increased almost entirely through the retention of earnings which have not been paid out to stockholders as dividends.

In the case of New York City bank stocks, this has meant few dividend increases in the past several years while at the same time only approximately 60% of earnings has been paid out. As a consequence capital accounts have been increased and the ratio of deposits to capital funds has declined.

The following tabulation presents figures and ratios of a selected list of leading banks in New York, Boston and Chicago. The table shows the total capital funds, deposits and ratio of deposits to capital as of Dec. 31, 1945 and as of Sept. 30, 1948. Also shown in the last column is the percentage capital funds have increased.

	As of Dec. 31, 1945			As of Sept. 30, 1948			Pctge. Incr'se in Cap. Funds fr. Dec. 1945 to Sep.'48
	Capital Funds (000)	De-posits (000)	Ratio of Deposits to Cap. Funds	Capital Funds (000)	De-posits (000)	Ratio of Depos. to Cap. Funds	
Bank of Manhattan	$60,526	$1,290,314	21.3	$65,991	$1,204,692	18.3	9.0%
Bankers Trust	143,317	1,749,590	12.2	153,665	1,323,885	8.6	7.2
Central Hanover	118,260	1,842,737	15.6	129,104	1,367,452	10.6	9.2
Chase National	300,240	5,742,180	19.1	225,676	4,206,944	12.9	8.5
Chemical Bk. & Tr.	100,051	1,524,161	15.2	110,341	1,324,085	12.0	10.3
Commercial Nat'l	19,186	244,444	12.7	20,922	173,879	8.3	9.0
Corn Exchange	40,011	842,037	21.0	44,792	752,548	16.8	11.9
First National	133,379	800,221	6.0	136,824	529,767	3.9	2.6
Guaranty Trust	312,676	3,309,453	10.6	365,330	2,344,107	6.4	16.8
Irving Trust	110,411	1,277,920	11.6	116,006	1,031,416	8.9	5.1
Manufacturers Tr.	113,137	2,555,886	22.6	127,884	2,125,898	16.6	13.0
*National City	276,516	5,308,657	19.2	305,621	4,664,438	15.3	10.5
New York Trust	59,895	881,263	14.7	65,492	594,432	9.1	9.3
Public National	26,892	545,498	20.3	30,972	500,895	16.2	15.2
U. S. Trust	30,710	140,355	4.6	29,397	115,902	3.9	—4.3
Banks Outside NYC:							
Cont'l Illinois Nat'l	147,471	2,646,722	17.9	†165,548	†2,082,217	12.6	12.3
First Nat'l Chicago	113,687	2,347,653	20.7	†139,028	†2,017,594	14.5	22.3
First Nat'l Boston	91,160	1,578,278	17.3	97,622	1,359,920	13.9	7.1

*Includes figures of City Bank Farmers Trust Co. †As of June 30, 1948.

The year 1945 was selected because it represents the peak of the wartime expansion in deposits and the time when capital-deposit ratios were at their highest point. Since that time the contraction in deposits as a consequence of government debt retirement and the increase in capital funds by the retention of earnings has resulted in a generally improved relationship between capital and deposits. In a considerable number of cases the ratio is below or only slightly above the traditional one dollar of capital to each ten dollars of deposits.

While there has been some increase in risk assets in the past two years because of the sharp expansion in commercial loans, it is believed that most banks have improved their capital positions.

The action by National City in proposing to increase its capital is believed by some authorities to foreshadow an increase in the dividend sometime next year. Whether or not a more liberal dividend policy will be adopted by the various banking institutions will depend upon their individual circumstances. In view of their improved capital positions and outlook for earnings, larger payments are possible.

Factors in Bank Stock Appraisal

By MORRIS A. SCHAPIRO*
President, M. A. Schapiro & Co., Inc., New York City

Bank analyst, in outlining factors which make individual bank stocks investor's choice, notes that among New York banks, those which serve little as well as big business have increased deposits, while those serving big business only have lost deposits. Sees loss of deposits and higher break-even points making inroads on earning power of banks dealing with large business. Stresses factor of income tax exemption on certain bank investments as element of earning power, and underscores safety elements of quality of bank assets and adequacy of capital as bases in judging bank stocks.

I am honored to be here today to discuss with you the subject of commercial banks, their competitive position, and the essential factors in judging the relative values of their capital shares. I shall try to describe some of the factors which make one bank stock more attractive to investors than another.

My observations will be limited to the conditions existing among the large New York City banks. I realize that the problems which you bankers in this district face are somewhat different from those in the New York City area, but I think you will find that the principles outlined are applicable to banks everywhere.

Bankers throughout the country are always interested in what the New York City banks are doing—especially how well they are doing. This interest is natural because these institutions hold so large a share of the country's banking resources. Customer relationships of these banks are on a nationwide basis. There is hardly a business enterprise of national importance which does not have banking connections in New York. Also, the useful but intricate network of correspondent bank relationships built up over the years and embracing most of the 14,000 commercial banks of the country, is centered largely about this group of New York City banks. The opinion of financial people everywhere is frequently sought regarding the relative standing of this or that bank in New York.

When we refer to the New York City banks, we mean the central reserve city group comprising 35 member banks of the Federal Reserve System having total capital accounts of $2¼ billion, or more than 26% of the $8.6 billion total for all of the 3,925 member banks in the United States.

Position of New York Banks

What is the picture which these banks present to the close observer? What has been their recent history? How have they made their adjustments to postwar problems? What is their actual position today as a result of these adjustments? What are their prospects? Although we refer to this group as the New York City banks, it is essential to remember that there are 35 separate and distinct entities, no two of which present the same situation.

Since the war, these banks have been adversely affected by two major developments. The first is the decline in earning assets, that is, the total of their loans and investments; the second, the concurrent rise in operating expenses. Contracting earning assets and rising expenses, however, have not affected these banks uniformly.

Let us look at Table I in which are presented the figures of deposits, loans and investments of the member banks in New York City since 1946. Here we see how total deposits now at $23.7 billion have declined $3.7 billion, or 13½% from the average level of 1946. From the 1947 position, the decline in deposits is $1 billion or 4%.

How have the banks fared individually? We find that the deposit figure varies widely among the banks. While as a group deposits are down, some banks, nevertheless, actually gained funds. To illustrate, the deposits of one bank alone declined a billion dollars, or ⅓ from its 1946 figure, while the deposits of another bank in the same period held up and, in fact, moved ahead a bit. Both of these banks have total resources today in excess of $2 billion. To illustrate again, here is another pair of banks. Each of these has total deposits of around $500 million. One shows an increase of $50 million or 10%, while the other shows a decrease of $400 million or 45%.

What do these figures mean to the close observer? How would a bank analyst interpret them? Those banks which were successful in maintaining their wartime level of deposits have broad, dynamic, and growing contacts with the public. They are brown derby banks. They serve little business as well as big business, doing what might be called a retail trade in addition to serving the large borrower. On the other hand, the banks which lost deposits since the war, are usually banks serving the large depositor, doing the wholesale business almost exclusively, serving companies doing a national business rather than the little fellow's operation. Of course in between the retail banks and the wholesale banks, there is a whole range of banking institutions active in both fields.

Diffusion of Liquid Assets

It is important to remember that there has been a constantly growing diffusion of liquid assets throughout the economy, representing the cumulative proceeds of deficit financing. Small businesses and low income groups now maintain larger bank balances than before the war. In addition, there has been a sharp increase in the number of such accounts. Banks serving them have naturally benefited.

The record shows, however, that total deposits for the New York City banks as a group are lower. Naturally, as a result, the volume of total earning assets is also down. In addition, these banks have this year been subjected to higher reserve requirements, and today, following the three successive increases of 2% each ordered by the Federal Reserve Board compared with only one increase of 2% which you bankers have had to meet, these banks must now maintain approximately $1¼ billion additional cash balance at the Federal Reserve Bank, reducing the total of their earning assets by a like amount.

Under these conditions, it is understandable that New York City banks have only $18.6 billion total loans and investments today, a decline of nearly $2 billion, or 10% from their average level in 1947 and $4.8 billion or 20% from the average level of 1946. This contraction has made serious inroads on the earning power of this group of banks.

The most significant fact, however is that the impact of this development was most marked among the wholesale banks and had its smallest influence among the brown derby banks. To illustrate again, the contraction in the total of earning assets since 1946 in the case of three of the banks doing a wholesale business, having deposits today of $2,300 million, $530 million, and $175 million, is 23%, 26% and 28% respectively.

Now, let us look at the brown derby banks and see how they fared in the same period. Here are three banks with deposits today of $2,100 million, $1,200 million, and $500 million. The contraction is only 13%, 4% and 14% respectively. At this point it is of special interest to note the experience of a leading institution with deposits of $3,800 million. Its business is highly diversified, having the broadest coverage in this area. It serves little business as well as big business, maintaining effectively its broad contacts through its many branches. The decline in the earning assets of this bank since 1946 is only 15%.

As shown in Table I, although outstanding loans of New York City banks, amounting to $7.9 billion, are up $1.2 billion or 18% from their 1946 average, investments are off sharply. Investments at $10.7 billion are down $6 billion, fully 36% from the level of 1946.

Rise in Operating Costs

Let us now turn to the second major development, the rise in operating costs. We can see in Table II that operating costs other than income taxes have increased from $216 million in 1945 to $279 million estimated for 1948, a rise of $63 million or 30%. In the same table, income other than interest, such as fees, trust department, etc., has risen from $86 million to $115 million. By applying this latter item to operating expenses, the net deficit is up from $130 million to $164 million. This net deficit, Item 3 in Table II, is the amount of interest income these banks require in order to stay out of the red and just break even. Table II shows that the critical break-even point has advanced from 0.53% in 1945 to 0.88% today. This is the rate of interest required today by these banks on their reduced volume of loans and investments of $18.6 billion in order to break even.

Again, among these large New York City banks, although the break-even point has been rising since 1945, the average figure of 0.88% conceals wide variations in the break-even rates of individual banks. Let us take a large wholesale bank in the Wall Street district, admittedly an extreme example. Its break-even point last year was 0.46%, which meant that if all of its earning assets, loans and investments, had been invested at the rate of 0.46%, it would have just broken even. If this bank's average yield had not been higher than 0.46%, there would have been no net income to pay taxes to the Treasury, dividends to the stockholders, and net addition for its capital. Now let us consider another case, also extreme, this time a brown derby bank with deposits totaling more than $500 million. This bank required 1.41% to break even. Despite this comparatively high requirement, however, the brown derby bank, because of the steadiness of its deposits, dealing with the broader public as it does, was able to make the fullest use of its loaning and servicing opportunities. It realized a rate of 2.11% on its earning assets, while the bank previously mentioned real-

*Address by Mr. Schapiro before the Correspondent Banks at the Economic Meeting of Peoples First National Bank & Trust Company, Pittsburgh, Pa., Nov. 4, 1948.

ized only 1.43%. These variations are now receiving increased attention among analysts and investment sources.

Against a background of a constantly rising break-even point, the trend in average yields on loans and investments, as Table II shows, has also been upward, because of the changing pattern of the money market, and the change in the composition of earning assets. The rise has been from 1.40% in 1945 to 1.87% estimated today. But once more, the yields realized vary from bank to bank, and again, the average conceals the wide variations found among the individual institutions. This time, however, the wholesale banks enjoy an advantage over the retail, brown derby banks.

Effect of Rising Interest Rates

The principal reason for this condition is that the recent upward changes in the money market, the basis of rising yields, are occurring at the wholesale level. In other words, an increase in the commercial lending rate by a wholesale bank from 1½% to 2¼% is an increase of 50% on the same dollar volume. In the retail transaction, however, the borrower who had been paying, let us say, 3½% in the first instance and is now paying 4¼%, provides the bank with an income increase of only 21%.

Similarly, the increases in the Treasury's short-term rate over recent months have been of more direct benefit to the wholesale banks because of their more concentrated holdings of short-term Treasury securities. Offsetting this, however, are the long-term loans which were made by some of the wholesale banks. These banks which made such loans, in effect, sold options on money during a period of low interest rates. Hence, there is a time lag which prevents or delays these banks from reflecting fully the higher interest rates of the day in their current earnings.

Another fact which the bank analyst must keep constantly in mind is that the rate of income from investments, as indicated by the earnings statement of a bank is not necessarily the interest rate currently available to banks. To illustrate, one New York City bank has current income from its investments at the rate of 1.20% while another bank has income from its investments at the rate of 2.00%. It is obvious that an improvement in the money market and interest rates, will immediately affect the first more favorably. In the event of a refunding of a particular issue into, let us say, 1½%, the first bank will show improvement in income whereas the second bank will show a reduction in income. Further, if both banks were to participate in a loan bearing a rate of interest of 2%, the business would be more profitable to the first bank than to the second bank, since both would have to reduce their investments to provide the necessary reserves. And again, the increases in reserve requirements this year, obviously were more harmful to the earning power of the 2.00% bank than to the bank which was receiving only 1.20%. Incidentally, the dividend prospects in the first case appear brighter than in the second.

This matter of the renewability of earnings has not as yet received full recognition among banking observers, and is often neglected by bankers themselves. By renewability we mean whether reported earnings are again possible under the changed conditions of the present. To be realistic, the question must always be raised—To what extent do the earnings reported by banks reflect conditions now obsolete and no longer renewable?

In this connection also, high bond yields, coupled with low tax rates are an abnormality, a reflection of the more favorable conditions of the past. Frequently this condition is the result of writing off the premium on bonds rather than amortizing the premium for purposes of earnings. Again, the bank analyst must be alert and recognize the varying accounting procedures among the banks.

We have seen the critical break-even interest rate required by these banks to stay out of the red estimated at 0.88%. Currently it appears that they are actually realizing income from their current loans and investments at the rate of 1.87%. This spread of 1%, or net "take," if you will, represents net current operating income of these banks before state and federal income taxes. In New York State, these banks are required to pay income taxes at the rate of 40.8% which is the net of the statutory 4½% New York State franchise and the 38% combined normal and surtaxes.

Income Tax Liability

Here we come to the analysis of the income tax liability of banks, one of the most important factors in determining their true earning power. There are so many elements involved, and the matter is so often confused by the supervisory agencies and the banks themselves, that the value of an analysis may hinge on this point.

For instance, in New York City last year, with the statutory tax rate of 40.8%, the stated and Federal taxes for this group of member banks as reported by the Federal Reserve Bank amounted to $47 million, an effective tax rate of only 26.9%. Here are individual figures of four selected banks. One reported its earnings to stockholders after accruing taxes at the rate of 35%, another 27%, the third 21%, still another 18%.

Why did the New York City banks pay taxes at the rate of only 26.9%, when the combined Federal and state rates are 40.8%? And why are there such wide differences among individual banks? The immediate answer is that a certain part of their investment income was tax-free, some from state and municipal securities, wholly tax-free, and some from outstanding Treasury obligations issued prior to March, 1941, exempt from the 24% Federal normal tax. Amounts of such income, of course, vary from bank to bank. Here, an important point is to ascertain the extent to which such tax-free investments are renewable, and how that affects reported earnings.

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

Banks in New York City like many banks throughout the country, have availed themselves of this new method of bad debts accounting. Some banks do not use the method. However, among those which do, there is a large number whose earnings are overstated by comparison with other banks because of accounting procedure. There were banks in New York City which last year used the reduced tax in calculating net current earnings for stockholders, producing thereby an earnings figure higher than their normal earning power, which will become evident when the temporary advantages of this method have run out.

On the other hand, many banks, more realistic, and recognizing the importance of reporting their net current operating earnings to stockholders on a pure and recurring basis, kept their figures free of this element. In these cases, the effective tax rate applicable to their normal operating income, is in line with the tax rate of the day.

The $47 million of income taxes, or 26.9% effective tax rate, as reported by the Federal Reserve reflects the presence of exempt income, reduction in taxes due to the bad debts method, and the smaller taxes arising from losses on the sale of securities. Here it is well to point out that the member banks are obliged to report their operating figures to the Federal Reserve on forms designated by this agency. Unfortunately, this form in disregarding net current operating earnings after taxes, obscures the true earning power of banks. Actually, the combined earnings figures of the member banks released by the Federal Reserve by no means portray the real situation at these banks, nor are these figures easily reconciled with the published reports issued by banks to their own stockholders. As a result, there is understandable confusion as to how banks are doing. This has reacted unfavorably on all banks and their stockholders.

These are some of the major tests which should be applied in any competent appraisal of the earning power and prospects of an individual bank, whether in New York, in Pennsylvania, or anywhere else in the United States. They constitute, however, no more than a preliminary screening. I would like merely to mention two additional important factors. The first is, the quality of the bank's assets which, of course, underlies all other tests. The second is, adequacy of capital, a major element in judging the value of bank stocks.

There is no standard formula to guage the adequacy of bank capital. In each individual case, there are many different factors which should be taken into consideration, such as the quality of assets, type of business, and the general exposure of the bank to business and economic changes.

In those cases where capital is actually too low, the rate of net earnings on existing capital accounts is usually high. It is clear that when the percentage of net earnings to total capital accounts is considered, the test should be based not only on what total capital accounts actually are, but also on what total capital accounts should be. In the case of banks with insufficient capital, there should be high earnings or the prospect of additional earnings to warrant a desired capital increase. These considerations underscore the importance of estimating properly the true recurring earning power of banks.

These, in total, make up a yardstick which professional investment analysts use to compare banks, all banks, your bank. Banks increasingly are coming under the close scrutiny of not only experts in the investment world, but also, of their principal customers, the financial officers and treasurers of our large national corporations. These executives are taking a deeper interest in how their depository banks are doing.

Largely as a result of this situation, slowly but surely, bankers themselves are becoming increasingly conscious of the need for meeting this growing interest of the business community. It is a fact that already a number of forwardlooking banks are taking special pains to inform fully and completely their depositors and stockholders on the affairs of their institutions. In the interest of banking, of industry, and the economy itself, it is essential that banks everywhere recognize the importance of these trends, always mindful of their responsibilities to stockholders as well as to the business world. To do otherwise, is to weaken the cause of the private banking system.

TABLE I

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

(In billions of dollars)

	1946	1947	1948 (est.)	Current Position
Average deposits	$27.4	$24.7	$23.9	$23.7
Average loans and investments	23.4	20.5	19.2	18.6
Average loans	6.7	6.7	7.5	7.9
Average investments	16.7	13.8	11.7	10.7

TABLE II

Critical Yields of Member Banks in New York City

(Amounts in millions of dollars)

	1945	1946	1947	1948 (est.)	Current Position
1. Operating expenses	$216	$250	$274	$279	$279
2. Income other than interest	86	100	107	115	115
3. Net deficit	$130	$150	$167	$164	$164
4. Average loans and investments	24,700	23,400	20,500	19,200	18,600
5. Rate required to break even	0.53%	0.64%	0.81%	0.86%	0.88%
6. Rate act'lly realized	1.40	1.52	1.67	1.82	1.87
(a) Loans	1.58	1.81	2.10	2.30	2.40
(b) Investments	1.34	1.40	1.46	1.49	1.49
7. Net current operating income	0.87	0.88	0.86	0.96	0.99
8. Effective tax rate	42.0	32.0	26.9	28.9	28.9

Aluminum Co. of Amer. Gets $60,000,000 Loan

The Aluminum Co. of America announced Nov. 10 that it had completed arrangements to borrow $60,000,000 on 25-year 3% notes, to be dated Dec. 1, 1948. Proceeds of the loan will be used partly to repay existing bank loans and to augment cash available for the company's construction program.

With The First Boston Corp. conducting negotiations for Alcoa, the Metropolitan Life Insurance Co. agreed to provide $55,000,000 of the total to be borrowed and trustees of Alcoa's employee retirement plan consented to lend the other $5,000,000.

Bond Club of N. J. to Hear

Captain Eddie V. Rickenbacker, President and General Manager of Eastern Air Lines, will be guest of honor and speaker at a luncheon meeting of The Bond Club of New Jersey to be held at the Robert Treat Hotel, Newark, Wednesday, Nov. 24 at 12:15 p.m. Captain Rickenbacker's subject will be "Air Power Is Peace Power." A motion picture of the same title will be shown.

With William H. Coburn

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Randolph G. Sharp has been added to the staff of William H. Coburn & Co., 68 Devonshire Street.

Scherck, Richter Wire To First Secs., Chicago

Scherck, Richter Company, Landreth Bldg., St. Louis, and First Securities Company of Chicago, 134 South La Salle Street, Chicago, announced the installation of a direct private wire between their offices. Scherck, Richter Company also have direct wires to New York, Los Angeles, Dallas and Louisville.

California IBA Group Elects Morris Head

LOS ANGELES, CAL.—At the annual meeting of the California Group of the Investment Bankers Association, Thomas E. Morris, Blythe & Co., Inc., was elected chairman. Named as Vice-Chairman was George E. Jones, Mitchum, Tully & Co. Paul B. Kelly, Anglo-California National Bank, was chosen Secretary-Treasurer. Ralph E. Phillips, Dean Witter & Co., and Joseph L. Ryons, Pacific Company of California, were named to the executive committee.

Walston, Hoffman Co. Opening NY Office

Walston, Hoffman & Goodwin, members of the New York and San Francisco Stock Exchanges, have opened a branch office at 35 Wall Street, New York City, with William V. Driscoll as resident partner.

On Dec. 1, Edmund W. Tabell, formerly of Shields & Co., will be admitted to partnership in the firm and will make his headquarters at the newly opened office.

R. D. Jacobson With Smith, Burris & Co.

CHICAGO, ILL. — R. Donald Jacobson has become associated with Smith, Burris & Co., 120 South La Salle Street, in their over-the-counter trading department, specializing in industrial and public utility stocks.

He was formerly manager of the trading department of the Chicago office of Riter & Co. and before that was senior securities analyst for the Federal Deposit Insurance Corporation.

Martin Brosnan Is Now With Tellier & Co.

Martin T. Brosnan is now associated with Tellier & Co., 22 Broadway, New York City, as manager of the firm's retail sales department. He was formerly with Simons, Linburn & Co. and J. Arthur Warner & Co., Inc.

A. C. Allyn to Acquire N. Y. S. E. Membership

It is understood that J. Douglas Casey of A. C. Allyn and Co., 100 West Monroe Street, Chicago, Ill., has applied for a membership in the New York Stock Exchange.

Cambist Assoc. in Chicago

CHICAGO, ILL. — Cambist Associates, Inc., is engaging in a securities business from offices at 33 South Clark Street. Officers are Herbert J. Schoen, Edgar J. Schoen, Aaron Taymor. Directors are the officers and Daniel H. Cooney, Walter Erman and Lester M. Eisman.

With Merrill Lynch Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — George L. Shinn has been added to the staff of Merrill Lynch, Pierce, Fenner & Beane, 10 Post Office Square.

Mutual Funds

By HENRY HUNT

Income Type Funds Selling Best

Since the September, 1946 market break, income type mutual funds, including balanced funds, have been the best sellers. The urge to buy low yielding growth funds or so-called "Appreciation type" funds seems to have been rather dormant in recent months.

The see-saw markets of the past two years, in which it is easy to get whip-sawed, may account for the current preference for income type funds. However, **Charley Werly** of the **George Putnam Fund** has an ingenious explanation for this situation which he considers a basic trend.

According to Charley, most investors who purchase mutual funds today, or at least shares of The Putnam Fund, are in their 50's or 60's and naturally are more interested in income than capital appreciation. Men (and women) who first went to work in the 'teens or early '20s have been able to accumulate fairly substantial savings due to the negligible income taxes of that era. On the other hand, the younger generation has been faced with steadily mounting income taxes, as well as rising living costs, with the result that outside of a few government bonds, their savings available for investment are small.

Charley may be right. However, our guess is that if the "Dow" crosses 200 with large volume trading on the "Big Board," we will witness a sharp revival of interest in mutual funds of the "appreciation type."

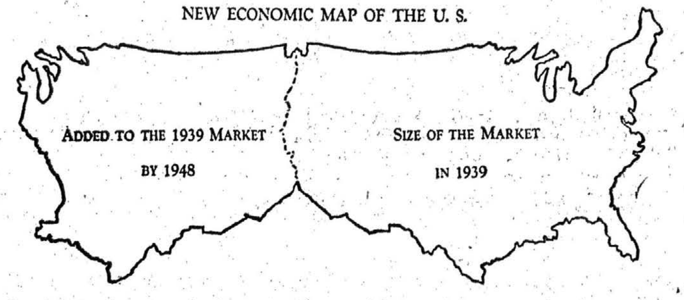
Big New Markets

"Between 1939 and 1948, our population increased from 131 million to 146 million, an increase of 15 million people. This added to our population the equivalent of more than two states the size of growing California. Even more important in enlarging our domestic markets for goods, however, has been the increase in real buying power of the average person. During 1939, personal income payments after taxes averaged $536 per capita. This increased to approximately $1,265 for 1948. An increase of $911 would have been sufficient to offset the higher cost of living that has made a prewar dollar worth only 60c today. These figures indicate that the average person has had an increase in real buying power—the ability to buy pounds of food, pairs of shoes, suits, dresses—of approximately 40%.

"The average worker who is married and has two children earned $25 per week in 1939. From that was deducted 25c for social security; his take-home pay was $24.75. The typical worker today receives $54 per week. Social security and withholding taxes amount to $1.00, leaving a take-home-pay of $53. After allowing for the higher cost of living, the family with this income is able to buy approximately one third more units of goods than before the war.

"If one's personal experience does not bear out this increase in buying power, it is well to remember that for each person whose income has remained relatively stable or who has been hurt seriously by increased taxes, there are many workers in factories, mines, forests and on farms whose buying power has increased considerably. It is estimated that in 1936 there were 6.3 million family units with an annual income of over $2,000. During 1948 approximately 30 million family units will have had income of over $2,000.

NEW ECONOMIC MAP OF THE U. S.



Growth in the market for goods and services since 1939 has added the equivalent of the population of 26 "new states" to that of the 48 states which composed the market for goods and services in 1939.

(The "land mass" which extends into the Pacific Ocean, in the Drawing above, is all of the states west of the Mississippi, plus Wisconsin, Illinois, Michigan and Indiana, drawn in reverse.)

"These figures and other observations indicate that the average person has had an increase in real buying power since 1939 of at least one-third. This is equvalent to adding 44 million people to our population! Together with the actual population growth of 15 million, there has thus been added to our domestic market since the prewar year 1939 the equivalent of the whole of the 1939 population living west of the Mississippi, plus the states of Illinois, Indiana, Michigan and Wisconsin. Thus, we have a new economic empire. It means that under current economic conditions, there is a 50% greater demand for units of goods as compared with a decade ago." (Quoted from **Hugh H. Long**'s November "New York Letter.")

Purchasing Power Above Year Ago

"Although living costs are now increasing faster than the average of the past nine years, the purchasing power of the average family is still greater than it was a year ago. This is revealed in the monthly Investors Syndicate survey of 'real income.' Real income is the relationship of revenue to living costs.

"Since 1939," the survey reports, "living costs have increased an average of 6% each year over the previous year. Today costs are 10% higher than a year ago. However, average family income is up 12% from last year, leaving the average family approximately 2% better off.

"Because these figures are averages, they do not reflect drops in buying power among workers in some lines," Investors Syndicate pointed out. "While many families continue to increase their purchasing power, others are beginning to feel a pinch.

"Our economy in the past months has demonstrated its ability to level off unevenness that appears," stated E. E. Crabb, President of Investors Syndicate, a leading distributor of investment securities. "There is every reason to believe these stabilizing forces will even out whatever temporary breaks there may be in buying power. Economic activity should continue high for some time."

Start Saving Taxes Now

"You should start saving taxes now if you have a loss in any securities held less than six months. It may cost you money to wait until the end of the year for you may lose substantial tax savings. The key time to look at any security with a loss is between five and six months after purchase because short-term capital losses (securities held less than six months) can save you twice as much in taxes as long-term losses. On short-term losses you can deduct the full amount of the loss, while on long-term losses you are only allowed to deduct 50% of the loss. You can not only deduct your net capital losses against your net capital gains but the excess of such losses up to $1,000 may be deducted from your ordinary income. Any balance of losses may be carried over the next five years and deducted against net capital gains and income in the same manner.

"One of the most important principles of successful investing is to promptly take your losses before they become serious. 'Cut your losses and let your profits run' is a time tested principle that experienced investors follow. Too many investors do just the opposite. They are apt to think of their losses as only on paper. They hold these disappointing securities hoping they will come back. Unfortunately, many securities never return to previous price levels. When the investor finally realizes his security has permanently deteriorated because of poor management or industry obsolescence, he usually has a crippling loss which is almost impossible to make up with present high taxes." Quoted from **"Wellington News."**

An Unusual Cover

Hugh W. Long has issued a new folder called, "Dividends Every Month," which has a most unusual cover. It has an almost three dimentional quality seldom seen in two-color printing. Why not write in and ask Hugh for a copy?

Brodnax & Knight, Inc. Formed in Birmingham

(Special to THE FINANCIAL CHRONICLE)

BIRMINGHAM, ALA. — Brodnax & Knight, Inc. is being formed with offices in the First National Bank Building to engage in the securities business. Officers are Marion J. Broadnax, President; R. W. Knight, Jr., Vice-President; and R. W. Knight, Sr. Mr. Brodnax was an officer of Gaines, Brodnax & Co.; Mr. Knight of T. U. Crumpton & Co.

New York Stock Exchange Weekly Firm Changes

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

Proposed transfer of the Exchange membership of Edwin George Thomas to Edward T. H. Talmage will be considered by the Exchange on Nov. 18. Mr. Talmage will continue as a partner of Montgomery, Scott & Co.

Donald L. Samuels, member of the Exchange, died on Nov. 1, as of which date the firm of Herrman & Samuels was dissolved.

Louise S. Willet retired from limited partnership in Buckley Brothers on Oct. 30.

James N. Slee withdrew from Gillen & Co. Oct. 30.

Interest of the late W. W. Lanahan in Alex. Brown & Sons ceased Nov. 1.

Transfer of the Exchange membership of Herbert R. Hastings to Morris E. Goldstein will be considered. Mr. Goldstein will act as an individual dealer.

Transfer of the membership of the late William W. Lanahan to Benjamin H. Griswold III will be considered. Mr. Griswold will continue as a partner in Alex. Brown & Sons.

Henry M. Post Dies

Henry Morgan Post, partner in the former firm of Post Brothers & Co. died at his home at the age of 75. Mr. Post before his retirement was a member of the New York Stock Exchange.

With Jackson & Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Thomas G. Ronayne and Werner W. Staaf have become affiliated with Jackson & Co., 31 Milk Street. Mr. Ronayne was previously with J. H. Goddard & Co. Mr. Staaf was with Bond & Goodwin, Inc.

Overby Made Deputy Managing Director of Monetary Fund

Camille Gutt, Managing Director and Chairman of the Executive Board of the International Monetary Fund, has announced the appointment of Andrew N. Overby as Deputy Managing Director of the Fund. Mr. Overby is at present serving as Executive Director of the Fund appointed by the United States. He was formerly Special Assistant to the Secretary of the U. S. Treasury, in charge of international finance, and an officer of the Federal Reserve Bank of New York and the Irving Trust Company of New York. During the war he served as a Lieutenant-Colonel in the United States Army.

New Cgo. Exch. Members

CHICAGO, ILL.—The Board of Governors of the Chicago Stock Exchange has elected to membership:

Frederick H. Mason, Mason, Moran & Co., Chicago; William C. Gibson, W. C. Gibson & Co., Chicago; Hunter Breckenridge, McCourtney-Breckenridge & Co., St. Louis, Mo.; Frank E. McDonald, Jr., Frank E. McDonald & Co., Chicago.

With the admission of these members, the Exchange now has a total of 171 member firms.

Ray. V. Edwards Opens

MASSAPEQUA, N. Y.—Raymond V. Edwards is engaging in a securities business from offices at Jetmore Place.

F. S. Beveridge Opens

WESTFIELD, MASS.—Frank S. Beveridge is engaging in a securities business from offices at 183 Western Avenue.

Economic Recovery of Britain

By PAUL EINZIG

Commenting on the guarded optimism in Britain during last few weeks, Dr. Einzig ascribes it to Marshall Plan aid which will enable the United Kingdom to balance its payments for current fiscal year. Says danger is wave of optimism may go too far.

LONDON, ENGLAND.—The clouds of gloom and despondency that settled over Britain after the suspension of sterling convertibility in August, 1947 are lifting at least. During the last few weeks a feeling of guarded optimism began to manifest itself. While until recently most people regarded a grave economic crisis a mere matter of time, the feeling that after all Britain will muddle through once more has been gaining ground lately.

Dr. Paul Einzig

The change was due in part to the publication of the Memorandum submitted to the OEEC and to the ECA covering the economic program for the United Kingdom for the first Marshall Aid year. Its figures show that, allowing for Marshall Aid, the balance of payments for the twelve months ended June 31, 1949, is now expected to be balanced. Until recently it was widely believed that in spite of Marshall aid there would be a substantial deficit leading to a further fall in the gold reserve. On the basis of the official figures it now appears that, after all, the "gap" may disappear and the gold stock can be maintained around its present figure. Indeed, the figures of gold sales for the third quarter of 1948 show that the outflow has slowed down quite considerably.

Possibly the official figures may err on the side of optimism. In any case, the deficit is being balanced partly by the liquidation of some of the remaining foreign investments, so that equilibrium cannot be said to have been achieved, apart altogether from the fact that but for Marshall Aid there would be a gaping deficit. What matters is that there seems at present to be no danger of a depletion of the gold reserve, leading to a drastic curtailment of the import of essential food and raw materials. It is particularly the possibility of the latter that was viewed with much apprehension. While it would be possible to effect cuts in rations without major ill-effects, any curtailment of production for lack of raw materials would result in a grave crisis, not only through causing unemployment but also through compromising the export drive. That danger, anyhow, appears to have been averted for the time being.

Production figures, too, show gratifying increases. The steel output has reached the limit determined by the quantity of raw iron and scrap available. In other directions, too, output figures are satisfactory. Even coal output, which showed a decline during the third quarter of the year, has recovered with the advant of colder weather which tends to discourage absenteeism. The housing program is carried out according to plan, even though building workers are deplorably slow and the cost of building is unjustifiably high in consequence. So the housing shortage is subsiding gradually. Other scarcities, too, have disappeared. It is now possible to buy many kinds of luxuries which were unobtainable since the early part of the war. This is due in part to the fact that some of the goods earmarked for export had to be released for the home market as they could not be sold abroad. Besides, luxuries are now imported on a basis of reciprocity from countries which in turn are prepared to import British luxuries. Moreover, in order to assist France and other countries in balancing their trade with Britain, the government has licensed the import of luxuries such as French wines, champagnes and brandies.

The danger is that the wave of optimism may go too far and may tend to weaken the production drive and export drive. At the moment, however, the recovery from unmitigated gloom is producing a gratifying psychological effect, as the British public was in bad need of a little confidence. For the first time Britain's prospects of being able to pay her way by 1952 are beginning to be taken seriously. This should help the government in achieving an improvement of the national effort. Defeatism, which tends to weaken the will to work, is subsiding.

Even the international political outlook is now viewed with less pessimism than a few months ago. During the Summer the outbreak of the third world war was widely considered as imminent, and many people felt that it was futile to exert themselves amidst the prevailing uncertainty. Now it is felt that, even though there may be frequent scares, actual war may not come, at any rate for some time. There is now more inclination to make long-term plans. The possibility of large-scale rearmament interfering with economic recovery is not overlooked, but it is assumed that, should it become necessary, there would be a military Marshall Plan to supplement the civilian Marshall Plan.

Internal political developments are viewed with somewhat less optimism. The prospects of steel nationalization are causing widespread uneasiness, especially as it now appears that the government intends to apply the law by May 1, 1950. Apart from fears that this would lead to a fall in steel output, it is also feared that the bitter fight between the government and opposition about the Iron and Steel Bill will create a class-war atmosphere and will be detrimental to national unity, at a time when combined national effort is particularly essential.

Kane a Partner in Frank C. Moore & Co.

Gerald F. X. Kane has been admitted to general partnership in

Gerald F. X. Kane

Frank C. Moore & Co., 42 Broadway, New York City, it is announced. Mr. Kane's former associations include Peter P. McDermott & Co. and Luckhurst & Co., Inc.

Foreign Trade—A Case of Give and Take

By W. C. HADDON*

Representative of the Westinghouse Electric International Co.

Foreign trade executive, asserting international trade is key to high standard of living, denies our export business is cause of inflation and denounces as falsehood ECA has made prices high. Defends American investments abroad and denies present policy is to build up our foreign competitors. Says U. S. best weapon is powerful and perfected economic machine, the most powerful instrument for developing a high standard of living.

The United States has now formally assumed world leadership. For many years we have had the necessary mental and physical equipment to handle such a responsibility, but this potential has now become a living reality as our statesmen take the center of the international stage. Whether we like it or not, we are now the chief promulgators of a way of life which extends beyond Europe into China, Japan and the islands of the Pacific; into the Mediterranean and Palestine. Most of the world places its hopes within the bold framework of this leadership because we have served notice that our evolution did not die in 1776; that we are expanding its principles on every front and contending against the Russian revolution with the dynamic ideology of individual opportunity.

W. C. Haddon

During the past two decades our position in the world economy has changed so abruptly that national policy is not always immediately acknowledged by public opinion. Today we are the only major power definitely committed to the preservation of a free economy based on private enterprise; a nation that expects responsibility for international trade to be borne by individuals rather than by states. It is well for us to project our strength in helping to bind up the wounds of an injured world, but we must also remember to take up the slack between our avowed policies and our thinking habits. Our statesmen and diplomats are only as strong as the nation behind them. Substantially, the American people do back our new foreign policies, but there is a serious lack of knowledge about international affairs and a recurring inclination to watch from the sidelines.

Here, on 7% of the earth's land area, with only 6% of the world's population, we account for more than 50% of the world's production facilities. We use three-fourths of the world's automobiles, half of its radios, more than half the refrigerators, half or more of its rubber. We have operated with singular success under a system of "give and take" by which the best individual, the best invention, the best industries and the best products emerge victorious. We are constantly competing with each other. If Missouri can make as good shoes as New England and can sell them cheaper, the general public benefits and New England must then call upon its Yankee ingenuity to develop some other activity. Representing all this power, ingenuity and production, we face a world which needs all our products in abundance from harmonicas to hydro-electric equipment. We have all the gadgets needed by this world, yet many of us sit in the midst of opportunity too scared to act; nervous of a veto, frightened to death of the atomic age which we have made for ourselves, and suffering from imaginitis, scarecoma and a general fearosis of living.

Of course, in justice to ourselves, we must remember that the human race has only come lately to the business of government and to the management of societies. We have never succeeded in making so neat and four-square a system as that of the ants and bees, for example; human governments and societies have always been of a makeshift character and as variable as the earth on which they live.

It seems difficult for people living under a democratic system to face unpleasant facts. We, ourselves, preferred happy illusion to reality until we were hit on the head at Pearl Harbor. Today there is no room for illusion because we cannot shift the burden of responsibility. Whether we are ready or not for the mantle of international leadership, we are the most significant factor in this age where old values are dissolving and a new world order is emerging.

One reason for our failure to grasp our responsibilities sooner has been our lack of information about day-to-day events and the full story behind the international scene. I realize that we have more radios, more theatres and more newspapers than the rest of mankind combined, but as a rule these instruments indulge our inability to face unpleasant facts rather than lead us into an acceptance of conditions as they exist. Radio programs are written with a minute hand in mind, and newspaper headlines dreamed up for people catching trains. Of course, enlightening information is available for the curious and the studious, but generally it is difficult to find because it comes in unattractive packages and is difficult to understand because it was not written for the layman. A quick look at a newsstand shows us that leg art and excerpts from the Kinsey report are greater eyecatchers than the economic facts of life, even though these facts are almost, if not quite, as basic to living as legs or Kinsey.

Foreign Trade—Key to High Standard of Living

In the past, the general public took its time in acknowledging foreign trade as the key to high standards of living, simply because it had not discovered the real facts. Even today, with most of us aware of the good business and the full employment brought about by exports, we sometimes permit ourselves to be mentally led astray by distortions of the truth which point to exports as parasites of our domestic economy.

For example, we all have heard the accusation that inflation and the scarcity of materials is largely caused by exports, but the facts fail to substantiate this charge in any respect. In 1938, the United States produced $84 billion worth of goods and exported $3.5 billion or 4%. In 1947, we produced $230 billion worth of goods and exported $14 billion, or about 6%. In other words, foreign inflationary demand on our economy in 1947 was not greater than 6%. The bulk of the pressure, or 94%, was caused right at home by domestic demand.

Numerous Falsehoods

Numerous falsehoods about our international trade are flooding the country, most of them tracing their origin to an ancient myth of self-sufficiency. Many Americans believe (1) that export trade is a game indulged in by a few opportunists; (2) that American industry overlooks the domestic market and earmarks large quantities of goods for foreign consumption because of better prices; and (3) that the Economic Cooperation Administration has made prices high. Few realize that our investments abroad have now reached a new high of $16 billion which returns annually $750 million to investors in the United States; or that more than 2½ million industrial workers in this country have jobs definitely depending on exports.

Lack of knowledge is particularly dangerous today because our government is constantly sounding out public opinion and is dependent on a well-informed public to give it direction. We are living in a world-community which is something like a frontier town where lawless elements shoot up the place on Saturday nights and the idea of unity becomes a matter of which side you happen to be on. It is not the kind of community where we can lean back on a hitching post and whittle. Nor is it a community where we can take for granted the protection of our locked front door, or even the roof over our living room. We are certainly living dangerously in a community where less than one-third of our neighbors share our Western evolution of experience, which means that two-thirds have much less knowledge about our motives than we have about theirs.

A trade union leader in Poland witnessed a motion picture which included a passing shot of workers' automobiles parked outside a factory and he was very indignant. "Why," he demanded, "do Americans try to fool the poor Poles by pretending that ordinary American workmen own cars?" In a like manner, many people in our own country exhibit a relative lack of knowledge when they object to supplying other countries with the machines and the technical knowledge. Their opposition takes the stand that we are injuring our export market by setting up competitors abroad. The best answer, of course, is the classic example of the United States, which was a backward agricultural country in the 19th century. Our great ability to produce and our ability to buy was brought about by the investment of foreign capital. Last year this American market was the world's best single customer, accounting for $7 billion worth of goods.

Foreign Misconceptions Regarding Americans

Another misconception about our way of life was unearthed by Eric Johnston during a trip to Norway. Here he met a cabinet minister who firmly believed that all American labor was oppressed and had no chance for advancement or expression of its grievances. He was surprised to learn that John L. Lewis had recently signed a contract whereby the average American miner would receive a basic wage of $4,000 per year, since his own salary as a cabinet minister was only $4,500.

Obviously, our neighbors need more facts in order to analyze our

(Continued on page 35)

*An address by Mr. Haddon at the World Trade Council Luncheon, Pittsburgh, Pa., Nov. 4, 1948.

Canadian Securities

By WILLIAM J. McKAY

The suggestion that the Canadian dollar be permitted to find its own level on one free market appears to have fallen on fertile ground north of the border. This idea was the principal topic of debate at the recent annual convention of the Canadian Chamber of Commerce in Vancouver. As might be expected the representatives of industry were unreservedly in favor of freedom of the exchanges inasmuch as such a development would also imply the removal of foreign trade restrictions. Although some objections were voiced on the part of the banks there was almost complete unanimity in principle and the doubts expressed were almost entirely confined to the timing of an experiment of this kind. Unsettled world conditions and the fact that Canada has not yet completely solved the problems of the chronic imbalance of trade with this country, were among the reasons advanced against any early action in this direction.

There is certainly considerable justification for a cautious approach at this time. On the other hand in view of Canada's current economic strength and unrivalled prospects, the Dominion is in a unique position to undertake a bold experiment of this kind. At the outset it is probable that the removal of exchange restrictions would give rise to a repatriation movement of foreign blocked funds. On the other hand the initial widening of the exchange discount would tend to attract fresh investment and thus prevent any disorderly depreciation of a free Canadian dollar. Furthermore Canadian exports would be stimulated at the expense of imports and this would serve as a further check to any excessive movement of the rate.

In any event at this stage of Canadian development it is essential that the Dominion encourage in every way the inflow of foreign investment capital. The Canadian dollar at a discount vis-a-vis the U. S. dollar is one sure way of attracting capital funds from this country but there is little question that the ability of U. S. capital to move freely in both directions across the border would prove to be a still greater stimulus.

It is doubtful whether action of this kind would receive the unqualified approval of the International Monetary Fund but it would certainly be in accordance with many of its avowed purposes. Foremost among these is the removal of restrictions that are now responsible for the maintenance of most of the currencies of the world at purely artificial levels. The establishment of one rate of exchange for the Canadian dollar would also be favorably regarded. In any case Canada now has an exceptional opportunity to take a long step in the direction of greater freedom of the world's exchanges and foreign trade.

During the week there was persistent strength in the external section of the bond market although offerings continued in scant supply. The internals were also in steady demand in sympathy with the firmness of free funds. Despite the serious break in New York, the Canadian stock markets were surprisingly little affected. Western Oils and the base-metals held most of their recent spectacular gains and the losses in the industrial issues were on a relatively small scale in comparison with those registered on this side of the border. The failure of the Canadian market to follow the New York lead was reflected in a further widening of the stock-arbitrage rate.

Quackenbush Heads Dominion Bank's Foreign Exchange Trading Dept.

E. A. Quackenbush has been appointed an Assistant Agent in charge of foreign exchange trading at the New York office of The Dominion Bank, according to an announcement today from the bank's head office in Toronto.

E. A. Quackenbush

With Chas. W. Scranton

(Special to THE FINANCIAL CHRONICLE)

NEW HAVEN, CONN.—N. C. Hosking is with Chas. W. Scranton & Co., 209 Church Street, members of the New York Stock Exchange.

Andrew J. Arrant Joins Paul A. Davis Co.

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA.—Andrew J. Arrant has become associated with Paul A. Davis & Co., Ingraham Building. Mr. Arrant was formerly head of Ajax Corporation.

Blunt, Ellis & Simmons To Form New Firm

CHICAGO, ILL.—John E. Blunt 3rd, and R. Winfield Ellis have resigned as Vice-Presidents and Directors of Lee Higginson Corporation and Richard W. Simmons has resigned as Vice-President. They, together with Eugene Hotchkiss, who has been associated with Lee Higginson Corporation for many years, will form a partnership under the name of Blunt, Ellis & Simmons, to engage in a general investment and brokerage business, and will make application for membership on the New York Stock Exchange. It is expected that the new firm will open for business in Chicago on or about the first of the year.

Richard W. Simmons John E. Blunt, 3rd

P. W. Brooks & Co. Offer Plywood Co. Deb.

P. W. Brooks & Co., Inc., offered Nov. 8 $500,000 Plywood Inc. 5% sinking fund debentures (with warrants to purchase 50,000 shares of common stock). The debentures, due Aug. 1, 1967, are priced at 97% plus accrued interest from Aug. 1, 1948.

The proceeds from the sale of the debentures will be used for additional working capital and may also be used for the acquisition of standing timber or additional plant facilities or both.

Plywood, Inc., incorporated in 1947, manufactures and sells plywood and related items, and is continuing businesses formerly conducted by its predecessors. The company manufactures and supplies both softwood and hardwood plywood and related products to retail outlets, woodworking industrial accounts, such as furniture and cabinet factories, architectural and interior finish mills, heavy industrial plants, sign and display concerns, show case manufacturers, public institutions, lumber companies, and the building trade.

In addition to retirement by purchase or redemption through the sinking fund at not exceeding 102½%, the debentures are redeemable at the option of the company at prices ranging from 105% if redeemed before Aug. 1, 1957, down to par after Aug. 1, 1966.

The warrants entitle the bearer to purchase common stock of the company at any time on or before July 31, 1952, at a price of $4 per share if purchased on or before July 31, 1949, and at $5 per share thereafter.

Upon completion of this financing capitalization of the company will consist of $1,000,000 5% sinking fund debentures, 525,150 shares of common stock, and 74,850 common stock purchase warrants.

Jones and Smith Are With Hecker & Co.

PHILADELPHIA, PA.—Norman B. Smith and Paul Jones, Jr., formerly of Van Alstyne, Noel & Co., have joined Hecker & Co., Liberty Trust Building, members of the New York and Philadelphia Stock Exchanges, as registered representatives.

Growth in Private Debts

Northern Trust Co. of Chicago argues though net debt is up $50 billion since 1945 and is higher than ever before, it is still lower than pre-war in relation to national income. Cites important changes in categories of private debts.

In the November issue of its monthly bulletin "Business Comment," The Northern Trust Company of Chicago calls attention to rapid rise in public debt since 1945, but remarks, despite the increase, debts owed by individuals and corporations, in relation to national income, is much lower than before the war. Commenting on this, the article states:—

"Corporations and individuals are now in debt for larger sums than ever before. Net private debts are estimated to total close to $190 billion. Two and three-quarter years ago the figure was only $140 billion. In 1929 private debts aggregated $162 billion, which was the peak until recently. In 1935 and again in 1938 the figure dropped to a low of $125 billion, about the same as in 1923. The strong upward movement of private debt in periods of prosperity and rising prices, and downward movement in periods of economic adversity, are characteristic of the American economy. The swings in debt are partly a cause and partly an effect of the swings in business and prices. Is private debt now excessive? What are the economic implications?

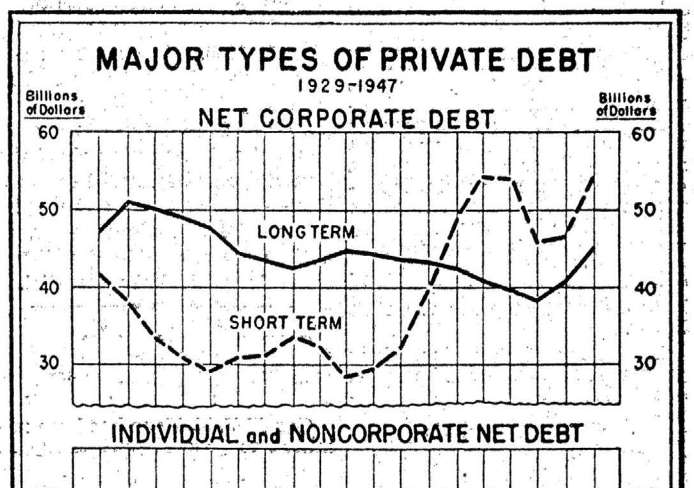
"In relation to the national income, private debt is a good deal less than in 1929 or than 10 years ago. The national income is now running at the rate of $220 billion a year, so that the aggregate of private debt is no more than 86% of the national income. In 1929, the national income was $88 billion; the ratio of private debt to incomes was 185%. In 1938, with national income only $67 billion, the ratio was also 185%. The total of private debt could double from the present figure and still be no heavier in relation to national income than in many past years. When the decline in interest rates on borrowings is taken into account, the actual burden of the debt is even less, relatively, than the above comparisons suggest.

"The huge growth in public as distinct from private debt has, on the other hand, more than kept pace with the rise in incomes. Net public and private debt together now total close to $425 billion, compared with $192 billion in 1929 and $181 billion in 1938. The ratio of total debt to national income is now about 195%, as against 220% in 1929 and 270% in 1938. The total debt is still relatively low, especially when the extremely low interest rates now current are taken into account. It cannot be over-emphasized, however, that the present ratios are based on a record national income and would quickly mount should the national income fall.

"Changes in important segments of private debt are of great interest. The accompanying chart portrays the figures for the main categories, plotted annually from the end of 1929 to the end of 1947. On the latter date the aggregate of net private debt was $172 billion, having risen $22.4 billion in 1947 and $10 billion in 1946. Since the end of 1947 all types of debt have risen further, some faster and others slower than a year ago. The figure of $190 billion given above is a rough estimate of the total now and is probably low. The 'other' category plotted on the chart includes debt of unincorporated businesses, farm debt other than on real estate, borrowings from banks to purchase or carry securities, customers' debt to brokers, and policy loans of life insurance companies. Consumer debt includes instalment credit, single-payment loans, charge accounts and service credit (doctors' bills, etc.)."

"A Striking Idea"

Oscar F. Kraft & Co., 530 West 6th Street, Los Angeles, Cal., dealers in unlisted oil, mining and industrial securities, are giving away matches in a gay copper-color cover. A slogan—"We Have a Trade That Service Made"—strikes the eye each time one strikes a match. Very clever, Oscar!



Labor, Wages and Production

By ROGER W. BABSON

Noting recent price rises due to labor's refusal to increase production along with higher wages, Mr. Babson holds both labor and management have erred and it is as silly for management to sweat labor as it is for labor to demand higher wages, without reference to output.

One of our great national headaches today seems to be getting our production rolling and maintaining it at a good level. Daily headlines in our own newspapers read, "Carpet Manufacturers Announce Price Increases to Offset Higher Costs of Materials"; "International Harvester Ups Prices On Tractors, Farm Equipment"; "Meat Prices Due to Rise Further"; "Gas Rates Boosted"; "New Ford Car Prices Advanced." And here's the result: "Bank Accounts Trimmed as Cost of Living Takes Bigger Chunk of Income." All because labor refuses to up production along with higher wages.

Roger Babson

French cabinets have fallen by the dozen over the question of labor-management problems, and wage and price controls. The British Labor Government in its attempts to increase production along with wage increases has become the target of sharp criticism of its Trade Unions. The same currents and eddies are observable throughout the entire world. The Russian ideology is spreading too rapidly to other nations. This can be stopped only with lower prices through increased production.

The Easy Life

The recent Trade Unions Congress assembled at Margate, England, suggested that unionists were bitterly disappointed over the Labor Government's unfavorable reaction to another round of wage rises. They had been told for years of the hoard of wealth waiting for them when workers gained control. There is a similar pernicious philosophy current here in America. When will our labor leaders learn that the way out of their dilemma is not by soaking the rich further? As wages and salaries are increased, production must likewise increase. Otherwise, prices will be upped so that we will kill the geese which are laying the golden eggs.

There is something fundamentally wrong with our moral fibre when demands for one pay hike after another follow with thought only of shorter hours, longer vacations, less production, and more pay. That kind of thinking did not make America great. It was not responsible for Britain's world leadership during the eighteenth and nineteenth centuries. Perhaps this desire for something for nothing has been a potent factor in Britain's slipping into a lesser role in world affairs.

Need for Increased Production

When I was a kid the good old-fashioned incentive system was based on more pay for more or better work. In return for a better than normal daily output, a worker was given extra financial inducement. It was this greater output that brought about more goods at lower prices which found bigger markets. The employee in turn could afford to buy houses and furniture for cash because he had shared in the profits of greater productivity. Everyone gained. Our standard of living became the best in the world.

I realize the incentive system has been abused by some managements with hide-and-seek incentive hocus-pocus. But most employers today know that it is as silly for them to attempt to run profitably by sweating labor as it is for labor to expect higher wages without reference to output. Labor and management have both erred. They both have their rights. Labor's search for a living wage and management's quest for justifiable profits will not be ended, however, by either the stopwatch and the slide-rule, nor by artificial restrictions and formulae legislation.

Importance of Character

The solution lies in developing certain intangible traits of character. And when I speak of character, I'm not thinking of Sunday School goody-goodies either. I'm thinking of an attitude of fairness which makes it possible to see the other fellow's problems. I mean courage, loyalty, sincerity and pride in one's work, giving full measure. Character can't be measured, but put to work, it results in health, prosperity and happiness for all.

Marcus Goodbody 50 Years in Wall St.

Marcus Goodbody, senior partner of the brokerage firm of Goodbody & Co., will observe today his fiftieth year as a member of the firm.

Marcus Goodbody

Mr. Goodbody, who has been a partner since 1902, started in the securities business in 1898 when he joined the firm as an order clerk and telephone boy. Previously he had worked for one year as a clerk for the Great Northern Railway Company in St. Paul, Minn., following his graduation from the Sheffied Scientific School of Yale University.

When Mr. Goodbody went to work for the firm, it had a total of five employees and three parners. Today, in addition to the main office and a branch in New York, there are offices in 20 cities. It clears for six member firms, employs some 550 people, is a member of 19 principal security and commodity exchanges.

This afternoon there will be a reception in the office of Mr. Goodbody for his friends in the financial community, and tomorrow there will be a luncheon of partners and employees in his honor. At the luncheon, Mr. Goodbody will present gifts to the 13 employees with 25 years or more service.

Emmett Lawshe With Carl M. Loeb, Rhoades

Emmett Lawshe has become associated with the New York Stock Exchange firm of Carl M. Loeb, Rhoades & Co., 61 Broadway, New York City, as Manager of its bond department, it is announced. Mr. Lawshe is a former partner of Shields & Co.

Aspects of European Recovery

By JOHN J. McCLOY*

President, International Bank for Reconstruction and Development

Mr. McCloy describes purposes and accomplishments of ERP and asserts most urgent need in Europe is financial stability. Decries nationalistic economy prevailing in Western Europe and calls for economic integration, but does not expect political union can be quickly achieved. Proposes U. S. aid be based upon self-help as well as need, and says World Bank will supplement ERP aid by concentrating on specific projects where prospects of repayment are good.

I didn't come here today to give you a sales talk about the virtues of the International Bank or of its bonds. Rather, I came in response to an invitation from your President to discuss with you some of the views with respect to the present European monetary and economic situation which we at the bank have formulated as a result of our operations and observations in that vital area.

John J. McCloy

As most of you doubtless know, most of the loans granted by the bank to date have been for purposes of European reconstruction. In the spring and summer of 1947, we made a series of four European loans — to France, the Netherlands, Denmark and Luxembourg — aggregating $497 million. These loans came at a time when European resources of dollar exchange had fallen to dangerously low levels and credits from the United States and other Western Hemisphere countries had largely been exhausted. They served, I believe, their intended purpose of helping to prevent a disastrous drop in the production of the borrowing countries and possible economic collapse.

We were fully aware, of course, that these loans, vital as they were, provided only a partial solution to Europe's problems. The physical devastation, the disruption of trade and the industrial and governmental dislocations caused by the war left a far wider crevice in Europe's economy than any but a very few had anticipated. Financial aid on a scale far beyond anything the bank could conceivably afford was clearly necessary. Fortunately for Europe and for the world, the seriousness and urgency of Europe's situation were recognized by far-sighted leaders of the United States and as a result of their efforts, combined with a really hopeful display of initiative and cooperation on the part of the Western European countries themselves, the European Recovery Program was brought into being. That program, in my judgement, happily combines the best qualities of the American tradition — generosity, daring and realism.

ERP has now been in operation for a sufficiently long period for us to begin to take stock of what has been accomplished by the program and of the problems which lie ahead.

There is a tendency always, I believe, to emphasize the difficulties of every great endeavour and to minimize the accomplishments achieved. So let me say at the outset that the degree of European recovery already realized is, in my judgment, quite remarkable. In fact, I think it can fairly be said that in most European countries the emergency reconstruction phase is over. Industrial production in all of the major Western European nations, except Germany and Italy, has closely approached or exceeded the prewar level. Transportation and power facilities have, in general, been restored. And even agricultural production is rapidly improving towards the pre-war average.

Two years ago—even one year ago—the major obstacles to increased recovery were specific physical bottlenecks. There were critical shortages in coal and steel, and there was not enough labor or enough transport. Today there is still far from a surplus of these items, and more coal, more steel, more labor and more transport would unquestionably increase production substantially. But these bottlenecks are not now the same crucial items they were a year or two years ago. The emphasis and the urgency have shifted from purely physical production problems to more subtle, but equally essential financial issues.

Europe Needs Financial Stability

Perhaps the most urgent need in Europe today is for financial stability. It is hard to over-emphasize the importance of this. Production, trade and investment plans, no matter how well conceived on the national or international level, are worth little unless they are translated into action through the efforts and initiative of millions of individuals. A prerequisite for that is confidence on the part of the businessman, the farmer and the laborer in the value of the money they receive for their goods or services. Given such confidence, seeming miracles of production can be accomplished. Without it, recovery is impossible.

Equally important, financial stability is necessary for the free flow of international trade which is the life-blood of the ERP countries' economy. It profits little to produce more goods unless they can be freely sold in the markets of the world. Yet we can only progress from the refined barter techniques which still characterize too much of intra-European trade and reestablish it on a healthy multilateral basis if confidence is restored in the currencies in which such trade is conducted.

The prevailing lack of confidence in European currencies is perhaps most dramatically reflected in the flight of capital now going on. The causes, of course, are both political and economic. There can be no financial stability in the absence of sound financial policies, but there can also be no financial stability without confidence on the part of the people in the political future of their country. This explains why the problem of military guarantees, now so widely discussed, has such direct and vital economic implications. It isn't necessary, of course, that all political tensions be removed before we can take firm constructive steps in the economic field, but the minimum we must have is a situation in which there is not a common belief that war is inevitable.

The financial policies essential for stability are both simple and well understood. They involve a balanced governmental budget, or, preferably, even a surplus; credit controls to ensure that the banking system does not create excessive means of payment; and appropriate price and wage adjustments internally so that productive resources are not diverted into non-economic output as a result of price maladjustments.

In this connection, it is interesting to note the development of what has been called the "ashtray economy." With the price structure maladjusted and prices of essential items rigidly controlled in many countries, people frequently have more money to spend than they can use to buy rationed commodities. Two results flow from this. The first is that a premium is placed on the manufacture of ashtrays, knicknacks and other non-economic products which can be sold at free prices but which cause a diversion of labor, materials and power from the production of more essential items. The second result is that domestic demand for all goods, both essential and non-essential, is so strong that there is no incentive for the manufacturer to look to foreign markets for the sale of his products. This situation can only be remedied by creating conditions of monetary stability which permit of realistic price readjustments through the normal mechanisms of the market.

In brief, restoration of financial stability is necessary, not only to increase the over-all volume of production, but also to ensure the production of essential goods, to increase the availability of goods for export and to put European trade on a firmer and more stable basis.

Economic Integration of Western Europe

I would like to turn now to another matter which I also believe to be essential for the success of ERP — the necessity for a far-reaching integration of the economies of the Western European countries.

I think we would all agree that, for many years, Europe has been suffering from an excess of nationalism. The fact is that technological changes have outrun the development of political institutions. The drive of nationalism during the 18th and 19th centuries, whatever its other drawbacks, was from an economic standpoint a unifying influence, which stimulated and strengthened the expanding technical and economic forces of that era. The growth of national states destroyed the remnants of feudalism which fettered production and trade; it broke down provincial barriers and widened domestic markets in the major European countries; it abolished the petty principalities of Germany and Italy; and its imperialistic extensions, while producing grave political tensions and social injustices, at least helped to promote the expansion of Western technology into undeveloped areas of the world.

But today the effect of nationalism seems to be to divide rather than to unify the world economy. The techniques of mass production and mass distribution make that market area within Belgium or Sweden, or even within France and the United Kingdom, as inadequate for today's purposes as, say, the 19th century kingdoms of Saxony or Sardinia were in their day. Moreover, as the idea of nationalism spread out from Western Europe its emphasis changed; it began to be directed less toward the goal of integrating a group of independent or loosely-knit states into an economically sound unit and more toward giving every ethnic group an independent sovereignty, each with its separate

(Continued on page 34)

*An address by Mr. McCloy before the 55th Annual Meeting of the Savings Banks Association of the State of New York, Atlantic City, N. J., Nov. 6, 1948.

Canadian Securities

By WILLIAM J. McKAY

The suggestion that the Canadian dollar be permitted to find its own level on one free market appears to have fallen on fertile ground north of the border. This idea was the principal topic of debate at the recent annual convention of the Canadian Chamber of Commerce in Vancouver. As might be expected the representatives of industry were unreservedly in favor of freedom of the exchanges inasmuch as such a development would also imply the removal of foreign trade restrictions. Although some objections were voiced on the part of the banks there was almost complete unanimity in principle and the doubts expressed were almost entirely confined to the timing of an experiment of this kind. Unsettled world conditions and the fact that Canada has not yet completely solved the problems of the chronic imbalance of trade with this country, were among the reasons advanced against any early action in this direction.

There is certainly considerable justification for a cautious approach at this time. On the other hand in view of Canada's current economic strength and unrivalled prospects, the Dominion is in a unique position to undertake a bold experiment of this kind. At the outset it is probable that the removal of exchange restrictions would give rise to a repatriation movement of foreign blocked funds. On the other hand the initial widening of the exchange discount would tend to attract fresh investment and thus prevent any disorderly depreciation of a free Canadian dollar. Furthermore Canadian exports would be stimulated at the expense of imports and this would serve as a further check to any excessive movement of the rate.

In any event at this stage of Canadian development it is essential that the Dominion encourage in every way the inflow of foreign investment capital. The Canadian dollar at a discount vis-a-vis the U. S. dollar is one sure way of attracting capital funds from this country but there is little question that the ability of U. S. capital to move freely in both directions across the border would prove to be a still greater stimulus.

It is doubtful whether action of this kind would receive the unqualified approval of the International Monetary Fund but it would certainly be in accordance with many of its avowed purposes. Foremost among these is the removal of restrictions that are now responsible for the maintenance of most of the currencies of the world at purely artificial levels. The establishment of one rate of exchange for the Canadian dollar would also be favorably regarded. In any case Canada now has an exceptional opportunity to take a long step in the direction of greater freedom of the world's exchanges and foreign trade.

During the week there was persistent strength in the external section of the bond market although offerings continued in scant supply. The internals were also in steady demand in sympathy with the firmness of free funds. Despite the serious break in New York, the Canadian stock markets were surprisingly little affected. Western Oils and the base-metals held most of their recent spectacular gains and the losses in the industrial issues were on a relatively small scale in comparison with those registered on this side of the border. The failure of the Canadian market to follow the New York lead was reflected in a further widening of the stock-arbitrage rate.

Quackenbush Heads Dominion Bank's Foreign Exchange Trading Dept.

E. A. Quackenbush has been appointed an Assistant Agent in charge of foreign exchange trading at the New York office of The Dominion Bank, according to an announcement today from the bank's head office in Toronto.

E. A. Quackenbush

With Chas. W. Scranton

(Special to THE FINANCIAL CHRONICLE)

NEW HAVEN, CONN.—N. C. Hosking is with Chas. W. Scranton & Co., 209 Church Street, members of the New York Stock Exchange.

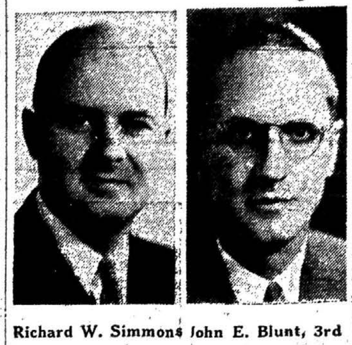
Andrew J. Arrant Joins Paul A. Davis Co.

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA.—Andrew J. Arrant has become associated with Paul A. Davis & Co., Ingraham Building. Mr. Arrant was formerly head of Ajax Corporation.

Blunt, Ellis & Simmons To Form New Firm

CHICAGO, ILL.—John E. Blunt 3rd, and R. Winfield Ellis have resigned as Vice-Presidents and Directors of Lee Higginson Corporation and Richard W. Simmons has resigned as Vice-President. They, together with Eugene Hotchkiss, who has been associated with Lee Higginson Corporation for many years, will form a partnership under the name of Blunt, Ellis & Simmons, to engage in a general investment and brokerage business, and will make application for membership on the New York Stock Exchange. It is expected that the new firm will open for business in Chicago on or about the first of the year.



Richard W. Simmons John E. Blunt, 3rd

P. W. Brooks & Co. Offer Plywood Co. Deb.

P. W. Brooks & Co., Inc., offered Nov. 8 $500,000 Plywood Inc. 5% sinking fund debentures (with warrants to purchase 50,000 shares of common stock). The debentures, due Aug. 1, 1967, are priced at 97% plus accrued interest from Aug. 1, 1948.

The proceeds from the sale of the debentures will be used for additional working capital and may also be used for the acquisition of standing timber or additional plant facilities or both.

Plywood, Inc., incorporated in 1947, manufactures and sells plywood and related items, and is continuing businesses formerly conducted by its predecessors. The company manufactures and supplies both softwood and hardwood plywood and related products to retail outlets, woodworking industrial accounts, such as furniture and cabinet factories, architectural and interior finish mills, heavy industrial plants, sign and display concerns, show case manufacturers, public institutions, lumber companies, and the building trade.

In addition to retirement by purchase or redemption through the sinking fund at not exceeding 102½%, the debentures are redeemable at the option of the company at prices ranging from 105% if redeemed before Aug. 1, 1957, down to par after Aug. 1, 1966.

The warrants entitle the bearer to purchase common stock of the company at any time on or before July 31, 1952, at a price of $4 per share if purchased on or before July 31, 1949, and at $5 per share thereafter.

Upon completion of this financing capitalization of the company will consist of $1,000,000 5% sinking fund debentures, 525,150 shares of common stock, and 74,850 common stock purchase warrants.

Jones and Smith Are With Hecker & Co.

PHILADELPHIA, PA.—Norman B. Smith and Paul Jones, Jr., formerly of Van Alstyne, Noel & Co., have joined Hecker & Co., Liberty Trust Building, members of the New York and Philadelphia Stock Exchanges, as registered representatives.

Growth in Private Debts

Northern Trust Co. of Chicago argues though net debt is up $50 billion since 1945 and is higher than ever before, it is still lower than pre-war in relation to national income. Cites important changes in categories of private debts.

In the November issue of its monthly bulletin "Business Comment," The Northern Trust Company of Chicago calls attention to rapid rise in public debt since 1945, but remarks, despite the increase, debts owed by individuals and corporations, in relation to national income, is much lower than before the war. Commenting on this, the article states:—

"Corporations and individuals are now in debt for larger sums than ever before. Net private debts are estimated to total close to $190 billion. Two and three-quarter years ago the figure was only $140 billion. In 1929 private debts aggregated $162 billion, which was the peak until recently. In 1935 and again in 1938 the figure dropped to a low of $125 billion, about the same as in 1923. The strong upward movement of private debt in periods of prosperity and rising prices, and downward movement in periods of economic adversity, are characteristic of the American economy. The swings in debt are partly a cause and partly an effect of the swings in business and prices. Is private debt now excessive? What are the economic implications?

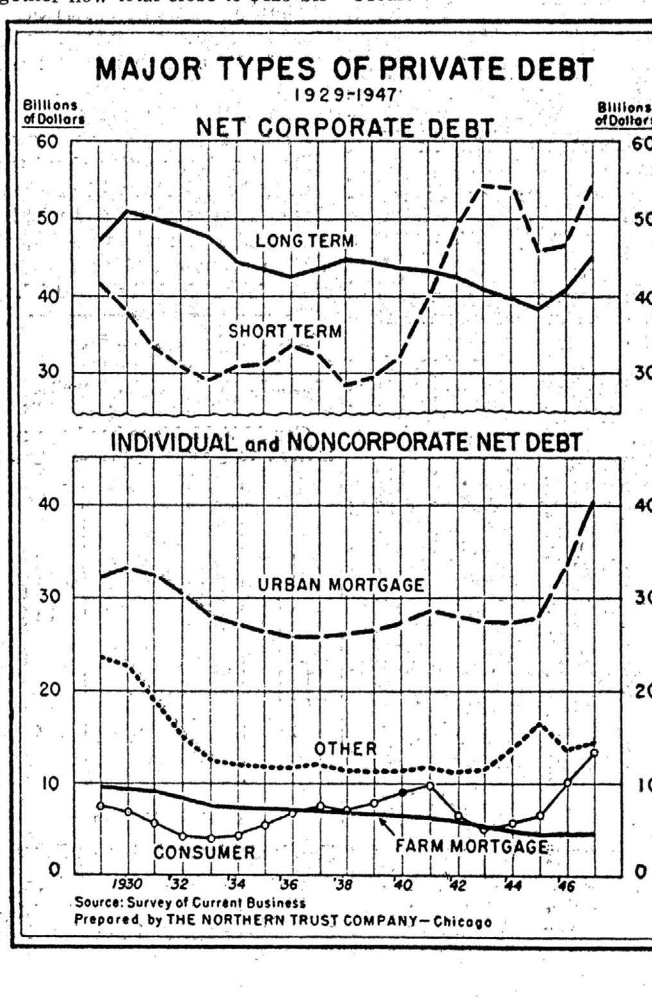
"In relation to the national income, private debt is a good deal less than in 1929 or than 10 years ago. The national income is now running at the rate of $220 billion a year, so that the aggregate of private debt is no more than 86% of the national income. In 1929, the national income was $88 billion; the ratio of private debt to incomes was 185%. In 1938, with national income only $67 billion, the ratio was also 185%. The total of private debt could double from the present figure and still be no heavier in relation to national income than in many past years. When the decline in interest rates on borrowings is taken into account, the actual burden of the debt is even less, relatively, than the above comparisons suggest.

"The huge growth in public as distinct from private debt has, on the other hand, more than kept pace with the rise in incomes. Net public and private debt together now total close to $425 billion, compared with $192 billion in 1929 and $181 billion in 1938. The ratio of total debt to national income is now about 195%, as against 220% in 1929 and 270% in 1938. The total debt is still relatively low, especially when the extremely low interest rates now current are taken into account. It cannot be over-emphasized, however, that the present ratios are based on a record national income and would quickly mount should the national income fall.

"Changes in important segments of private debt are of great interest. The accompanying chart portrays the figures for the main categories, plotted annually from the end of 1929 to the end of 1947. On the latter date the aggregate of net private debt was $172 billion, having risen $22.4 billion in 1947 and $10 billion in 1946. Since the end of 1947 all types of debt have risen further, some faster and others slower than a year ago. The figure of $190 billion given above is a rough estimate of the total now and is probably low. The 'other' category plotted on the chart includes debt of unincorporated businesses, farm debt other than on real estate, borrowings from banks to purchase or carry securities, customers' debt to brokers, and policy loans of life insurance companies. Consumer debt includes instalment credit, single-payment loans, charge accounts and service credit (doctors' bills, etc.)."

"A Striking Idea"

Oscar F. Kraft & Co., 530 West 6th Street, Los Angeles, Cal., dealers in unlisted oil, mining and industrial securities, are giving away matches in a gay copper-color cover. A slogan—"We Have a Trade That Service Made"—strikes the eye each time one strikes a match. Very clever, Oscar!



Labor, Wages and Production

By ROGER W. BABSON

Noting recent price rises due to labor's refusal to increase production along with higher wages, Mr. Babson holds both labor and management have erred and it is as silly for management to sweat labor as it is for labor to demand higher wages without reference to output.

One of our great national headaches today seems to be getting our production rolling and maintaining it at a good level. Daily headlines in our own newspapers read, "Carpet Manufacturers Announce Price Increases to Offset Higher Costs of Materials"; "International Harvester Ups Prices On Tractors, Farm Equipment"; "Meat Prices Due to Rise Further"; "Gas Rates Boosted"; "New Ford Car Prices Advanced." And here's the result: "Bank Accounts Trimmed as Cost of Living Takes Bigger Chunk of Income." All because labor refuses to up production along with higher wages.

Roger Babson

French cabinets have fallen by the dozen over the question of labor-management problems, and wage and price controls. The British Labor Government in its attempts to increase production along with wage increases has become the target of sharp criticism of its Trade Unions. The same currents and eddies are observable throughout the entire world. The Russian ideology is spreading too rapidly to other nations. This can be stopped only with lower prices through increased production.

The Easy Life

The recent Trade Unions Congress assembled at Margate, England, suggested that unionists were bitterly disappointed over the Labor Government's unfavorable reaction to another round of wage rises. They had been told for years of the hoard of wealth waiting for them when workers gained control. There is a similar pernicious philosophy current here in America. When will our labor leaders learn that the way out of their dilemma is not by soaking the rich further? As wages and salaries are increased, production must likewise increase. Otherwise, prices will be upped so that we will kill the geese which are laying the golden eggs.

There is something fundamentally wrong with our moral fibre when demands for one pay hike after another follow with thought only of shorter hours, longer vacations, less production, and more pay. That kind of thinking did not make America great. It was not responsible for Britain's world leadership during the eighteenth and nineteenth centuries. Perhaps this desire for something for nothing has been a potent factor in Britain's slipping into a lesser role in world affairs.

Need for Increased Production

When I was a kid the good old-fashioned incentive system was based on more pay for more or better work. In return for a better than normal daily output, a worker was given extra financial inducement. It was this greater output that brought about more goods at lower prices which found bigger markets. The employee in turn could afford to buy houses and furniture for cash because he had shared in the profits of greater productivity. Everyone gained. Our standard of living became the best in the world.

I realize the incentive system has been abused by some managements with hide-and-seek incentive hocus-pocus. But most employers today know that it is as silly for them to attempt to run profitably by sweating labor as it is for labor to expect higher wages without reference to output. Labor and management have both erred. They both have their rights. Labor's search for a living wage and management's quest for justifiable profits will not be ended, however, by either the stopwatch and the slide-rule, nor by artificial restrictions and formulae legislation.

Importance of Character

The solution lies in developing certain intangible traits of character. And when I speak of character, I'm not thinking of Sunday School goody-goodies either. I'm thinking of an attitude of fairness which makes it possible to see the other fellow's problems. I mean courage, loyalty, sincerity and pride in one's work, giving full measure. Character can't be measured, but put to work, it results in health, prosperity and happiness for all.

Marcus Goodbody 50 Years in Wall St.

Marcus Goodbody, senior partner of the brokerage firm of Goodbody & Co., will observe today his fiftieth year as a member of the firm.

Marcus Goodbody

Mr. Goodbody, who has been a partner since 1902, started in the securities business in 1898 when he joined the firm as an order clerk and telephone boy. Previously he had worked for one year as a clerk for the Great Northern Railway Company in St. Paul, Minn., following his graduation from the Sheffied Scientific School of Yale University.

When Mr. Goodbody went to work for the firm, it had a total of five employees and three partners. Today, in addition to the main office and a branch in New York, there are offices in 20 cities. It clears for six member firms, employs some 550 people, is a member of 19 principal security and commodity exchanges.

This afternoon there will be a reception in the office of Mr. Goodbody for his friends in the financial community, and tomorrow there will be a luncheon of partners and employees in his honor. At the luncheon, Mr. Goodbody will present gifts to the 13 employees with 25 years or more service.

Emmett Lawshe With Carl M. Loeb, Rhoades

Emmett Lawshe has become associated with the New York Stock Exchange firm of Carl M. Loeb, Rhoades & Co., 61 Broadway, New York City, as Manager of its bond department, it is announced. Mr. Lawshe is a former partner of Shields & Co.

Aspects of European Recovery

By JOHN J. McCLOY*

President, International Bank for Reconstruction and Development

Mr. McCloy describes purposes and accomplishments of ERP and asserts most urgent need in Europe is financial stability. Decries nationalistic economy prevailing in Western Europe and calls for economic integration, but does not expect political union can be quickly achieved. Proposes U. S. aid be based upon self-help as well as need, and says World Bank will supplement ERP aid by concentrating on specific projects where prospects of repayment are good.

I didn't come here today to give you a sales talk about the virtues of the International Bank or of its bonds. Rather, I came in response to an invitation from your President to discuss with you some of the views with respect to the present European monetary and economic situation which we at the bank have formulated as a result of our operations and observations in that vital area.

John J. McCloy

As most of you doubtless know, most of the loans granted by the bank to date have been for purposes of European reconstruction. In the spring and summer of 1947, we made a series of four European loans — to France, the Netherlands, Denmark and Luxembourg — aggregating $497 million. These loans came at a time when European resources of dollar exchange had fallen to dangerously low levels and credits from the United States and other Western Hemisphere countries had largely been exhausted. They served, I believe, their intended purpose of helping to prevent a disastrous drop in the production of the borrowing countries and possible economic collapse.

We were fully aware, of course, that these loans, vital as they were, provided only a partial solution to Europe's problems. The physical devastation, the disruption of trade and the industrial and governmental dislocations caused by the war left a far wider crevice in Europe's economy than any but a very few had anticipated. Financial aid on a scale far beyond anything the bank could conceivably afford was clearly necessary. Fortunately for Europe and for the world, the seriousness and urgency of Europe's situation were recognized by far-sighted leaders of the United States and as a result of their efforts, combined with a really hopeful display of initiative and cooperation on the part of the Western European countries themselves, the European Recovery Program was brought into being. That program, in my judgement, happily combines the best qualities of the American tradition — generosity, daring and realism.

ERP has now been in operation for a sufficiently long period for us to begin to take stock of what has been accomplished by the program and of the problems which lie ahead.

There is a tendency always, I believe, to emphasize the difficulties of every great endeavour and to minimize the accomplishments achieved. So let me say at the outset that the degree of European recovery already realized is, in my judgment, quite remarkable. In fact, I think it can fairly be said that in most European countries the emergency reconstruction phase is over. Industrial production in all of the major Western European nations, except Germany and Italy, has closely approached or exceeded the prewar level. Transportation and power facilities have, in general, been restored. And even agricultural production is rapidly improving towards the pre-war average.

Two years ago—even one year ago—the major obstacles to increased recovery were specific physical bottlenecks. There were critical shortages in coal and steel, and there was not enough labor or enough transport. Today there is still far from a surplus of these items, and more coal, more steel, more labor and more transport would unquestionably increase production substantially. But these bottlenecks are not now the same crucial items they were a year or two years ago. The emphasis and the urgency have shifted from purely physical production problems to more subtle but equally essential financial issues.

Europe Needs Financial Stability

Perhaps the most urgent need in Europe today is for financial stability. It is hard to over-emphasize the importance of this. Production, trade and investment plans, no matter how well conceived on the national or international level, are worth little unless they are translated into action through the efforts and initiative of millions of individuals. A prerequisite for that is confidence on the part of the businessman, the farmer and the laborer in the value of the money they receive for their goods or services. Given such confidence, seeming miracles of production can be accomplished. Without it, recovery is impossible.

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Economic Integration of Western Europe

I would like to turn now to another matter which I also believe to be essential for the success of ERP — the necessity for a far-reaching integration of the economies of the Western European countries.

I think we would all agree that, for many years, Europe has been suffering from an excess of nationalism. The fact is that technological changes have outrun the development of political institutions. The drive of nationalism during the 18th and 19th centuries, whatever its other drawbacks, was from an economic standpoint a unifying influence, which stimulated and strengthened the expanding technical and economic forces of that era. The growth of national states destroyed the remnants of feudalism which fettered production and trade; it broke down provincial barriers and widened domestic markets in the major European countries; it abolished the petty principalities of Germany and Italy; and its imperialistic extensions, while producing grave political tensions and social injustices, at least helped to promote the expansion of Western technology into undeveloped areas of the world.

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(Continued on page 34)

*An address by Mr. McCloy before the 55th Annual Meeting of the Savings Banks Association of the State of New York, Atlantic City, N. J., Nov. 6, 1948.

Securities Salesman's Corner

By JOHN DUTTON

Those of us who are contributing our share to the great economic forces which have created America by going out into the highways and byways of this land and telling others about the opportunities for investment in the stocks and bonds of the nation's business enterprises, have been doing some stock taking since last Wednesday, Nov. 3. It is no doubt a correct assumption that the majority of us who are engaged in the securities business have never believed that the welfare and prosperity of the entire nation could be enhanced by the economic doctrines of the New Deal. Though often misrepresented to the public, Wall Street I think has conscientiously believed that all would eventually be poorer if controls of prices, favoritism toward organized pressure groups, pegged government bond markets, deficit financing, paternalism and bureaucracy, were undertaken in the most extreme manner by the government. Today, we are faced with the reality that a majority of the voting population have endorsed these ideas and have placed in office a complete administration that has promised to put such policies into practice.

During the past few days I have asked many of my friends who are also in the securities business just what they think lies ahead for our industry. The answers have been as confusing and contradictory as you yourself have probably obtained from some of your associates. For this reason I am going to omit many of the answers that I received to my queries and if just one more opinion on the confused welter of the waters is not too much for you, here is the way it looks to me.

This is no time for wishful thinking or for minimizing the problems which will lie ahead of the retailer of securities. Whistling in the dark may make us feel better for the moment but it won't solve our problems. Facing realities it adds up to this. Capitalism in this country is now definitely on the defensive. If Mr. Truman is a great man he will bring the people together and he will call his party around him and strive to work out the many conflicting economic and fiscal problems without vindicativeness or hatred and persecution of those who own property. If he attacks profits viciously, if he elevates labor to a point beyond which any particular group in our land should never rest, if he spends recklesly, then those of us who are engaged in the investment business have a most difficult task before us. It will not be possible to interest investors in the purchase of securities if the values and equities which we offer them are being drained off day by day by the unsound activities of the government.

Of course, if governmental policies curtail investment and business confidence becomes impaired then the economic forces which in the end must prevail, will in themselves bring about a change in our government. No political party can withstand mass unemployment, business bankruptcies, and chaotic economic conditions. For a while it would be possible to continue to penalize the investor class, making up the difference in the required capital needed for the continuance prosperity by further inflation of the money supply, but eventually the economic realities would assert themselves.

This then is where we stand—it is not going to be an easy road. If any of us think that selling securities has been a tough way to earn a living during the past 16 years and that now we may have it easier, I hope they are right. For my part I don't think so. However, there is no reason to believe at this time that it will be more difficult to sell securities than in the past, providing ingenuity plus work is exerted. I do not think a defeatist attitude on the part of the securities industry is advisable by any means. If only for the fact that millions of people own securities, the insurance companies, the banks, our educational system and in fact our entire national fabric and welfare depends upon the ability of our private enterprise system to survive. In addition, millions of people who own securities are a lot less concerned over the results of the election than those of us who are so close to the economic factors involved. The man **who knows less about these things and goes out to sell, disregarding the pitfalls and obstacles that appear to loom so large to many of us today, is quite likely to accomplish more than those with a statistical background of forebodings regarding the future.**

It is now up to the new Administration. No one can say more with certainty at this time. The future of the investment business as well as the nation's future is now in the hands of Harry Truman and Company. I am sure that nothing would more greatly please all of us who have sincerely opposed his advocated policies than to see his new Administration do those things which would enhance the prosperity and welfare of all our people; and that certainly means the millions of good Americans (both Republicans and Democrats) who have shown their faith in the future by investing in the stocks and bonds of American business.

Why?

"The Crossley poll showed that the Truman and the Dewey vote would be even if all adult citizens voted. In its final interviewing three weeks before the election it indicated considerable apathy toward both candidates, but somewhat more toward Truman than Dewey."—Archibald M. Crossley.

* * *

"On Sept. 9 I predicted that Mr. Dewey would win by a wide margin and that it was all over but the shouting. Since then, I have had plenty of chance to hedge on that prediction. I did not do so.

"I could not have been more wrong. The thing that bothers me most at this moment is that I don't know why I was wrong. I have, of course, always known that it was in the field of finding out why people vote as they do or why and how firmly they hold certain opinions that we researchers had made the least progress."—Elmo Roper.

* * *

"Which voters stayed home? Only 47,000,000 voters went to the polls Tuesday. Another 47,000,000 stayed home. Was it the Republicans, or the independent voters who failed to show up at the polls?"—George Gallup.

Much more is involved in all this than a mere failure to forecast election results accurately.

Techniques employed by these "pollsters" are in many respects identical with those used in market analyses, many other business reports, and even in the gathering of official government statistics.

It is to be hoped that these gentlemen will render it possible for statisticians to determine whether their failure by implication raises serious questions as to the validity of many important data long accepted as a matter of course.

LETTER TO EDITOR:

Opposes View Investor Needs Tax Relief

Forrest S. Dunbar, Jr. takes exception to statements in Robert A. Gilbert's article in the "Chronicle" of Sept. 9, in which it is held present tax laws are preventing revival of capital market by keeping the investor from attaining his rightful position in our economy.

Editor, The Commercial & Financial Chronicle:

This writer takes exception to the practice of presenting statements, points of view, or policies without including logical reasoning, inferences, or implications which attempt to substantiate such conclusions. Too many of the writers on economic and financial topics are guilty of this practice. In calling attention to this weakness in Robert A. Gilbert's article "The Investor Must Have Tax Relief," which is an excellent example of such a practice, this writer answers that the capital markets do not need reviving, that profits received by investors are considerably more than appears on the surface, that excessive savings and capital investments which caused the 1929 depression will result if the taxes on incomes are limited to 50%, and that economies made in Federal expenditures should be used to reduce the Federal debt.

The need for economy in this country's Federal expenditures is a point of view with which all citizens will wholeheartedly agree, and in the Sept. 9, 1948 edition of the "Chronicle" Robert A. Gilbert's views and definite statements as to where economies could be made provide material for an article which make it well worth reading. However, I am not able to agree with the title of the article "The Investor Must Have Tax Relief!", and, therefore, with what must be considered Mr. Gilbert's object in writing it. I would appreciate your consideration of the point of view presented in this letter with the hope that the readers of the "Chronicle" may be presented with this opposing opinion as to "The Investor Must Have Tax Relief!"

Although it is useful to bring to light, as Mr. Gilbert did, the difference in the financial and economic condition of the current period and that of the similar period after World War I, it should be clearly recalled that although 1922 and the six years following was one of the most intense periods of peacetime business prosperity this country has ever experienced, it was also followed by the most severe depression this country has ever experienced. Such a depression as was suffered after 1929 was largely the result of a tendency which began a number of years before 1929, grew ever so gradually, and, therefore, was more insidious. This tendency was the excessive capital investing and overexpansion of the productive capacity of industrial enterprises. We as a nation certainly don't want our economy to progress in any way similar to the way it did after World War I. It, therefore, would seem to be to the economic benefit of this nation to continue to maintain the present trend of taxation instead of changing it to that which was in effect after World War I as Mr. Gilbert infers we should do. To be sure, it wouldn't seem advisable to attempt to make the same mistakes that were made prior to the 1929 depression.

What this writer objects to is the presentation of a policy or a point of view with the claim that it is essential to the maintenance of the American standard of living. There is no doubt that a few people would benefit **for a brief period** if a limitation of 50% was placed on total taxes on large incomes, but "the reasons why a restoration of the investor to his rightful position and a revival of the capital markets are essential to the maintenance of the American standard of living" is what interests the other 98% of the people who do not fall into this exceptionally high income bracket. Mr. Gilbert did state that in his present article he wasn't going into the reasons why he believed the above statement to be true. It appears that for the huge majority of citizens this is putting the cart before the horse, or more literally and less figuratively, putting the cart without the horse.

It is so easy to make a statement, as did Mr. Gilbert, that a restoration of the investor to his rightful position and a revival of the capital markets, specifically, by a limitation on total taxes on large incomes to 50%, is essential to the maintenance of the American standard of living. Many of us if we read such a statement a number of times without taking time to give it careful thought, will gradually accept it, and before long a few, like parrots, will be spreading it on to others. It is a serious mistake a number of people make, and my purpose or object is broader than this one article on which I present my views at this time. My goal is to bring to the attention of others that too much of what we read, especially of an economic and financial nature, are statements presented without logical reasoning, and that we should for our own personal benefit and that of the country accept as facts only those statements which are reasonably proved.

In regard to the need for a revival of capital markets, the Secretary of the Treasury, John W. Snyder, in an address before the National Association of Supervisors of State Banks at Louisville, Kentucky on Sept. 22, 1948 said, "Both individuals and corporations have built up assets of sufficient volume to maintain a highly liquid financial position. The liquid assets of individuals are now estimated at approximately $200 billion, of which more than $140 billion has been accumulated since 1939. Net working capital of corporations has increased by $38 billion since 1939 reaching a recent total of $62 billion. Corporate holdings of cash and government securities have increased $22 billion since 1939." From the "Chronicle," date unknown, a table "New Security Issues for Purposes of Raising New Capital" indicated that for non-governmet corporations the totals issued were $3,037 million for the first six-months of 1948, $1,859 million for the first six months of 1947, and $1,105 million for the first six months of 1946. These figures show a definite trend which is quite contrary to any need for a revival of the capital markets.

"A restoration of the investor to his rightful position" is an example of Mr. Gilbert's use of vague generalizations. Whose judgment should be applied as to what the investor's rightful position should be? Certainly it would involve economic chaos and disaster to allow the monopolist with his selfish interests or the Communist with his radical views to make such a decision. An important fact to be brought to mind in regard to investors' interests is the comparatively large percentage of the corporations' profits which are plowed back into the business. A table indicating the disposal of income originating in corporate business in 1947, the source for which was the Department of Commerce Survey of Current Business, July, 1948, shows that a disposal of 5.9% of the total income was made to dividends, a disposal of 1% of the total income was made to interest, and a disposal of 9.6% was made to profits plowed back into the business. This last figure is an amount which can theoretically be added to the returns received by the owners since the money is to be used in the corporation and will increase the value of it. This means of disposing of profits is misleading to people with savings who are unfamiliar with corporation practices. For these potential investors it tends to decrease the attractiveness of owning shares in corporations having such a policy because these people with savings are not acquainted with the full amount of returns realized by the owners. If there is any real need for increasing the numbers of investors in corporations, an explanation of this policy of plowing profits into the business should induce many of these people to invest their savings because the profits available are considerably more than appear on the surface.

Another of Mr. Gilbert's statements which sounds good but does not stand up under careful perusal is "At the outset of this discussion it should be noted that basically the revenue loss is really insignificant compared to the resumption of sound economic progress." The use and meaning of this statement should be seriously studied and questioned. This writer is of the opinion that the statement should correctly be worded as follows: It should be noted that the revenue loss and the gain to the investors is really significant after thoughtfully recalling the unsound economic period just 20 years ago and after carefully considering the forces which disturb the balance necessary for sound economic progress in our capitalistic system.

To quote again from Secretary Snyder's address on Sept. 22, 1948, "The boom which ended in 1929 was unbalanced by nation-wide stock market speculation." In 1929 we had a notable case of excessive savings and capital investments playing the principal role in destroying the balance in our industrial system. As a result of enormous savings and investments in new and old productive enterprises, and of a rapid increase in the productive capacity of our consumer goods industries, the flow of consumer products in the markets increased in volume and value more rapidly than that part of the national money income used to purchase consumer goods and services. Because of the inability of consumers to purchase all the consumer products our industrial system was capable of producing, the enterprises producing such goods and services were unable to operate at full capacity. Other industries depending upon the consumer goods enterprises were also forced to curtail their production. The nation had a market excess capacity of production in 1929. An excess portion of the national income had been used to increase our capacity of production, and too small a portion of it had been used to purchase the goods and services for human use which the industrial system was capable of producing.

The people who have such enormous incomes that the total tax is greater than 50% make up a large percentage of the receivers of the national money income who are not able to spend enough of their income for consumer goods. These huge amounts which can not be used for consumer goods are added to the already, to put it conservatively, sufficient volume of savings and capital investment. Mr. Gilbert suggests that we increase the wealth of our largest income receivers, thus also increasing the huge amounts they are not able to spend for consumer goods and, as a result, further add to the already sufficient supply of savings and capital investment. This certainly would promptly bring about a condition of excessive savings and capital investments, the principal cause of the destruction of the balance in our industrial system which initiated the depression of 1929. Quite to the contrary of maintaining the American standard of living, which is what Mr. Gilbert would have us believe his suggestion would do, our high standard of living would drop to a new low. What is a more serious threat than this, is that if we allow another overinvestment-underconsumption cycle to overtake, us, the resulting depression will be just what the communists have been so eagerly awaiting. Such a disaster can be avoided if the self-interest force of our economy can be changed by clear and profound thought and by a united spirit, to a force dedicated to a balance in our economy which will allow our capitalistic system to operate dynamically and progressively as it should.

It is true there still seems to be an unending demand for a few products such as petroleum, steel and automobiles. The corporations which have a foothold in these fields aren't expanding their productive capacities to any extent even though they are making huge profits and the necessary capital is available to them. These industries are so nearly monopolies that new producers, i.e., Kaiser & Frazer and Tucker, find it extremely difficult to get established. Even if investments in certain few industries could be used without causing overexpansion of the productive capacity, the characteristics of our capitalistic economy, which this writer is in favor of maintaining, private property, risk taking, the motive force of profits, the accumulation of capital, the use of bank credit, and freedom of individual initiative, are such that although investments might possibly be made in a few industries in which they could be used for progressive development, investments would also be made in the other industries and there would be a host of them, which as a result of excessive capital investment, would have an excessive capacity of production.

In an effort to prevent my falling into the class of writers who present a point of view or policy without logical reasoning or basis, there must be included some facts and inferences which lead to the belief that we have good reason to apply the brakes rather than built up more steam in regard to the necessary balance between investment and consumption. First, the present extended markets, caused to quite an extent by our supplying of the war-ravaged, war-weary countries of the world and by the rebuilding of our military machine, will undoubtedly decrease rather suddenly, and thus leave some of our productive units short of a market demand for goods produced. Second, in this period of greatest national income in our history, credit extended to retail buyers has expanded more than $8 billion during the three years since V-J Day, bringing the total consumer credit outstanding up to $14 billion as estimated by the Federal Reserve Board. This fact clearly indicates that quite a number of our society are providing a present market demand with purchasing power they have not yet received. Besides having to supply the demand provided by the greatest national income in our history, our industries are also supplying the goods for this additional demand of $14 billion which is to be paid out of future national income. The amount of purchasing power furnished by the future national income will be less than at present because the future national income is expected to decrease. This reduced amount of purchasing power available in the future will be further decreased by the amount of $14 billion which will have to be used to pay for goods now being bought on credit, and the result will be that the future market demands will be considerably smaller while our industries which expanded productive capacities in response to huge demands of the present period will have produced an excess market supply of goods. Finally, Secretary Snyder's statement previously quoted in regard to the fact that both individuals and corporations have built up wealth of sufficient volume to maintain a highly liquid financial position, indicates that our system could tolerate little, if any, further capital investment if it is to avoid the overinvestment-underconsumption cycle because the quantity which changes sufficiency to over-sufficiency is a comparatively small quantity.

The Federal surplus resulting from the application of the economies that Mr. Gilbert stated could be made in Federal expenditures should be used as a weapon to counteract the growing inflation pressures by further use of the policy of directing debt management to a rapid reduction of the Federal debt, particularly that held by banks, instead of giving the savings derived from these economies to the persons in the highest income bracket. By leaving our progressive income tax rates as they are and not limiting, as Mr. Gilbert suggests, total taxes on large incomes to 50%, not only this counteraction to the present inflation can be realized, but also this power to reduce in amount the credit banks may be able to make decrease the possibility of overcapitalization and overinvestment and will in addition reduce the amount of installment and credit buying consumers will be able to accomplish, and thus eliminate some of the forces which tend to cause the disequilibrium in overinvestment-underconsumption cycles.

Your very truly,
FORREST S. DUNBAR, JR.

Oct. 6, 1948
Box 281, North Campus
Norman, Oklahoma

Phila. Inv. Women to Hear Wm. K. Barclay

PHILADELPHIA, PA.—An authority on financial matters, William K. Barclay, Jr., of Stein Bros. & Boyce, a graduate of the University of Pennsylvania Wharton School, will speak at the dinner meeting sponsored by the Investment Women's Club of Philadelphia on Nov. 15. His subject will be "Our Philadelphia Stock Exchange."


Wm. K. Barclay, Jr.

Mr. Barclay, who was the former President of the Bond Club of Philadelphia and during 1942-46 served with the National Association of Securities Dealers, is in a position to discuss a subject of interest to all investment associates of the club.

In the absence of Miss Marguerite A. Campbell, the Club's President, Miss Ann M. Barnes, Vice-President of the club, will introduce Mr. Barclay to the dinner guests. Miss Campbell is accompanying the Philadelphia group of investment traders who are attending the National Security Traders Association Convention being held Nov. 14-17 at Dallas, Texas.

Perkins Heads Div. for United Hospital Fund

Richard S. Perkins, a partner in Harris, Upham & Co., has accepted the chairmanship of the brokerage division for the 1948 United Hospital Fund Campaign, it was announced by Thomas J. Watson, Jr., Chairman of the Business and Professional group. The fund is seeking $2,845,988 to aid 86 voluntary hospitals in Greater New York.

Public Utility Securities

Virginia Electric & Power

Virginia Electric & Power was formerly controlled by Engineers Public Service, but ownership passed to the public when the holding company distributed its major holdings in 1947. In May, 1944, the company absorbed Virginia Public Service Co., a large subsidiary in the former Associated Gas System. This move, together with natural growth, accounted for an increase in electric revenues from $17 million in 1941 to the current figures around $45 million. The transit business was disposed of in 1945, but manufactured gas accounts for about 6% of revenues.

The company's integrated system serves (at retail and wholesale) the greater part of Virginia, and also parts of West Virginia and North Carolina—nearly 30,000 square miles altogether. Principal products in this area are tobacco, ships, textiles and rayon, foods, chemicals, paper and pulp, wood products, machinery and metals, stone and clay products, and leather goods. Electricity is retailed to nearly 1,000 communities with an estimated population of 1,748,000, including Richmond, Norfolk, Portsmouth, Newport News, Alexandria, Fredericksburg, etc.

The earnings record on the common stock has been as follows:

12 Mos. End.		Calendar Year	
9/30/48	$1.38	1942	$0.93
9/30/47	1.62	1941	.95
Calendar Year		1940	1,06
1947	1.81	1939	.95
1946	1.71	1938	.83
1945	2.66	1937	.80
1944	2.16	1936	.71
1943	1,21		

The jump in earnings in 1944-5 apparently resulted from the merger with Virginia Public Service, which permitted certain tax savings; refunding operations also reduced interest charges. However, earnings leveled off in 1946-7 at somewhat lower levels, and in 1948 have dropped sharply.

July net was only about $247,000 vs. $453,000 last year, and August $271,000 vs. $470,000. September, however, showed $407,000 vs. $471,000. With fuel costs up sharply and increased purchases of power necessary, operating expenses for September, 1948, were nearly 29% over last year, compared with a gain of 16.7% in revenues; and maintenance expense was 42% higher. The number of shares outstanding increased slightly due to conversion of debenture bonds.

However, President Holtzclaw has indicated that earnings would have been about 40c higher (around $1.78) if (1) the new Possum Point generating station near Alexandria (due to go into operation in a month or so) had been operating during the 12 months, and (2) if certain rate increases had been in effect. It is estimated that the new plant will save nearly $1,700,000 per annum, or about 35c a share after tax adjustment. A 5% discount on commercial and industrial bills was eliminated Sept. 1, after being in effect a year, and this means an annual recovery of around $1,300,000 in revenues. On Aug. 1 another small rate adjustment (a fuel clause in the commercial rate schedule) resulted in a gain of $300,000 a year. Application has been made to the Virginia Commission for permission to raise gas rates in Norfolk and Newport News; estimated annual gains are in the neighborhood of $500,000. All of these increases taken together would amount to about 47c a share after income tax adjustments, it is estimated, and with the additional fuel saving the total gain might be around 80c per annum. However, this figure cannot be consistently added to the $1.38 reported for the 12 months ended Sept. 30, but must be considered in relation to the July earnings, which were about 45% below last year. This would seem to make the figure of $1.78 (mentioned by Mr. Holtzclaw) about right as current "normal" earnings.

However, further adjustments are necessary to give a complete picture. The company has announced that it will seek to sell 750,000 additional common shares or an increase of 25% in the outstanding amount. On this basis share earnings would temporarily be reduced on the larger number of shares from the above estimated $1.78 to $1.41. Moreover, if the convertible debenture bonds should be converted into common stock in the future there would be a further increase of about 667,000 shares and a further dilution of earnings (partially offset by interest savings on the 3⅛% debentures). Conversion of any substantial amount of the bonds appears unlikely at present, however.

The new stock will be offered on the basis of one new share for each four shares held of record Nov. 12, with the right to subscribe expiring Dec. 1. Stone & Webster Securities Corp. heads a group of underwriters for the issue. The subscription is on a novel basis, in that payment may be made on the instalment plan—the first utility issue of this character in recent years. One-third of the price will be payable Dec. 31, one-third March 1, and one-third June 1. Interest at 6% will be paid on the previous instalments, at the time stock certificates are delivered shortly after June 1. Full payments may be made Dec. 1 if desired, with adjustment for interest and dividends. Proceeds of the offering will be applied to repayment of bank loans, thus reducing interest charges.

Virginia Electric is now selling on the Stock Exchange around 16¼ and is paying dividends at the annual rate of $1.20, to wield about 7.4%. It appears likely that the $1.20 rate will be maintained.

Moley Foresees No Business Disturbance Arising From Election Results

Former New Dealer predicts natural forces in economic life, together with moderate character of President Truman's top advisers, will bring about stable readjustment. Looks for amendment, but not repeal, of Taft-Hartley Act.

The Taft-Hartley Act will be amended but not repealed by the Eighty-First Congress, it was predicted on Nov. 4 by Raymond Moley, contributing Editor of "Newsweek" and former Assistant Secretary of State, in an address before the annual dinner of the Corset and Brassiere Association of America in New York City.

Raymond Moley

"We may expect greater confidence and stiffness in the demands of labor for favorable legislation," said Mr. Moley, whose address was an analysis of the causes and consequences of the Nov. 2 election. "It will demand a larger hand in the drafting of labor legislation.

"There will be no repeal," he added. "The coalition of Republicans and conservative Democrats is too strong for that. But there will be amendment."

Despite some "disturbing prospects," he said, there are certain elements of reassurance before business:

"One element is the fact that natural forces in economic life are already following their great capacity to bring about readjustment. Another is the generally moderate character of Mr. Truman's top advisers. Another is the probable disposition on the part of President Truman to have as peaceable a time as possible during a term that will certainly be his last."

In outlining the contributing causes which returned the President to the White House, Mr. Moley mentioned these forces: Greater effectiveness of labor, great farm prosperity, over-confidence and inertia in the Republican party, and because "better men were running for Governor and Senator in at least four crucial states — Ohio, Indiana, Iowa and Colorado."

Among the consequences of the election, mentioned by Mr. Moley are the following:

"(1) We may expect greater confidence and stiffness in the demands of labor for favorable legislation. It will demand a larger hand in the drafting of labor legislation. In the case of the Taft-Hartley Act, it refused to cooperate; but in the amendment of the Taft-Hartley Act, which we may expect, it will certainly actively participate, since enough Congressmen have been elected who are favorable to labor to make this assured. There will be no repeal. The coalition of Republicans and conservative Democrats is too strong for that. But there will be amendment.

"(2) An Administration has just been elected which favors the maintenance of the price level by government action. This means that deflationary factors will be attacked by government inflation of one kind or another. Inflationary forces will be subjected to some sorts of controls.

"(3) There will be no drastic movement toward a managed economy, but the general trends of the Roosevelt years may continue. That means the expansion of public works, flood control, public power projects and other government expenditures. However, Truman will prove to be no radical in these respects, because he will generally be concerned with keeping the budget reasonably within the general limits of its present status. This means that tax reduction is probably out for the next year or two. There might even be some effort to restore some part of the excess profits tax. This would be very difficult, however, to get through Congress since, as I have indicated before, the old coalition of Republicans and conservative Democrats will still hold the balance of power, and the Chairman of the Senate Finance Committee will be the able and conservative Walter George of Georgia."

Personnel Selection Manual Issued By Investment Bankers Association

CHICAGO, ILL.—Hailed as a milestone in the recruitment and training program being developed by the Investment Bankers Association of America, a new **Personnel Selection Manual** is currently being made available to member firms, according to John F. Fennelly, Glore, Forgan & Co., Chicago, Chairman of the Investment Bankers Association Education Committee.

The manual and related interviewing and testing materials are based on a study of the abilities and characteristics responsible for success in investment banking work. More than 600 individuals from member firms, including partners, executives, senior salesmen, traders, analysts, and other personnel, were tested and interviewed as a part of the study.

The completion of the project was the responsibility of a subcommittee of the Education Committee under Nathan D. McClure, Harriman Ripley & Co., Incorporated, Chicago, Chairman. Other members of the sub-committee included:

Lee Ostrander, William Blair & Co., Chicago.

Henry M. Beissner, Moroney, Beissner & Co., Houston.

Robert W. Fisher, Blyth & Co., Inc., New York.

Herman B. Joseph, T. H. Jones & Co., Cleveland.

Survey findings indicate that successful men in the investment banking filed predominantly come from large families (three or more children), earned at least half of their spending money while at school, have college training, majored in economics, business administration, or liberal arts, were active in school sports or other activities, later joined adult clubs, and possessed certain particular personal (psychological) attributes.

The study points out that persons who are successful in the field are characterized by stability, industriousness, a desire for activity, persistence at difficult tasks, loyalty, self-reliance, ability to get along with others, constructive acceptance of criticism, and a capacity for instilling confidence and trust in others. Furthermore, the successful investment banking employee accepts responsibility, is not a chronic worrier, and is highly realistic.

The **Personnel Selection Manual** constitutes the latest phase of the overall recruitment and training program of the IBA Education Committee, a program that was initiated by Julien H. Collins, Julien Collins & Co., President of the Association, several years ago when he was Chairman of the Education Committee, in order to meet the postwar personnel needs of the industry. Other phases of the Education Committee program include:

(1) Establishment through IBA Groups of introductory and advanced instruction courses in investment banking in cooperation with more than 20 universities and colleges throughout the country and in which close to 2,000 students have been enrolled.

(2) Publication of **Fundamentals of Investment Banking,** a college textbook that has been developed as a part of the formal instruction courses. A new edition of this text is to be published by Prentice-Hall, Inc., in the spring of 1949.

(3) Publication of **On-the-Job Training for Investment Bankers,** a booklet which presents a series of selected case histories of successful on-the-job training programs in actual operation.

(4) Maintenance of recruitment and vocational guidance service in New York and Chicago.

(5) Publication of two brochures: **Toward Careers in Finance** and **Training Investment Bankers.**

The manual and the accompanying special screening package that includes an IBA Score Sheet designed to measure an applicant's qualifications in relation to the average of the group tested are based on a survey made for the Association by Robert N. McMurry & Co., management consultants.

In a foreword to the manual, Mr. Fennelly states:

"There is nothing esoteric in the techniques set forth. Instead they merely represent applied common sense. It is our sincere conviction that all of our members, in employing new personnel, will benefit by careful study and use of the methods recommended."

M. J. McCabe Joins J. W. Gould & Co.

J. W. Gould & Co., 120 Broadway, New York City, announces

M. J. McCabe

that Matthew J. McCabe is now associated with the firm in its public utility trading department. Mr. McCabe was formerly industrial trader for Frank C. Moore & Co.

Twin City Jr. Inv. Brokers Association

MINNEAPOLIS, MINN. — On Oct. 26, Arthur Upgren, Professor of Economics at the University of Minnesota and Associate Editorial Editor of the Minneapolis "Star Journal,' spoke at a dinner meeting of the Junior Investment Bankers and Brokers Association of the Twin City, Incorporated.

Mr. Upgren commented briefly on general economic conditions and then opened the meeting for a question and answer session.

Arrangements are under way for the annual meeting which will be held in late November and will be the first anniversary of the club.

Sees Long Range Upward Trend of Interest Rates

Dr. William H. Stead, Vice-President of Federal Reserve Bank of St. Louis, looks for demand for capital, induced by its greater productivity, to force long-term rates up. Sees government fiscal policy as opposing factor.

Abnormally high demand for capital will provide an upward tendency in long-term interest rates, assuming there is not much change in the next decade or two in the inclinations of individuals and businesses to save, according to Dr. William H. Stead, Vice-President of the Federal Reserve Bank of St. Louis, Missouri.

William H. Stead

Speaking on Nov. 4 before the 17th Mid-Continent Trust Conference held at Chicago by the Trust Division of the American Bankers Association, Dr. Stead said:

"The emphasis I wish to place is on the long trend of interest rates, not shorter cyclical or accidental variations. Whether we are in an upward trend or whether the present somewhat higher rates are a temporary phenomenon is being debated by various groups. One group holds that, as the economy matures, the supply of investable funds becomes larger than the amount of investment opportunity, and so the interest rate declines. The other group contends that the economic maturity argument is a bogeyman and that the economy has sufficient resilience to produce enough investment opportunities to absorb the volume of funds seeking investment. This group believes that the demand for capital and greater productivity of capital will lead to upward pressure on interest rates. It is my own belief that the second view will prevail.

"I want to qualify my statement, however. There are various factors that are operating or can operate to reduce this underlying tendency in strength. Probably the two most important are support operations in the government security market and possible cyclical swings within the long-term trend.

"The present type of Treasury and System support operations in the government bond market must be maintained to assure orderly conditions in the market. As Chairman McCabe pointed out in August and recently reaffirmed in Boston:

"'. . . 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 ensure 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 time 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.'

"And I might add that the current international situation is hardly conducive to making the Treasury look very kindly toward very much higher borrowing rates for the Federal Government. In the event that military expenditures were to rise sufficiently to necessitate a return to large-scale deficit financing, the Treasury would be interested in having a stable and reasonably low rate market for governments.

"The second point — possible cyclical influence—needs no long discussion. As the cycle turns downward, business investment tends to decline, both as a cause and a result, and demand for capital funds drops. On the downswing of a cycle interest rates would tend to soften, despite the basic underlying trend upward."

Ben S. Lang Joins James E. Bennett Co.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Ben S. Lang has become associated with James E. Bennett & Co., Merchants Exchange Building. He was formerly an officer of the First National Bank in St. Louis.

Fischer and Ellis With First Securities Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Lydia Fischer and John H. Ellis became associated with the First Securities Co. of Chicago, 134 South La Salle Street, members of the Chicago Stock Exchange. Miss Fischer was formerly in the trading department of Kitchen & Murphy. Mr. Ellis was with A. L. Schmidt & Co.

William W. Bouden, Jr. Opens Own Offices

(Special to THE FINANCIAL CHRONICLE)

NEW ORLEANS, LA.—William Wallace Bouden, Jr. has opened offices in the Balter Building to engage in the securities business. Mr. Bouden was formerly a partner in Randolph Newman & Co. Prior thereto he was with Weil & Arnold.

Alexander C. Sterling Is With Cruttenden & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Alexander C. Sterling has become associated with Cruttenden & Co., 209 South La Salle Street, members of the New York and Chicago Stock Exchanges. Mr. Sterling was formerly with Carter H. Corbrey & Co. and prior thereto was an officer of Joseph F. Dixon & Co.

G. W. Ziller, Inc., in Reno

RENO, NEV.—G. W. Ziller, Inc., is engaging in a securities business from offices at 730 Marsh Avenue. Officers are G. W. Ziller, President and Treasurer; R. W. McDonald, Vice-President; and Rae G. Ziller, Secretary.

Mason, Moran Co. Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—James L. Andresen has been added to the staff of Mason, Moran & Co., 135 South La Salle Street.

With Conrad, Bruce & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Ben H. Ohler has become associated with Conrad, Bruce & Co., 530 West Sixth Street. He was previously with Morgan & Co.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED
CAPITALIZATIONS

Peter Cooper Branch, 27th of **The Chase National Bank's New York City** offices, was opened for business on Nov. 10 at 23rd Street and First Avenue, in Peter Cooper Village. Visitors at the branch on the opening day included Winthrop W. Aldrich, Chairman and Arthur W. McCain, President of Chase, and Frederick H. Ecker and Leroy A. Lincoln, Chairman and President, respectively, of the Metropolitan Life Insurance Company, developers of the housing projects of Peter Cooper Village and Stuyvesant Town on the East Side. Officers in charge of the new branch are Herbert Tietjen, Manager, and John Lundwall and William H. Siddons, Jr., Assistant Managers. Henry G. Staubach is Manager of the Chase Safe Deposit Company at the new location. The new building occupied by the branch, a one-story steel and limestone structure, incorporates a number of innovations in design in both the banking quarters and underground vaults.

* * *

N. Baxter Jackson, Chairman of **The Chemical Bank & Trust Company of New York** was host on Nov. 4, at a dinner of the Quarter Century Club of the bank held in the grand ballroom of the Hotel Delmonico at Park Avenue and 59th St. The club has a membership of 201 of which 156 are actively employed and 45 have been retired. At an election which preceeded the meeting, Miss Edith A. Adams succeeded Emil J. Horn as President of the club.

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Sterling National Bank & Trust Company of New York announces that Stanley H. Grant, Assistant Cashier in the Public Relations Department, has been elected an Assistant Vice-President, and that A. E. Kayruktis, Manager of the Credit Department, has been elected an Assistant Cashier.

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A directory of Brooklyn manufacturers, merchants, businesses and services has been compiled by **Colonial Trust Company's** Kingsboro Office at 69th Street and 5th Avenue, Brooklyn, it is announced by Arthur S. Kleeman, President. The directory, prepared under the direction of William H. Bassett, Vice-President in charge of the Kingsboro Office, was compiled from lists of the bank's depositors. It will be maintained as a community service, Mr. Kleeman said, to provide information regarding goods and services available in Brooklyn. The directory will not be published, but will be used to provide answers to requests for information. The main office of the Colonial Trust Company is in New York.

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Queens County Savings Bank, of Flushing, N. Y., the oldest savings bank in Queens County, will open a temporary new office at 76-02 Main Street, Flushing, upon completion of alterations, it is announced by Joseph Upton, President. The new office will be known as the Kew Gardens Hills Branch. The bank, main offices of which are located at 38-25 Main Street, Flushing, also has branches in Corona and Little Neck, N. Y. Queens County Savings Bank, with resources of over $90,000,000, will observe its 90th anniversary next year.

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The Community Savings Bank of Rochester, N. Y., celebrated its 79th anniversary on Nov. 1. Incident to the occasion, the Rochester "Times-Union" said:

"Charles W. Carson, President; Sol Heumann, Chairman of the Board of Trustees, and staff members viewed clippings tracing the history of the institution. The present name is the result of a merger in 1944 with the Mechanics Bank, founded in 1867, and the old East Side Bank founded in 1869. Many men prominent in the development of Rochester were among the founders.

* * *

The State Street Trust Company of Boston, announces the promotion of Frank J. LaRoche of Brighton to Assistant Secretary and Charles MacKinnon of Beverly to Assistant Trust Officer. Mr. LaRoche gained broad experience in various departments of the bank before being assigned to the Massachusetts Avenue Office several years ago, where he will continue. Mr. MacKinnon has been with the bank since 1929 with the exception of three years and a half during World War II when he served in the U. S. Air Forces. He will remain in the Investment Trust Custodian Division of the Trust Department.

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The consolidation of the **First Paterson National Bank & Trust Co. of Paterson, N. J.** (Capital $2,000,000) and **The Second National Bank of Paterson** (Capital $1,500,000) under the charter of the First Paterson National Bank & Trust Company and under the title of **First National Bank and Trust Company of Paterson,** became effective on Oct. 29. The Comptroller of the Currency, reports that the consolidated institution has a common capital stock of $3,000,000, in 120,000 shares, of $25 each (par) and a surplus of $3,000,000. Reference to the proposed Consolidation appeared in our issue of Oct. 28, page 1766.

* * *

Marvin W. Smith, Executive Vice-President and member of the Executive Committee of The Baldwin Locomotive Works, has been elected a director of **The Philadelphia National Bank, of Philadelphia, Pa.,** according to announcement by Frederic A. Potts, President of the bank. Before going to Baldwin in August of this year, Mr. Smith was Vice-President of the Westinghouse Electric Corp. in charge of engineering and research, and an authority on plant design and development. On July 29 he was elected a director of Baldwin when an agreement was completed whereby Baldwin agreed to sell Westinghouse 500,000 shares of unissued common stock. In addition to serving on The Philadelphia National Bank board, Mr. Smith is a director of the Midvale Company and Flannery Bolt Company.

* * *

The **Girard Trust Co. of Philadelphia** has been elected a clearing member of the Stock Clearing Corporation of Philadelphia, it was announced on Oct. 25 by William K. Barclay, Jr., President of the corporation, and the Philadelphia Stock Exchange. The Philadelphia "Evening Bulletin," from which the foregoing is quoted, added:

"J. Malcolm Johnston, Vice-President of the bank, has been named a member of the Clearing Corporation's board of directors. Girard is the first bank to join the corporation. A subsidiary of the Philadelphia Stock Exchange, the corporation is the oldest of its kind in the country, having been established in 1870. Its functions are, in part to relieve members from all clerical transactions involved in the transfer of securities as well as related banking operations."

* * *

Walter L. Findeisen, Assistant Vice-President of the **Federal Reserve Bank of Cleveland, Ohio,** died on Oct. 24, it is learned from the Cleveland "Plain Dealer" of Oct. 25, which noted that Mr. Findeisen had been with the Federal Reserve Bank since February, 1918, when he joined the staff as an Audit Clerk. From Audit Clerk he was advanced to Audit Supervisor, Assistant Auditor, Manager of the credits, loans and discounts department, manager of foreign funds control, and in January, 1943, Assistant Cashier. The "Plain Dealer" also reported that Mr. Findeisen had been Assistant Vice-President since January, 1946, and was the junior officer in charge of its fiscal agency department.

* * *

Ira A. Moore, President of the **Peoples National Bank, Grand Rapids, Mich.,** has been appointed Chairman and Ralph P. Dixon, Vice-President of the **Citizens National Bank of St. Bernard, Ohio,** and President of the Ohio Bankers Association, has been appointed Vice-Chairman of the Advisory Council of the School of Banking of the University of Wisconsin, sponsored by the Central States Conference, as announced by Harry C. Hausman, Chairman of the Board of Trustees of the School and Secretary of the Illinois Bankers Association, Chicago. The Chairman and Vice-Chairman of the Advisory Council of the School each hold office for a period of one year, beginning Nov. 1, 1948. The School of Banking, established in 1945 with an initial enrollment of 47 students, grew in four years to an enrollment of 450 students at this year's session, from 26 States and the District of Columbia. Two weeks' resident session each summer for a period of three years, together with extension work throughout the intervening months of the first two years, is required for a certificate of graduation. The school is sponsored by bankers' associations in 15 mid-Western States.

* * *

The City National Bank and Trust Company of Kansas City, Mo., has prepared a display of currency which shows the ruinous growth of inflation which came to Greece and Germany. The currency's descriptive text is fastened to four panels and may be exhibited in a variety of ways. The bank states that banks wishing to show this display for a short time in lobbys, windows or fair booths may, without charge, get this display by writing City National Bank.

* * *

Paul Crawford McKnight, Assistant Vice-President of the **Anglo California National Bank of San Francisco, Cal.,** died on Oct. 30. He was 49 years of age. Mr. McKnight was a native of California. He was actively engaged in the banking business from 1917 until 1922, when he entered the investment field. On Feb. 26, 1940, he returned to the banking business, becoming associated with Anglo California National Bank. He was appointed an Assistant Vice-President of the bank in March, 1941, a position which he held until his death.

* * *

Two new Assistant Vice-Presidents were named on Oct. 26 by the directors of the **Seattle-First National Bank of Seattle, Wash.,** according to the Seattle "Times" of Oct. 27. They are Fred C. Jenner, Manager of the Broadway branch the past two years, and Howard L. Sutherland of the bank's building-management department.

* * *

Midland Bank Ltd. of London announces that Sir Clarence Sadd, owing to ill-health, has resigned his seat on the board of directors.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government bond market has put on quite a show since the elections, particularly the longer partially-exempts. . . . The taxable bank issues also moved away from support levels, while the taps are giving evidence of buying from sources other than the Central Banks. . . . Short covering tax protection along with some position building is responsible for the improved quotations in the eligible obligations. . . . Purchases of the ineligibles at prices just slightly above the pegs are reportedly being done by non-bank investors, in order to rebuild holdings that were disposed of just prior to election day. . . .

The turnabout of quotations in the government market is attributed to the belief that the "pegs" will be maintained and that money rates will not be advanced too sharply. . . . Since there is to be no change in the political Administration, no important changes in monetary policies are anticipated. . . . There is also the opinion that if greater powers are required to keep prices of Treasuries within support limits, the monetary authorities are now in a much better position to get them than in the past. . . . Also the powers that be are expected to be much more aggressive in their efforts to retard sales of bonds by non-bank holders. . . .

NO CHANGE IN MONETARY POLICIES

The reelection of President Truman means that current monetary policies will be maintained in the foreseeable future. . . . Retention of the 2½% rate for long Treasury obligations appears to be assured, while mildly restrictive measures such as moderately higher short-term rates and larger reserve requirements will no doubt be continued. . . . However, the future course of the money markets and money rates will be determined by the pattern of business activity which will be shaped in no small way by government expenditures, notably those for defense or military purposes. . . . If there are to be abnormal appropriations for defense needs, which will throw the budget completely out of balance and bolster the inflation spiral, then there is no doubt that counter measures will be sought and if obtained will be put into effect by the money managers in order to control or curb the inflationary trend. . . .

LIKELY STEPS

Excess profits or similar types of taxes would be practically certainties under such conditions. . . . The Administration is definitely committed to a program of halting the high cost of living and one of the best ways of doing this, politically at least, is by increasing the taxes of those that are rather impotent at the ballot box. . . . Along with excess profits taxes, when, as and if needed, would probably go recommendations to the Congress of greater power for the monetary authorities over the money markets. . . . The power to further increase reserve requirements of the commercial banks would seem to be a natural under such conditions, with this authority likely to be extended to all deposit banks and not just to members of the System. . . .

Whether the higher requirements would be entirely cash cannot be indicated but many believe that "Special Reserves" such as Mr. Eccles suggested in the past will be very prominent in any request the powers that be will make for increased controls over the money markets. . . .

BROADENED REGULATION

When, as and if there is need for greater control over the money markets, it is believed that legislation will be asked for that will give the authorities power to regulate the financial operations of insurance companies, savings banks and all other unregulated lending agencies. . . . The inflation spiral is evidently not going to be aggravated by the actions of those lenders that are not currently within the range of authority of the money managers. . . .

If there should be the necessity of greater regulation over the money markets in order to fight inflation, it seems as though the chances of getting it are much better with the new Congress, since "New Deal Policies" are very much alive after last week's elections. . . .

ON THE OTHER HAND

What is likely to happen if business activity does not follow the inflationary pattern and the readjustment, which is already going on in many industries, should continue? . . . (This assuming no important step-up in defense expenditures.) . . . An increase in taxes would be ruled out under such conditions, and the need for greater power over the money markets undoubtedly would pass because the inflationary spiral would be broken. . . . **There would be less concern over Treasury obligations since the pressure of liquidation should abate, if not entirely disappear, with a receding of the inflationary trend.** . . . Expenditures by industrial concerns quite likely would be curtailed with the "rolling readjustment" in business. . . . This would relieve the need for financing by business and the selling of government securities by non-bank holders. . . . There could even be a demand for Treasury obligations by banks as well as non-bank investors. . . .

NOTES

Industrial concerns have been sizable buyers of Treasury bills since it is indicated that surplus funds are being put into this security as temporary investments. . . . The current rate on bills is attractive to those that are interested in putting funds to work for short periods. . . .

Some money market followers believe that Marriner S. Eccles will be a more important force from here on in helping to shape future Federal Reserve policy. . . . His plan of "Special Reserves" for deposit banks will most likely be given greater consideration, if larger reserve requirements are sought by the authorities.

National Bank Earnings Up in First Half of Year

Comptroller of Currency Delano reports increase in net operating profit of more than 10% over first part of 1947. Total net earnings amounted to 7.1% of capital funds, with slightly less than one-half of amount paid out in cash dividends.

Comptroller of the Currency Preston Delano announced on Nov. 5 that the national banks in the United States and possessions reported net operating earnings of $355,307,000 for the six months ended June 30, 1948, an increase of $36,125,000 over the first half of 1947.


Preston Delano

Gross earnings were $926,190,000. This was an increase of $90,062,000 over the gross earnings for the first six months of 1947. The principal item of operating earnings in the first half of 1948 was $423,091,000 from interest and discount on loans, which was an increase of $94,262,000 compared with the corresponding period in 1947. Other principal items of operating earnings were $294,780,000 from interest on United States Government obligations and $54,604,000 interest and dividends on other securities, a total of $349,384,000, which was a reduction of $15,191,000 compared to the first half of the previous year, and $47,561,000 from service charges on deposit accounts, an increase of $7,358,000. Operating expenses, excluding taxes on net income, were $570,-633,000 as against $516,946,000 for the first half of 1947. The principal operating expenses were $272,545,000 for salaries and wages of officers and employees and fees paid to directors, an increase of $27,128,000 over the first half of 1947, and $87,194,000 expended for interest on time and savings deposits, an increase of $6,611,000.

Adding to the net operating earnings the profits on securities sold or redeemed of $22,041,000, and recoveries on loans and investments (including recovery of reserves previously charged out) of $59,849,000, and deducting therefrom losses and charge-offs (including current charge-outs for reserve purposes) of $152,078,000, and taxes on net income of $88,-253,000, the net profits before dividends for the six months ended June 30, 1948, amounted to $196,-366,000 which, at an annual rate, amounts to 7.10% of capital funds. This is an apparent reduction in net profits before dividends of $44,832,000 from the first half of 1947 but a comparison of the results of the current period with the similar period in 1947 and previous years is not practical owing to reserve accounts amounting to $99,309,000 charged out of current earnings, largely the reserve for bad debts utilized by 1,877 national banks under the provisions of Mimeograph 6209 issued by the Bureau of Internal Revenue in December, 1947.

Cash dividends declared on common and preferred stock totaled $92,393,000 in comparison with $86,640,000 in the first half of 1947. The annual rate of cash dividends was 3.33% of capital funds and was 46.93% of the net profits available. The remaining 53.07% of net profits, or $104,-473,000, was retained by the banks in their capital accounts.

On June 30, 1948, there were 5,004 national banks in operation, which was a decrease of 14 banks since June 30, 1947.

SEC Amends Proxy Rules

The Securities and Exchange Commission, on Nov. 5, released a statement revealing that it had adopted several amendments to proxy rules. Last July the SEC published proposals for certain amendments to its Regulation X-14, relating to proxies set up under Sections 14(a) and 23 (a) of the Securities and Exchange Act of 1934, and invited comments and suggestions. It is now stated the Commission has duly considered all comments and suggestions received in connection with the proposed amendments and is taking action in regard thereto.

Among the amendments adopted are a clarification of the term "last fiscal year."

The term "last fiscal year" of the issuer now means the last fiscal year of the issuer ending prior to the date of the meeting for which proxies are to be solicited.

Another amendment relates to the form of the proxies.

It has been found that proxies have been misleading in certain cases in that they did not indicate clearly whether or not the solicitation was made on behalf of the management or on behalf of other persons. In order to remedy this situation, the rule is amended to require that there be set forth in bold face type on the form of proxy an indication as to whether or not it is solicited on behalf of the management.

In order to prevent the premature solicitation of proxies at a time when material information has not yet become available, the amended rule provides that no proxy shall confer authority to vote at any annual meeting other than the next annual meeting (or any adjournment thereof) which is to be held after the date on which the solicitation is made.

The Commission has heretofore taken the position that the solicitation of proxies constitutes an implied representation by the persons making the solicitation that the shares represented by the proxy will be voted. In order to make this representation more explicit, the amended rule requires that the proxy statement shall provide that the shares represented by the proxy will be voted, subject to reasonable specified conditions.

A new rule of the Commission requires the management to include in its proxy material proposals seasonably submitted by security holders which are proper subjects of action by security holders. The Commission has found that in a few cases security holders have abused this privilege by using the rule to achieve personal ends which are not necessarily in the common interest of the issuer's security holders generally. In order to prevent such abuse of the rule, but without unduly restricting the privilege which it grants to security holders the amendment places reasonable limitations upon the submission of such proposals.

Item 3(b) of Schedule 14A in the proxy rules has heretofore required that if the solicitation is made otherwise than on behalf of the management, the names of the persons on whose behalf it is made shall be stated. In order to make it clear in such cases that the solicitation is not made on behalf of the management, Item 3(b) is amended to require a specific statement to that effect.

The text of the amended item is as follows:

"(b) If the solicitation is made otherwise than on behalf of the management, so state and give the names of the persons on whose behalf it is made."

Appraises Consumer Credit Controls and Trends

Autumn issue of "The Index," published by the New York Trust Company, holds, despite recently imposed controls, such credit will continue to rise. Points out present consumer credit volume, though high, is less than prewar, if price level and industrial output are considered.

Controls recently reimposed by the Federal Reserve Board may check the rate of expansion of instalment credit, but while the demand for automobiles and other consumer durable goods exceeds the supply, the total volume of such credit will probably continue to rise, according to a study in the Autumn issue of "The Index," quarterly publication of The New York Trust Co.

"United States consumers," the study continues, "have been clamoring to purchase in a relatively few months all the automobiles, household appliances and other consumer durable goods they have been unable to buy in the seven years or more of shortages growing out of the war program. So long as the rate of flow of income to the public is greater than the increase in supply of goods and services, prices cannot be kept down merely by agreeing to do so.

"The new regulation applies only to a dozen lines of durable goods bought on instalment credit. It does not apply to other types of consumer credit which account for approximately one-half the total purchases on credit.

"One significant effect of the new credit controls may be in determining what consumers get the available goods covered by the regulation. The larger down payment required may keep some people from getting new automobiles as soon as they otherwise would, but it will probably not increase the total number of automobiles sold since it appears that so far as the immediate future is concerned there is a ready market for every car that can be produced.

"There is no question about the constant need for careful scrutiny of requests for consumer credit. The new Regulation W will probably work no hardship upon the majority of businessmen affected by it. The primary objection that may be voiced to the restrictions is that they represent just one more encroachment by government on private enterprise and the buying public.

"Greater production and a sound Federal government financial and budgetary policy remain the ultimate answer to the problem of rising prices."

The new Regulation W requires a down payment of one-third of the cash price on new automobiles, of approximately one-third of the cash price of used automobiles and a one-fifth down payment on 11 other categories of consumer durable goods having a cash price of $50 or more.

Testimony presented before the House Banking and Currency Committee for the Federal Reserve Board pointed out that during the three years since V-J Day, the United States public has gone into debt more rapidly than in any other period in history.

The publication observes that while consumer credit now exceeds $14 billion as compared with the previous record volume of $10 billion in September, 1941, national income in 1947 was almost double that in 1941 and was about three times that of the average for 1935-1939, and that the wholesale price level has approximately doubled since 1941.

"Had consumer credit kept pace with the gain in national income and the increase in the wholesale price level," "The Index" adds "the total volume of consumer credit outstanding would now be in the neighborhood of $20 billion, as contrasted with the actual $14 billion reported."

The Intra-European Payments Plan

November issue of "Monthly Review" of Federal Reserve Bank of New York says operation of plan is expected to relieve log jam clogging intra-European trade channels, but points out its limitations, and sees need for more fundamental solution of intra-European payments problem.

The current issue of the "Monthly Review of Credit and Business Conditions" published by the Federal Reserve Bank of New York, contains a description and analysis of the Intra-European Payments Plan, which was formally adopted by European nations participating in the European Recovery Program on Oct. 16. As this is the clearest and most authentic account available of the plan, which is to be an integral part of the operations of ECA, we print herewith the text of this article in its entirety:

The Intra-European Payments Plan, proposed by the Organization for European Economic Cooperation and approved in principle by the Economic Cooperation Administration, has been formally adopted by the countries participating in the European Recovery Program, through the OEEC resolution of Oct. 16. Operation of the plan is expected to remove part of the log jam that has increasingly clogged intra-European trade channels.

Before the war, trade among the countries participating in the ERP accounted for 51% of their total exports and 38% of their total imports, and therefore played an essential role in their economic life. When, at the end of the war, efforts were made to resume this trade, it had to be done largely on the basis of bilateral clearing agreements involving reciprocal credits. The bilateral trade pattern was familiar to many countries from prewar days and the reciprocal credit device helped to overcome the shortage of foreign exchange. Underlying the reciprocal credits was the assumption that the balance of trade would fluctuate seasonally, or in any case over short periods. Balances in excess of the agreed credit margins were usually to be paid off in gold. In view of the uncertain trade and supply conditions, the size of the credit margins usually had to be determined arbitrarily rather than on the basis of prospective trade currents and credit needs.

While in some instances the expected two-way swings in trade balances materialized, very often the reciprocal credits were utilized only in one direction and therefore tended to become permanent. Pronounced creditor and debtor relations developed, Belgium and Switzerland becoming the chief creditors, France a general debtor. The United Kingdom, which during 1947 and early 1948 was heavily in debt to many ERP countries, found its position improving rapidly thereafter and is expected to run a large active balance with ERP countries generally during the year ending June, 1949. A number of countries, without being large net debtors or creditors, had substantial debits and credits in their various bilateral positions.

As long as credit margins remained available, intra-European trade showed remarkable recovery. During 1947, however, the growing unwillingness of creditors to advance new credits, and the inability or unwillingness of debtors to pay in gold, together with the failure of sterling convertibility, made increasingly necessary the bilateral balancing of trade between each pair of trading countries. Trade in the aggregate began to shrink in terms of physical volume, as the deficit countries were forced to cut their purchases to the level of their sales; and the proportion of trade in nonessential goods grew as surplus countries sought means of converting their outstanding credits into imports.

From a balance of payments viewpoint, this impasse had two aspects. One was the net deficit of individual countries with the other ERP countries as a group, which the debtor countries could meet only by paying out dollars received from other sources. The second was the inconvertibility of European currencies, which prevented a country with equal bilateral deficits and surpluses from using the surpluses to offset the deficits.

The growing paralysis of intra-European trade was a serious threat to recovery. It became clear that European countries, unable to buy all they would like from the Western Hemisphere, must increasingly buy from each other. Furthermore, the most effective distribution and use of resources required that, for a while at least, some of the ERP countries be enabled to incur fairly sizable deficits with the rest of the group. This called for some means of financing the balances.

Earlier Approaches to the Problem

Various solutions were tried without success. Sterling convertibility, could it have been sustained, might have solved the problem of compensating bilateral debits and credits by providing a universally acceptable means of payment. Even so, the problem of financing net defects would have remained. Sterling convertibility having failed, the problem was next attacked through the institution of a clearing scheme conducted by the Bank for International Settlements. This, too, did not produce major results, because the countries that became "permanent members" of the clearing (Belgium and Luxembourg, France, Italy, Netherlands, and the Bizone) did not find enough opportunities for clearing among themselves, while the "occasional members" usually found some motive for rejecting the clearing operations proposed to them by the BIS.

A third line of approach was implicit in the proposal of the Committee of European Economic Cooperation, in September, 1947, for stabilization funds aggregating $3 billion which were to be added to the amount of Marshall Plan aid proposed by the committee. While the proposal was not elaborated in detail and was made primarily for purposes of internal stabilization in the countries to be aided, its effect on intra-European trade might have been to put that trade on a dollar standard. As long as the dollar remains a scarce currency, however, its use as an intra-European means of payment might easily have had restrictive effects. Countries might have endeavored to buy as little from each other as possible, in order to extract dollars from their trade partners that could be spent in the United States, unless the United States were prepared to continue putting up enormous amounts of dollars, or the ERP countries were willing to pursue severely deflationary policies which would mitigate the dollar shortage. From a long-run viewpoint, the universal use of the dollar in world trade would certainly be profitable to the United States, as the similar role of sterling was at one time for Britain. But while the dollar remains a scarce currency, its use as a universal means of payment would almost certainly prove restrictive, and to make dollars sufficiently available at this time to avoid such an outcome would require a disproportionate effort on the part of the United States, or almost impossibly severe deflation on the part of the participating countries.

It was soon realized, however as the ERP progressed, that American aid could be used to unblock European trade and payments without a special dollar pool and without additional cost to the United States. Two methods, essentially variants of the same principle, were available, the "offshore purchase" method and the "local currency" method. The offshore purchase method, which owes its name to the offshore purchase provisions of the Economic Cooperation Act, consisted in giving intra-European debtors the dollars required to pay for their intra-European deficits. Under this method, which ECA used during the third quarter of 1948, special "supplemental" dollar allotments were made to the debtor countries to meet these deficits, in addition to the "basic" allotments which covered their Western Hemisphere deficits. The supplemental allotments were made on the basis of the bilateral deficits of the recipients with each of the other participating countries, estimated in advance, and were earmarked for expenditure in specific creditor countries. In making its basic allotments to the creditor countries, ECA in turn took into account the dollars they were scheduled to receive in payment of their prospective surpluses with other participating countries. In other words, intra-European debtors were allotted dollars equal to their Western Hemisphere deficits **plus** their intra-European deficits, while creditors were allotted dollars equal to their Western Hemisphere deficits **minus** their intra-European surpluses.

Main Features of the Payment Plan

It is, however, the local currency method which the OEEC has now, for a variety of reasons, decided to use as the basis of the payments plan. Under this method, the dollars, instead of being given to the debtor as a supplemental allotment, are given directly to the creditor as a "conditional" allotment on the basis of bilateral balances between the ERP countries estimated in advance for one year. The condition for each such allotment is that the creditor must grant the debtor "drawing rights" in the creditor's own currency, equivalent to the conditional dollars received. The debtor then uses the drawing rights to meet his liabilities to the creditor. The aid thus given by ECA is referred to, from the debtor's viewpoint, as "indirect aid." The drawing rights are given on a "gross" basis. In other words, a country that has surpluses with some of its trading partners and deficits with others will grant drawing rights equal to the sum of the surpluses and receive rights equal to the sum of the deficits. This will greatly facilitate the offsetting of its debits against its credits. The creditor will finance the drawing rights he grants out of the "counterpart funds" that he deposits upon receipt of an ECA conditional allotment (or upon receipt of "indirect aid"). The setting up of the drawing rights, however, is not to be delayed until sufficient counterpart funds have been built up. Drawing rights and conditional dollar allotments are rather to be made available simultaneously, although the timing of their actual utilization may differ. If the utilization of conditional dollars and hence the building up of counterpart funds lags behind the utilization of the drawing rights, the creditor is expected to prefinance the drawing rights and later reimburse himself out of the counterpart funds. The debtor, upon using the drawing rights, is to establish a counterpart fund in his own currency, just as if he had received a direct grant from ECA.

In addition to the drawing rights, funds to cover intra-European deficits are being made available through the release of existing balances. These are mostly sterling balances, aggregating the equivalent of $209 million dollars, which the United Kingdom will release for financing that part of its surplus with the Continental countries that is not covered by drawing rights. It should be noted that the United Kingdom surplus includes that of the entire sterling area.

Both the drawing rights and the existing balances will be used, not for direct payments to creditors, but via a clearing mechanism that is to be an extension of the present BIS clearing. All ERP countries will participate in this clearing, Switzerland and Portugal entering it on a special footing. The balances that accumulate in the payment-agreements accounts as a result of current trade will be cleared monthly. With some qualifications, only currently arising balances will enter into this clearing, old balances being consolidated, except those which are released for the purpose of covering deficits. At the outset the clearing will be limited to situations where, with the aid of the drawing rights, closed chains of indebtedness can be established in which each country in the chain holds the currency of the preceding country while its currency in turn is held by the following country ("first order clearing"). In such a chain, all debits and credits, if they are equal, can be wiped out and no new debtor-creditor relationship arises. Clearings in which new credit relationships would arise ("second order clearing") may be proposed by the agent (the BIS) but can be vetoed by countries that feel themselves adversely affected. It is planned to broaden the scope of the clearing and reduce the veto right later on. For the time being, however, the clearing aspect seems likely to play only a minor role within the payments plan.

The essence of the payments plan, in simplest terms, is to make ERP dollars do double duty: once to move goods within Europe, and again to move goods to Europe from overseas. At the same time, the plan effectively implements the "net aid" concept, which is the most rational criterion of the need of each country for foreign aid. The magnitude of the net aid that is required depends, not only on the country's Western Hemisphere deficit, but also on its intra-European deficit or surplus, i.e., on the net deficit in its over-all balance of payments, disregarding possible balances with other nonparticipating countries. A country that has an intra-European deficit on top of its Western Hemisphere deficit needs aid to cover both. A country with an intra-European surplus, on the other hand, can use this surplus to reduce its dollar aid requirements, provided the surplus can be converted into dollars. This is what the payments plan does. The "conditional allotment" of dollars, though it has the appearance of a grant, is no gift at all. It is payment for goods that the surplus country is to deliver to its debtors. All that the conditional allotment does for the creditor—and it is still a good deal—is to make the surplus convertible into dollars so it can be used to cover part of the Western Hemisphere deficit. The debtor country receiving "indirect aid" is the main beneficiary of the operation. Likewise, of course, the drawing rights granted by the creditors are not gifts, but simply export surpluses for which the creditors receive dollars. This is not to deny that some of the ERP countries may be making a very valuable contribution to the recovery of their fellow-participants. But this depends primarily, not upon whether they are intra-European creditors or debtors, but upon the amount of net aid that they demand relative to a fair appraisal of their needs.

Transferability of Drawing Rights

To ensure the effective working of the payments plan, an element of flexibility has been added through the limited transferability of drawing rights. The transfer of drawing rights means that the obligation of the creditor who is originally granted the rights is assumed by some other creditor, which implies that the conditional dollar allotment on which the rights are based is taken from the original creditor and given to the new one. Without this device, the plan might easily create intolerable rigidities, and might also fail to protect the legitimate needs of the debtors. At to the danger of rigidity, it is to be noted that the advance estimates of trade balances on which drawing rights and conditional allotments are based cover a one-year period. The original estimates presented by debtors and creditors, respectively, for the year ending June 1949 differed remarkably, and their reconciliation by OEEC necessarily must have been based upon estimates of a type subject to a high margin of error. A really effective clearing mechanism would give relief from rigidity if sufficient reciprocal credit margins or existing balances were available, but there is no information to indicate that they will be. Thus, the plan would put trade into a strait-jacket which would be none the less irksome because it was multilateral. This danger has been overcome, to some extent, by making the drawing rights transferable.

The protection of debtors is another aim sought by injecting flexibility into the plan. The debtor countries have pointed out that their drawing rights will not be worth what they seem unless they are as effective as dollars in securing goods. They feared that if they were placed on a local-currency basis instead of on the dollar basis used under the offshore-purchase system, the creditor countries would gain a considerable bargaining advantage. Upon receiving the "conditional dollars" directly from ECA after setting up the drawing rights, the creditor countries, it was feared, might feel tempted to go slow on supplying desirable goods against the latter, through use of export licenses or by excessive price demands. To make sure that the drawing rights would be as effective as dollars in bargaining for goods, it has therefore been agreed that under certain conditions debtors should be allowed to seek some other creditor who would be willing to grant them drawing rights, on condition of course that the conditional dollar allotment be transferred from the original to the new creditor. The danger for the creditor of losing dollars is likely to make him willing to honor his drawing right obligations as if the debtor were in fact buying with dollars.

The transferability of drawing rights has the general effect of injecting an incentive to export into the payments plan because it offers countries an opportunity to earn extra dollars. Debtors too have this incentive, since (with the exception of Greece) even those countries that are debtors on balance have bilateral surpluses with some trade partners and therefore extend some drawing rights. Without transferability, incentives would be largely lacking.

There are various factors, however, that counsel moderation in the actual operation of the transfer of drawing rights. One is that very sizable changes in dollar allotments to creditors cannot be made without severely disturbing the planning of their imports and eventually the working of their entire economy. The total of ERP dollars relative to recovery needs is so limited that their allocation must be made with the utmost deliberation and cannot be left in any major degree to the free play of intra-European trade balances. A second point is that easy transferability of drawing rights, at the debtor's option, would give the debtor free rein to "shop around" with dollars. This might have the same restrictive effects as dollar trading, already discussed. It might become a motive for cutting imports, particularly on the part of the cerditor from whom drawing rights were being transferred. Finally, it seems clear that a creditor should not be penalized severely for having made too liberal estimates of his prospective surplus, if at the time that aid was being divided this liberality had earned him only moderate concessions in added dollars.

The issue of the transferability of drawing rights caused some delay in the final approval of the plans by OEEC, because of objections by the Britsh. Britain and Belgium are the only countries that have scheduled substantial net surpluses. Britain, as appears in the table, has undertaken to supply a net surplus equivalent to $491 million (of which $282 million is accounted for by net drawing rights, and $209 million by the release of existing sterling balances). A large part of the goods in question will come from the independent sterling area, which may cause Britain's indebtedness to that part of the sterling area to go up. This British undertaking was an important factor in getting the other countries to accept the distribution of aid proposed by OEEC, because it increased the amount of net aid available to them. The British themselves, however have expressed some doubt as to their ability to meet this commitment.

On the other hand, it is believed in some quarters that Belgium will have little trouble in meeting the commitment it has made of $207.5 million, and could even increase its exports if it received payment in dollars. There is, consequently, a chance that drawing rights and conditional dollars may be transferred away from Britain. Belgium, on the other hand, is the creditor most likely to gain from transferability, and has been a warm supporter of the device. The Belgian point of view has also appealed to the traditional American preference for multilateralism, with which concept transferability has come to be identified, although in the context of the payments plan it really should be looked upon as an element simply of flexibility.

A satisfactory compromise appears now to have been found under which a modification of drawing rights may be recommended by OEEC only in three cases: (1) *force majeure;* (2) proof by the debtor that despite every reasonable effort he is unable to use his rights against the original creditor; and (3) proof by the creditor that rights granted by him are no longer needed. In the last case, the drawing rights presumably would be canceled and the net aid to the creditor would go up correspondingly. In all other cases unused drawing rights are to remain in force after the end of the year for which they have been granted. Since decisions affecting drawing rights also affect the allotment of conditional dollars, they will in any case be subject to the approval of ECA.

Usefulness of the Plan

The payments plan may be expected to produce a number of valuable results. It will probably increase the volume of trade and make this trade more effective because it will remove the compulsion to balance accounts bilaterally. Trade can now be made as multilateral as is desired, within reasonable limits. Nevertheless, one may doubt whether the plan offers a lasting solution to the problem of European payments. This is by no means a condemnation of the plan. It will perform an extremely valuable function by breaking the present financial impasse in intra-European trade. Its contribution, in terms of additional goods moved should be at least of the order of half a billion dollars, and indirectly perhaps much more. But the present limitations of the plan clearly mean that continued thought and work must be directed toward strengthening it, as well as toward the development of a more fundamental solution of the intra-European payments problem.

Creely Heads Miss. Vy. Group of IBA

ST. LOUIS, MO. — Walter J. Creeley, Goldman Sachs & Co., has been elected Chairman of the Mississippi Valley Group of the Investment Bankers Association, succeeding Bert. H. Horning, Stifel, Nicolaus & Co. John H. Crago, Smith, Moore & Co., was chosen Vice-Chairman, and Jerome Tegeler, Dempsey-Tegeler & Co., Secretary-Treasurer.

Walter J. Creely

C. Carroll Seward Joins Yarnall & Co.

PHILADELPHIA, PA.—Yarnall & Co., 1528 Walnut Street, members of the New York and Philadelphia Stock Exchanges, announce the association with them of C. Carroll Seward.

Mr. Seward, a U. S. Army Colonel during World War II, served as Chief of the Control Section of the Supply Division.

He has a long association in the securities business and was one of the original founders of the Philadelphia Securities Association, having served as President in 1935. His former associations include Arthur Perry & Co.; Stone & Webster Securities, Inc.; and Wurts, Dulles & Co.

Eastman, Dillon To Admit Bogert, Young

Eastman, Dillon & Co., 15 Broad Street, New York City, members of the New York Stock Exchange and other leading exchanges, will admit H. Lawrence Bogert has been associated with to partnership on Nov. 18. Mr. Bogert has been associated with the firm in the Syndicate Department, and Mr. Young as public utility analyst.

The Foremost Problem of ERP

(Continued from first page)
European Recovery dollars will be wasted.

"Dollar Shortage"

There should have been good reason to regard the European "dollar shortage" with critical eyes. For though the world had always known about frontiers, the multiplicity of currencies, international trade, and destitution as the aftermath of wars, no one had ever heard in the past of such a thing as a "dollar shortage" (or for that matter, a shortage of pounds sterling or Swiss francs).

During the nineteenth century countries like Turkey or China had sometimes stopped their payments to their foreign creditors. But they had never claimed that it was impossible for them to buy "hard" currencies even though they could dispose of as much domestic money as they were expected to collect. Their excuse was rather that they were unable to assemble the taxes they needed in order to pay their creditors. Thereupon the latter frequently collected those taxes themselves and purchased English or French money with the money of their debtors.

There is one fact which should give pause even to the most ardent supporters of the theory that the "dollar scarcity" is something that has overcome the world otherwise than through avoidable human actions: The Latin Americans and the Swedes are also short of dollars. If the "dollar shortage" were the result of the expenses of the late war and the devastation caused by it, the former neutrals should have stronger currencies than the United States. For the latter has spent hundreds of billions of dollars for its war effort and has seriously depleted some of its natural resources. There should then not be "dollar scarcity" in Mexico and Buenos Aires, but rather "peso scarcity" in New York.

Dollar Shortage vs. Destitution

Being short of dollars does not mean the same thing as being poor. The Swedes are well-to-do. The Portuguese, on the other hand, have a far lower living standard than the Swedes, but they appear to have all the dollars they need. The people of Britain or Belgium are not at present undernourished. We would hardly think of subsidizing them, otherwise than possibly through loans, were they not "short of dollars."

There is, however, one characteristic which all the "dollar shortage" countries have in common. Every one of them operates exchange controls.

Now there are two theories as regards the meaning of the "dollar shortage." Either the "dollar shortage" is the cause why exchange controls are ubiquitous; or the exchange controls are the cause of the world-wide dollar shortage. Of these two theories only one can be correct.

Intranational vs. International Trade

Monetary problems are admittedly technical and complicated. They are so particularly when several currencies are involved. Small wonder that a veritable mythology has grown up in respect of the difficulties which may supposedly arise when payments have to be made from one country to another.

To make this point clear let us take a look at India. India, like other countries, has sections that are weaithier than other sections. It is assumed that the Hindus are on the average better off than the Mohammedans. Yet the latter did not find it difficult to buy such goods and services from the Hindus as they could pay for as long as the whole country was ruled by Britain and the sole currency was the Indian rupee. The people of Mohammedan Karachi made their payments to the people of Hindu Bombay in exactly the same way the people of Mississippi effectuate their payments in the state of New York.

When the British gave up India the country split into Hindustan and Pakistan. Let us assume that each of these new states would have introduced its own gold or silver currency. In that case remittances from one Indian country to the other would have been almost as easy as before. In cases where there was no cheaper way of effectuating payments gold or silver would have been sent across the border and melted down by the recipients.

Nor would any particular difficulties arise if Hindustan and Pakistan should each establish their own paper currencies. The Parkistan rupee may be worth more or less than the Hindustan rupee; yet as long as the two currencies will be freely convertible any amount of the money of either section of what was formerly British India will be available to the people of the other section. The people of Pakistan used to spend a part of their money for goods and services from Hindustan. Now they spend the same money to purchase money with which to purchase goods and services in Hindustan. Debtors in Karachi formerly directed their banks to make rupee payments in Bombay. Now they must take two steps: first purchase Hindustan rupees and then effectuate their payments. But that is all there is to it. There is no basic difference.

But if either of the two sovereign Indian nations should introduce exchange controls a different situation is likely to arise. Let us assume that the Pakistan rupee is being inflated and that the Pakistan government does not want its citizens to know what is being done and is furthermore reluctant to balance its budget and to tighten the money supply. It can then, if it so desires, continue to sell Hindustan rupees, dollars and other currencies at their old prices. But soon even more people will try to exchange their Pakistan rupees for better monies. Only a few of these will succeed. The greater part of the applicants for foreign monies will be turned away by the Pakistan government because the country will now be "short" of all currencies but its own.

If the various Western European nations had the same currency the intra-European trade problem would disappear immediately. There are, of course, tremendous political obstacles in the way of unification of the European currencies. It cannot be achieved in the foreseeable future. But that does not alter the fact that if France, Belgium, Holland and their neighbors would have a common currency they would need fewer dollars; and that we are, therefore, paying for the multiplicity of sovereign states in Europe which, though a historical fact, is from the economic point of view a misfortune of the first order.

Reasons For Exchange Controls

There was no "dollar shortage" after the First World War. Yet there was great destitution. There was also a good deal of inflation, for instance, in France and Italy, not to mention Germany, Austria and Poland where the national currencies lost nearly all their values. But at that time the European nations imposed exchange controls only on a minor scale, if at all. Basically, they kept their currencies convertible.

The system that prevails at present has aptly been named "repressed inflation." There is no free convertibility, e.g. of French francs into British pounds or Dutch guilders, firstly because the various governments do not want their citizens to know that their currencies have lost a great part of their former values. Since they are afraid that the people might get panicky, they stick to such quotations of foreign currencies as were valid at one time in the past. As a result they can allot foreign money only to a small percentage of the people who apply for it. Secondly, exchange controls make it possible to keep interest rates at a manipulated low level; and since the depression of the 1930's the belief in "easy money" has become well-nigh universal. Thirdly, most European governments believe in the nationalization of certain industries and in exceedingly high taxes on big incomes and fortunes; and they do not want the free convertibility of their currencies because it would permit those capitalists who are willing and able to transfer their capital elsewhere, to do so. Exchange controls block the transfer of capital.

Consequences of Exchange Controls

The ERP has several objectives. Some of these are difficult to achieve and others cannot be achieved at all as long as the beneficiaries of the Marshall Plan operate exchange controls.

Its first objective is relief. We shall see that the need for relief is higher under the system of exchange controls than it would be if the European currencies were convertible. Its second objective is general reconstruction. Exchange controls make it impossible to know along which lines a rational reconstruction policy should proceed. Its third objective is the reintegration of the European economies into the world economy. But exchange controls work in the opposite direction. They tend to make each national economy to a major extent self-sufficient and prevent the achievement of an internationally valid price level.

We shall now demonstrate these points in detail.

(1) Exchange controls are always accompanied by domestic price controls and consequently by black markets. Certain goods, such as food, are withheld from the legitimate markets and sometimes even from the black markets. If the French farmers could buy more goods with the money which they are allowed to ask for their products they would sell more food to the cities, the average Frenchman would be better fed and the demand for food from overseas would not be as large as it is.

(2) As another result of their exchange controls trade among the European nations has steadily fallen off. The Belgians find that exports to France do them no good if they need not French but British goods and cannot convert French francs into pounds sterling. Large stocks of steel, cement and machine tools have piled up in Belgium. The Dutch have been unable to sell their fresh vegetables against any of the foreign currencies which they can use.

Under the system of exchange controls each country is more or less cut off from the rest of the world. Its economy may work in full gear and yet there may be a growing shortage of all the goods that have to be imported. This explains why we may read in the same issue of a newspaper first that most European countries are producing more than in 1938 and second that in the same countries the population is still under-fed and that the people feel no better off than they did three years ago.

(3) Exchange controls make it almost impossible to form a correct picture of the potentialities and prospects of the economies which use them. Who can tell what Western Europe is likely to produce, export or import once its currency barriers have been removed? Since the mechanism of the free market does not at present operate in the case of international transactions the paradoxical situation has arisen that the United States, of all countries, can do no other than to "plan" the recovery of Europe. The American people would like nothing better than to see Western Europe return to free enterprise. Yet it is up to the ECA to determine which foreign goods each European nation shall receive, how much of them it shall receive, which recovery projects are deemed worthy of support and which shall be rejected. Even if planning as such were our aim, this type of planning would have little in its favor, since it leaves the execution of every plan to foreign nations and their frequently changing governments.

(4) As long as the European currencies are inconvertible, our support does not by any means bolster those European industries which earn hard currencies in preference to those which do not. If the ECA would try to sponsor dollar earning projects in preference to other projects it would probably run into a furious opposition on the part of the European nations. The ECA could for instance insist that slum clearing which yields no foreign money should give precedence to the extension and redecoration of luxury hotels in Italy and on the French Riviera; or that the famous festivals at Salzburg or Bayreuth draw American tourists whereas only few French books or recent paintings are sold against hard currencies. The *haute couture* in France, and the production of optical instruments in Germany might be encouraged at the expense of the European automobile industry which will probably never equal the efficiency of its American counterpart.

But such ventures would be far fetched and unpopular. The beneficiaries of the Marshall Plan cannot be effectively reintegrated into the international economy as long as exchange controls persist.

(5) A country that wants to change its "unfavorable" into a "favorable" balance of payments has the choice between two ways. It may either increase its exports or it may decrease its imports or it may do both.

Cuts in imports are easier to achieve than additional exports. The latter presuppose willing buyers in other countries. Importers, tourists and investors must be lured. They cannot be compelled to part with their hard currencies. But imports can be cut down by unilateral action. Tariffs, import quotas and exchange restrictions are instruments which never fail.

Exchange restrictions make it profitable to produce goods at home, which would otherwise be imported. They put the countries which use them on the way toward self-sufficiency. Vested interests grow up which clamor for tariff protection even after the exchange controls have been lifted. Consequently, we may easily have less international trade than there was before the war for quite some time to come.

It is the policy of the United States that the world should make full use of the benefits of the international division of labor and natural opportunities. This policy has led to our sponsorship of the International Trade Organization. But the world is moving in the opposite direction and as long as the import restricting policies of the beneficiaries of the ERP cut down their demand for dollars, there is nothing ECA can do to halt this unfortunate trend.

Its implications have apparently not been fully appreciated. Suggestions have been heard that the Europeans should produce more newsprint instead of importing it from Canada where it is cheaper. And in spite of the fact that French agriculture has held its own against foreign competition in the past only with the help of exceedingly high tariffs, the demands of the French farmers for support have found strong sympathies with the ECA.

In October, 1948, the Organization for European Economic Cooperation announced that Europe will need $2 billion less in 1949 than in 1948. This reduction is partly the result of the trend toward self-sufficiency and partly of a shift of both imports and exports away from the hard currency countries. (But ECA dollars will be assigned to certain countries for the purpose of reviving trade between the European nations and reducing their demand for American goods!)

(6) Europe cannot recover through American help alone. The European nations must cooperate with each other to a much larger extent than they have been willing to do in the past. This is the policy of the ERP. It is also the policy of Governor Thomas E. Dewey who said in a speech made Sept. 30: "This program of European aid must . . . not be just relief. We shall use it as the means of pushing, prodding and encouraging the nations of Western Europe toward the goal of European union." In another speech he said: "The amount of aid we give should be specifically related to the progress made toward the goal of the unity of a free Europe."

Political Union Far Off

The political union of Western Europe is a goal that cannot possibly be achieved in the near future unless the European Continent is subjected by a victorious aggressor—and it is American policy to prevent this from happening. "Economic cooperation," though a somewhat vague concept, makes more sense. It is usually interpreted in the terms of customs unions to be established between various European nations. Even before the war had ended "Benelux," the customs union between Belgium, The Netherlands and Luxembourg, was under way. Recently, negotiations for a similar union between France and Italy have been successfully concluded.

Now "Benelux," though widely advertised, actually amounts to very little. Goods do not by any means move freely between the several countries of the union. Belgium and The Netherlands each have their exchange controls and use them against each other the same way they use them against outsiders. Time was when tariffs were the main obstacle to international trade. Exchange controls are infinitely worse.

We should not insist on European customs unions. The objective of our "pushing, prodding and encouraging" should be a Europe in which each government will decide by itself that it will not in the future hamper transactions between its own businessmen and those of other countries. All the "cooperation" we need is cooperation of the type that prevailed when there was an international gold standard. The United States, Britain, France and other countries did not establish the gold standard by international treaties. Each country did it for itself: but an economy in which everyone cooperated with everyone else was the result.

The one step we should insist upon is that exchange controls be abolished. And we should make our help under the Marshall Plan conditional on this being done.

Customs unions can only be concluded when several countries are willing to cooperate. But every country can make its currency convertible by unilateral action.

(7) High interest rates or other-

wise tight money policies have the effect that prices level off. A country that balances its budget and whose taxes leave adequate profits at the disposal of savers and investors attracts foreign capital. But where exchange controls prevail interest rates are kept at an artificially low level, inflationary policies are routine and prices are far more frequently on the upgrade than on the downgrade. As to the foreign investors they naturally shun a country that makes it difficult or impossible for them to withdraw their money when they want it back. Far from establishing a new economic equilibrium, exchange controls aggravate the prevailing disequilibrium of which the "dollar scarcity" is the principal symptom.

It is obvious that the goods that have been allotted by ECA since April, 1948, have helped to raise the standard of living in the beneficiary countries and have also had a favorable psychological effect. It could not be otherwise since everyone is better off with outside help than without it. It follows that the ERP is achieving its purpose as a relief organization. But the reintegration of Western Europe into the world economy is a different matter. The question whether the present policy of the ECA will put the beneficiary nations on their own feet by 1952 and liberate them from their "dollar shortage" troubles must be answered in the negative. If exchange controls are allowed to continue the "dollar shortage" may be expected to grow from bad to worse.

(8) In her book "The West at Bay" Barbara Ward has recently contended that, far from being the result of the imposition of exchange controls, the "dollar shortage" indicates the shift of Europe's former economic power toward the United States and that it may be expected to persist for many years to come. She has not been the first to hold this opinion. It is widely shared in Europe, in Latin America and, curious to relate, in the United States.

Now if the "dollar scarcity" should really be the result of causes which are beyond human control it may easily last for another four or ten or fifty years. Whatever ECA may do and regardless of the generosity with which we may pour money into Europe, the dollar scarcity problem will not in that case be solved by the ERP. The ECA might then as well transform itself into a simple relief organization or fold up altogether since its more ambitious objectives would be doomed.

Fortunately, the "dollar shortage" is not the result of circumstances which are beyond human control. Rather, it is one of those instances where we ourselves first stir up the dust and then complain because we cannot see.

Objections

The suggestion that the beneficiaries of the ERP should abolish their exchange controls is met by various objections. British political leaders and writers have been particularly eager to declare that the return to the free convertibility of the pound sterling and other currencies would do more harm than good.

The emphasis is on the dreaded dangers of an extensive flight of capital from Europe. It is feared that so many Europeans will be in the market for dollars that the value of the European currencies may go down to zero.

These apprehensions are much exaggerated. To begin with, the term "capital flight" is quite misleading. It conveys the concept of an unilateral movement as when a person moves his body from one location to another. Now this does happen sometimes with capital. But it happens rarely. There are few individuals left who own gold and can remove it to another country; and few are the manufacturers and exporters who can afford to leave the countervalue of exported goods in other countries — particularly since immigration restrictions make it difficult for people to choose the country where they would prefer to live.

What we call "capital flight" is, as a rule, an **exchange** of goods and not a unilateral transaction. Frenchmen may offer their francs against dollars, and certain Americans may be willing to take French francs provided they get them cheap. The result of capital flight from France will be firstly that Frenchmen will own dollars or other assets in the United States; secondly that Americans will own francs or other assets in France; and thirdly that the value of the franc will have declined as measured in dollars.

But governments have it in their power to prevent the depreciation of currencies which they control. They need only make the national money scarce. Scarce money always has a value. It is often forgotten that most people need domestic money to pay for the necessities of life and carry on their business. They will attempt to get rid of money which is in excessive supply. But when money is scarce only the very richest can consider the transfer of capital to foreign countries. There will rather be the opposite trend: Capital that has been hidden elsewhere will return. This is not an abstract theory. It has happened several times in France and other countries in the years between the two wars. And quite recently a veritable "miracle" was witnessed in ruined Germany when the old worthless **Reichsmark** was replaced by the new **Deutsche Mark** which was hard to obtain because its volume was restricted. Goods which had not been obtainable by legitimate means for years were immediately offered for sale. The new currency was generally acceptable for no other reason than that it was in scarce supply.

Program

The beneficiaries of the ERP should be requested at the earliest possible moment to abolish their exchange controls and make their currencies convertible. If the ECA should decide to arrange the allotment of dollars among the various European nations in the future itself (after having turned this task over for the time being to the reluctant beneficiaries) the withholding of funds could become an important instrument in the fight against exchange controls. Only those nations should be supported which take steps to get rid of them.

We should aim at convertible currencies. Most of the countries involved will have to devaluate. But devaluation should not by any means be followed immediately by a new stabilization on a lower level. Rather, the various currencies should fluctuate up and down until they have found a level that promises to last. Premature stabilization will only lead to new exchange controls and recurring devaluations. There can, of course, be no doubt that stable values are preferable to fluctuating quotations. However, the choice is not between stable or unstable convertible currencies but rather between convertibility plus instability on the one hand and the fake stability of the exchange control system on the other. It is a matter of the lesser evil.

The Bretton Woods Agreements put obstacles in the way of devaluation. Furthermore they make it obligatory to the participating nations in case they do devaluate to stabilize their currencies immediately on the newly chosen level. These agreements were made at a time when postwar conditions were expected to be far more "normal" than they have actually turned out to be. The Bretton Woods Agreements should, therefore, be changed or if this cannot be done they should be overriden.

The ERP Under Convertible Currencies

Once the European currencies are mutually convertible Europe will need fewer American goods. Within the various countries food and other commodities will no longer be hidden but offered for sale. Intra-European trade will flow freely. Relief will still be one of ECA's principal tasks. But it will not call for such large funds as heretofore.

After relief has been taken care of the second objective of the ERP is **reconstruction**. As long as exchange controls persist it is impossible to know which investments are the most promising in the long run. One thing is certain: The beneficiaries of the Marshall Plan will not be able to continue their low interest rates indefinitely. The convertibility of their currencies will compel them to be more realistic. And it will then become obvious that certain American production methods which have made this country great are not necessarily the best methods for impoverished Europe.

In the United States there is plenty of capital. American wages are the highest in the world. Contrariwise Western Europe lacks capital but there is superabundance of labor. After the First World War the Germans took over many American ideas and procedures in spite of a rate of interest which was much higher in Germany than it was at that time in the United States. There was great enthusiasm for "rationalization." When the depression of the 1930's hit Germany it became obvious that the uncritical transplantation of American procedures into a widely differing environment had been a mistake that cost the country dearly.

The restitution of normal interest rates in the beneficiary countries of ERP and a measure of economic skepticism should make it possible for ECA to avoid mistakes in the future which are bound to occur under the present cloudy conditions.

The abolition of exchange controls will also go far in solving another problem that is giving a headache to the American people. The reference is to European socialism. Some months ago a prominent member of the British Labour Cabinet, Mr. Hugh Dalton, could declare that everyone of the beneficiary countries of the Marshall Plan is in a way socialistic. He was not far from the truth. The result is that through ERP the United States is subsidizing socialism in Europe.

That will, however, no longer be the case once the Western European currencies are convertible. Only their exchange controls make it possible for Britain, France and other countries to keep up their easy money policies and to indulge at the same time in socialist experiments. As soon as exchange controls are lifted it will become obvious that the nationalization of significant industries (followed, as in France, by very inadequate compensation for the dispossessed stockholders) and the expropriation of major fortunes by high taxes brings about the flight of capital. The socialist governments will then either be compelled to raise the rate of interest and otherwise curtail the money supply for the purpose of preventing the "flight" of capital, which will have certain effects on prices and employment which they may find hard to survive; or they will have to go slow on their socialist experiments and make it more attractive for their domestic capital to stay at home. It is likely that they will follow the second course and that free enterprise will once more be given leeway.

It is no coincidence that the present British government has more than once declared that it intends to keep its exchange controls for many years to come. It is aware of the fact that free convertibility of sterling will make the continuance of its present economic policies impossible.

The **reintegration** of the economy of Western Europe into the world economy is the third objective of the ERP. It may be expected to take place almost automatically as soon as exchange controls have been abolished.

Under the convertibility of currencies those foreign goods and services which Europe needs most will fetch good prices. It will, therefore, be profitable to invest capital in enterprises which earn foreign currencies. The export business and tourism will flourish all over West Europe. The trend toward self-sufficiency will disappear. Where capital will be needed for the expansion of dollar earning enterprises ECA may be willing to supply it or it may give certain guaranties to American investors.

After having abolished their exchange controls and after having taken steps to balance their budgets and tighten their money supply the European governments will probably find it desirable that the fluctuations of the various currencies be kept within narrow limits, even though the time for a definite stabilization may not yet be at hand. The ECA will be able to support them by providing money for stabilization funds. It may also help them otherwise during the first trying months of readjustment.

American Policy

The American people are sacrificing a not inconsiderable part of their national income for the purpose of helping Europe. They are not asking for much if they expect the European nations to do their part by sacrificing their monetary prejudices.

Of the beneficiaries of the Marshall Plan some may decline to make their currencies convertible. To them our government should say in the language of the Middle Ages: *Dixi et salvavi animam meam:* I have spoken and saved my soul. America has offered her support but her offer was refused.

Those countries, however, that make their currencies convertible will not only have the advantage of American support. They will also profit from the fact that in monetary matters as elsewhere honesty is the best policy anyway.

Railroad Securities

All sections of the security markets reacted violently to the unexpected results of last week's elections. The initial sharp decline on Wednesday was hardly surprising. The market has been jittery for months and has indicated its extreme vulnerability to shock. That the decline was resumed, and at an accelerated pace on Friday, after the initial surprise had worn off is not so easily explained. Apparently the answer lies in the willingness of speculators and investors under present conditions to believe almost anything.

Almost immediately following the elections the more rabid anti-business elements in the Administration got to work. Statements to the press flowed forth. Punitive excess profits tax schemes were dusted off. Strict price controls were to be imposed, but naturally, with the new mandate from the people, no wage ceilings would be set. The Taft-Hartley labor act would be repealed and replaced by new labor legislation unfavorable to industry. Little or no consideration was given to the fact that there will still be a substantial conservative element in the new Congress and that this conservative element will control many of the most important committees.

As is usual under conditions of indiscriminate optimism or pessimism, the best of stocks suffered along with the worst. The market value of railroad shares listed on the New York Stock Exchange was pared by hundreds of millions of dollars. Santa Fe was down more than 18 points from its recent high and Kansas City Southern common, which was being pushed enthusiastically to successive new highs just a short time ago, fell almost ten points, or 19.7%. Yet the basic status of neither of these roads had been changed in that short period. More speculative issues such as North Western; Gulf, Mobile & Ohio; St. Louis-San Francisco, etc., were down even more drastically percentagewise. The income bond market and second grade fixed interest bonds were also hard hit all along the line.

Basically it is the opinion of many railroad analysts that there is no justification for bearishness toward carrier shares merely on the basis of the election returns. As a matter of fact, there is considerable feeling that even if the worst fears were realized the railroads would be at least relatively in a far better position than industry generally. Despite one early post-election statement it is hardly likely that any excess profits tax would be imposed based entirely on earnings for a period such as 1935-1939 without any weight being given to the return on capital investment. A tax based entirely, or even in part, on an invested capital base would be far less onerous to railroads than to most other major industries.

The railroads would hardly suffer from imposition of controls that stabilized, or even reduced, their fuel and material costs. This is particularly true inasmuch as it is hardly conceivable that price controls would be imposed without at least some restraint on wage rises. Allocation of scarce materials could hardly be a threat to the carriers. For instance, if a large volume of steel is to be produced it matters little to the railroads whether this steel is allocated to the automobile companies or to some other industry. In either event they will get the freight movement. In most respects in which the election has frightened security holders it would appear that the railroads are at least relatively less vulnerable than other industries.

So far as continuation of a high volume of traffic is concerned the near and intermediate term outlook has, if anything, been improved by the election. It had generally been expected that a new Republican administration might encourage a mild deflationary recession almost immediately in order to lessen the chances of a more severe recession toward the end of the term. No such steps are likely now. In fact, if any signs of a recession were to develop it is generally anticipated that heavy government expenditures would be instituted almost immediately. With the traffic prospects so bright, continuation of a high level of earnings appears almost inevitable.

The Money Mill and Prices

(Continued from page 3)

because we have manufactured too many of them.

Not Theory—Proven by History

That prices are not going up, but the value of the dollar going down, to many of us seems abstract and hard to comprehend. Those who do not understand inflation raise their eyebrows and incredulously remark: "Oh! Yes! A very interesting theory." Ye Gods and little fishes! Does it take longer than 2,000 years to establish a fact? Financial history going back hundreds of years before the Christian Era, and all the way down to present-day world-wide inflation, has fully proven that it is not theory, but cold, hard, painful fact. This natural law was understood by the Greeks in the ninth century B. C. In our own early history it was recognized when tobacco was used for money in Virginia in 1619 and efforts were made to restrict the amount grown in order to prevent depreciation of "tobacco money." Is civilization getting dumber and dumber about money?

Throughout the ages kings, dictators rulers and presidents have delighted in monkeying with currencies when conditions arose from which they wished to escape —heavy debts, expense of wars, cost of occupation and avoidance of taxation, etc. The results have always been the same. The historical inflation cycle begins with "escape" and moves through a well defined general pattern until it ends up with depreciation, devaluation or repudiation.

Inflation History Repeats Again and Again

Previous to the Christian Era inflation was brought about by changing the value of coins or metals, by debasing, clipping or restamping coins. Around 400 B. C., finding his kingdom heavily in debt, King Dionysius compelled his subjects under penalty of death, to turn in their coins to his government. He then restamped them, doubling their face value, returning the same amount of face value to their owners. The half of the number of coins turned it he kept, with which to pay off his debts. Roosevelt did practically the same thing in this country when he made people turn in their gold and then revalued it in 1933-1934.

China was the first country to prove what too much paper money would do to prices. She is credited with inventing felted paper about 177 B. C. Here was the ideal thing to use in inflating a currency. She fathered the modern methods of paper money inflation when in 1260-1263 Kublai-Khan issued paper money, using such notes in those parts of China which his troops had subdued. Such notes proved to be "Too much money" and their purchasing power fell. Several issues were to put and and depreciation continued with the inevitable consequence of rising prices and ultimately worthless currency. Today China is going through the same wringer and is trying to shrink her currency down from $12,000,000 Chinese dollars to one U. S. dollar, to a ratio of four-to-one. In the meantime, it cost $55,000 in postage to send an air-mail letter to the U. S., a lunch was $1,000,000 and Lucky Strike cigarettes cost over $200,000.

France has several times proven the inevitable laws of inflation and what they do to prices, writing the results in the blood, sweat and tears of her people. She was not cured by her ruinous experience in 1716-1720 in John Law's expedition into paper money inflation, but, in 1789, again plunged into the realm of fiduciary money when she issued her assignats. The explosive stage was reached in 1793 when all efforts to support her currency failed and prices soared to fantastic heights. A pound of bread sold at the equivalent of $9, a bushel of potatoes at $40 and a pound of sugar at $12.50. In 1796, her currency became worthless. In efforts to maintain prices fixed by law many black-marketeers were beheaded, giving rise to the French saying: "The guillotine follows the paper money press." France found herself between the upper and nether millstones of inflation after World War I when her franc fell from 19 cents to two cents with the consequent soaring of prices. Now this same France is again caught in the inflation wringer with her political freedom at stake through rising prices.

Law of Supply and Demand Cannot Be Violated

Germany proved the law of supply and demand in money cannot be safely violated in her inflation orgy of 1913-1923, at the end of which her currency was exchanged on the basis of one new mark for one trillion of the old. Meanwhile, her index of living costs climbed from 100 in 1913 to 75,570,000,000,000. At the same time her index of stocks on the Bourse soared from one to 268,-900,000,000.

That this same law—the natural law that "Too much money" will always mark up the figures on the price tags of every thing people eat and wear; that this law is inevitable in its operation, unavoidable in its ultimate results and pitiless in its execution, is being proven over the greater part of the world today. It seems that kings, dictators and political parties just will not learn from history, for inflation is almost world-wide at the present time. With the exception of a few small countries the entire globe is in the throes of currency depreciation. Russia put her people through the wringer some months ago; in Japan, in hospitals, babies have been allowed to starve to death so that others could have their ration cards, and a judge who refused to patronize the black-markets starved to death; Hungary wiped out her old pengo and issued a new currency fixing the death sentence for any one who would offer the new money at less than official figures; in Greece a pair of shoes cost the equivalent of $200,000 at prewar rates; in Brazil and Mexico prices are following the cow in jumping over the moon. With the British pound selling in the free market around $2.85-$2.95, against the official rate of $4.03, rumors persist that she will be compelled to revalue at no far distant date, despite repeated official denials. So it goes the world over. There is scarcely a nation outside of a few small ones, that the hot feverish hand of inflation has not touched.

Present U. S. Prices Inevitable in Early 'Thirties

The inflation which is now romping along in this country started in 1932. Oh! yes! We have had other experiences with this Frankenstein monster in our national history! In one of them a pair of shoes cost $5,000 and creditors hid from their debtors to avoid being paid off in depreciating currency. When our money became practically worthless, barber shops were papered with it and sailors returning from trips and being paid off, made suits of clothes of such money and paraded the streets in derision.

In the early 'Thirties inflation was proudly called "reflation" by the New Dealers and it was consciously fostered and built up for the avowed purpose of raising prices. They raised them all right! Now, when we are paying the piper for the unsound and absurd monetary policies started in 1933-1934 there is a great hue and cry about high prices. Meanwhile, the economic-illiterate politicos in Washington put on a big "Who Dunit Show" and point accuring fingers at every thing and everybody but their own reflection in the mirror. Today's prices were made inevitable in the period from 1933 to 1939. The war did not cause our inflation. Before it began we already had more definite, actual, measurable inflation than we had experienced in our history since our currency was wiped out. While World War II added to our inflation it did not cause it.

Dollar-a-pound steak, 95-cent eggs and $12,000 for a $4,000 house were just as certain eventually in the 'Thirties as that the sun would come up over the eastern horizon on Christmas morning, 1948. The natural law of supply and demand in money just cannot be fooled. Results can be deferred, they can be held back and temporarily abrogated, but eventually this natural law makes itself felt irresistibly, unavoidably and positively.

Soft Versus Hard Money

Paper money, the kind we have too much of today, is often characterized as soft money. This is because in itself paper money has no value. When it is a warehouse receipt for so much gold and you can go to your bank and get the actual metal, of course it passes for the same value as gold. While the United States is on a gold bullion standard as far as foreign nations are concerned, domestically we do not have an effective gold standard. Our Federal Reserve notes, the ones bearing the green seals in common use, are supposed to have a backing of 25% in gold and 75% in government bonds. But none of us can get the gold. We are merely floating on a vast sea of paper money!

It should be borne in mind that money was invented to take the place of barter. It is not practical for the farmer to bring into the city three bushels of wheat and trade them at his shoe shop for a pair of shoes or, for the gold miner in Alaska to bring an ounce of gold to New York to trade for a radio. Money was invented to avoid such trades. The miner in Alaska sells his ounce of gold and accepts 35 paper dollars for it. He then sends the $35 to New York to pay for the radio and it is shipped to him. Thus on both sides of the trade the $35 represented commodities, or goods, in other words. The money was used merely to make the trade easy. In effect, the miner traded his ounce of gold for the radio. Hence, money!

When money is made out of gold, silver, copper, or even zinc, it has a value in itself. The metal itself has a value even if not stamped by some government insignia. In such money one is actually offering small pieces of a commodity in exchange for the merchandise one is buying. Of course, in nearly all instances, with the exception of gold coin, the amount stamped on the face of the coin is greater than the value of the piece of metal. When it is possible, however, to pay in gold coin, one actually trades a piece of a commodity for whatever one is buying. Actually, such a transaction is barter as one commodity is exchanged for another. This is hard money! For the past 6,000 years gold has been the most sought after commodity. For its possession every crime on the calendar has been committed thousands of times. It is almost indestructible, its supply cannot be either diminished or greatly enlarged quickly, hence the world supply of gold is relatively stable. For such reasons it is the most desired commodity for use as money or, in barter, if one wishes to put it that way.

Gold Exchange Standard

For many years before the New Deal era you could take any $5 bill to your bank and get a small piece of gold for it—the actual commodity—a $5 gold piece. In others words, our paper money was exchangeable for the real commodity—gold worth $20.67 an ounce. The paper money had no value, but because you knew you could get five dollars in gold at any time for five $1 bills, you were willing to take the bills. Your grocer would take your dollar bill and give you three pounds of butter and a dime in change. Now, however, neither you nor your grocer can get gold for your bills. All the gold was taken away from the people in this country in 1933 at a price of $20.67 per ounce. After you had turned it in to the U. S. Treasurer, it was arbitrarily valued at $35 an ounce. Because Washington has manufactured too many paper dollars of various kinds, your grocer now wants you to hand him a dollar bill for a pound of butter and you will get but little change back. This is the effect of too much money, is the effect of inflation.

One Cannot Eat Ceiling Prices

A theory, currently in favor with certain class of economists and politicians and which financial history throughout the ages has proven wholly false, is that prices can be controlled by law in times of peace. It just does not work. It did not work under OPA in this country and history does not reveal any large country which has had as much definite inflation itself as has been created in the United States, in which price-fixing has worked except under war psychology.

For thousands of years efforts to fix prices by law have resulted in the same way, the creation of black markets which were the real market and in the markets in which prices were fixed, becoming wholly fictitious. Despite the intense propaganda put out in the days of the OPA and the multitudinous instances cited to show that food prices took a big jump after the expiration of the law, they just do not square with actualities. Every well-informed person knows that much of the food in OPA days had to be bought "under the counter." In the case of meat, it was reliably estimated that 85% of the supply came through the black market. Naturally, no one kept a record of such prices, no indices were compiled, neither were charts drawn to show what people were actually paying to eat. Ceiling prices, however, proved wholly devoid of nourishment. One just could not eat them. If one wanted butter it was necessary to pay from 96 cents to $1 per pound for it; steak was from $1 to $1.25 and sugar was 50 cents a pound. After the expiration, possibly it would be better to use the word "extermination" of the OPA, prices took a decided drop from such figures. Comparisons between fallacious markets under ceiling prices and actual markets after the law expired are wholly without value.

Black Markets—Death Penalty

For thousands of years in periods of inflation efforts have been made to stop black markets by decreeing every known penalty under the sun, including that of death. The results have always been the same in peace time—failure. If one does not eat, he dies. That is certain. If he eats, he buys in the black markets. Hence the odds favor the man who avoids certain death and takes the chance of execution by his government. It's impractical for any government to execute all of its nationals.

In the French assignat inflation the guillotine was so overworked that the threat of death became a matter of ridicule. The historian von Sybel says: "In other circles no one was received who had not lost a relative by the guillotine; the fashionable ball dress imitated the cropped hair and the turned-back collar of those who were led to execution and the gentlemen challenged their partners to the dance with a peculiar nod, intended to remind them of the fall of the severed head."

Recently the death sentence was decreed in Hungary and in Shanghai for any one dealing in currency in the black market. The threat of the supreme penalty seems to mark that stage of inflation when a government has reached the point of desperation. However, it just does not work, and those politicos who advocate price-fixing by law either do not know financial history themselves, or think so many of the people are unfamiliar with such history that they can keep on kidding them.

Inflation an Anesthetic

One of the most peculiar phenomenon which accompanies inflation is that it acts as chloroform in putting people to sleep as far as realizing what is happening is concerned. This is so glaringly and alarmingly apparent here in our own country at the present time. It is probably a safe estimate that 98% of our people do not realize that the real trouble is that our dollar is going down in place of prices going up. In writing about Germany's inflation orgy of 1913-1923, Dr. Hjalmar Schacht says: "What the public at large and all but a very few of the country's economic leaders failed adequately to appreciate was the fact that inflation on a heavy scale was the concomitant of the whole of this form of war finance." When the German people finally awakened to the fact that it was their mark that was going down, the flight from their currency—the effort to get rid of their money for anything of tangible value, became intense. The lack of appreciation of what is happening in periods of inflation apparently must be attributed to a lack of knowledge of the true functions of money and the ease with which it can be manipulated by administrations seeking their own selfish ends.

Inflation—Political Dilemma

The inflation now romping along in this country presented a hard nut to crack for both the Republican and Democratic parties in the Presidential campaign. While it is manifestly unfair to blame the Democratic party for all the sins and ignorance of the New Deal in the 'Thirties, the era of absurdities, nevertheless the party and the New Deal are so closely associated in the minds of the people that President Truman did not dare to tell the truth about the present inflation orgy. It cannot be emphasized too strongly that our present inflation was brought about, consciously, purposely and determinedly for the avowed purpose of raising prices.

On the other side of the fence inflation is such a hot subject that Governor Dewey took it up in but two of his speeches early in his campaign. Both parties used white kid gloves when courting the farm and labor voters. They dared not alienate the labor vote by placing emphasis on increased wage demands as a factor in accelerating the inflationary spiral. Both Democrats and Republicans are tarred with the same stick and could not acknowledge that price supports for farm commodities is an escalator on which prices progressively ride upward. These factors, while currently important, are merely the effects of inflation and have nothing whatever to do with inflation itself. The remedies for inflation itself can be applied only by the President, the Secretary of the Treasury and the Congress.

Search for a Scapegoat

For the past year President Truman has been frantically searching for a scapegoat on which to place the blame for high prices, aiming his heavy guns at the Eightieth Congress for not passing unworkable legislation. He is currently making practically no attempt to stop inflation itself, but occupies himself with shadow-boxing with the effects of inflation. In place of attacking the roots of the poison ivy vine, he contents himself with clipping off the ends of the branches. Such methods are dangerous to business and the prosperity of the country as was so fully proven in the inept handling of credit in the fall of 1919.

In his hunt for a scapegoat President Truman points out big business as the culprit. He preaches holding down profits, saying nothing about present profits being recorded in his party's phony dollars—such dollars presenting an entirely erroneous profit-picture. He starts suits against corporations for restraint of trade; he brings action against the country's sources of raising new capital and he advocates new restraints on free enterprise.

Cure Still Possible

If the new Democratic Administration and Congress would repudiate New Deal financial policies, would take the people of the country into their confidence and courageously tell them that unsound monetary and fiscal policies followed in the past had destroyed two-thirds of the value of the dollar, and would attack the problem intelligently, carefully retracing the steps which created our inflation, it is possible the historic cycle might be stopped short of completion. As yet, they have revealed neither sufficient knowledge of the subject nor the courage to attack it. Some wishful thinkers want to stabilize prices, money, wages, etc., on a new high level. Such thinking arises either from a superficial analysis of inflation or acceptance of the now obsolete popular definition of it. The inflation which is now rampant throughout the country was brought about by such powerful forces that it will require all the knowledge and courage available in our nation's capitol to prevent the cycle from running its full course.

Pandora's Inflation Box

Meanwhile, union labor points an accusing finger at big business, saying: "You're to blame. You did it." Big business comes back with: "No! You're the culprit for demanding progressively higher wages." Both accuse the farmer of wanting to squeeze out the very last penny he can while the getting is good.

The truth about the whole matter is that the only thing that any of them did to bring on inflation itself was to vote in the New Deal party which opened the Pandora Box, liberating the greatest forces of inflation the world has ever witnessed.

Bond Club of N. Y. to Hear

The Hon. William H. Draper, Jr., Under Secretary of the Army, will be guest of honor and speaker at a luncheon meeting of the Bond Club of New York to be held at The Bankers Club on Monday, Nov. 22. His subject will be "Germany Today."

The State of Trade and Industry

(Continued from page 5)

more than window dressing, since any action on that controversy will have to await the next Congress. It will have members in greater number who would be opposed to quickly disposing of the pricing question. Some steel people do not look for any remedial legislation for return of basing points and freight absorption for some time—if at all.

As for steel output, "The Iron Age" states, there is still a good chance that 93 million tons of steel will be turned out in 1949. And steel people think that will more than make up the answer for more capacity. The only fly in the ointment is that an important slowup in steel demand expected by most steel officials by late next year may not come.

Steel demand, this trade authority concludes, is strong, wide, and shows no signs of faltering and it is hitting every steel product.

The American Iron and Steel Institute announced on Monday of this week the operating rate of steel companies having 94% of the steel-making capacity of the industry will be 99.4% of capacity for the week beginning Nov. 8, 1948, an increase of 0.5 of a point, or 0.5% above the preceding week. A month ago the indicated rate was 98.5%.

This week's operating rate is equivalent to 1,791,700 tons of steel ingots and castings, 400 tons larger than the all-time weekly record of 1,791,300 tons in the wartime week of April 24, 1944, against 1,782,600 tons a week ago, 1,775,400 tons a month ago and 1,695,700 tons, or 96.9% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, highest prewar year.

The Institute said steel production in November probably would surpass the previous monthly record registered in March, 1944, when 7,826,257 tons of raw steel were turned out.

ELECTRIC OUTPUT BREAKS THROUGH TO NEW ALL-TIME HIGH IN WEEK ENDED NOV. 6

The amount of electrical energy distributed by the electric light and power industry for the week ended Nov. 6, was 5,563,514,000 kwh., according to the Edison Electric Institute. This was an increase of 8,260,000 kwh. above output in the preceding week, an all-time high record and 506,059,000 kwh., or 10.0% higher than the figure reported for the week ended Nov. 8, 1947. It was also 881,429,000 kwh. in excess of the output reported for the corresponding period two years ago.

CAR LOADINGS ADVANCE A TRIFLE IN LATEST WEEK

Loadings of revenue freight for the week ended Oct. 30, 1948, totaled 931,750 cars, according to the Association of American Railroads. This was an increase of 4,218 cars or 0.5% above the preceding week this year. However, it represented a decrease of 8,996 cars, or 1% under the corresponding week in 1947, but an increase of 9,438 cars, or 1% above the similar period in 1946.

AUTO OUTPUT TURNS UPWARD FOLLOWING INVENTORY TAKING PERIOD

Production of cars and trucks in the United States and Canada rose moderately to 117,225 units from 116,968 (revised) units the previous week, according to "Ward's Automotive Reports."

The increase from last week was due to higher truck volume resulting from a resumption of operations by International Harvester Co. after a one week inventory period, Ward's explained.

Output in the similar period a year ago was 106,651 units, and 93,585 units in the like period of 1941.

This week's output consisted of 87,979 cars and 23,761 trucks made in the United States and 3,623 cars and 1,862 trucks made in Canada.

BUSINESS FAILURES REMAIN STEADY

Commercial and industrial failures numbered 104 in the week ending Nov. 4, the same as in the preceding week, Dun & Bradstreet, Inc., reports. This exceeded the 72 and 25 in the comparable weeks of 1947 and 1946, respectively. Failures were less than one-half as numerous as in the corresponding week of 1939.

Manufacturing casualties numbered 34 compared with 24 a week ago and 32 a year ago. Retail failures dipped to 40 from 45 but were almost twice as numerous as in 1947, while wholesaling failures numbered 13, construction 6 and commercial service 11.

The Middle Atlantic States reported 27 failures; the Pacific 26, and New England 21. Except for an increase to 6 from 2 in the West North Central Region and a decline to 5 from 11 in the South Atlantic Region, casualties in other regions did not fluctuate by more than 2 from last week's level. The sharpest increases from a year ago occurred in the New England and Middle Atlantic States.

WHOLESALE FOOD PRICE INDEX DIPS SHARPLY TO NEW LOW SINCE JUNE 24, 1947

Continuing to decline, the wholesale food price index, compiled by Dun & Bradstreet, Inc., was off sharply in the past week to stand at $6.36 on Nov. 2. Down 1.7% from $6.47 last week, the current figure marks a drop of 8.5% from $6.95 in mid-September and represents a new low point since June 24, 1947, when it registered $6.24. The latest index compares with $6.78 at this time a year ago.

Commodities that moved lower in the week were flour, wheat, corn, rye, barley, hams, bellies, lard, butter, cocoa, peas, eggs, potatoes and hogs. On the up side were oats, cheese, cottonseed oil, beans, raisins, prunes and lambs.

COMMODITY PRICE INDEX STRIKES NEW LOW FOR YEAR

The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., declined to a new low for the year during the past week, reflecting continued weakness in food and farm prices. The index closed at 269.45 on Nov. 1, compared with 270.31 a week earlier, and with 288.45 a year ago.

Prices of leading grains moved irregularly over a comparatively narrow range last week. Activity on the Chicago Board of Trade increased sharply with all grains sharing in the rise. Trading was featured by an advance in the December wheat contract to above the government loan level and by continued heavy marketings of corn from the country.

Following the early strength shown in wheat, prices tended to sag, influenced by freer offerings of cash wheat by farmers and reports of improved weather conditions in the major producing areas.

Heavier receipts depressed corn prices but the decline was offset somewhat by enlarged government buying. The export flour market continued slow; domestic flour business was inactive, with buyers avoiding commitments beyond nearby requirements.

With supplies liberal, the undertone in butter continued weak and prices registered a further sharp drop to reach the lowest levels recorded since June 1947. Cocoa declined 1 cent per pound during the week, reflecting slow demand in the actual market; sugar and coffee remained steady. Lard was easier in sympathy with lower hog prices; cattle closed slightly lower and sheep remained fairly steady.

The trend in cotton prices was generally lower in the week just ended with volume of sales declining from that in the preceding week. The easiness was attributed to increased hedge selling, liquidation in the December delivery, and uncertainties surrounding the political situation abroad.

Sales in the ten spot markets were reported at 356,800 bales during the latest week, against 403,200 in the previous week, and 438,800 in the like week a year ago. The cotton parity price for mid-October showed a drop of 12 points to 30.88 cents per pound. This decline was slightly less than had been generally expected. The CCC reported entries of cotton into the government loan of 1,315,053 bales for the season through Oct. 21. This indicated entries during the week of 321,955 bales, compared with 229,959 the week previous. Cotton textile markets were featured by expanding sales of print cloths at firmer prices.

Business in the Boston wool market continued dull. Interest was centered largely on scoured revalued CCC wools, the bulk of which were of medium grade and used mostly in the manufacture of woolens. Little new business in worsted wools was reported and activity in noils declined. Imports of apparel wools received at Boston, New York and Philadelphia in the week ending Oct. 22 represented 2,926,200 clean pounds, as compared with 1,100,300 the previous week.

RETAIL AND WHOLESALE TRADE RECORD SLIGHT CHANGES FOR THE WEEK

Retail dollar volume during the period ended on Wednesday of last week dipped slightly below the level of the preceding week, but it was moderately above that of the comparable 1947 week, according to Dun & Bradstreet, Inc., in its current summary of trade. While Election Day promotions of seasonal merchandise encouraged considerable consumer response, the slight decline in volume was partly a result of unfavorable weather in scattered sections of the country.

Women's Fall and Winter apparel volume rose slightly above that of a week ago. Flare-back unfitted coats and fur-trimmed coats continued to be popular although some slackening of demand was noted. Women's tailored worsted and gabardine suits were in fairly large demand. There were frequent requests for men's and women's furnishings and accessories. Interest in men's apparel centered chiefly in topcoats, overcoats and Fall sportswear. The demand for shoes was limited.

The consumer requests for many food items decreased slightly from that of a week ago.

Total meat volume declined fractionally; chickens and some low-priced meat cuts sold well. Fresh fruit and vegetable volume fell slightly during the week with demand for apples and sweet apple cider moderately higher. Canned vegetable volume increased fractionally above the level of the previous week. Candy, confectionery and nuts were in large demand prior to the Hallowe'en week-end.

Hardware and furniture volume was moderately below that of a week ago. Home furnishings continued to sell well with consumer interest largely centered in draperies, curtains and bedding. Lamps and small electrical appliances were frequently requested. Automobile supplies and hunting and fishing equipment were in large demand in many areas with novelty and gift items sought in increased volume.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from 3 to 7% above that of a year ago.

Regional estimates exceeded those of a year ago by the following percentages: New England and East, 5 to 9; South, 2 to 6; Middle West, 3 to 7; Northwest, 4 to 8; Southwest, 1 to 5, and Pacific Coast, 0 to 4.

The total volume of wholesale orders the past week remained near the high level of the previous week and slightly surpassed that of the corresponding week last year. Many buyers strove to acquire additional seasonal goods. There was a moderate increase in the purchases of gift and novelty goods for the coming holiday season. The order volume for jewelry was slightly above that of the preceding week.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Oct. 30, 1948, advanced by 2% from the like period of last year. This compared with an increase of 12% recorded in the preceding week. For the four weeks ended Oct. 30, 1948, sales increased by 9% and for the year to date by 7%.

Retail trade here in New York was adversely affected by warm and rainy weather the latter part of last week which resulted in a considerable slowing up of sales. As a consequence, department store volume was estimated at about 10% under the corresponding week of 1947.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Oct. 30, 1948, increased by 7% from the same period last year. In the preceding week an increase of 18% (revised) was registered over the similar week of 1947. For the four weeks ended Oct. 30, 1948, an advance of 12% is recorded over that of last year and for the year to date, volume increased by 6%.

Open-End Trusts Buy, Closed-Ends Sell

(Continued from page 2)

uncertainties created by elections such as possibility of repeal of Taft-Hartley Law, price controls, allocations of basic materials, and increased corporation income taxes. Still too early to come to any definite opinions as to whether or not a bear market is in progress, but would prefer a more conservative position until atmosphere clarifies."

Joseph E. Welch, Vice-President Wellington Fund—"During October there was very little change in the ratios in the Wellington Fund portfolio although we did sell some of the more volatile common stocks and purchased more defensive commons. We have invested about $800,000 in the market weakness since election day and plan to invest more in commons if the market should decline further. In our purchases we will give careful consideration to the excess-profits tax base in view of the possibility of reinstatement of some excess-profits taxes. Consideration must also be given to the possibility of price controls."

OPEN-END STOCK FUNDS:

Edward C. Johnson, 2nd, President Fidelity Fund—(Sept. 30 portfolio: 77% in stocks; 13.5% oils, 11.6% pulp and paper; 8.3% utilities, 7.8% metals, 6.3% rails—all percentages of total net assets). "Investment changes during October only of minor nature. At the moment no policy shifts of the type mentioned have been decided upon."

William A. Parker, President Incorporated Investors—(Sept. 30 portfolio: 95.5% equities, 19.6% rails, 15.1% oils, 11.0% pulp and paper, 6.3% metals, 6.0% merchandising—percentages of total net assets). "Very little change in portfolio of Incorporated Investors during October. Do not contemplate any major change in policy or portfolio as a result of election. Consider stock prices not high in relation to prospective earnings and dividends and think prevailing pessimism will prove unwarranted."

Gulf and Phillips Pete continued to be the most popular issues among the petroleum companies in the third quarter, six funds making purchases of each issue. Standard of Indiana was also well bought, five companies adding it to their portfolios, three of which made new commitments. Shell, Standard of California and Standard of Ohio were each purchased by three trusts, the latter in a total amount of 20,400 shares. Selling of Barnsdall showed an increase over the previous period, three funds disposing of a total of 13,000 shares. On the other hand, only half as many companies lightened their holdings of Pure Oil as had sold this issue in the preceding three months. Skelly and Texas fell in step with current practice in the industry by declaring dividends in stock to conserve cash for expansion and replacement of existing plant. Among companies connected with the natural gas industry, the best-liked equities were those of Consolidated Natural Gas, Northern Natural Gas and Southern Natural Gas.

Utilities favored during this period were General Public Utilities and Illinois Power, seven funds purchasing a total of 23,400 shares of the former and a like number buying 33,900 of the latter company. Five trusts added a total of 24,460 shares of Wisconsin Electric Power to portfolios, but four funds also lightened commitments. Four investment companies bought Central and Southwest Corp. and four more added the securities of Gulf States Utilities. 20,600 shares of Brooklyn Union Gas appeared as new holdings in two portfolios. Although three funds increased their interest in North American, one other disposed of 16,400 shares. Two other trusts completely eliminated Cleveland Electric Illuminating.

Rails continued to evince the popular trend indicated in the previous quarter as Atchison, Great Northern and Southern Pacific lead in favorable acceptance. Five managements bought each of these carriers, adding 4,500 shares of Atchison, 10,300 of the second road and 4,600 of Sopac. Two funds made new commitments in Illinois Central while two more added to blocks already held. 25,500 shares of Pennsylvania were acquired by three managements and three others picked up Chicago, Rock Island & Pacific. Several other additions were made in the securities of the Class I roads. Sales were inconsequential.

Although new life was breathed into the already growing favorable outlook towards bank stocks during the September quarter, some skepticism now exists as to the increased profit potentials because of the elections. While it is felt in many quarters that the long-term trend of interest rates is upward the immediacy of any general tightening in longer-term government rates has been postponed. Undoubtedly, other machanisms will be attempted to restrict the inflationary extension of credit, not so favorable to bank earnings. Several trusts likewise sold their longer-term governments in anticipation of the lowering of Federal support levels. The wisdom of such action will be seen in the future, but not realized as soon as originally expected had the elections gone otherwise.

New York bank stocks were in particular favor. Three funds bought Bankers Trust, three more acquired Chase National and a like number purchased National City. 1,000 shares of Guaranty Trust were added to the portfolios of two managements. Opinion was divided on the First National of Boston. It is of interest to observe that four out of the 12 securities added to the list of Massachusetts Investors Trust during this period represented investment in commercial banking institutions.

Many scattered purchases of insurance shares continued to be made, a trend noted throughout the two previous periods. Two trusts bought American Insurance of Newark and Fireman's Fund. Individual selections included American Surety of N. Y., Boston Insurance, Continental Insurance, Fidelity Phoenix, Firemen's of Newark, Great American Insurance, Hartford Fire, Home, New Amsterdam Casualty, North River, Northwestern National Life, Springfield Fire and Marine, Standard Accident and Westchester Fire.

Purchases by three trusts, each of both CIT Financial and Commercial Credit, for a total of approximately 13,000 shares paralleled one another. However, two managements disposed of shares of the latter company while there were no sales of the former.

Kennecott was still one of the favorites among the nonferrous metals which, as noted, were less popular than earlier in the year although still well thought of. Aluminum of America was also among the top preferences with seven trusts increasing their holdings. Aluminum, Ltd., however, was sold by three managements and purchased by only one. Five trusts added to holdings of American Smelting while three lightened commitments. Two trusts each bought Nickel and St. Joseph Lead. Opinion was divided on Phelps Dodge, but the two trusts which sold this copper company, American Business Shares and the Bowling Green Fund, made purchases of Kennecott.

Steels continued their popularity with United States Steel prime favorite; six trusts purchased a total of 22,700 shares. Bethlehem Steel was also added to five portfolios. Three of the additions of Bethlehem shares were new com-

Balance Between Cash and Investments of 56 Investment Companies

End of Quarterly Periods June and September, 1948

	Net Cash & Gov'ts Thous. of Dollars —End of—		Net Cash & Gov'ts Per Cent —End of—		Invest. Bonds & Preferred Stocks Per Cent* —End of—		Com. Stks. Plus Lower Grade Bonds & Pfds. Per Cent —End of—	
	June	Sept.	June	Sept.	June	Sept.	June	Sept.
Open-End Balanced Funds:								
American Business Shares	7,029	7,097	20.3	21.6	16.6	14.3	63.1	64.1
Axe-Houghton Fund	570	748	6.4	9.1	3.4	3.2	90.2	87.6
Axe-Houghton "B"	194	475	11.1	25.1	13.4	10.6	75.5	64.3
Commonwealth Investment	499	408	10.0	8.0	20.9	21.2	69.1	70.8
Eaton & Howard Balanced	4,136	3,717	11.2	10.4	21.6	22.8	67.2	66.8
Fully Administered Shares	963	803	21.0	16.4	8.1	8.6	70.9	75.0
General Investors Trust	211	233	10.3	12.0	11.4	7.6	78.3	80.4
Johnston Mutual Fund	65	75	19.0	21.7	16.6	16.6	64.6	61.7
National Securities—Income	501	373	4.1	3.1	13.7	15.3	82.2	81.6
Nation-Wide Securities	1,471	705	12.7	5.9	32.3	29.7	55.0	64.4
Nesbett Fund	79	41	18.6	10.2	18.5	18.7	62.9	71.1
George Putnam Fund	6,228	6,141	23.2	23.7	10.5	8.4	66.3	67.9
Russell Berg Fund	360	372	25.5	27.9	12.9	13.3	61.6	58.8
Scudder Stevens & Clark	3,520	†	14.0	†	21.1	†	64.9	†
Wellington Fund	7,791	9,677	13.5	16.5	33.3	28.4	53.2	55.1
Whitehall Fund	18	32	3.9	6.3	41.6	42.7	54.5	51.0
Wisconsin Investment Co.	589	417	31.3	23.3	5.0	4.0	63.7	72.7
Open-End Stock Funds:								
Affiliated Fund	1,379	2,234	1.9	3.1	None	None	98.1	96.9
Bowling Green Fund	67	173	10.7	29.8	None	None	89.3	70.2
i Broad Street Investing	670	708	6.6	7.6	4.3	5.7	89.1	86.7
Bullock Fund	507	193	7.8	3.3	None	None	92.2	96.7
Delaware Fund	28	33	2.1	2.6	15.1	6.2	82.8	91.2
Dividend Shares	6,918	5,790	10.8	9.7	0.3	None	88.9	90.3
Eaton & Howard Stock	135	98	6.5	4.9	5.7	4.3	87.8	90.8
Fidelity Fund	784	1,008	4.1	5.5	None	None	95.9	94.5
First Mutual Trust Fund	81	103	2.1	3.0	10.6	12.5	87.3	84.5
Fundamental Investors	1,688	1,360	5.0	4.3	None	None	95.0	95.7
General Capital Corp.	614	494	5.5	5.1	1.7	1.1	92.8	93.8
Incorporated Investors	2,781	3,026	3.7	4.5	None	None	96.3	95.5
Institutional Shares	82	91	3.2	4.1	None	None	96.8	95.9
Investment Co. of America	1,350	1,219	22.7	22.5	None	None	77.3	77.5
Investors Management Fund	517	270	4.9	2.8	None	None	95.1	97.2
Knickerbocker Fund	737	167	9.2	2.1	None	None	90.8	97.9
Loomis-Sayles Mutual Fund	1,064	1,063	21.0	22.5	4.0	3.0	75.0	74.5
Loomis-Sayles Second Fund	1,755	1,718	20.0	21.0	4.0	4.0	76.0	75.0
Massachusetts Investors Trust	7,437	8,604	3.3	4.1	None	None	96.7	95.9
Mutual Investment Fund	23	15	3.2	2.2	4.1	4.3	92.7	93.5
National Investors	419	652	2.3	4.0	None	None	97.7	96.0
New England Fund	513	521	17.1	13.7	5.5	3.9	77.4	77.4
Republic Investors	84	133	7.3	10.7	None	None	92.7	89.3
Selected American Shares	1,844	757	11.0	5.0	None	None	89.0	95.0
Sovereign Investors	46	5	9.0	1.2	5.0	9.8	86.0	89.0
State Street Investment Corp.	11,761	11,054	16.4	17.1	None	None	83.6	82.9
Wall Street Investing Corp.	239	256	21.5	23.0	None	None	78.5	77.0
Closed-End Companies:								
Adams Express	8,069	7,556	18.6	19.0	None	None	81.4	81.0
American International	4,757	4,017	24.4	22.3	None	None	75.6	77.7
Blue Ridge Corp.	5,727	7,714	17.6	25.3	3.1	2.4	79.3	72.3
Capital Administration	630	576	‡10.5	‡10.0	7.6	9.5	81.9	80.5
General American Investors	8,513	8,939	21.4	24.0	0.4	0.4	78.2	75.6
General Public Service	332	477	6.7	10.6	None	None	93.3	89.4
General Shareholders	1,396	¶	‡8.0	¶	9.8	¶	82.2	¶
Lehman Corporation	14,739	18,104	15.0	20.0	2.9	1.5	82.1	78.5
i National Shares Corp. (Formerly National Bond & Share)	1,600	2,051	15.5	21.5	5.6	5.9	78.9	72.6
Selected Industries	2,009	1,690	‡7.3	‡5.4	10.9	15.3	81.8	78.8
**Tri-Continental Corp.	2,419	2,957	‡7.0	‡7.3	8.9	11.3	84.1	81.4
§U. S. & Foreign Securities	1,568	1,886	4.2	5.6	None	None	95.8	94.4
U. S. & International Securities	2,548	2,711	6.3	7.5	None	None	93.7	92.5

*Investment bonds and preferred stocks: Moody's Aaa through Ba for bonds; Fitch's AAA through BB and approximate equivalents for preferreds. †No interim reports issued to stockholders on this date. ‡Percent gross cash and governments as reported by company. **September figures reflect merger with General Shareholders. §Portfolio exclusive of securities in subsidiary or associated companies. ¶Merged with Tri-Continental Corp. effective as of opening of business on Oct. 1. i June quarter figures revised.

SUMMARY

Changes in Cash Position, 56 Investment Companies

	Plus	Minus	Unchanged	Totals
Balanced Funds	7	7	3	17
Stock Funds	12	11	4	27
Closed-End Companies	7	4	1	12
All Companies	26	22	8	56

mitments as contrasted with four of U. S. Outlook for new legislation counteracting some of the unsettling affects of the highest court's ruling on the basing point pricing system has been considerably clouded since the elections which may result in some future switching from United States Steel into Bethlehem. Sharon Steel kept company with the larger concerns in popularity, three funds increasing their holdings; two of these were new commitments, the same number as were made in the previous quarter. Youngstown was the only company noticeably in disfavor, three managements disposing of 4,600 shares.

Four of the large tobaccos found favor among the more bullish companies. Four managements bought Reynolds, three added to holdings of American and two each purchased Philip Morris and Liggett and Myers. Altogether, including the addition of 11,300 shares of Lorillard to the portfolio of another management, there were 12 lots purchased as contrasted with only three sold.

Buying of aircrafts outweighed selling to a greater extent than in the June quarter and tended to be more concentrated. United Aircraft was the favorite, five trusts adding 13,000 shares to their holdings. Boeing also was popular with four funds, two of which made new commitments. North American was well-bought while Bendix and Sperry were leaders among the suppliers of equipment. Among carriers, opinion was divided on both Eastern and United, although there were 27,400 shares of the latter company's stock sold against only 3,000 purchased.

Seven managements liked General Motors and of their purchases two represented new additions to portfolios. There was a fair division of sentiment on Chrysler, represented by comparatively light activity. Borg Warner and Briggs and Stratton were favorites among the manufacturers of equipment. Scattered purchases and sales appeared in the equities of several other parts makers.

Among market leaders liked during the quarter were the two major can manufacturers. Three trusts added small lots of American Can and four increased holdings in Continental. General Electric and Westinghouse were also among the favorites with managements, but not as much enthusiasm was displayed for them as during the previous three-month period. Eight trusts purchased 24,000 shares of GE, half the quantity added during the June quarter, while only three funds bought 3,000 shares of Westinghouse which represented one-quarter the amount previously added.

In the retail field preference was indicated for Montgomery Ward by seven managements. Only 8,300 shares were purchased, however, which was practically equal to the number of equity units of Sears bought by two trusts. Popular in the department store sub-group were Allied Stores and Federated Department Stores, four trusts making commitments in each of these merchandising chains. Attitude towards Bond Stores was indicative of current evaluation of apparel specialists, three managements disposing of a total of 16,200 shares. W. T. Grant was also lightened by two funds.

Among textiles, Colonial Mills was the only company towards which there was an indicated preference. Of the two purchases, one represented a new commitment. Deere found considerable favor among agricultural equipment companies, six funds purchasing a total of 35,900 shares; Case, however, was sold. Buyers slightly favored the chemical group, preference being

(Continued on page 32)

Changes in Common Stock Holdings of 43 Investment Management Groups

(June 30-September 30, 1948)

Transactions in which buyers exceed sellers—or sellers exceed buyers—by two or more management groups. Issues more heavily sold are in italics. Numerals in parentheses indicate number of managements making entirely new purchases of an issue, or completely eliminating the stock from their portfolios.

—Bought— No. of Trusts	No. of Shares		—Sold— No. of Shares	No. of Trusts
		Agricultural Equipment:		
6(2)	35,900	Deere and Co.	2,500	3(2)
None	*None*	*J. I. Case Co.*	*900*	*2(1)*
		Auto & Auto Parts:		
3	2,275	Borg Warner	800	1(1)
3	1,100	Briggs and Stratton	None	None
7(2)	6,400	General Motors	500	1(1)
		Aviation:		
4(2)	2,500	Bendix Aviation	4,000	1(1)
3(2)	1,200	Boeing Airplane	200	1
3(1)	6,300	North American Aviation	None	None
2(1)	1,500	Sperry Corp.	None	None
5(2)	13,000	United Aircraft	None	None
		Beverages:		
1	*5,900*	*Canada Dry Ginger Ale*	*11,500*	*3(1)*
None	*None*	*Distillers Corp.-Seagrams*	*2,700*	*2*
None	*None*	*Pepsi-Cola*	*42,700*	*3(1)*
		Building Construction and Equipment:		
2(1)	3,900	General Portland Cement	None	None
4(2)	7,600	Minneapolis-Honeywell	900	2
2	725	National Gypsum	None	None
None	*None*	*National Lead*	*5,100*	*2*
		Chemicals:		
3(1)	11,100	American Cyanamid	500	1
3	10,600	Koppers Co.	None	None
2	5,200	Chas. Pfizer & Co.	None	None
3(3)	8,600	Texas Gulf Sulphur	2,600	1
3(2)	5,400	Union Carbide & Carbon	None	None
1	*1,800*	*Monsanto Chemical*	*7,500*	*5*
		Containers and Glass:		
3(1)	1,700	American Can Co.	300	1
4(1)	3,700	Continental Can Co.	None	None
3(1)	2,400	Crown Cork & Seal	7,500	1
		Drug Products:		
2	2,300	American Home Products	None	None
		Electrical Equipment:		
8(2)	24,100	General Electric	None	None
3(1)	6,300	Sylvania Electric Products	2,000	1
3	4,100	Westinghouse Electric	None	None
		Financial, Banking and Insurance:		
2	4,300	American Insurance (Newark)	None	None
3(1)	3,100	Bankers Trust Co. of N. Y.	None	None
3(2)	2,200	Chase National Bank	None	None
3(1)	13,900	C. I. T. Financial	None	None
2(1)	3,320	Fireman's Fund Insurance	None	None
2	1,000	Guaranty Trust Co. of N. Y.	None	None
3(1)	4,100	National City Bank of N. Y.	None	None
		Food Products:		
2(1)	10,100	General Foods	None	None
None	*None*	*Standard Brands*	*29,500*	*4(1)*
None	*None*	*United Fruit Co.*	*2,500*	*3(1)*
		Machinery and Industrial Equipment:		
2	19,500	National Supply	None	None
None	*None*	*American Machine and Fdry.*	*11,400*	*2(1)*
None	*None*	*Babcock and Wilcox*	*4,100*	*3(1)*
1	*2,000*	*Dresser Industries*	*1,100*	*3(1)*
		Metals and Mining:		
7(1)	11,700	Aluminum Co. of America	300	1(1)
5	4,650	American Smelting & Refining	1,200	3(1)
2	900	International Nickel	None	None
6(1)	22,900	Kennecott Copper	600	2
1	*6,500*	*Aluminum, Ltd.*	*1,500*	*3*
		Office Equipment:		
4(1)	5,500	Burroughs Adding Machine	3,400	1(1)
5	6,600	National Cash Register	None	None
1(1)	*1,000*	*Addressograph-Multigraph*	*5,600*	*4(1)*
		Petroleum and Natural Gas:		
2(1)	4,800	Amerada Corp.	None	None
3	4,200	Consolidated Natural Gas	None	None
4	3,600	Continental Oil	7,600	2(1)
6	6,830	Gulf Oil Corp.	6,500	1
3(1)	4,400	Northern Natural Gas	None	None
2(2)	92,200	Pancoastal Oil Co. C. A.[1]	None	None
6(2)	18,400	Phillips Petroleum	200	1
3(1)	4,600	Shell Union Oil Co.	15,000	1(1)
2(2)	13,000	Sinclair Oil Corp.	None	None
7	7,600	Skelly Oil Co.[2]	None	None
2	3,500	Socony Vacuum Oil	None	None
3(2)	16,600	Southern Natural Gas	None	None
3	6,200	Standard Oil of California	100	1
5(3)	2,800	Standard Oil of Indiana	None	None
12(2)	7,381½	Standard Oil of New Jersey[3]	11,529	6(1)
13(1)	21,286½	Texas Company[4]	600	2(2)
None	*None*	*Barnsdall Oil*	*13,000*	*3(1)*
None	*None*	*Creole Petroleum*	*5,400*	*3(1)*
None	*None*	*El Paso Natural Gas*	*700*	*2(2)*
1	*100*	*Ohio Oil*	*7,200*	*3*
1(1)	*1,400*	*Pure Oil*	*7,700*	*3(1)*
None	*None*	*Warren Petroleum*	*1,500*	*2*

—Bought— No. of Trusts	No. of Shares		—Sold— No. of Shares	No. of Trusts
		Public Utilities:		
11(8)	20,860	American Light & Traction[5]	2,800	1
4(1)	1,438	Atlantic City Electric[6]	None	None
2(2)	20,600	Brooklyn Union Gas	None	None
4(2)	36,500	Central and Southwest Corp.	22,700	2(1)
2	6,000	Commonwealth Edison (Ill.)	None	None
2(2)	11,000	Commonwealth and Southern	None	None
7(6)	1,174	Detroit Edison[7]	9,004	2(1)
6(1)	23,400	General Public Utilities	13,000	1(1)
4(3)	10,300	Gulf States Utilities	None	None
6(4)	33,900	Illinois Power Co.	None	None
4(2)	3,582	Indiana Gas & Water Co.[8]	None	None
2(2)	4,820	Louisville Gas & Electric (Ky.)[9]	None	None
3	6,500	North American Co.	16,400	1
15(13)	8,705	Pacific Gas & Electric[10]	None	None
3(3)	154,000	Public Service Electric & Gas[11]	None	None
2	1,500	Stone and Webster	None	None
None	*None*	*Cleveland Electric Illuminating*	*7,100*	*2(2)*
		Radio and Amusement:		
3(1)	13,600	Philco	5,800	1(1)
2	3,300	Zenith Radio	None	None
None	*None*	*Loew's, Inc.*	*19,600*	*4(1)*
		Railroads:		
5(3)	4,500	Atchison, Topeka & Santa Fe	100	1
2	700	Atlantic Coast Line	None	None
2(1)	2,000	Baltimore and Ohio	None	None
2	16,400	Canadian Pacific	None	None
3(2)	8,600	Chicago, Rock Island & Pacific	None	None
5(2)	10,300	Great Northern Ry. pfd.	None	None
4(2)	8,500	Illinois Central	None	None
2	3,000	New York Central	None	None
3(1)	25,500	Pennsylvania RR.	None	None
5(1)	4,600	Southern Pacific	1,700	3(1)
		Railroad Equipment:		
3(1)	4,400	American Brake Shoe	300	1(1)
4(1)	6,500	Superheater	None	None
		Retail Trade:		
4(1)	7,400	Allied Stores	3,000	1
4(2)	12,700	Federated Department Stores	2,000	1(1)
7(2)	8,300	Montgomery Ward	7,700	3(1)
3(1)	13,800	J. C. Penney	1,000	1(1)
3	2,500	Western Auto Supply	None	None
1	*300*	*Bond Stores*	*16,200*	*3*
None	*None*	*W. T. Grant*	*4,600*	*2*
		Steels:		
5(3)	24,100	Bethlehem Steel	12,000	2
3(2)	2,500	Sharon Steel Corp.	None	None
6(4)	22,700	United States Steel	200	1
1	*1,300*	*Youngstown Sheet & Tube*	*4,600*	*3(1)*
		Textiles:		
2(1)	4,600	Colonial Mills	None	None
5(1)	40,580	United Merchants & Mfrs.[12]	None	None
		Tobaccos:		
3	9,410	American Tobacco	1,400	1
2(1)	2,400	Liggett and Myers	None	None
2	31,700	Philip Morris and Co.	None	None
4(2)	18,100	R. J. Reynolds Tobacco	300	2
		Transportation, Bus and Boat:		
2(1)	3,000	Greyhound Corp.	None	None
None	*None*	*Southeastern Greyhound Lines*	*3,600*	*2*

[1] Received in exchange for Pantepec Oil Co. of Venezuela.

[2] Includes to great extent 10% dividend in company's own stock.

[3] Includes in part stock received as dividend from Standard Oil of Indiana.

[4] 5,864½ shares received as 2½% stock dividend.

[5] Received partially as stock dividend from United Light & Railways.

[6] Includes stock received as dividend from American Gas & Electric.

[7] Includes stock received as dividend.

[8] 2,190 shares received as dividend from Public Service of Indiana.

[9] Exchanged for 4,500 shares of Louisville Gas & Electric (Del.) "A."

[10] Liquidating dividend received from North American Co.

[11] Received in exchange for Public Service of New Jersey.

[12] 30,180 shares received as 10% stock dividend.

NOTE—This survey covers 59 trusts but purchases or sales of trusts sponsored by one management group are treated as a unit. For example, the several trusts sponsored by Calvin Bullock are considered as having the weight of one manager. American European, First York Corp. and Overseas Securities are included in addition to companies listed in companion tables.

SUMMARY

Balance Purchases and Sales Portfolio Securities
59 Investment Cos.

	Bought	Sold	Balanced	Totals
Balanced funds	12	1	4	17
Stock funds	16	6	5	27
Closed-end companies	2	11	2	15
All companies	30	18	11	59

Open-End Trusts Buy, Closed-Ends Sell

(Continued from page 31)

shown for Carbide, Texas Gulf Sulphur, American Cyanamid and Koppers Co., three trusts purchasing each. Monsanto was the underdog of the group, five managements decreasing their holdings.

Group unpopularity among the beverage issues was still featured by Pepsi-Cola, three funds selling 42,700 shares. Canada Dry was also disposed of by three managements, while among the alcoholic beverages, 2,700 shares of Distillers Corporation - Seagrams were offered by two other trusts. Food stocks also were in disfavor, a trend which, as noted, may increase as a direct result of the elections. Standard Brands was sold by four investment companies and United Fruit disposed of by three funds. On the other hand, 10,100 shares of General Foods were purchased by two other trusts. Total transactions in shares of industrial machinery and equipment companies were fairly well divided between purchases and sales, although there was some concentration of selling in American Machine and Foundry, Babcock and Wilcox and Dresser Industries.

As We See It

(Continued from first page)

ticular, the New Deal version of these ideas, become that it would be difficult if not impossible to find any individual of much influence in public life who has not been deeply influenced or perchance convinced by it. As to our cherished American tradition of self-reliance and individual initiative, one is tempted to say with the poet that not one is left "to lave it in the blood that heroes gave it."

It would, however, be a waste of time to speculate about what Governor Dewey and a Republican Congress would have done had they been chosen this year. Indeed, it is too soon to feel any great certainty about what in detail the Truman Administration and a Democratic Congress are likely to do. It probably can be said with considerable assurance that very considerable blocs from the South in both the Senate and the House are as little in sympathy with the President's professed ideas about many things as any group of similar size in the Republican party — and as little obligated to the occupant of the White House. What they will do if and when the President undertakes to swing them into line in support of any of the programs he promised during his campaign remains to be seen. They are sufficiently numerous to block any legislation desired by the Chief Executive if the "opposition" stands reasonably solidly against it.

More New Deal

It is, however, hardly likely that there will be any radical movement away from the New Deal program in general —and, of course, there may be a retracing of such faltering steps as have been taken in return to traditional American ideas and doctrines. This would appear to be more particularly true of such questions as the Taft-Hartley Act, in which the Southern members of Congress have on the whole rather little direct interest and which has apparently cost a number of legislators their seats in Congress. There is also a large farm vote in the South. While most of the Southern members of Congress are by nature and habit "conservative," they are not immune to the pressures exerted by constituencies eager for largesse. Neither are they usually eager to seem to come to the aid of "Wall Street" or "the interests" as they surely would be accused of doing if they made any real effort to undo the most serious mischief which the New Deal has inflicted upon the nation.

But American business is tough. Had it not had an abundance of iron in its blood and ingenuity in its cranium it could never have endured what it has had to endure during the past decade or two. It will, we are confident, find a way to keep going — yes, keep going with a vim and vigor far surpassing its socialized or semi-socialized counterparts in other regions of the globe — until such time as the American people come to their senses and insist upon the reestablishment of conditions in which American productive genius can reach the ultimate of which it is capable in supplying the essentials of an abundant life. Once faith is lost in this essential truth, we shall slide rapidly into the sterility and futility of a totalitarian economy, but, for our part, we are confident that the country, particularly the elements which keep the American economy going, are still far from that point.

Face the Facts

At the same time it is as well that we look the facts of the current situation squarely in the face. Policies of the past have built up basic conditions in the economy which at one time or another are certain to give serious trouble. The outlook is that many of the basic programs responsible for these conditions are now to continue at least for another year or two, and quite probably a good deal longer than that. Governor Dewey was on strong ground in ridiculing the "boom and bust" theories of such spokesmen as Chester Bowles, many of the labor leaders, and, it must be admitted, even the President. These notions are particularly vulnerable in that they include as an integral part of them the idea that the "bust" can be avoided by procedures and policies which are responsible for the morbid elements in the "boom."

It would, however, be foolish to suppose that we are not now accumulating factors which are quite unsound and which must sooner or later be corrected. It is also clear that the longer these factors remain in force, the more expensive the correction is certain to become. The really unfortunate part of the situation is the fact that under existing conditions there is not a great deal the business man can do to correct or even to hold in check the growth of conditions he readily recognizes as undesirable. There is still something that he can do, and we are certain that he will not overlook any opportunity to do whatever he can. It would certainly be a grave mistake to do so or to permit himself to be influenced in his thinking by the glib phrases from the mouths of the "crack-pots" — of which we seem still to have a large surplus.

Rigidities

The fact of the matter is that we are building up rigidities in the economic structure and are so fortifying them that one is obliged to wonder how needed readjustments can occur when the time comes — as surely it will come — when market conditions demand them. Perhaps the most significant of these conditions is found in the rapid rise in wages accompanied as it has been by the growth and consolidation of union strength. Even in past decades it has always been a long, tedious and costly process to reduce money wages in times when consumers flatly refused to buy products at prices made necessary by the excessive labor costs in the production process. The prospect is made no brighter by the fact obvious on all sides that productivity—that is productivity in the sense of the willingness of men to work and produce reasonably from day to day — is distressingly low and that this infirmity is being supported by the powerful labor unions whose leaders doubtless dare take no other position.

On the financial side of things, the situation is no more encouraging. There is every prospect that public spending will grow larger not smaller in the years immediately ahead, which in the existing circumstances can scarcely fail to mean more inflation. The list might be lengthened almost without limit. For the consequences, business is sure to be blamed. It can only do its best to keep its house in order — and hope for the best.

Monetary Reconstruction

(Continued from page 4)

because no one knows how all kinds and types of investors and investments would react to such a price and yield change in a market still subject to support and to administrative determination of the level of that support.

Then there are those who say we should abandon our support program altogether, permitting a "natural" market to determine its own prices and yields; by which they mean, I suppose, a market as "natural" as a market can be in which open market operations are being used as an instrument of credit policy. That suggestion has a ring of fundamentalism about it, and it is, of course, a good long-range suggestion. Eventually we all want to get away from a supported market and advertised commitments as to prices, and, in a peaceful world, it is not unlikely that we should find the market for riskless long-term investments balancing itself at 2½%. Meanwhile, however, the chief appeal of the abandonment theory is the idea that the way to let go of a bear's tail is to let go. At least you will resolve your problems one way or another, although the solution may be a pretty messy one.

I could go on. This is one of those affairs which properly concerns everyone, and on which many people find need to express their views. There are those who say we should jiggle prices a bit —not be so rigid in our support —and thus take advantage of the competitive spirit of prospective buyers and sellers of government securities, some of whom may make purchases or defer sales in the hope of a more favorable market. This technique is said to be effective, sometimes, in floating corporate securities which may be a little sticky. One wonders whether it applies to a $50 billion market as well as to a $50 million market? Taking a much broader view, there are those who say we should continue to support the government security market, but that our support should be directed solely toward maintaining orderly conditions in the market, not toward maintaining particular prices and rates of interest. That is where we came in, of course, but experience indicates that you need more inherent balance in the market than has existed during most of the past year to make such a policy practical. Recognition of this fact has led many others to suggest a variety of conversion operations, which would seek to restore inherent balance to the market while retaining the essential elements of present support policy, and conceivably this might be a way out of the present situation. Finally, and on an almost philosophical plane, there is the suggestion that we should buy government securities only when we wish to put funds into the market and sell them only when we wish to take funds out of the market — the true open market operation. If we could do that, without running serious risks in a dangerous world, there would be no problem.

Core of Immediate Problem

What is the core of our immediate problem? Whatever may have been our earlier sins of omission or commission, the core of our problem during the past year has been the fact that large expenditures for (a) plant and equipment, (b) residential, commercial, and public construction, (c) inventories, and (d) net foreign expenditures, have increased incomes without adding immediately to the flow of goods and services available for current consumption. Savings of business and individuals have not been large enough to finance this capital formation, and some part of it has been financed by borrowing from banks, insurance companies, and other lenders, those lenders obtaining some of the funds which they lent by selling government securities to the Federal Reserve System. We have been trying to make capital out of credit. This situation and growing discussion of it has led to some public doubt as to the desirability of our support of the government security market, and increasing public doubt as to our willingness to continue that support if it means contributing to inflationary pressures.

The situation calls first, perhaps, for a resassessment of the prospects of further inflationary pressures. The developing and emerging weak spots in our economy do not seem to be of the kind which would seriously endanger the underlying strength of the current position. However, most of the basic physical business indicators could be expected to level off (as they have been doing in recent months) rather than continue to rise, and prices (and all indicators including a price element) would be likely to taper off somewhat—were it not for the demands of preparedness for war and even the possibility of actual war. That proviso immediately focuses attention on the fact that we are not blessed with peace, no matter how far we may be from war, and our economy can't and won't function as if we were at peace. The thinking and planning of consumers and business men are affected in varying degrees by this situation, and it is already a considerable factor in the Federal budget. In the immediate future months the changed Treasury position (from one of large surplus in the budget to one of small surplus or no surplus) is likely to be the main element in the effectiveness or lack of effectiveness of a fiscal-monetary program and an element which will seriously compromise the chances of attaining a balance of demand for goods and services with the available supply. In other words, the cost of waging a "cold war" and the possibility of a "hot war" are the principal factors disturbing the present general tendency toward stability in prices and production.

If that is what we have to cope with, a tougher monetary policy isn't the answer. It is becoming a problem similar to the problems of war finance — in which it is essential that the government's credit remain undisturbed; in which continued high taxes and increased tapping of savings will be required; and, should the situation get worse, in which the question of controls would again have to be faced, controls which this time might need to include some control of capital expenditures or capital issues. We must quit thinking and talking as if the immediate reconversion after war has been completed, and we can now proceed as if we were at peace to do the things we might do if we were completely at peace.

Soundness of Dollar Continues

There is nothing in this whole situation, however, which presently threatens the soundness of the dollar at home nor as a world currency, and those who talk as if there were are using words loosely or inaccurately.

I probably have spent too much time on this domestic aspect of monetary reconstruction, for your purposes, but there is one other feature of the domestic situation which I would emphasize, because of its bearing on problems of international monetary reconstruction. Monetary phenomena do not exist in isolation. Our present monetary situation is the product of the crazy economics of war, and of short- and long-run developments in production, trade, prices, profits, fiscal policy, labor mobility and wages, capital formation and the like, all of which affect the money supply and are, in turn, affected by it. The time has long passed when we fondly believed that by manipulating one lever marked credit, or money, we could maintain approximate internal and external balance. We can't do it at home and it won't work internationally. Right at the start, therefore, we should abandon the idea that if "these foreigners" would only adopt realistic values for their currencies, and then tie them to gold, we could go on about the business of getting back to normal, without further monetary distractions and aided, perhaps, by the workings of some nearly automatic monetary mechanism. It isn't that simple.

Conditioned as most of us are by the international economic situation which developed in the 19th century, and by what was written about it in our elementary text books, this idea is a hard one to abandon. Yet most of us, when we stop to think about it, now realize that the combination of factors which made our international monetary system work fairly well for nearly a hundred years no longer exists. What we have not been so quick to realize, perhaps, is that the problem we now face is not the re-creation of a past situation, but the development of new machinery which will work in a new situation.

Very simply — too simply — stated, the only smoothly working international monetary system we have known centered around the position which Great Britain occupied, during most of the 19th century and the early part of the 20th century, in the field of international production, trade and finance. The British, taking advantage of the possibilities of the industrial revolution, decided to rely on the rest of the world for much of their food and raw materials and to supply the rest of the world with manufactured products. The British market was wide open to imports; and superior skills and organization, and political and financial ties widened the market for exports. Shipping and other communication services were developed, financing methods were devised and strengthened, and the British became world merchants and London became the center of a world economy. Trade and payments moved relatively freely throughout the world, and sterling was the currency chiefly used in this transactions. The British, as buyers, paid for their imports with sterling, and foreigners used sterling to buy British goods, or left their sterling balances in London until they needed some other currency into which sterling was freely convertible. And the growth of this system was lubricated by the use of favorable balances, achieved by the British on current account, to finance capital investments abroad.

Other countries rose to challenge this position, of course; the growth of industry in Germany and Western Europe as a whole had to be fitted into the British scheme of things, and the United States was coming fast; but by and large this general scheme of things worked well, up to the time of the First World War, although it probably was on the down grade then. In any case the destructions and dislocations of that war gave the system a body blow —the favorable balance on current account which had been available for British lending abroad was replaced by a deficit during the thirties, and Great Britain began to live on her fat—liquidating overseas investments. A Second World War completed the destruction. Not only had Great Britain to realize further on her overseas investments, she also incurred large overseas liabilities, so that she became a debtor on both current and capital account in large amounts. The binder which had held together a world monetary system no longer existed.

Dual Monarchy of Dollar and Sterling

After the First World War, the immediate difficulties of the situation were recognized, but the underlying changes which had taken and were taking place were only dimly perceived. A vigorous attempt was made to restore sterling to something like its former position, and to establish a dual monarchy of sterling and the dollar, it being fairly clear that sterling could no longer bear the whole burden, and that the strength and international position of the dollar could not be ignored, but must be used. This effort was a loosely joined one led by the central banks of England and the United States, and participated in, to a degree, by the central banks of other countries. It was supported by the emergence of the United States as a foreign lender, first in the form of government loans for relief and rehabilitation, and later in the form of private investments abroad. Whatever success this monetary reconstruction might have had — and its success was not too likely because of its nostalgia for the good old days, because of the uneasy performance of the dual monarchy of dollars and sterling and because of our mistakes in the field of foreign lending—was lost in the depression of the nineteen thirties, when international economic relations degenerated and disintegrated.

The Difficult Road Ahead

It is somewhat surprising, in the light of this experience, that our preparations for monetary reconstruction after the Second World War were so largely devoted to changes in form rather than in substance; that there was still so much harking back to the good old days, rather than searching out the difficult road ahead. For central bank collaboration and cooperation in the field of monetary affairs, we substituted a new international organization, the International Monetary Fund. For public and private lending by the United States and its citizens we attempted to substitute, in part, a new international organization, the International Bank for Reconstruction and Development. And to try to put some solid supports of production and trade under this new financial machinery, we began the creation of an International Trade Organization. All of these innovations, no doubt were improvements over the attempts at international cooperation which had gone before but, in greater or lesser degree, they carried forward some of the same old defects — and, in particular, they seemed to be laying down the rules for cricket when, in the future, we may be playing baseball.

I am not talking about the difficulties of these immediate post-war years, which have rendered the International Monetary Fund largely impotent in terms of the claims originally made in its behalf, which have subordinated the role of the International Bank to that tremendous experiment in international assistance and collaboration, the Economic Cooperation Administration; and which have prolonged the period of gestation of the International Trade Organization beyond all seemliness. I am talking rather of the likelihood that, for a number of years, there may be no entity, or combination of entities, which can take the place which Great Britain formerly occupied in the scheme of things, and that we may be faced with a new scheme of things, anyway.

The heir apparent of Great Britain, of course, was the United States but up to now we have not been very well cast in the role. Even before this last war there existed a lack of balance between the United States and the rest of the world, as reflected in the tendency of our balance of payments on current account to show a chronic surplus — a surplus which was not smoothly offset by either our lending abroad or our purchases of gold from abroad. Underlying this imbalance was, among other factors, the technological superiority of the United States, which caused a heavy demand for our manufactured exports, and our vast and varied natural resources, which made us relatively independent of imports from the rest of the world.

This imbalance between the United States and the rest of the world has been greatly intensified since 1939, in view of the tremendous increase in this country's productive capacities, on the one hand, and the destruction and disruption of productive capacities in Europe and Asia on the other. Partly in consequence and partly in addition, the pre-war multilateral network of world trade has been badly mangled. Before the war Europe had a substantial deficit with the United States, but was able to finance this deficit, in part, by reason of its surplus in trade with non-European countries—notably the Far East — which in turn had a surplus with the United States. Since the war Europe has greatly increased its deficit account with the United States and also has developed a deficit with the rest of the world. And to make matters worse the rest of the world has also developed a deficit with the United States. This intensified lack of balance, so far as it is a creature of war, can be repaired over time by the restoration of the productive capacity of Europe and Asia. So far as it may represent underlying structural changes in world trade, the task will be more difficult. It is not likely that it will be solved by 1952, the terminal date of the European Recovery Program.

Foreign Dollar Deficit to Continue

In fact, it would appear on the basis of present estimates that, for some years beyond 1952, the world as a whole will continue to have a substantial deficit on current account with the United States, despite continuing economies in the use of dollars, and taking advantage of the assumption that high levels of income and employment will be maintained here. Eventually, however, this situation can be righted. If the international political situation is still grave, some further extension of government grants and loans may be politically possible, and deemed desirable. If not, the International Bank and, perhaps, the Export-Import Bank can help to bridge the gap. And finally some revival of private foreign investment may be hoped for, if not expected. To fill in behind these essentially temporary expedients, there is the prospect that with continued growth in this country our demand for imported goods, particularly primary commodities, will increase at a steady rate, and the possibility that in anticipation of the depletion of some of our natural resources, we may increase the proportion as well as the amount of our imports. In this way the supply of dollars becoming available to foreign countries would steadily increase and, if their own productive capacity were rising, their need for dollars would be reduced. It may be that during the decade of the fifties some such international equilibrium will have been achieved.

It won't happen, however, if we fail to recognize that we are not headed back to where we were; that underlying, long-run changes in the whole fabric of world trade and finance have been and are taking place; that we are probably going to be playing baseball not cricket. I shall mention but two important factors in this situation. The first is the question of internal versus external stability in our economic afafirs. Under the old rules, and as a generality, internal stability was supposed to give way before external stability —the exchange rate was more important than, say, unemployment. That idea has been seriously challenged and is not likely to arise again, at least in its old vigor. Yet we must have some world order in economics as well as in politics. We can't move toward an increasing measure of world sovereignty in politics while reviving and strengthening the ideas and practices of national sovereignty in economics. That is the task to which the International Monetary Fund can devote itself—developing and maintaining a willingness among its members, by consultation and guidance, to abide by the necessary disciplines of an international monetary standard, while avoiding the rigidities and the disregard of internal stability, which periodically helped to break down our old arrangements.

This difficult task will have as its counterpart a reorientation or at least a reexamination of that thinking and action which underlies so much of our ideas of multilateral non-discriminatory trade. To quote my associate, Dr. John Williams:

"The classical theory of international trade, of which the gold standard theory was the monetary counterpart, never took adequately into account the problem of economic growth. It was a theory of trade between countries of known resources, already existent and in use, and it asked only how, through international trade, such resources might be most effectively applied to mutual advantage. It was, in other words, a theory of maximizing national incomes here and now, and never took account of the fact that only by interfering with its processes could young countries maximize their future incomes—and by developing more buying power increase the future incomes of their customers as well. The classical theory was a rationalization of British practice and policy, universalized into economic law at a time when it suited the British national interest."

The young countries, including ourselves, never fully accepted this idea; we couldn't if we were to grow and develop; but it tended to control or condition our economic thinking. The young or the less developed countries are now showing less and less inclination to remain hewers of wood and drawers of water, colonial purveyors of raw materials for the more developed countries, and we shall do well to bear this in mind as we try to develop further our ideas of international trade. Multilateral trade concepts which rest too largely on a species of specialization which freezes existing difference in skills and facilities as between countries, won't go down. We must avoid the old British habit of declaring that what suits our book is universal and eternal truth. And we must avoid the old American habit of proclaiming ideals and principles which do not conform with our actual trading habits.

It is in the light of such reflections as these, it seems to me, that we must approach the problem of further monetary reconstruction. The first consideration is to maintain the position of the dollar as a fixed point of reference for all currencies. The second consideration is to direct our international commercial policies toward the elimination or amelioration of the factors which now make the dollar a "scarce currency", so that, eventually, it can perform, to the fullest extent, the role of an international or key currency. The third consideration is the restoration of the British pound sterling to a similar position, so that we may multiply the benefits which already accrue from the transferability of sterling over a wide and increasing area; there is still work for sterling to do, there is still need for the experience of the London market. The fourth consideration is that other countries, which are relieved of some of the special requirements which go with the maintenance of a true international currency, do not use this as an excuse for evading necessary internal and external disciplines, if the whole system is to work.

If we keep these considerations in mind, we can make further progress toward monetary reconstruction. Over a period of years, if the present untenable situation which is neither war nor peace can be ended, we can again achieve monetary stability, without too much of the paraphernalia of exchange controls, import quotas, tariffs, export allocations, bilateral agreements, and their various permutations and combinations. But we should now know that it is a long, difficult road, and that it leads into new country. In traversing this road, let's not waste our breath shouting slogans. We can't get to where we want to go by repeating "balance your budget" or "revalue your currency" or "multilateral trade and no discrimination," desirable as all of these things may be. Ours is the harder task of trying to find out why the old order has changed, and what revamping of old ideas and what abandonment of old prejudices are necessary in a new world.

With Investors Serv. Corp.

(Special to The Financial Chronicle)

MIAMI BEACH, FLA.—Victor Clifton, Howard A. Long and George F. Ryan have been added to the staff of Investors Service Corporation, 420 Lincoln Road.

With John L. Ahbe Co.

(Special to The Financial Chronicle)

PALM BEACH, FLA.—Richard H. Landrum has become associated with John L. Ahbe & Co., 268 South County Road.

With Robinson-Humphrey

(Special to The Financial Chronicle)

ATLANTA, GA. — Robert L. Jones is now associated with the Robinson-Humphrey Co., Rhodes-Haverty Building.

Otto Weinmann to Open

Otto Weinmann is engaging in a securities business firm from offices at 15 William Street, New York City.

With S. A. Sandeen & Co.

(Special to The Financial Chronicle)

ROCKFORD, ILL. — James M. Hancock is now with S. A. Sandeen & Co., Talcott Building.

Ellery With Sutro & Co.

(Special to The Financial Chronicle)

BEVERLY HILLS, CALIF.—Eugene Ellery, Jr., formerly with Buckley Bros. as co-manager of the Beverly Hills office, is now associated with Sutro & Co., Van Nuys Building, Los Angeles.

With Herrick, Waddell

(Special to The Financial Chronicle)

BEVERLY HILLS, CALIF.—Arnold D. Reilly has joined the staff of Herrick, Waddell & Reed, Inc., 8943 Wilshire Boulevard.

Aspects of European Recovery

(Continued from page 19)

economic institutions and policies. Each new state that has been created has sought to fulfill its aspirations by building up within its borders all the appurtenances of a modern economy, and to wall itself off with trade barriers against foreign competition or the impact of international economic crisis. Meanwhile, the more highly developed countries, increasingly hampered in their traditional ways of doing business, have adopted restrictive practices of their own, hoping to reserve at least their inadequate home markets for their own producers.

Atomic scientists tell us that a certain minimum quantity of fissionable material is required for a successful chain reaction. It may also be said that an economic unit must attain a certain "critical size" in order to permit effective use of modern production techniques, a maximum volume of domestic trade and a stable equilibrium in its external economic relations. And in general, the more highly developed the economic unit is, the greater will be the specialization in production and the larger the internal market required for full efficiency.

The basic validity of the European Recovery Program derives in large part from its recognition of the need for the creation of a larger economic unit within Europe through a closer integration of the various European economies. Perhaps its most encouraging aspect is the determination expressed by the countries participating in the program to achieve such integration by coordinating their import and investment programs, by reducing tariffs and otherwise organizing trade within Europe in more rational fashion and by establishing stable and convertible currencies. In order to accomplish this, however, more is required than a reconciliation of conflicting national claims. The basic need is for a revamping of existing mechanisms so as to provide for unified thinking, planning and action in terms of the best interests of Western Europe as a whole.

It may well be that the ultimate answer to this problem is a complete economic union of the Western European countries. But such an economic union, involving as it does centralized control of such vital matters as currency, investment programs, wages, prices and foreign trade, cannot, in my judgment, be accomplished without political union as well. And in view of the historical and deep-rooted differences in language, customs, traditions and national habits and prejudices among the European countries, it is not realistic to expect that such a political union can be quickly achieved.

I believe, therefore, that it would be a serious mistake if, through undue emphasis on the ultimate objective of a politically federated Europe, we should be led either to overlook the very real accomplishments already made in the direction of European economic cooperation or the many additional measures of integration, short of complete union, which are possible of prompt realization. There is already apparent a new attitude of mind, a recognition of the essential interest of each ERP country in the common fate of all. There is also emerging in the OEEC, I believe, the type of integrated thinking and planning which the situation demands. The gradual development of these trends, accompanied by a corresponding willingness to relinguish national sovereignty to the extent necessary to make integrated action possible, seems to me to hold the best hope for the achievement of our ultimate goal.

There are two other aspects of the problem of European recovery which I should like to bring to your attention because they have not as yet received the public consideration which they deserve.

The first may perhaps best be described as the dilemma of the negative incentive. The dilemma is this: The United States properly does not want to spend more money on the Recovery Program than is required; in other words, it wants to be sure that the amount made available to each ERP country is not in excess of that country's reasonable needs. On the other hand, if the amount of aid to be made available to each country is based solely on the criterion of need, there is every incentive for such country to demonstrate how great its need is and thus to avoid taking the difficult, perhaps even harsh, measures internally to reduce its dependence on external assistance.

In my opinion, a recovery program based solely upon respective needs is unwise just because of this negative incentive factor. It need is made the only test, a country which aids itself is penalized by getting fewer dollars, while a country which does not do what it should is rewarded by getting more assistance. This backward approach may be appropriate for the administration of temporary relief measures, but it is entirely inappropriate for a recovery program.

The solution to this dilemma, is, in theory, quite simple — the amount of assistance to each country should be determined upon the basis of a careful balancing of reciprocal needs on the one hand, and of accomplishments and efforts at self-help on the other. But there is no easy answer to the question of how, in practice, this kind of delicate balancing can most successfully be accomplished. The problem is one which obviously requires further consideration and study. One thing is clear, however, and that is that a penny-pinching philosophy—an approach that no country should get one cent more than the bare minimum it needs to meet its import requirements, after subtracting its foreign exchange earnings—removes the incentive for any country to do better than originally estimated and thus, in the end, results in both a more costly program for the United States and a less effective one from the standpoint of European recovery.

Purpose of ERP

One final thought about ERP and that is this: It is essential that there be continued and repeated emphasis upon the fact that the basic purpose of ERP is to restore a viable Europe, and not to serve as a temporary stimulant for American exports. Any effort to make the European Recovery Program a vehicle for the dumping of American surpluses would defeat the very objective of the Program, would prolong unduly the need for American aid to Europe, and would play directly into the hands of those who are trying to undermine the Program in Europe. We all recognize that American dollars made available for European recovery should be spent for equipment and tools, raw materials, and necessary subsistence items, and not for marshmallows and cream puffs. Of course, in certain specific cases it may be that such products as grapefruit, tobacco and dried fruits are priority items for European import. In such cases, these items should be procured by the European countries. There should not, however—and I want to underscore this—be American pressure to force the European countries to spend ERP money or their own free dollars for the import of these items just because there is a surplus of them at going market prices in the United States.

I should be the last person to suggest that America cut itself off from its normal legitimate foreign markets, but we must recognize that money spent for grapefruit and prunes cannot be spent for machine tools and cotton, and that unless a viable Europe is created through the most effective possible use of ERP dollars, the United States will be footing a tremendous bill without accomplishing the purpose it has set out to achieve.

May I state, in conclusion, that there is, in my judgment, no conflict between the purposes and operations of ERP and those of the International Bank; to the contrary, ERP enables the Bank to concentrate on financing specific productive projects and relieves it from pressure to make loans which are intended, in effect, merely to meet balance of payments deficits. The Bank will continue to employ its available capital and credit for productive loans for which there is a good prospect of repayment, and this policy can be followed the more successfully if Europe's economy is reestablished on a broad and firm base.

It has been assumed from the beginning of the ERP discussions that the Bank will make loans to supplement ERP financing in certain areas. That is certainly our intention. It is impossible, of course, at this stage of the game, to indicate just what loans we expect to make or how much we may be able to invest. But I think it can be said that since the first claim on ERP funds is necessarily for imports of food, fuel, raw materials and other goods necessary to maintain the existing levels of production, the Bank will probably be able to make its most constructive contribution by financing selected investment projects, involving permanent additions to productive capacity, which, in the absence of Bank assistance, might have to be abandoned or postponed.

Some of the Bank's operations outside of Europe may also be tied closely to the ERP. The raising of living standards in underdeveloped countries will not only provide a larger and more secure market for Europe's specialized exports, but will also open cheaper and more abundant sources of raw materials and food. Development of such sources of supply in non-dollar areas will help directly to reduce Europe's need for dollars and in the long run may help to promote a better equilibrium in world trade.

There are great influences at work in the world today, particularly in Western Europe, to build a more unified and more rational economic structure than existed before the war. The Benelux experiment is one sign, the OEEC is another, and there are many more. Examine each of these efforts closely and you may be disheartened at their slow and uncertain progress. But all the great movements of history, however swift and inevitable they may seem in the light of hindsight, are composed of halting steps and compromises. The significant fact is not what may or may not be accomplished this month or next towards creation of a customs union, or formulation of coordinated investment plans, or international stabilization of currencies; it is rather that all these endeavors, faltering as they may still be, manifest an irresistible urge towards the creation of a sounder economic structure.

Success will not be easy to attain and in the nature of things it can never be final or complete. But I hope and believe that when the record of this postwar era comes to be written, the historian's pen will underline, not the difficulties and frustrations which now loom so large in our thinking, but rather the very real progress we are making.

Investment Probabilities Under a Labor Government

(Continued from first page)

for four more years stand as an island of semi-conservatism and semi-rightism in a sea of labor and socialistic and other leftist isms. Now that the elections show this is not to be, I think we can rightfully feel, that, as in 1932 when we crossed a very special bridge, now again we have crossed another, perhaps never to return.

Nov. 2, 1948, thus represented no ordinary "election" but the end of Republicanism as we knew it in the U. S. A. Elections to come will not turn back the clock, but will decide the pace at which we continue moving to the left.

Investors will thus not be able to appraise the present situation in any hasty manner nor can I.

Before the election there were two main stumbling blocks to a stronger more active stock market. One was the political. The election of Governor Dewey supported by a Republican controlled Congress should have meant that psychologically to that extent a dollar of corporate earning power or a dollar of corporate dividends or a dollar of corporate book value would have commanded a greater market price. Analysts who deal in figures have long and often pointed out that stocks seemed "cheap" compared to the past. Of course now the political stumbling block that existed before the election becomes bigger than ever. To begin with, it becomes a reason to expect lower rather than higher valuations.

Markets must now consider prospects of reduced corporate earnings because of strong possibilities of higher taxes, price control, pro-labor legislation, etc.

On the other hand, the second stumbling block to a more realistic appraisal of stock values has been the labeling of current high earnings as a boom condition that would be followed by a bust. Actually, we can be sure now that earnings in most cases will decline but it is probable that they will decline and stabilize at a fairly high level and that any bust will be postponed. We are likely to return to a period of shortages and production for war as well as for world rehabilitation. Such a condition coupled with the inefficiency of labor and the tendency to work shorter hours should all tend to prolong the period of high activity. The redistribution of effective spending power is an other factor along these lines that must be given full weight.

Looked at in another way, it may very well be that the unfamiliar prices of inflation are giving us an illusion of boom. The depreciation in the dollar and the consequent rise in the price of things has become an accepted part of our lives in practically all directions, save in the stock market.

Let's take, for an example, General Motors, because a few days ago, they released their earnings for the third quarter of 1948. Net earnings for the three months ended Sept. 30 amounted to $120,391,550 on the sale of 557,868 cars and trucks. Back in the second quarter of 1941, which was the best pre-war quarter, their net earnings were $53,604,000 on the sale of 732,314 vehicles. My point is maybe the measure of boom in the case of the motor industry is the number of cars built and sold, rather than the number of dollars received for them. I know, of course, that General Motors' income is derived from many other sources than just motor cars, but nevertheless, the percentages are apt to be close enough to make the point valid. Likewise, I also know that our total production of physical products in unit terms is probably up 10% from 1941, which in a way makes the General Motors figures not strictly typical. However, they are certainly very indicative of the situation.

Thus, on an overall basis, we have perhaps not made as much progress in filling wartime gaps on a unit basis as the dollar figures suggest.

There is much therefore to be said for the idea that current earnings are not as swollen as they look, expressed in paper dollars, nor are they as apt to be as transitory as people generally seem to conclude.

It must be remembered that stock prices are quoted in the same depreciated paper dollars as anything else. By some mathematical measures, stocks seem the cheapest things one can buy today. For instance, on an earning power basis, the typical stocks that make up the Dow Jones Industrial Average earned $8.60 a share in the so-called "normal" period of 1935 to 1939 inclusive. In that period, their average price was 142 or 16½ times earnings. The average price of the Dow Jones Industrials so far this year is 178 or 8.9 times their estimated earnings of $20. Put in another way, if we think of the earnings expressed as 100 for 1935-1939, such an index would now stand at about 232, but if we think of stock prices for 1935-1939 as 100, it would stand at only 125 for this year. These same stocks paid $6.29 dividends averaged over the 1935-1939 period and they probably will pay at least $10 dividends this year.

If we look at it from the point of view of book values or invested capital, we get the same general drift. Book values have built up enormously over this period, mostly through the re-investment of earnings not paid out as dividends. However, the value of the properties of our listed corporations has of course increased much more than is shown anywhere statistically, simply because of the higher dollar cost of everything. This corporate plant is irreplaceable at anything like book values. In a sense, it increases the safety of the business of the entrenched corporations because duplication of their facilities by competitors becomes unlikely.

Any comparison of stock prices versus corporate profits or stock yields versus bond yield or corporation plant replacement appraisals versus stock prices or the volume of stock trading versus savings deposits, etc., will end up with the common statistical conclusion that nothing is cheaper than common stocks today.

Of course, there are other factors than just the two detailed that have affected common stock valuation. The reduced margin value of stocks for one thing is of enormous importance. The very redistribution of wealth, accomplished through the New Deal, has also been a bearish factor in taking wealth from the investor class and giving it to population groups that do not look with favor on equities and in fact save less of their incomes anyway. The loss of the foreign investor has eliminated much support from stock values.

Thus the apparent historical "cheapness" of stocks is not in fact as great as appears on the surface. Nevertheless, there may still be undervaluation but certainly not to the degree that pure statistical yardsticks appear to show.

The question arises, how much of the remainder of values still in existence analytically speaking but possibly unreflected in market prices because of the human psychological element, will be lopped off by the new policies to come out of Washington next year and in the years to come?

The total market judgment which recently held actual stock prices below their theoretical values is certainly now justified on the political count. Is it to be equally justified on idea of a coming "bust?"

It seems to me that the weakening in prices of things in general will now tend to stop. This should give, in itself, substantial support to stocks values.

It is just too early to appraise the net result marketwise. There are factors pulling both ways as outlined above and others such as the yield factor. Dividends will be more sought after and purchasable yields I think will be lower.

There will also develop great changes as between industries. Shares with shelter against an excess profits tax will gain in popularity. Shares vulnerable to high labor costs and price control will lose popularity. Government spending patterns will be closely studied for their effect on different industries.

It will probably take until next year to begin to really know. For the rest of this year tax selling and the fear of the investor class may take the market lower or at least keep it dull and draggy. In January and February the viewpoint is apt to be more constructive. Fears, always discounted ahead, will be actualities with the President's message and the convening of Congress. "The baby will be born," so to speak stock marketwise. Some investors will begin to buy where they see values under the new setup.

My feeling now, as always, is to realize that bottoms and tops in the stock market and trends are made at the moment when the majority of investment thought leans a particular way and not at all at the moment of actuality. The whims and vagaries of the multitude of human minds that settle stock market prices and trends never act twice in the same way or at the same rate of speed. That is why some news is discounted way ahead of time, some just ahead of time, some at the time and occasionally after the time. It is also why some news is under discounted marketwise, some just about discounted and some very much over discounted.

My guess at the moment is that the bad elements in the situation will be given the most emphasis during the remainder of the year and the more hopeful factors in 1949. However, I always counsel looking at the market every day and never arguing with the tape, in case developments suggest a change in this point of view.

The investment probabilities under a labor government are for a continuation over the long pull of the growth of factors detrimental to corporate ownership. Old yardsticks workable under a favorable political climate will prove misleading now. The near term outlook however is that the unfavorable side of the picture is almost sure to be overdone this winter and that speculative opportunities are likely to develop as a result.

Foreign Trade—A Case Of Give and Take

(Continued from page 17)

motives. By the same token, we can use more information. Even in these days of our ascendancy to world leadership, 10% of our people do not understand what is meant by the United Nations and 67% never heard of the Reciprocal Trade Agreements. If we have been slow in securing the facts, some of our neighbors have been exceptionally busy distorting facts and trying to picture us as the most grasping and unscrupulous people on earth.

Yugoslav officials are reported to have changed the title of the "Grapes of Wrath" to "The Paridise That Is America" in order to present the seamiest side of our life. But what impressed the audience most was the fact that in fabulous America even the dispossessed rode off in their own jalopies.

Russian people have been told that American children are educated in shacks and in railroad waiting rooms; that both teachers and children shiver in the cold and that kerosene lamps are luxuries used only on festive and social occasions. Pictures of crowds waiting for football tickets have been captioned as breadlines and the thousands inside a stadium have been described as crowds attending a Communist rally. These are fantastic stories, but are they more fantastic than the request sent to Secretary Forrestal by a New England farmer? The farmer had information to the effect that the atomic bomb had materially enriched the soil of Hiroshima and Nagasaki. Would the Secretary please drop one bomb on his premises? He, himself, would like 24 hours' notice. But would the Secretary please refrain from telling his neighbors?

Admittedly, lack of knowledge exists on both sides of the Iron Curtain, but there is certainly no parallel between unawareness of the facts on the part of Mr. Average American and the planned misinformation ladled out to the average Russian. At least we are in a position to secure facts—which is vitally important today because there can be no misunderstanding about the perilous business at hand. We are not fighting a cold war or a warm war. We are not fighting a war to defend Mom's apple pie, or the right to buy ice cream sodas with cherries on top, or the privilege of enjoying the wonders of the plastic age. Perhaps we are really fighting for a childhood for every child and a manhood for every man—free from the threat of war. At the same time we are also standing face to face with Russia everywhere in the world, determined that this generation will not see another Munich.

Our Best Weapon

Our best weapon in this fight is our economic machine—the most powerful instrument ever devised by man—which during the war turned rash promises into realistic performances and throughout our history has continually developed a standard of living without parallel. Last year this machine drew from the pocketbooks of Americans in taxes alone almost as much as the total income of the Russian people.

If you want to estimate the effectiveness of this economic machine take a look at events of the past six months. You will find that ever since the inception of the Marshall Plan there has been a remarkable resurgence of national feeling among the countries of Western Europe and an equally marked resistance to communism. The economic and military federation discussed for years by England, France, Belgium, the Netherlands and Luxembourg and the plans of France and Italy for a customs union are now taking shape. French and British relations are progressing smoothly, even the thorny question of sharing military secrets has been satisfactorily settled.

Russia is attempting to counter unrelenting pressure from our economic machine by instigating conflict where our interests are in close contact. Strikes, inflation, political upheavals and conspiracy are a few of the tactics now being employed in Italy, France and England, but these may well be the signals of desperation. It is apparent that the Kremlin has begun a world-wide economic offensive with the three-fold objective of (1) creating political instability in non-Communist countries; (2) thwarting the Marshall Plan, and (3) blocking rearmament by the United States and Europe. One of these drives is taking place in Malaya and another in South America with the aim of preventing our stockpiling of strategic materials such as rubber and tin.

Thus far all these political maneuvers have been unable to stop our economic juggernaut. Even countries behind the Iron Curtain are beginning to hear about it and while we're on the subject we might take a look at its accomplishments during the past five months. During that period, under the Marshall Plan, we have supplied $300 million worth of bread grains; most of the $56 million in cotton; half of the $25 million in fruits and vegetables and all the $26 million in tobacco. American industry has supplied more than 65% of the $125 million worth of coal; 40% of the $119 million in petroleum products; all of the almost $2 million in tractors and agricultural machinery; most of the motor vehicles and parts and all but $400,000 of construction and mining machinery which also ran close to $2 million. And the best is yet to come. Under the new system of procurement, European countries will now be able to plan their purchases more than a year in advance, which will permit them to purchase durable wealth-producing goods. Already, reports from our diplomatic and military intelligence indicate widespread unrest in Red-dominated areas. It is admitted that forced labor camps are being set up in Eastern Europe "for the training of those whose mode of living and present attitude to the people's state have shown they are not willing to do their share of the nation's labor." Even Polish peasants are being inspected for traces of capitalism. The Czechs were recently told by Prime Minister Zapotocky that the two-year plan had failed to raise living standards and that they would be obliged to undertake a five-year plan. One of the first rips in the Iron Curtain is the Yugoslav decision to get along without the Cominform, which means that it is almost ready to start punching its time clock in the West.

The ECA

Let's take a look at the Economic Cooperation Administration which is demonstrating the power of our economic machine. If only from the viewpoint of his pocketbook, the average American has a right to know how some $6 billion of his money will be expended within a year for foreign aid. But only 61% of our people have ever heard or read about ECA, while 25% are frank to admit that they cannot state its purpose.

First of all, let's get acquainted with terminology: ECA represents the Economic Cooperation Administration, established by the Foreign Assistance Act of 1948 to make dollar funds available to Western Germany, China and the 16 Western European nations, while ERP—the European Recovery Program—deals solely with the latter. The abbreviation OEEC represents the Organization for European Economic Cooperation, composed of representatives from participating nations which has drawn up a four-year plan covering the needs of Europe from 1949 to 1952.

In a sense, ECA is a culmination of our overall foreign policy. That is, it consists of one part expedient reaction to Russia; one part humanitarian relief and one part the selling of products. Under its program, each nation is to help itself and all other cooperating countries. ECA is not a purchasing or financing agency, simply a means of making available dollar funds to countries on the basis of their needs. Contrary to popular belief, private firms, not governments, contract for the bulk of goods through export-import trade channels after proper screening and authorization.

Furthermore, extension of our aid to Europe is contingent on the continuous effort by participating nations to establish their own joint recovery program. This involves the promotion of agricultural and industrial production, the stabilization of currency, an increasing interchange of goods and resources, facilitating the procurement of raw materials by the United States, and depositing in a special account currency equal to the cost of materials provided by the United States for which payment is not required.

Despite popular misconceptions, American aid is to be on a decreasing not an increasing scale, and is not intended to become a permanent underwriting of European deficits. As the aid program tapers off and European economy regains strength, increasing opportunities will present themselves for private financing to resume its normal function.

In evaluating the Marshall Plan it is important for us to consider that 260 million people live in the European nations participating in this program. What we do—together with their own qualities—will help them regain faith in a future when they can again exert their full influence and authority in international life. Then again we must also realize that ECA is more of a force than it appears on the surface. Below the surface, it is a vast political, economic movement that tends to change the nature of Europe by driving it toward unity. By the same token, the role of ECA is not simply one of providing money and determining how it will be used. It is more significantly an indication of the deep involvement of the United States in world affairs, tracing back to the days of the Bretton Woods Agreement. Since then the United States has successively become the guiding spirit of the International Monetary Fund which settles and clears international accounts; and the International Bank, an agency of rehabilitation and industrialization. Both agencies fit into a pattern established years ago by the Export-Import Bank which has been making sound loans to countries on the basis of specific projects.

The United States is also trying to breathe life into an International Trade Organization which is aimed at tearing down the trading barriers which separate nation from nation.

Even though they have not solved the internal problems of nations these policies have isolated many causes of international unrest and freed many people from fear and want. France is a land of emergency economic measures with governments that die aborning; England is still divided over the subject of nationalization of industry, and Italy continues to be in economic trouble, but in every case American backing has helped slam shut the door on communism.

Now we look at a man in a country that has been called a house without a roof—a man who watches our actions with great interest, and as he watches he seems to see more and more planes shuttling in the Berlin corridor despite the buzzing of Yaks and the bluster of Molotov. What the German really sees is the spearhead of our foreign policy; the work of an economic machine which does the impossible and which is even now preparing to do a job even more impossible.

Out in Montana the Army has established a new school called "Little Corridor" to train crews for what is called "Operation Vittles." Soon radar equipment will be used; sometime later will come "green card" pilots—fellows with more than 2,000 hours in the air and at least a hundred hours of instrument-flying experience; then 10,000 veterans who will reenlist at their old ranks for immediate assignment. Match this with manpower and back-power in the French sector of Berlin where 17,000 residents, half of them women, have labored since last August to dig up and remove 500,000 cubic yards of earth, and who have crushed and laid thousands of tons of rubble to make the big runways of a new airport for the airlift. By mid-December this will be finished and another notch added to the accomplishments of mass production.

We have served notice that our first line of defense is manned by products and services. We have also made it known that we will keep both hands on top of the international trading table and will "give and take" on the basis of dealing off the top of the deck when anyone wants to talk in terms of cooperation. We hold winning cards today but our only assurance that tomorrow will find us as fortunate depends to a great extent on the enlightenment of the average American citizen. His intelligent estimation of world affairs, more than any other single factor, will strengthen our hand as we shape the future course of our foreign policy.

There are four things that everyone can do in helping to bring about this general state of enlightenment:

(1) Inform yourself of the important bills being considered.

(2) Personally interview or send a telegram, letter or postal card to your representative in Congress inquiring about intent and scope of a bill, or expressing your opinion and asking either support or opposition as the case may be.

(3) If the bill is well handled, express your appreciation; if not, express your opinion.

(4) Make it a point to interest your associates or friends in this program and thus spread the good work.

Standing here in the twilight of the second world war, it is increasingly evident that people everywhere are interdependent; that their problems are interwoven and that their collaboration is absolutely essential if peace and prosperity are to be achieved and retained. Just to indicate the scope of the suggestions put forth by the readers of newspapers, I offer the one recommendation that we abolish atom bombs and all means of producing them and another from a particularly angry individual who suggests that we abolish the men in the Kremlin and all means of reproducing them. Of course, our angry man, like many people in the world today, is not really thinking of the consequences of his action, even in terms of his own perfectly normal desires.

In closing, I want to express my sincere belief that with a greater appreciation of international realities we can utilize our knowledge and resources to the fullest extent. If we can do this, we can win the peace.

Spahr Replies to Leffingwell

(Continued from page 6)

managed credit and irredeemable paper money, in so far as currency is concerned, that contribute to booms which in end in "busts." Gold reveals what is going on and may bring man's mismanagement to a halt. But is not that desirable? What some leaders in government and business finance want today is that the Treasury and Reserve banks shall be free to "manage" credit as they choose—to overexpand it at will—and at the same time be freed from the pressures which objective values, as provided by gold, can exercise. Because gold exposes and calls a halt to man's mismanagement of credit, many people condemn gold. They recommend a "managed" irredeemable paper money.

The current widespread endorsement of an irredeemable money is a very old type of preference in human history. In addition to the tendency of the general public to confuse the convenience of paper money as a medium of exchange with the other functions of gold, only vaguely understood, if understood at all, there is the hope that "this time" we shall do better with irredeemable promises than with gold. But there is, apparently, no valid basis for such a hope. And the functions of gold, besides that of serving as a medium of exchange, are very important and have intricate and far-flung implications.

It has been said many times, and I think accurately, that gold exists as money, and has done so for centuries, for the simple reason that governments and central banking systems cannot be trusted with money that does not represent stored labor and does not have a world-wide demand.

Our Treasury and Federal Reserve authorities, as recently as 1942-1943, provided an illustration of the validity of this well-known pronouncement when, by a manipulation in the issuance of Federal Reserve bank notes, they improperly and illegally pumped $660,000,000 of fiat "National Currency" notes into the reserves of Federal Reserve banks with power to support over 14 times as much credit in our banking system. (A dollar of reserve in the Federal Reserve System then would support $2.85 of reserve deposits of member banks. This $2.85, at a ratio of 20%, would support $14.25 in member bank deposits.) As a part of this manipulative transaction the Treasury gave itself $660,000,000 in deposits in Federal Reserve banks to which it was not entitled. This is but one example of the poor "management" of our irredeemable money system.

II

Leffingwell: "Our gold reserves are sufficient now to maintain a sound currency, if they are conserved for the support of that currency, and limited to use to meet our external obligations."

Spahr: Under this principle our gold reserves are to be used to meet the demands of foreign governments but they may not be used to meet the demands of the people of this country.

This is a basic issue, and it should be understood.

The "reserves" in our Federal Reserve banks are ostensibly held against all Federal Reserve notes and deposits. In fact, however, only foreign banks can really exercise their claims against these reserves. Our people cannot. That is a characteristic of our international gold bullion standard.

Is there any valid basis for this discrimination against our people in favor of foreign banks? I, like many others, contend that there is not.

It seems quite clear that such discrimination arises from the fact that our government officials have the power to dictate to the people of this country in so far as the nature of their money is concerned, and that they lack such power in respect to foreign banks, governments, or individuals. If our government should attempt to thrust a money less valuable than gold on the foreigner, he would take it only at a discount. Therefore, our government, through the Reserve banks, stands at the international boundary line as it were and pays out gold when demanded in order to prevent depreciation of our dollar in foreign exchange. To our own people, however, our government says that they shall accept irredeemable paper, silver, and minor coin; and our people can do no better in so far as money is concerned since they have been deprived of the right to choose between gold, silver, and paper.

It is proposed that our gold be "conserved for the support of that [our] currency." What does a "reserve" mean, what is it for, if it cannot be paid out? And, if it should not be paid out to our people, why should it be paid out to foreigners?

And who are these foreigners who can get it? They are foreign central banks. They can exercise a control over our gold reserves and credit structure that is denied our people. Many of these foreign banks are dominated by Socialist and similar types of dictatorial governments. It is the central banks of those governments that can exercise control over our gold supply and bank reserve structure, to the extent of their claims against them, while our people are denied any right to exercise their claims though they are much larger.

I, for one, do not wish to have our gold reserve structure under the control of foreign central banks and their governments, to be whipped about as they see fit, but not under the control of the people of the United States.

This is an issue that calls for much more careful consideration than it has been receiving.

Let us also face the question of the meaning of bank and Treasury "reserves." Is it not paradoxical to insist that "reserves" in our Reserve banks are something that cannot be used to meet liabilities? Are reserves against liabilities in nonbank corporations something that cannot be paid out? If bank depositors have claims against bank reserves do they not, properly, have a right to have their claims met out of the reserves which are said to be held against them? On what proper grounds may banks create promises to pay and at the same time be relieved of the obligation to meet these claims? These are basic considerations.

The fundamental problem that should be involved here is not the question of the right of banks to withhold their "reserves" but rather the question of how to make a fractional reserve system function properly. The answer to that lies in the appropriate organization of our reserve and banking structure and national credit clearing system.

Instead of concentrating on, and attempting to solve, these problems, as we should, we have plunged ourselves into a cloud of argument which, in my opinion, involves rather indifferent endorsement by the defenders of our irredeemable money of practices which are in fact in conflict with the principles of promised performance. Most of our monetary promises present such a conflict. Our "reserves" are not to be used—except by foreign banks! I do not understand how any monetary system that violates the principles of promised performance can be defended properly.

Many people, obviously, find it easy and comfortable to endorse what we have and thereby avoid the problems with which we should deal if we are to have a good and honest monetary structure. These problems involve the proper organization of our banking structure, a proper program for the administration of our public debt and fiscal affairs, a cleaning up of the indefensible features of our monetary system.

Although a gold standard and redeemable paper money system should, and might, bring great benefits to this nation as matters stand now, it does not seem reasonable to suppose that it would not work under great handicaps unless these other problems are at the same time dealt with. It is like providing a good highway for a fine automobile. The latter, like a cheap car, may be wrecked on a bad road; but there is no reason to supppose that a cheap car can withstand a bad road better than can the finest automobile thus far produced, assuming the same driver. So it is with gold versus an irredeemable paper money. The latter is the cheapest and most unreliable monetary vehicle thus far devised by man.

III

Leffingwell: ". . . The best hope of the future is that other currencies will ultimately be based on a dollar exchange standard. That would mean our gold reserves would become in effect the world's gold reserve."

Spahr: The question arises here as to whether it is not best for foreign banking systems to keep their own reserves and to manage their credit structures accordingly. It would seem unfortunate indeed if our reserves should be placed at the mercy of foreign central banks and their governments which may overextend credit and sweep out their reserves held with us, and consequently a corresponding amount of our reserves, while our people are conducting their affairs properly and are not rushing to banks to withdraw their share of our reserves.

When a nation's central bank (or banks) undertakes to hold the reserves of other central banking systems, unless these reserves are earmarked, set aside, and kept out of its reserve-deposit structure, it encounters trouble, as past experience reveals.

IV

Leffingwell: "We have a very good, sound, gold standard currency today."

Spahr: Against this assertion are placed the facts that all our paper money, except silver certificates, is irredeemable, that the "reserves" of our central banking system and Treasury (except for silver) cannot be paid out domestically, and that the only asset cash which the Reserve banks can pay out is not lawful money for reserve purposes.

V

Leffingwell: "It [our currency system] has proved itself able to meet the gold export demands of the greatest war of all time."

Spahr: Under the conditions that prevailed (and still prevail) no real test was made of the strength of our monetary system. We were exporting an unprecedented amount of our wealth. Gold was coming to us either for safety or to pay for some of our goods and services. Our buying abroad did not begin to match our exports.

VI

Leffingwell: "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."

Spahr: Logic would seem to require that the same observations be applied to the payment of our gold reserves to foreign banks.

And as to the question of paying these reserves to our own people, when they demand redemption of the claims they hold, the problems on which we should concentrate our attention are these: (a) What should we do to make a fractional reserve system function properly, even under highly adverse conditions? (b) Does the gold of this nation really belong—that is, should it belong—to the people or is it, and should it be, the property of the banks who may appropriately withhold it from the people, who have claims against it, as the banks see fit?

It would seem to be quite clear that it is the business of banks to extend credit so that emergencies can be met and that it is not the right of banks to make people pay the penalty for the banks' overextensions of credit. It is the duty of Congress and the banks to devise appropriate fire escapes to take care of emergencies.

Banks may not properly take the position that they should not be required to pay out their reserves to meet the people's claims against them. There appears to be no defensible basis on which one may justify the principle that banks should have the privilege of issuing promises to pay without being required to pay in good cash assets. The problems inherent in a fractional reserve system are not to be solved properly by any such device as the grant of special privilege without corresponding responsibility to Treasury officials and banks.

We have a "reserve" situation in our Federal Reserve System that should be scrutinized. It is a monetary and banking contradiction. The Reserve banks are required to hold a "reserve" in gold certificates of not less than 25% of their Federal Reserve notes and deposits. But these "reserves" cannot be paid out.

The only asset cash which Reserve banks can pay out against their liabilities is not lawful reserve. It is simply a non-reserve cash item. On Oct. 13, the Reserve banks held only $257,832,000 of such cash. We do not hear any debate about the smallness of that item in meeting the Reserve banks' liabilities, but we hear much about the inadequacy of our gold to meet such liabilities if we were to return to a gold currency. On the same date, the Reserve banks held $22,689,394,000 of gold certificates as reserves. This is what they could have paid out had they been authorized and required to do so, as they would have been under a gold currency system. In this case they would have had over 88 times as much asset cash to pay out against their liabilities as they had on that date!

Is it not a paradoxical situation when we argue, on the ground of scarcity, against the creation of a usable cash reserve which is over 88 times larger than the only cash assets that now can perform the function of usable reserves while we say nothing about the smallness of our only usable cash asset which is a mere 1/88 of what it would be if we instituted a gold coin and usable reserve system?

VII

Leffingwell: "This [a possible insufficiency of reserves if we pay them out domestically] would weaken our defenses in case of war, and might convert a possible recession into a disastrous deflation in time of peace."

Spahr: One might just as well say that about a multitude of peacetime practices—for example, about our Constitution and Constitutional practices. When a nation goes to war, particularly if attacked and invaded, many peacetime institutions would, if adhered to, weaken defenses. Constitutional processes of peacetime may be suspended. Even people's rights to life are sacrificed. Doubtless the peacetime rules relating to the use and maintenance of a gold standard would have to be suspended. But that would be merely one of the sacrifices caused by war.

One does not, however, find in these wartime suspensions and destruction of the good institutions of peacetime defensible grounds on which to impose in peace what may be necessary in time of war.

The statement that payment of our gold reserves "might convert a possible recession into a disastrous deflation in time of peace" is a case of holding gold responsible for the consequences flowing from the mismanagement of credit by government officials and bankers. A run on banks is caused by mismanagement of credit. It is proof that people prefer gold to the banks' promises.

The question here is whether the people should be deprived of the power to hold in check mismanagement of credit. A proposal that they be denied such power would seem to be without any reasonable justification. Such a course is a genuinely dangerous enterprise.

VIII

Leffingwell: "The place for our gold is in the reserves of our Federal Reserve banks, not in the pockets of the people."

Spahr: That is all right provided the gold flows to the Reserve banks as a consequence of the voluntary acts of people. It is not all right if the people wish payment in gold of the banks and Treasury's promises to pay. Gold will, for the most part, remain in banks and in the U. S. Treasury if the government, Treasury, and banks follow a prudent course.

The fundamental issue here is whether this gold should belong to the people or to the banks and the Treasury.

It is the right to get and to hold gold that gives the people their direct control over the Treasury's use of their public purse and of the banks' use of the people's gold for the extension and clearing of credit. Let the government and banks deprive the people of the control which gold coin and a redeemable currency give them, and the people of a nation lose a vital right in, and protection of, property and liberty.

As a consequence of this system in the United States, Congress and the taxpayers have in large degree come under control of pressure groups and the government spenders who are throwing the people's substance to the four corners of the world; and the people can do little to stop it. They have lost their control over the abuse of the public purse and over the attendant response of the Reserve bankers to the government's wasteful spending.

Our monetary and "reserve system permits and invites this prodigal waste of the people's substance, heavy taxation, the depreciation of the purchasing power of our dollar, and the great impairment of the value of people's savings.

IX

Leffingwell: "In the reserves it [gold] gives confidence at home and is available to meet our obligations, and perhaps our necessities, abroad."

Spahr: This statement says that our gold is available to meet obligations and perhaps our necessities abroad but it denies that it should be used to meet the banks' obligations at home.

Even in international payments, the control is to be reserved to the government and Federal Reserve banks.

Now the simple fact of the matter is that world trade is tied in knots because governments and central banks have taken it upon themselves to manage international transactions. Both government and central banks need to let private enterprise find its way in foreign trade and exchange and have gold for use in private business. The government and central banks should return to their proper spheres. It is not their appropriate business to manage trade, investments, exchange rates, and those instruments of private enterprise used in trade. It is their business to aid where it seems profitable and wise without attempting to manage what properly belongs to nonbank private enterprise. The lessons on this point today should be obvious. The governmentally - managed economy, with central bank co-operation, has reached a high level in international relations; private enterprise has been reduced to a passive, low estate; chaos and stagnation in high degree are the result.

X

Leffingwell: "We do not need a gold coin or gold certificate currency but a gold standard currency."

Spahr: We do not need a redeemable currency if the people of the United States are ready to surrender much of their freedom to the government and the Reserve banks. If, however, our people have not been taken so far along the road toward a governmentally-managed economy that they can still reclaim the freedom from government regimentation that should be theirs, then they had best restore the curbs on the government and banks which a redeemable currency places in the people's hands.

When our government instituted our system of irredeemable currency and cut the people's control over their gold, it in effect severed all the direct lines of all our people to the central signal board of monetary and fiscal affairs. It left intact its lines to the people so that it could direct them, but all signal lights went out in so far as the people's power to send over their golden wires their individual messages to the central signal board is concerned.

In short, the government took control of the central signal system and cut the people off. As a consequence, the government and Reserve authorities need not now be, and are not, responsive to the people. This governmental power is one of the strongest elements in a highly-developed management by a government of a nation's economy and people.

The Executive and Collective Bargaining

(Continued from first page)

have nothing to do with economics. They are psychological. In a free country people have aspirations and dissatisfactions. They aspire to be something different or to live differently and are dissatisfied with what is going on. Now, we know enough about the world today to know that free countries differ from countries that are not free in that the citizens of free countries have the right to express their dissatisfactions and aspirations. You can conduct your labor relations in the best possible way and this problem doesn't get solved. It does get solved in foreign countries, but in ways which we don't want to follow. There somebody tells people what they are to do and where they are to live. Well, that is a peculiar kind of solution which is not acceptable to the citizens of this country, though we may be moving that way.

A second observation about the executive and collective bargaining is that, and I say this because I go to a lot of labor conferences and have been doing so all my life, we get involved in too many details. There are some things that are quite obvious, and once you know them there is no use talking about them unless something new is to be learned. Since there are more fundamental problems that we ought to be turning over in our minds, we might as well take the time to consider these more basic questions. Everybody knows, for example, that in a big company, or in a small company, it is a good thing to know what the employee is thinking about and there ought to be humane arrangements between employers and labor. Well, if one doesn't know that, there isn't any way of learning it now. There are also all kinds of methods, of devices, today which are known to be, and ought to be within the reach of everybody, and I don't see any point to continuing to talk about them.

No Fixed Set of Conditions

There is a basic problem connected with labor, and that is, whatever is done about labor or collective bargaining policy is done in a context. It is no fixed environment or set of conditions, within which labor relations are practiced. Conditions are always changing and a good many of the changes are beyond our control, like wars. We may do many things to avoid a war, but we know enough to know that wars are uncontrollable. If a country is involved in two world wars in 30 years, then we must expect a legacy of trouble no matter how well industry and labor relations are managed.

The labor problem, like a good many other economic and political problems, exists within that context and is affected by it. That seems an unnecessary thing for me to say in a country which has been through 15 years of rising prices and wages and which is today in a tremendous boom which the more venturesome of us call an inflation. Everything done in labor relations is affected by that inflation. You are not free agents and you do many things in an inflation which are unwise to do. If we know anything about inflations, it is that they don't last. However, I dare say, if we took a Gallup Poll in the United States you would get the majority of the population to say that the present economic situation in this country is a stable one and will endure. I think they are wrong, but whether they are or not that is the environment in which industry, trade unions and government are making labor policy. Some of the great changes in labor policy are being made under inflationary conditions. For example, every one in the United States today is bargaining about a thing that has a new name and deserves a new name, that is "fringe issues."

Fringe issues include everything that is not wages, though they all cost money. Now, these fringe issues, by historical accident, grew up in this period of inflation and have flowered during the inflation. Since they are numerous and growing in number and magnitude, they add to the cost of doing business. The more liberal the concessions on fringe issues, the greater will be the future charges on business. All this is being done in a most unusual period, a period that has two characteristics: one, it is not likely to last; two, it is likely to be succeeded by a period in which it is going to be harder to absorb added costs. People don't say much about that, but that is the central question.

Everybody is in favor of these things in an emotional sense. I mean that I don't know of anybody who doesn't want improvements, but very few people stop to think what their economic effects will be. Is there an inexhaustible pool out of which fringe issues are to be financed? These are critical questions. I don't say they are going to be solved tomorrow or after the election and inauguration, but it is a great error to overlook them and turn our attention on matters that are of much less importance.

No Separate Solution of Problem

Now, one more preliminary observation. There is no such thing, if we look at the economic problems and policies of countries like the United States or England, as a separate solution of the labor problem. There is no sepaprate set of policies that apply to labor and nobody else. That is important to learn. One of the greatest evils of modern times, modern politics and economics, is the division of the population of a country into groups, each one of which considers that it has a special problem and a special way of solving it. There is in the United States a general economic problem and there are solutions applicable to that. If those solutions are wise and well administered, then the policies applied in that form will benefit labor and everybody else.

The central issue of economic policy today is production and the incentives to work. The most advanced countries in the world, and I mean those carrying on the most extreme experiments, have now turned their attention to the one thing which they know is the source of well-being. They know that if they don't solve that problem all other solutions are meaningless. The countries of the world know that there is one item in the operation of an economic system that by and large counts for more than all else as a solution of the labor problem, or the agricultural problem, and that is increased production.

They have learned that the way to raise the material standard of living of a country is to get more production. Russia has learned it. England is learning it now. She went in for redistribution of wealth and income. But that source is now used up. The British are learning that it is hard to live on past wealth. If England wants to raise material standards of living, they have to produce more. That is what people in England are now talking about all the time. The weekly journal, "The London Economist," every week labors with the problem of physical output. It is a pity they didn't discover it 25 years ago. The "Economist" now asks: "Why don't we produce more? What makes people work? What causes the coal industry to produce 200 million tons instead of 250 millions?"

People talk about getting an increased output and not distributing it. Well, you never get it unless it is distributed. That is the greatest error in all economic thinking and in economic history. You get output because there is somebody who wants it, and there are economic ways of expanding markets and increasing output. There was never any truth in the statement that an economy produces and then has no way of distributing. We always distributed our output. We distributed the output of '29, and have today. It has increased far more rapidly than the population of the country has increased.

Of course, there have been periods of decline and of trouble. But what mature and sensible person imagines that we can run a society of 140 million people without difficulty, that everything will run smoothly, that all problems will be taken in their stride, discovered one by one, and solved the next morning. How can reasoning people in a time like this, when we have been through the greatest period of destruction the world has ever seen and are still in a state bordering on war, think we can run this economic society without having problems, difficulties, troubles of all kinds. People who feel that way are putting on a society like ours a standard of conduct, a standard of performance, that cannot possibly be met.

What Is Collective Bargaining?

With these preliminaries, I go now to the question of collective bargaining, which is the grand purpose of organization. That is what collective bargaining is. It is the end of labor organization.

We can talk about collective bargaining, labor organizations, labor relations, but if we do we ought to know what those terms mean in practice; not a dictionary definition, for that is not what I am after, but what in practice happens in the long run under collective bargaining. We certainly have enough material to make a pretty good guess as to what is likely to happen in the future after seeing what has happened in the past. If we can't make a guess about the outcome, there is no use spending money on education and research.

Now, collective bargaining does two things, and that is all it does. Those things, taken together, worked out over a long period of time, are beneficial or not. Whether or not they are beneficial is a question about which we need do much less theorizing today because we have a fund of experience to judge from.

The one thing that collective bargaining does when it gets under way, and does it from the very first minute, is that it begins an endless process of transferring authority from one agency to another. If it didn't do so trade unionism wouldn't last 24 hours. It transfers authority from the employer and management to the union. If it didn't do that there would be no trade unionism.

Through the whole history of modern industrialism we operated an economic system in which employers and management exercised the authority. Now they may have exercised it badly and poorly. They may have been arbitrary or reasonable. But that is the way we thought you had to run what the NAM calls the "free enterprise system." I don't like the name, and I choose to call it a privately owned, privately managed, competitive economic system. We always figured in the United States, maybe erroneously, that in that system of private ownership and management the owners and managers would make the important economic decisions. Now organized labor, through collective bargaining, begins to eat into that authority. It takes it away. I recommend to you as a subject for research in personnel or labor relations that you take a company that began to bargain collectively in 1937, and has been bargaining collectively for 11 years, and analyze the successive labor contracts made during that period. Then you can go a step further, look into the shops and see if you can collect a list of what are technically called precedents that are in no contract, things that are done today because they were done yesterday or because somebody said they were done yesterday, and list them. Try to recall in your own mind how many of those precedents existed in '37.

If you do this you will get a picture of the evolution in collective bargaining, of the transfer of authority from management and the employer to a union. Now, the union knows that. The first thing it does when it is organized is to challenge the authority of an employer. The very first act of a union is to install in the shop its political machine made up of shop stewards. This step is very important. Its purpose is to challenge the authority of the foremen. I am not saying a foreman is better than a shop steward, but I say that is a change, and a pretty radical change. What do the shop stewards do? They add to their authority all the time. A good one will have a lot of authority that nobody intended he should have. Once he has it, it will be pretty hard to get it away from him.

The history of labor relations is full of examples of this process. Last year, for instance, General Motors announced a revised benefit or welfare plan. General Motors revised their welfare plan, insurance, and other items, and improved it or liberalized it and took it out to the shop and got each member to decide whether he wanted it or not, and most people decided they did. No sooner was that announced when Mr. Reuther called General Motors and said they can't do that, and General Motors said they were going to do it. The UAW called Mr. Denham and lodged a complaint. He acted promptly on that complaint and told General Motors they couldn't do it.

Here was something the management had started many years before, started voluntarily, experimented with, improved, and thought should now be liberalized. The union intervenes and says that the company can no longer do this alone. You must share this authority with us. What the union was concerned about, was its prestige and its right to have a voice in anything the company does. It wanted to participate in the making of a decision. Well, the United States are full of illustrations of this kind.

How Competitive Economic System Works

Let us look at a privately owned, privately managed, competitive economic system and see what are its qualities. What are needed to make it work? It has a lot of attributes, but one of them is, the people in charge have got to be in a position to make quick decisions. Certainly one of the questions requiring quick decision is costs. It is the fundamental factor in the conduct of business, and if you take away the right of an employer and management in this kind of competitive economic system to make quick decisions on their costs, you may be doing a fatal thing. Yet that is the essence of collective bargaining.

I have often said that in collective bargaining it is much more important to hold on to managerial rights than it is to argue over two cents or five cents in the wage rate. The thing to hold on to is the right to manage, and if that is lost then the foundation of this kind of economic system is weakened.

The second feature of collective bargaining is that it takes out of competition everything related to labor costs. There is no mystery about that. That is precisely what it is for and what it does. That seems a queer thing to do in a competitive society. You talk to any labor leader and they all believe in competition. They say there isn't enough competition. But the purpose of collective bargaining is to remove everything that bears on labor costs from competition.

I was talking to a representative of the joint congressional committee on labor relations that is investigating nation-wide bargaining, and he told me that in the industry he is investigating there is no longer price competition, but there is quality competition. What he means is that a system of bargaining has grown up over the years that has removed competition.

Everything is important if it exists in a magnitude to make it important. That is a clear and acceptable proposition. We wouldn't sit here and worry about collective bargaining and these things I am talking about if we had the volume of collective bargaining we had in 1929. In 1929 this system existed on the railroads, in the coal industry, the building industry, and scattered occupations.

(Continued on page 38)

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Last week's break made recommended stocks available. Don't think political upheaval is the beginning of the end.

I didn't know there were so many forecasters who knew all about how the elections would turn out. In the past few days I've read a lot of pieces, and seen a few ads, in which claims are made that they knew Truman would win.

* * *

All I can say is I wish I had known. I have a sneaking suspicion that if I searched through some of my old columns I too could dig up a couple of sentences that would make me out a crystal gazer of political acumen. But don't be alarmed. I'm too lazy to pore through any old columns, mine or somebody else's. And even if I did manage to drag something right out of context, who'd believe me?

* * *

Be that as it may, the Republicans are out and the financial district is looking to the immediate future with bloodshot eyes. The immediate worry, to hear people tell it, is the problem of taxes. I don't know what taxes will be, but I do know with the budget what it is I can't see a cut, and it makes no difference what political party is at the helm.

* * *

The other potential headache people are said to be shaking their heads about, is the revocation of the Taft-Hartley law. I remember that under the old Wagner Act there were a lot of strikes, but earnings were up too.

* * *

My problem isn't taxes, labor laws or tariff cuts, though I'm affected by them as well as the next man. My immediate concern is the stock market, what it will do, where it will go and what stocks can be traded in to advantage.

* * *

Last week I listed a number of stocks here, probably the largest number I have mentioned in a long time, to buy and where they were to be stopped. The day the column appeared the market slipped and went kerplunk on its well padded derriere, a condition which scared other holders to such an extent that they followed with their sell orders the very next day. It was during this second day's selling wave that the stocks in the list became available.

* * *

Here are the stocks, their buying points and stops: Boeing at 24, stop 22; Chrysler 58, stop 54; General Motors 62, stop 58; Briggs 32, stop 29; Anaconda 36, stop 34; Inspiration Copper 19, stop 17; Celanese 32, stop 30, and Goodyear 46, stop, 42. There were other stocks mentioned though not specifically; groups were given instead.

Incidentally American Airlines broke 6¾, so that's out.

* * *

It looked during the past two days like some of the abovementioned stocks would break through their stops, but up to this writing none have done so. So until they do, or new stops are given, the ones above will apply.

* * *

How soon the market will go up from here is something you'd better get a political polltaker to tell. I don't know. I think the selling of the past few days was silly and I think stocks are going higher. If I have any other opinions to pass on to you, I'll let you know. Meanwhile hold your positions.

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.]

Fetters With Jones, Cosgrove

(Special to THE FINANCIAL CHRONICLE)

PASADENA, CALIF.—John J. Fetters, formerly Secretary of Thomas Kemp & Co., is now associated with Jones, Cosgrove & Co., 234 East Colorado Street.

Lester Thompson Opens

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Lester R. Thompson is engaging in a securities business from offices at 2535 South Robertson Boulevard.

With Walston, Hoffman

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Carl Becker is with Walston, Hoffman & Goodwin, 550 South Spring Street.

With Capital Securities

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, CALIF. — Lucien M. Antonowitsch is with Capital Securities Co., 2038 Broadway.

Executive vs. Collective Bargaining

(Continued from page 37)

But what makes it important today is that collective bargaining is universal. If it is true that collective bargaining, as it works out, removes labor from competition, the question is how significant a fact that is. Is the removal of labor from competition unimportant, trivial, or is it a fact of overwhelming importance? We now know the answer to that question. We have measures, and they are pretty good. They are measures of the national income, or of the performance of an economic system. These figures show where the national income goes. We know how large it is, whether it is getting larger, and who gets it. That is information of first-rate importance.

They show that year in and year out the compensation for personal services to labor, to professionals, to farmers and related occupations in the United States, accounts for 82% of the national income. That was true from 1919 to 1938. Just the other day I looked at the 1947 figure, and the 1947 figure is 82 and one fraction per cent, which leaves 17% for something else. How can one talk of a competitive economic system in which a great slice of 82% of the national income is constantly being taken out of competition? How can a competitive system survive under that?

Because of these developments we now have an economic system in the United States that is becoming increasingly incapable of swift adjustment. This development was already under way in the 1930s. One of the great wonders of this country which few of us have noticed and understood was that in 1937, the peak of that recovery year, the physical output of factories in the United States was no greater than it was in 1929, eight years earlier. That is the first time in history that that ever happened. We added practically nothing to the production of the industries of this country between 1929 and 1937. That was a fact. It shows you how a productive system can be made less productive.

Government in Labor Relations

The easiest way to upset a delicate, sensitive, relationship that exists in a free society is to have some super authority, like government, run it.

Let me sum up. The labor problem is not a separate, distinct problem. It isn't something you pick out of the economic system and say you have a solution for it. It is an integral part of the system. If the system works, labor will get a satisfactory reward, and one of the qualities of this system when it works well is that it throws off a surplus. You give me an economic system that throws off a surplus and I call it a good system. You give me a system that throws off a deficit and I don't like it. I won't trust it very far.

When you talk of collective bargaining, which is the grand goal of trade unionism, which we have now covering most of the important economic activities of the United States, then collective bargaining is a device which, unless curbed, unless dealt with appropriately, through law and human relations, will weaken the privately owned, privately managed, competitive system and convert it into socialism. It will convert it into a regulated and controlled socialistic system. This will not occur overnight, gentlemen, but I am saying that it moves that way.

Let's Have Freedom to Compete

(Continued from page 7)

cause it is good for America and its people.

These are the basic rules of the game which American businessmen have adopted and want continued. They want the businessman who does not follow them to be aggressively prosecuted and effectively punished.

But by the same token, there must be in Government a recognition of this fact that the overwhelming majority of businessmen want to obey the law as a matter of public responsibility. I cannot escape the feeling that many of the present difficulties flow from administrative action grounded upon the unwarranted assumption that most businessmen are inherently law violators.

To offer an example: It is recognized that aggressive competition may result in a virtual identity of prices. It is also suggested that an unlawful price conspiracy will achieve price identity. Yet the Committee will discover that a considerable part of the present uncertainty flows from the insistence of Government and particularly administrative officials in assuming that where substantial price identity is found there must have been a conspiracy in fact.

This is sometimes put in terms of saying that where competitors sell at about the same prices the result is the same as though there had been a conspiracy and that there must be some illegality.

Any such theory is not only a calumny on American business, it is also a conclusion contrary to fact. It assumes without realism that the lower price level produced by competition would be identical with the higher price level produced by collusion.

As I hope the Committee will learn in studying the operations of particular industries, the real effect of the freedom to compete is that no one seller can get more than another for the same goods in a free market and that the resulting price level is always lower than that which prevails in those instances where price fixing has been attempted by conspiracy.

No Conspiracy in Identity of Prices

No one can assume—the lawyers prefer to say infer—that the competitive hammering of prices to a common level betokens conspiracy instead of competition, any more than the fact that most men wear collars and ties is the basis for a proper inference that they have conspired to do so.

But there is a deeper fallacy in this attempt to regiment business activities to fit intricate economic theories. Those who do so almost always presuppose the existence of a fully matured rather than a dynamic economy. The same fallacy was widely prevalent in the 1930's when the proponents of a planned rather than a free America talked about our having achieved a mature economy.

How wrong they were history has demonstrated. In the past 15 years the gross private domestic investment in this country—exclusive of Government financing—totaled just under two hundred billions of dollars.

In 1928, Government statistics tell us, total civilian employment was almost 46,000,000. In 1944—in the midst of our sustained war effort—it amounted to some 54 millions. During the current year, it is in the neighborhood of 60 millions.

Look briefly at our growth in terms of the production of goods. The Federal Reserve Board Index of Industrial Production for 1928 was 99 and the comparable figure for the current year is well over 190.

Perhaps a simpler way of making the same point would be to tell you that in 1946 in this country about three and one-half million babies were born, and in 1947 almost four million.

Even without immigration, the population of the United States increased between 1930 and 1948 by twenty-three and one-half millions—or just about twice the total population of Canada.

These are not the indicia of an old economy or of a nation that has reached its maximum growth and productivity and which must rigidly fence in one enterprise from the competition of another.

No, the only planned economy we need is the plan of democracy made by the American people—each consumer buying or not buying from one seller or another, each producer everlastingly competing to secure greater production of goods, and building in the process the most efficient industrial society and the highest standard of living anywhere found.

The danger of a stagnant economy here as elsewhere in many spots in the world exists only if we do not allow adequate incentives and as wide freedom as possible for the resourcefulness of American Industry. Instead of employing a punitive policy toward business, perhaps we should ask ourselves whether in the long run we help create a better America.

America Needs Confidence for Growth

But to continue this growth that America needs there must be confidence

— confidence that freedom of trade and freedom of competition will be maintained;

— confidence that the rules of business will not be casually changed in the middle of the game;

— confidence that all will be treated alike;

— confidence that energy and enterprise will not be frustrated by legal uncertainties or administrative tinkering.

I am not a lawyer and I am not competent to mark out for you the vague lines of legally permissible business conduct found in the court decisions, administrative determinations, and the Niagara of comments and opinions about these recent court and administrative decisions. Perhaps you can resolve these legal riddles. I can neither begin to understand them nor to measure fully all of the possible troubles, trials, treble damage threats and everlasting litigation confronting the individual businessman in pricing his goods.

What I am wholly clear about is the current lack of clarity. Something is wrong when competent lawyers cannot say with any degree of certainty just what the rules of the game are—or what they may be next week. That is the problem businessmen face every day, and they are deeply concerned about it.

No businessman can tell with confidence what he can do. Nor, as Dr. Copeland has suggested, can management plan with confidence, or even the least prudent investor proceed without apprehension.

Running through the confusion, however, are certain unfortunate and dangerous ideas. These I am confident the Committee will scrutinize.

It is suggested that where prices achieve substantial identity, there necessarily must be conspiracy. On this basis an administrative agency may say that a pricing method is "inherently collusive"

—and this expert determination or economic fiat, will be accepted by the courts as satisfactory proof of wrongdoing.

It is aserted that even where no one conspires, the lawful conduct of one businessman may be made unlawful by the independent acts of his competitors over whom he has no control. This is no more realistic than to say that all of the citizens of one community are either righteous or criminal, depending upon what people in other towns in the same state might do. If there is anything in our system of government which distinguishes it from others, it is that the responsibility of one man is measured by what he does—that one cannot be punished except for what he himself does.

It is also insisted that an individual businessman may not "regularly" or "systematically" meet the competition of another by absorbing freight because if he does so he cannot be acting in good faith. In this case, is the buyer who thus secures lower prices also to be charged with acting in bad faith? Can this be possible where people are free to buy where they will?

Good Faith Should Reside in Government

Perhaps the shoe is on the wrong foot. Some element of good faith should reside in Government. Until recently it was not even remotely either an economic or a legal wrong to use delivered pricing or to compete by absorbing freight to distant markets. Billions of dollars have been invested in factories and thousands of jobs created in good faith in reliance on the idea of freedom to compete.

But most disconcerting is the constantly repeated notion that what is to be lawful or unlawful is to be determined not by reasonably clear Congressional enactment but by theories about an economic market which from time to time occur to the minds of administrative officials.

This is not a healthy situation for American business. Administrative improvisation is not good government.

The power to say what is lawful and what is unlawful carries with it inevitably the power to prosecute or to withhold action—the power to favor some and to hurt others. As Prohibition should have taught us, law enforcement must rest in the main upon the desire of most citizens to comply with the law. You can neither indict a nation nor incarcerate an entire people. Only when the rules of individual conduct are set forth with some degree of certainty is it possible for those who wish to comply to do so—either out of a sense of public responsibility or of fear.

Bureaucracy—A Monopoly of Irresponsibility

To leave the authority to determine rules of business conduct to a group of administrative officials is to create a monopoly of irresponsibility. It is an invitation to economic tinkering. Unsound regulation will prove ineffectual, yet it will always lead to further regulations.

It is not important whether those who seek to regulate a continent or to write detailed rules for a dynamic economy are or are not well-meaning. Whether they are Communistic, Fascist-minded or profess a belief in Democracy is beside the point. The end result of vague and unlimited authority —with regulation breeding further regulation — is economic statism. Free economy cannot survive.

In large measure both labor and management realize the basic issue in this inquiry. In the long run, Congress has the responsibility of deciding whether the country is going down the road to economic statism or staying on the path of free enterprise. The challenge of this difficult problem is a great responsibility but it offers an equally great opportunity.

Fundamentally the question is this: May an American businessman, who does not conspire with anyone else, have freedom to compete either as a buyer or as a seller?

As a buyer, is he to retain the opportunity to have every seller of the commodity compete for his patronage by meeting the price of other sellers—either by reducing his factory price, charging the same delivered price as a competitor, absorbing freight, or in any other way?

As a seller, is he to be privileged to compete for the patronage of potential customers wherever they are located?

Those who on this or that legal theory would restrict this freedom to compete offer arguments and economic conclusions which I know this Committee will scrutinize.

Some suggest that the prevalence of competitive delivered pricing or competitive freight absorptions throughout an industry is inherently collusive. The idea that one seller may meet somebody's competition but not everybody's is an economic fallacy. Where an illegal price conspiracy exists, it should be detected and vigorously rooted out. But existing methods of selling should not be destroyed and the economy uprooted on an administrative inference.

I have also heard it suggested that a buyer has an inherent advantage in geographical location in proximity to a seller's factory. But does not a seller have an equally inherent right in the location of his factory? Freight is paid not only on what is produced but on raw materials which are brought in, and very often a large amount of raw material produces a relatively small amount of finished product. In the matter of freight alone we must not look only at "outbound" freight and overlook "inbound" freight. Men who build new plants must not be blind to those facts, but far more important considerations are such as these—demand for the product, capacity of available management availability of workers, adequacy of raw material supply, and all other facts that show a prospect for a fair profit, or result in a loss of investment.

Going back to the belief that local buyers have a natural right to the benefits of their nearness to the producer, one need only ask what advantage did the local buyer have before the local plant was built? If by governmental action the forces of competition are to be throttled, why stop with one element of cost? Why should the Federal Government seek to guarantee the buyer's freight advantage alone? Why is he not entitled under this line of reasoning to the benefits flowing from competent management, plant efficiency, labor efficiency, and sound labor policies? If the buyer is going to claim and to get vested rights in his location — and the producing seller frozen to one trade area—many will pause before approving plans for the construction of new and efficient facilities for volume production.

It is asserted that the use of delivered pricing or freight equalization permits the distant buyer to be served at an unfair advantage over the nearby buyer. But this again is unrealistic. In every business there is a break-even point related to the volume of production. It is a function of management and not of an administrative agency to make these judgments as to when additional volume is worth an expenditure. There is no basis on which to substitute the hindsight judgment of Government officials for those of management as to the proper balance between increased volume and additional freight absorption.

No Understanding of Corporate Profits

Unhappily, there is no general understanding of the relations between costs and prices, or of the nature of corporate profits. There is no magic method for making a profit. In America we leave each producer the freedom to search for it in his own way. Many will seek it through large volume of sales. That has been almost a magic way in the field of distribution as well as production. If one dared generalize, he would probably come to the conclusion that that is best for producers, distributors and consumers, too.

Those who seek to impose arbitrary restraints do not believe in competition. They have no faith in the development of any new enterprise which would be stimulated by the existence of freight differentials.

Again you will be told that the unrestricted freedom to compete results in economic waste—in unnecessary cross-hauling — and in unnecessary expenditure at the cost of the consumer. But if we are to have economic freedom who is to judge what is waste and what is a sound expenditure? By the same reasoning, the erection of gravestones, the building of churches, or the establishment of fiction libraries could be deemed waste. In the same fashion, the production of volume by advertising—rather than the absorption of freight—might be considered waste.

Is not the man who spends the money a better judge of what is productive and what is wasteful than an administrative official?

That's enough for some of the strange ideas one runs across as he reads the records. You will look at them all and find it strange that such ideas could exist in America.

One could almost summarize the whole story by a reference to Justice Holmes' statement that competition is worth what it costs.

On the other side of the coin, I hope the Committee will look carefully at the effects which may flow from the present efforts to restrict the freedom to compete.

You will have to determine whether the creation of thousands of local monopolies is consistent with the deeply imbedded American abhorrence of monopoly in any form.

You will have to decide whether the Balkanization of American industry is preferable to free trade throughout the country.

You might have to decide whether by changing what was formerly lawful, there will be any benefit to the American economy which will offset the possible destruction of savings invested in plant facilities and in the possible uprooting of workers whose specialized skills would soon have to follow the dispersion of factories no matter how hard may be the cleavage from their present communities.

No one will deny that unrestrained competition may go too far socially, but the danger in the field of legislation lies far more in the restraints upon competition than from undue freedoms. Government should have observed the dangers revealed in NRA days from the attempts to lessen competition, and to protect those who could not survive stiff competition.

I hope, too, that you will not lose sight of the possible effect of these newly developed administrative theories upon the problem of defense, and that you will carefully consider how economic survival will be possible for a factory located away from the densely populated areas of our country and legally barred from regularly absorbing freight.

Allow Interplay of Economic Forces

As far as I am concerned, I hope that you will conclude that we want the planning of millions of private citizens, producing and buying and selling in a free market—instead of planning by only a few, no matter how wise they may be. I hope that you will place your confidence to the utmost possible limit in the free interplay of economic forces and in the energy and enterprise of American business—economic democracy; rather than rest your hopes on the results of continued administrative tinkering with the economy—inevitable tyranny.

Doing so will, I think, be truly consistent with the spirit of our antitrust laws. Relentless prosecution of conspiracy and monopoly will make of the Sherman Act what Chief Justice Hughes termed it—"a charter of freedom."

May I suggest that in your inquiry you think most of the effect upon all our people as consumers. That is the best objective for legislation. What you do in their long-range interest will be in the interest of American business and labor, as well as the whole economy.

Clearing the air of foggy economic theories — written into vague, uncertain, and changing rules to control the conduct of the individual businessman—will have a salutary effect upon American enterprise.

It will foster real competition, encourage new investment, make more and better jobs, and preserve our industrial strength. Upon this depends the realization of hopes of Americans and the remaining believers in democracy in other lands.

On Behalf of Air Transportation

(Continued from page 4)

cruiser, to be delivered soon, will cost us $1,700,000 each. These figures do not represent simply the increased cost of construction. The difference in cost comes in great part from the hundreds and even thousands of ideas for the improved efficiency and safety in the operation of reliable air transportation incorporated in these postwar airplanes. And mechanical dependability of an airplane today is immeasurably greater than that of the airplane of 20 years ago.

Today millions of people are traveling by air. Millions of communications and hundreds of thousands of cargo shipments are being transported by air. Consider the impact of this volume of air traffic on the business and social habits of the past.

Let's take a very quick look at the record of air travel growth accomplished by the commercial airlines during the past 20 years, a record that speaks for itself:

	1928	1947
Passengers Carried	47,800	13,180,000
Fare Per Mile	11c	5.5c
Miles Flown	10.400.000	330,000,000

We are proud of this record. We are also proud of the record we have achieved in our mail and cargo growth. Air transportation has come a long way indeed in two decades.

Those sponsors of such a program in the early 1920's who had the foresight to place commercial air transportation in the hands of private operators can also look back on that record with pride. In fact, I would say there is no precedent for such accomplishment in any government-fostered industry over a short period of 20 years. And what has this 20-year development actually cost the government? Let us examine those figures.

Twenty years ago, 95% of our revenue came from air mail. Today, we receive only 7% of our total revenue in payment for performing a vastly improved air mail service for the Post Office Department.

Over a 30-year period, from 1918 (when the first government planes started scheduled air mail flights) to 1947, the government paid out $405,000,000 for transportation of air mail. To that figure they added $183,000,000 representing overhead or other related services connected with air mail. That gives us a total of $588,000,000 for a 30-year period. The records show that during this same 30-year period, $539,000,000 represented receipts from the sale of postage stamps.

After considering the revenues and the expenses, we find that the government has spent $49 million in excess of receipts for the job that we have accomplished over these 20 years. Stop for a moment and examine the air transport map of the United States. Observe for yourself just what has been built at a net cost of $49 million. Appraise the technical and mechanical accomplishment the government has received for $49 million, and then consider that during the war the government advanced $23 million for the construction of a single flying boat. Which was the better buy? Since their inception, the railroads have received $2¼ billion in subsidies. I offer that not as a reflection against the railroads, because I know that represents a good buy. I offer it only for comparative purposes.

Air transportation today occupies a position of major importance to our commerce as well as National Defense. It continues to show a constant increase in volume of business carried, and in efficiency of operations. It has a safety record second to no other air transportation system in the world. And this continued progress has been accomplished at relatively small cost.

What's Wrong With Air Lines?

If all this is true, then why are the airlines of this country in difficulty? Success should produce profitable operations. Well, I can tell you in just a few moments what is wrong with the airlines.

I have before me an advertisement of the Pennsylvania Railroad which appeared in the "United States News and World Report" of Sept. 10. The heading of this ad reads: "If this happened in your business, then, like the railroads, you would need increased prices to meet increased costs."

Following this, the Pennsylvania Railroad gives a complete explanation of its problems and the solution. The railroad shows that since 1939 costs have increased 77%. During this same period, freight rates have increased 46%; coal rates have increased 28%; passenger rates are up 40%; mail rates have increased 25% and express rates have increased 46%.

I have prepared an overlay to depict the problem confronting my company, United Air Lines, which is quite representative of what is happening generally to all airlines. Our costs have increased 86%. The difference between the increased cost of 77% of the Pennsylvania Railroad and 86% for United Air Lines can, I believe, be explained by the fact that during this period we went to a 40-hour week for all employes in the company and paid them for 48 hours. Our freight volume has not yet reached proportions where it can be mentioned in the same breath with the volume of the railroads and

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On Behalf of Air Transportation

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we have very little of that business, although those rates are lower than they would have been in 1939. We do not carry coal, so we can make no comparison on that point. However, we do carry passengers and at the present moment our rates are 4% higher than they were in 1939 as compared with the Pennsylvania Railroad's increase of 40%. Our mail rates are actually 56% less than in 1939 compared with the 25% increase of the railroad, and our express rates have decreased 44% compared with a 46% increase on the railroad.

Now, the Pennsylvania Railroad was able to increase its income to meet its outgo through the Interstate Commerce Commission which regulates rail transportation. It received relief in the form of higher rates. We must apply to the Civil Aeronautics Board for relief to the airlines. The main difference is that the Interstate Commerce Commission has been realistic and acted, whereas the Civil Aeronautics Board has appeared to be confused and vacillating. So, I say the problem today is not what is wrong with the airlines, but what is wrong with the Civil Aeronautics Board.

Early in 1938, when air transportation had become an important part of the transportation of the country, it was recognized by all concerned that it should be regulated in the public interest. There was no argument from the airlines on that point. There was the usual debate concerning the preparation of the law and the type of agency that should be created to regulate this business. Some thought that the already established Interstate Commerce Commission should assume this responsibility. Others concluded that because air transportation was new and presented some rather unusual problems, an entirely new agency that would be dynamic and aggressive should be selected to move this business forward. Those sponsoring a separate agency were successful. Legislation that I still consider to be constructive and sound was written, and the Civil Aeronautics Board was established.

We in the air transportation business looked upon this action as encouraging, and hoped that we could proceed in carrying forward this business for our country and at the same time develop a reasonable return to our stockholders, who have invested in excess of $35 million in this company.

Civil Aeronautics Board

The Civil Aeronautics Board soon started to function. It would be impossible for any administrative agency to be in operation for over 10 years and not accomplish some good things. It would be very unfair of me to say that they have been a complete failure. Furthermore, it would be unfair for me to blame individuals who are now members of the Civil Aeronautics Board. Some of these members have only recently taken office, and have had no part whatsoever in formulating the policies of the Civil Aeronautics Board in the past.

Now let us look at just where the Board stands. During the past 18 months, the domestic air transport companies have suffered a loss of $36 million. The Civil Aeronautics Act has a declaration of policy from which I quote: "Assures the highest degree of safety in and fosters sound economic conditions . . ." Sound economic conditions do not produce such tremendous financial losses. That, in itself, would reflect against the Civil Aeronautics Board.

As a further declaration of policy, the act states that rates shall be sufficient to enable the carriers under honest, economical and efficient management to maintain and continue the development of air transportation. My interpretation of that section of the act fixes a responsibility upon the Civil Aeronautics Board to eliminate dishonesty where it may exist, to eliminate uneconomical operation, and to insist on improved efficiency where lack of it can be shown to exist.

Now, the Board hasn't accused anyone of being dishonest. However, the Board (and I have particular reference to certain members of the Board's staff in the rate and tariff analysis division) is implying that we are uneconomical and that we are inefficient by certain charges to that effect. The public is left with the impression that people in the air transport business are irresponsible and lack business judgment. What are these charges and what is the airlines' side of the story?

For one thing, the Board suggests that passengers should pay for their meals as a separate cash transaction when meals are served in flight. Somebody is naive enough to refer to the meals as now being "free" because no such meal charge is assessed. Actually, the price of meals is definitely considered in arriving at the tariff we charge a passenger for service. In my opinion, the Board hasn't the least conception of the practical problems that would develop as a result of charging separately for meals. Instead of our present single menu type of meal service, separate in-flight charges would lead to a demand for a variety of meals which we haven't the space in our airplanes to transport and which, in addition, would increase the overall cost. Also, this would lead to the nuisance of tipping from which our passengers are now free. Frankly, the subject is a minor point in any analysis of our overall financial problem.

Secondly, it is said that there are too many airline ticket offices in certain cities and such sales offices should be consolidated. Let us consider this in relation to the Board's own policy.

Permit me to quote from a decision of the Board justifying its action in creating more competition:

"Economic regulation alone may not be relied on to take the place of the stimulus which competition provides to the advancement of technique and service in air transportation. Competition invites comparisons as to equipment, cost, personnel, method of operation, solicitation of traffic, and the like. All of which tend to assure the development of air transportation system properly adapted to the present and future needs of the Foreign and Domestic commerce of the United States."

This is an example of the thinking of the Civil Aeronautics Board at the time it was creating unnecessary competition. Now that this excessive competition has become wasteful and destructive, the airlines are being blamed for having their own ticket offices in each city to provide the competition the Board created. If there are too many ticket offices in a particular city, it may be that the Board has certificated too many airlines to serve that city.

We in United Air Lines believe in the competitive system. It is true that we occupy one of three corners in Chicago occupied by airline ticket offices. I can walk two blocks west of those ticket offices where I can find four department stores on four corners. This is the American competitive system in action, and United Air Lines does not intend to restrain its own competitive efforts arbitrarily just because an excessive amount of competition has been created by Board action.

Can Facilities Be Consolidated?

The next criticism is that airlines should consolidate their activities at airports, using the same personnel to eliminate duplication and, therefore, produce economy. Again, this suggestion is contrary to the Board's decision which made reference to competition in benefits of personnel and in operations as well as competition in solicitation of traffic. This particular suggestion is the most dangerous of all. The first step may not in itself be dangerous but there is danger in steps to follow. Let me review this point more thoroughly.

A consolidation of servicing facilities at the larger airports would bring no real saving because the peaks and valleys in the work load of the airlines are identical during the 24-hour period of the day. When that would be discovered, the next obvious suggestion would be that since no economy had resulted from the first move, the airlines should spread their schedules so that there would be no overlapping or competition, thereby eliminating the peaks in the work load. After a short experience with that arrangement, it would then be discovered that some airlines were benefiting more than others financially because of the advantageous times of the day they were operating their schedules. Then the third and crowning suggestion would be made that those airlines operating between such competitive points would pool their revenues and expenses. I maintain this would produce the perfect cartel that so many people look upon with such distaste when talking about such arrangements in international trade.

Another criticism of the airlines which is occasionally mentioned by the advisors to the Civil Aeronautics Board is that we are conducting unprofitable operations. We recognze that we are conducting some unprofitable operations which are all required under the certificates of public convenience and necessity issued by the Civil Aeronautics Board. For example, we serve 38 small cities on the United Air Lines' system. Those 38 cities provide us with 8% of our total revenue. However, it is necessary that 40% of our mileage be flown to acquire that 8%. For serving those 38 cities we receive $20,000 a month in mail pay. We could discontinue service to those 38 cities and save $4,000,000 a year for our company. However, if such cities on our line were abandoned it would be an obvious case of discrimination against those particular communities, because places of similar size in other sections of the country also receive air transportation service. And in this problem of service to small communities is found another example of just how the Civil Aeronautics Board and its staff have contributed to the problems of the air transport industry.

In California there is a good little feeder line known as Southwest Airways. It serves 20 cities in the population range of the 38 I have just mentioned. I have told you that we received $20,000 a month in mail pay for serving 38 cities. Southwest Airways receives $108,000 a month in mail pay to serve its 20 cities.

Let me make another comparison. We started this business 20 years ago by carrying the air mail for $6 a ton-mile. We are now receiving 63c a ton-mile. Now, with all of the pioneering in mechanical and technical work accomplished, Southwest started in business about two years ago and is being paid $30 a ton-mile. Compare that with our $6 a ton-mile in 1930 and our present rate of 63 cents a ton-mile.

Responsibility of Civil Aeronautics Board

The Civil Aeronautics Board is principally responsible for airline difficulties today. For example, while the Interstate Commerce Commission has acted quickly, intelligently and constructively in assisting the railroads with their problems, the Civil Aeronautics Board has been holding airline cases for the increase of mail rates for over two years.

I would like to see two or three of the outstanding transportation economists of the United States appointed to investigate the stewardship of the Civil Aeronautics Board over the airlines. They would find that the Board was handed a brand-new healthy industry in 1938. If they would trace the conduct of the Civil Aernoautics Board through every decision they made, they would find some good decisions, but they would also find that certain people looked upon the granting of airline routes as they would political patronage rather than on the basis of sound economic justification. On one hand the Board, by suggesting that the airlines consolidate activities and reduce uneconomical operations, admits there is too much service, yet it continues to grant new routes.

I am confident that an objective appraisal by qualified persons of the record of the Civil Aeronautics Board would show outstanding failure—failure to understand and evaluate the basic problems of our air transportation, and failure to carry out the Board's stated responsibility to foster sound ecnomic conditions within the industry.

I believe this record of failure must be corrected if air transportation, so vital to the economic development and national defense of our country, is to continue its growth on a sound basis.

In spite of anything, air transportation is indeed here to stay. The industry's future development must and will exceed its progress to date. People's concepts are being steadily broadened with the increasing speed and scope of air transportation. The transport plane is creating new frontiers in commerce, and spearheading fundamental changes in our social life. And it will wield an even greater influence tomorrow.

That is why I have chosen to speak on behalf of air transportation, to answer its critics who blame unfairly. I have every confidence in air transportation and in my company. I am proud of our accomplishments, and I am confident of our future. I know that with intelligent regulation, the progress of air transportation will be sound and sure.

No one can halt that progress.

High Rate of Spending Will Keep Business Going

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will take several years to complete. At this time, I am inclined to believe that any decline which takes place in plant and equipment expenditures next year will be relatively small. A small decline may even be welcome because it will relieve some of the pressure on the steel industry and will also cut the demand for new corporate financing somewhat. A major decline in plant and equipment outlays would be serious because it would bring on unemployment and might lead to the well-advertised recession. This is always a possibility, but thus far it does not seem likely in 1949.

As to inventories, the $3 billion being spent this year to increase units held is a pretty small figure. It may decline next year, but then again, it may not. On the subject of inventories, it is interesting to note that increases in units held have been relatively small as compared to prewar. The bulk of the increase in the book value figures on inventories represents price increases. In terms of physical volume, many inventories are still low and may be increased by further inventory spending next year.

Foreign Purchases

Now as to spending here by foreign purchasers—this year foreigners will spend about $3 billion of their own money in this country. Total exports will probably run between $17 billion and $18 billion, but this will involve duplications with some of the other figures. Federal Government assistance will cover $5 billion, but this is included in our figure on Federal expenditures. Imports will cover about $10 billion, but these are included mostly under consumers' expenditures. This leaves about $3 billion to be financed through the use of gold and dollar assets and private loans and gifts sent abroad by American citizens.

The trend for privately financed foreign purchases is downward—this, of course, is due to the fact that gold and dollar assets held abroad are so limited. Next year, I would guess that the figure will be down further.

On the whole, then, it seems that in 1949, aggregate spending is likely to continue at a total of something like the high levels we are seeing in 1948. Higher government outlays will probably more or less balance a possible decrease in private spending. In the aggregate, the various factors of demand may be expected to add up to the aggregate available supply and even to exceed it in some cases.

Accordingly, I believe that the outlook for business in 1949 is excellent — always assuming that there will be no war, no paralyzing strikes and no serious crop failures. Also, I am assuming that our monetary authorities will not over-extend their operations and bring on a recession unwittingly. I expect to see further fluctuations and adjustments throughout the economic structure like those we have seen this year, but I believe that these will occur within the framework of a machine operating at near-capacity levels for the most part.

On balance, the year 1949 may turn out to be a levelling-out period in prices. There will probably be further downward corrections of farm and food prices occurring simultaneously with further upward pressure on the prices of metals, thereby bringing about better balance between farm and industrial prices.

The uneasy feeling about the boom may be expected to continue, however, especially in recurrent waves of pessimism. The typical businessman has been convinced that there will be a recession along the lines of 1920-21; and this has been an important cause for the basic underlying uneasiness. This has provided a healthy restraint on speculation, however, and may even help to alleviate the extremes of a boom-and-bust cycle.

R. Hahn to Open

R. Hahn will open an office at 30 Broad Street, New York City to engage in a securities business. He was formerly with Alex Von Fest.

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. 14	99.4	98.9	98.5	96.9
Steel ingots and castings (net tons)	Nov. 14	1,791,700	1,782,600	1,775,400	1,695,700
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Oct. 30	‡5,604,100	5,595,950	5,452,750	5,274,250
Crude runs to stills—daily average (bbls.)	Oct. 30	¶5,626,000	5,556,000	§4,965,000	5,224,000
Gasoline output (bbls.)	Oct. 30	17,569,000	17,238,000	§15,369,000	15,926,000
Kerosene output (bbls.)	Oct. 30	2,109,000	2,077,000	§2,320,000	1,903,000
Gas oil and distillate fuel oil output (bbls.)	Oct. 30	7,679,000	7,331,000	§6,467,000	6,793,000
Residual fuel oil output (bbls.)	Oct. 30	8,853,000	9,227,000	§6,689,000	8,364,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Oct. 30	91,925,000	91,074,000	§79,252,000	82,092,000
Kerosene (bbls.) at	Oct. 30	26,565,000	27,329,000	§26,048,000	22,566,000
Gas oil and distillate fuel oil (bbls.) at	Oct. 30	81,593,000	80,291,000	§63,529,000	62,749,000
Residual fuel oil (bbls.) at	Oct. 30	81,299,000	80,751,000	§37,498,000	57,259,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Oct. 30	931,750	927,532	908,581	940,746
Revenue freight rec'd from connections (number of cars)	Oct. 23	726,864	720,063	715,334	741,805
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Nov. 4	$109,319,000	$179,052,000	$170,200,000	$97,298,000
Private construction	Nov. 4	52,328,000	103,421,000	101,031,000	46,867,000
Public construction	Nov. 4	56,991,000	75,631,000	69,169,000	50,431,000
State and municipal	Nov. 4	44,573,000	50,554,000	61,253,000	41,228,000
Federal	Nov. 4	12,418,000	25,077,000	7,916,000	9,203,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Oct. 30	12,250,000	*12,040,000	11,645,000	12,937,000
Pennsylvania anthracite (tons)	Oct. 30	1,015,000	1,185,000	1,233,000	940,000
Beehive coke (tons)	Oct. 30	153,300	*145,900	146,100	149,000
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Oct. 30	319	*344	327	313
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Nov. 6	5,563,514	5,555,254	5,481,632	5,057,455
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Nov. 4	104	104	107	72
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Nov. 2	3.75255c	3.75255c	3.75255c	3.19541c
Pig iron (per gross ton)	Nov. 2	$46.82	$46.82	$46.07	$36.96
Scrap steel (per gross ton)	Nov. 2	$43.16	$43.16	$43.16	$41.50
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Nov. 3	23.200c	23.200c	23.200c	21.200c
Export refinery at	Nov. 3	23.425c	23.425c	23.425c	21.425c
Straits tin (New York) at	Nov. 3	103.000c	103.000c	103.000c	80.000c
Lead (New York) at	Nov. 3	21.500c	19.500c	19.500c	15.000c
Lead (St. Louis) at	Nov. 3	21.300c	19.300c	19.300c	14.800c
Zinc (East St. Louis) at	Nov. 3	15.500c	15.500c	15.000c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Nov. 9	100.71	100.69	100.69	102.39
Average corporate	Nov. 9	110.70	100.52	111.25	113.31
Aaa	Nov. 9	115.82	115.63	116.41	118.20
Aa	Nov. 9	114.08	114.08	114.46	116.61
A	Nov. 9	109.79	109.60	110.70	113.31
Baa	Nov. 9	103.47	103.64	104.31	105.69
Railroad Group	Nov. 9	106.21	106.39	106.92	108.16
Public Utilities Group	Nov. 9	111.25	110.88	112.00	115.04
Industrials Group	Nov. 9	114.85	114.66	115.04	117.00
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Nov. 9	2.45	2.45	2.45	2.34
Average corporate	Nov. 9	3.13	3.14	3.10	2.99
Aaa	Nov. 9	2.86	2.87	2.83	2.74
Aa	Nov. 9	2.95	2.95	2.93	2.82
A	Nov. 9	3.18	3.19	3.13	2.99
Baa	Nov. 9	3.54	3.53	3.49	3.41
Railroad Group	Nov. 9	3.38	3.37	3.34	3.27
Public Utilities Group	Nov. 9	3.10	3.12	3.06	2.90
Industrials Group	Nov. 9	2.91	2.92	2.90	2.80
MOODY'S COMMODITY INDEX	Nov. 9	400.3	399.7	405.4	446.8
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	Nov. 6	234.5	236.3	235.8	228.5
Fats and oils	Nov. 6	214.0	213.8	211.0	248.3
Farm products	Nov. 6	256.3	257.4	255.6	256.6
Cotton	Nov. 6	296.3	294.6	296.3	307.8
Grains	Nov. 6	209.5	205.9	212.2	291.9
Livestock	Nov. 6	269.1	272.2	266.9	245.0
Fuels	Nov. 6	244.1	244.1	233.8	196.2
Miscellaneous commodities	Nov. 6	170.5	171.2	168.7	174.1
Textiles	Nov. 6	193.7	192.9	193.8	217.2
Metals	Nov. 6	189.5	188.3	187.8	159.5
Building materials	Nov. 6	230.5	230.5	232.5	232.5
Chemicals and drugs	Nov. 6	156.6	*156.5	156.4	154.5
Fertilizer materials	Nov. 6	142.4	142.4	142.2	134.5
Fertilizers	Nov. 6	149.8	149.8	149.8	136.9
Farm machinery	Nov. 6	151.3	151.3	146.0	128.3
All groups combined	Nov. 6	221.8	222.4	220.1	212.7
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Oct. 30	199,563	161,905	209,094	192,927
Production (tons)	Oct. 30	193,819	189,737	191,033	182,029
Percentage of activity	Oct. 30	96	95	96	100
Unfilled orders (tons) at	Oct. 30	365,928	359,739	375,884	436,178
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Nov. 5	144.2	143.0	144.4	148.4
WHOLESALE PRICES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Oct. 30	163.8	165.3	167.1	157.4
Farm products	Oct. 30	180.7	183.8	186.4	187.7
Foods	Oct. 30	174.8	178.8	183.9	173.8
Hides and leather products	Oct. 30	187.4	186.0	187.9	195.9
Textile products	Oct. 30	145.7	146.2	146.5	142.7
Fuel and lighting materials	Oct. 30	138.0	138.1	138.2	118.3
Metal and metal products	Oct. 30	172.7	172.6	171.8	151.3
Building materials	Oct. 30	203.5	203.7	203.1	185.2
Chemicals and allied products	Oct. 30	134.3	133.2	133.6	127.8
Housefurnishings goods	Oct. 30	149.2	148.9	147.9	133.4
Miscellaneous commodities	Oct. 30	119.0	118.6	119.1	117.2
Special groups—					
Raw materials	Oct. 30	176.2	178.2	179.7	175.9
Semi-manufactured articles	Oct. 30	158.2	158.1	158.5	154.6
Manufactured products	Oct. 30	159.4	160.9	163.1	150.0
All comodities other than farm products	Oct. 30	160.0	161.1	162.8	150.8
All commodities other than farm products and foods	Oct. 30	153.4	153.4	153.4	140.9

*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 ZINC INSTITUTE, INC.—Month of October:			
Slab zinc smelter output, all grades (tons of 2,000 lbs.)	70,716	64,721	71,745
Shipment (tons of 2,000 lbs.)	67,402	68,850	129,046
Stocks at end of period (tons)	44,431	41,117	79,273
Unfilled orders at end of period (tons)	48,130	50,939	35,013
CIVIL ENGINEERING CONSTRUCTION—ENGINEERING NEWS-RECORD — Month of October:			
Total U. S. construction	$648,434,000	$665,417,000	$575,089,000
Private construction	347,593,000	304,631,000	350,736,000
Public construction	300,841,000	360,786,000	224,353,000
State and Municipal	232,963,000	282,983,000	193,590,000
Federal	67,878,000	77,803,000	30,763,000
COTTON GINNING (DEPT. OF COMMERCE):			
Running bales (exclusive of linters) prior to Oct. 18	8,149,278	------	6,714,545
COTTON SEED PRODUCTS—DEPT OF COMMERCE—			
Crude Oil—			
Stocks (pounds) Sept. 30	63,285,000	25,601,000	56,980,000
Produced (pounds) Aug. 1 to Sept. 30	216,927,000	51,209,000	136,673,000
Shipped (pounds) Aug. 1 to Sept. 30	194,098,000	44,768,000	107,313,000
Refined Oil—			
Stocks (pounds) Sept. 30	59,241,000	60,695,000	91,817,000
Produced (pounds) Aug. 1 to Sept. 30	146,813,000	40,299,000	81,149,000
Cake and Meal—			
Stocks (tons) Sept. 30	75,250	74,554	38,424
Produced (tons) Aug. 1 to Sept. 30	322,559	80,566	205,323
Shipped (tons) Aug. 1 to Sept. 30	329,672	88,375	213,840
Hulls—			
Stocks (tons) Sept. 30	58,008	44,219	48,751
Produced (tons) Aug. 1 to Sept. 30	160,841	39,314	105,217
Shipped (tons) Aug. 1 to Sept. 30	144,135	36,397	92,274
Linters—running bales—			
Stocks Sept. 30	146,691	101,348	115,477
Produced Aug. 1 to Sept. 30	222,234	33,165	138,107
Shipped Aug. 1 to Sept. 30	174,995	51,269	102,374
Hull Fiber (500-lb. bales)—			
Stocks Sept. 30	2,099	440	798
Produced Aug. 1 to Sept. 30	4,735	540	1,240
Shipped Aug. 1 to Sept. 30	2,806	270	743
Motes, grabbots, etc. (500-lb. bales)—			
Stocks Sept. 30	13,186	11,725	12,045
Produced Aug. 1 to Sept. 30	7,221	2,187	5,201
Shipped Aug. 1 to Sept. 30	8,027	4,454	3,669
DEPARTMENT STORE SALES (FEDERAL RESERVE SYSTEM—(1935-39 Average=100) Month of October:			
Adjusted for seasonal variation	303	*312	279
Without seasonal adjustment	325	319	299
MALLEABLE IRON CASTINGS (DEPT. OF COMMERCE)—Month of August:			
Shipments (short tons)	73,273	64,995	62,395
For sale (short tons)	41,088	34,940	38,156
For producers' own use (short tons)	32,185	30,055	24,239
Orders booked, less cancellation, for sale (short tons)	37,491	36,601	33,208
Unfilled orders, end of month, for sale (short tons)	176,824	180,421	229,708
METAL PRICES (E. & M. J. QUOTATIONS)—Average for Month of October:			
Copper (per pound)—			
Electrolytic, domestic refinery	23.200c	23.200c	21.209c
Electrolytic, export refinery	23.425c	23.425c	21.389c
Lead (per pound)—			
New York	19.500c	19.500c	15.000c
St. Louis	19.300c	19.300c	14.800c
Silver and Sterling Exchange—			
Silver, New York (per ounce)	77.213c	75.345c	71.625c
Silver, London (pence per ounce)	46.929d	45.932d	43.375d
Sterling Exchange (Check)	$4.02750	$4.02750	$4.02727
Tin (per pound)—			
New York Straits	103.000c	103.000c	80.000c
New York, Chinese or 99%	102.400c	102.400c	78.900c
Gold (per ounce U. S. price)	$35.000	$35.000	$35.000
Quicksilver (per flask of 76 pounds)	$76.000	$75.040	$80.692
¶Antimony (per pound) (E. & M. J.)	40.830c	38.170c	35.995c
Antimony, (per pound), bulk, Laredo	37.660c	35.000c	33.000c
Antimony (per pound), in cases, Laredo	38.160c	35.500c	33.500c
Antimony (per pound), Chinese, Spot	Nominal	Nominal	Nominal
Platinum, refined, per ounce	$93.000	$93.000	$60.269
†Cadmium (per pound)	$1.900	$1.900	$1.750
‡Cadmium (per pound)	$1.950	$1.950	$1.775
§Cadmium (per pound)	$2.000	$2.000	$1.800
Aluminum, 99% plus, ingot (per pound)	16.680c	16.000c	15.000c
Magnesium, ingot (per pound)	20.500c	20.500c	20.500c
Zinc (per pound)—East St. Louis	15.240c	15.000c	10.500c
**Nickel	40.000c	40.000c	Not avail.
MONEY IN CIRCULATION—TREASURY DEPT. As of Sept. 30 (000's omitted)	$28,117,874	$28,055,225	$28,567,322
RR. EARNINGS — CLASS I ROADS (ASSOC. OF AMER. RRS.)—Month of September:			
Total operating revenues	$844,773,591	$868,089,239	$727,086,538
Total operating expenses	620,993,418	637,361,854	588,760,243
Operating ratio — per cent	73.51	73.42	80.98
Taxes	$98,413,503	$99,842,934	$75,954,819
Net railway operating income before charges	110,848,571	115,694,714	48,314,731
Net income after charges (est.)	82,000,000	86,000,000	20,700,000
U. S. GOVT. STATUTORY DEBT LIMITATION —As of Oct. 31 (000's omitted):			
Total face amount that may be outstanding at any one time	$275,000,000	$275,000,000	$275,000,000
Outstanding—			
Total gross public debt	252,460,249	252,687,363	259,071,042
Guaranteed obligations not owned by the Treasury	52,360	50,484	83,483
Total gross public debt and guaranteed obligations	$252,512,609	$252,737,847	$259,154,526
Deduct—Other outstanding public debt obligations not subject to debt limitation	805,858	809,797	862,548
Grand total outstanding	$251,706,751	$251,928,050	$258,291,977
Balance face amount of obligation issuable under above authority	$23,293,248	$23,071,949	$16,708,022
UNITED STATES GROSS DEBT DIRECT AND GUARANTEED—(000's omitted):			
As of Oct. 31	$252,512,609	$252,737,847	$259,154,526
General fund balance	4,802,239	5,582,956	4,106,957
Net debt	$247,710,370	$247,154,891	$255,047,569
Computed annual interest rate	2.211%	2.201%	2.129%

*Revised figure. †Based on the producers' quotation. ‡Based on the average of the producers' and platers' quotations. §Based on platers' quotations. ¶Domestic, five tons or more but less than carload lot, packed in cases, f. o. b. New York.
**F.O.B. Port Colborne, N. S. U. S. duty included.

What to Do Now About Inflation!

(Continued from page 13)

than inflationary. Of course, all talk about a mildly deflationary trend for the short run period ahead could be knocked into a cocked hat by a swift, sudden upsurge of military rearmament. If the Russian situation were to become menacingly dangerous overnight, so that an immediate large-scale expansion of our rearmament program became necessary, obviously inflationary forces would again rule the roost.

But — despite the hysterical statements by radio commentators, columnists and gossip sheets—such a swift upsurge in rearmament is not the probable development that lies ahead. In my view, the most likely development under the new Truman Administration is a slow but steady expansion in armament spending from the present level of about $12 billion a year up to about $20 billion per year—but all this increase accomplished in a three or four year period—not in a matter of months.

In this context, it seems to me that inside tip sheets and news commentators who parade the unceasing inflationary effects of American rearmament overlook four very important facts:

I

They tend to confuse proposal with reality. Very understandably, the armed services, like other recipients of government funds, initially inflate their fiscal requests so that they will be more satisfied with the sums eventually granted. While the Truman Administration will not cut down on rearmament, it will insist on a very scrupulous accounting for every additional dollar spent.

II

Much additional munitions spending will merely replace current demand, not **supplement** it. Those who fear permanent inflation seem to be assuming that current levels of demand for goods and services will continue indefinitely, and that new demands will simply be piled on top of the present ones. Actually, business requirements for plant and equipment, business inventory expansion, consumer spending for many types of goods, and the volume of exports are all declining or scheduled to decline in the near future. It would take considerable new military outlays just to offset these various declines.

In the same way, any forthcoming military lend-lease program for Western Europe is apt to be paid for in part by cuts in Marshall Plan outlays. Equally, some of the lend-lease military equipment will come out of surplus U. S. World War II stocks.

III

It's highly important to **classify** accurately the types of goods and services for which military funds will be used. Some military spending is inflationary; other military spending is not. Thus, almost 70% of military spending in 1949 will be for "housekeeping items"—military pay, food, clothing, repair and operation of military camps. That kind of spending won't create bottlenecks. Less than one-third of funds now allocated for 1949 will go for munitions proper. And most of this third will be for aircraft—which won't pinch the economy as much as an equal amount spent on big steel-using items like tanks, ships or guns.

In this connection, it's instructive to take the figures for aircraft procurement and see how they stack up against total manufacturing activity. Thus, for the fiscal year beginning next July 1, 1949, and ending June 30, 1950, the present army plan for a 70-group air force is scheduled to involve spending for actual aircraft procurement of about $1.7 billion. The navy's air force program during the same period will cost about $950 million under present procurement schedules. Together this amounts to $2.65 billion for the full fiscal year, or about $220 million per month. Compare this figure with total manufacturers' sales which are now running at the rate of $18 billion per month. In other words, the present aircraft rearmament program will **expand** in somewhat over a year to a point where it will be equal to 1.22% of total manufacturers' sales at current levels! Even if Mr. Truman steps up this program moderately, it seems to me unlikely that—short of actual war—aircraft procurement spending will exceed 1.5% of current manufacturers' sales in 1949-50.

IV

Finally, proper dating of when authorizations will be spent is also highly important. Any additional military program or military lend-lease authorized by the 81st Congress is unlikely to go into effect before the fiscal year beginning next July 1, by which time the domestic business situation may be quite different than it is now.

Throwing Economic Gears in Reverse

If our analysis is correct, the immediate danger ahead is not more inflation but rather that, by trying to stop an imagined further spurt in inflation, the government and fiscal authorities will not only be stepping on the brake but actually throwing the economic gears into reverse.

Accordingly, it is my judgment that any tinkering with the present peg on long-term government bonds might well turn out to be disastrous. I suppose the peg, now slightly above par, could be dropped to par, or even to slightly below par, without precipitating a recession. But the same can't be said for a complete removal of government price supports for long-term bonds. Any such action would soon sharply reduce the volume of business spending for plant and equipment, which, at the rate of $18 billions a year, is today—far more than rearmament—the chief supporting force of the boom. It would do this in three different ways:

(a) Higher interest rates would hike the cost of borrowing money, and that obviously discourages new investment.

(b) Higher interest rates cut profits directly and indirectly: directly, by raising the borrower's costs; indirectly, by forcing prices downward and causing inventory losses. Of course, new business investment is especially sensitive to any prospect of reduced profits.

(c) Higher interest rates and the resulting credit contraction tend to cause liquidation of stocks of consumer goods at lower prices. Since prices of consumer goods customarily fall faster than prices of machinery and equipment, prospective earnings from installations of new equipment are reduced, and business investment plans correspondingly postponed or curtailed.

Of course, we can see why the insurance companies and some banks would like higher interest rates. In the short run, higher interest rates would increase their earnings on loans. Also, removal of the peg on government bonds would give present sellers of those bonds a good chance to make a neat capital gain. If the pegs are removed and bond prices fall below par, insurance companies and other present sellers of bonds would, if they wished, then be able to buy the bonds back at a lower price. That would give them a handy capital gain, as well as permit them to enjoy an increased income due to the higher yield.

But from the long-term point of view, it is definitely open to question whether an increase in interest rates which provoked a downward turn in business activity would benefit either the insurance companies or the banks.

Actually, it's the old story of not being able to have your cake and eat it too. You can't have a boom and lower prices unless productivity is increasing much faster than it is today. (Some of you will recall that in the five years from 1924 to 1929 we did seem to have boom conditions with a gradually declining price level. But that was primarily because industrial productivity was rising sharply, and also because farmers were the victims of almost continuous over-production.)

If you want continued boom—and I think most of us do want that—the price of its continuance under today's conditions of industrial productivity and incessant union demands for ever higher wage rates is firm or slightly rising industrial prices, together with high, even if fortunately not further increasing, farm prices. And, as I said at the beginning of this talk, such a slight, persisting inflation is infinitely preferable to either mild deflation or sharp recession.

Of course, business always has a deep duty to **control** inflation, to keep the inherent inflationary forces that accompany a boom within limits. If a larger defense program brings a semi-war economy later in 1949 and in 1950, such control will again become a more urgent issue. But let me close by repeating again: In handling inflation, it is not "better late than never." Too late is just too bad. And for **this** run of inflation, I think it is now too late.

Is Electric Utility Industry Approaching Maturity?

(Continued from page 8)

at $6 million, must be found. Meanwhile, we are faced with rising operating expenses and high investment costs. Under these conditions can the industry build to meet the growing demand for service without injury to its present strong financial position? Again, I say that I believe it can.

Present Situation

But to understand the future better, let us again consider the present. Two aspects of the current situation concern utility managements. First, there is the problem of maintaining earnings in the face of a rising spiral of costs. Second, there is the necessity of expansion in the face of uncertain earnings and the rising cost of construction. With a few exceptions, the electric companies have so far been able to meet their increased operating expenses without raising their rates. How has this been accomplished?

First, a relatively large part of each dollar of electric revenues is spent for carrying charges and depreciation on investment in facilities. This cost has not as yet risen appreciably. While wages, fuel and other operating costs, of course, have gone up sharply, these have had less effect than in the transportation and telephone industries where wages particularly take a larger part of the revenue dollar.

Second the very high level of electric output and revenues has made it possible for the companies to absorb a large part of their increased costs.

Third, the electric companies have not been able to provide new facilities as fast as needed so that the increased business has been provided for by facilities normally held in reserve. In other words, new investment, with accompanying fixed charges, has not as yet been proportional to the increase in revenues. While this situation has helped current earnings it has made more difficult the task of preparing for the future.

Edison's position today is fairly typical. Our group of companies have 2,400,000 kilowatts of generating capacity. We have over 600,000 kilowatts under construction or on the drawing board to be completed within the next five years. This represents a 25% increase in generating capacity. Transmission and distribution expenditures in equivalent proportion are also under way.

I do not have to tell you that this current plant expansion is on a cost basis which makes obsolete all old yardsticks. How present-day costs will look 10 years from now I dare not predict but we are safe in saying that henceforth our capital costs are likely to be substantially above what they have been in the past.

Where can we find offsets to these cost increases? Is there any chance that we can make electricity with the new machines for overall costs which will match those of past years or even of the present? Possibly not, but there are important counterbalancing factors.

First, we expect to be able to operate with a relatively smaller reserve of generating capacity. With some reliance on interconnections, we believe that a system such as ours can safely operate with a stand-by of two of our largest generators of 150,000-kilowatts capacity each. This means an owned reserve of 300,000 kilowatts. On the basis of our present 2,400,000 kilowatt total capacity, this would mean a 12½% reserve. On the basis of our projected capacity of over 3,000,000 kilowatts, it would mean a reserve of about 10%. A smaller proportion of stand-by kilowatts of capacity will offset in part the high unit cost of installation.

Second, the war and the present postwar period have introduced us to system load factors which have never been equalled before. Load factor for our companies in 1927 was 47.6%, in 1939, 57.8% and in 1947, 61.6%. Although cyclical declines in industrial and commercial use are inevitable, it is probable that the new applications of electricity will prevent the return to the lower load factors of the twenties and thirties. A high load factor means a higher utilization of our investment in all kinds of facilities.

A third and very important factor is the matter of efficiency. It is a characteristic of our business that we cannot economically store kilowatthours to meet our seasonal peak loads and our emergencies. Therefore, we normally must have stand-by capacity which is operated only during relatively short periods of each year. For this purpose our older and less efficient equipment is just as useful as new equipment. As a matter of fact, it would be a gross economic waste to incur the carrying charges to replace the older units with modern equipment to be operated only a few hours each year. Under today's conditions, however, with practically no reserve, we are operating this less efficient equipment during all heavy-load periods. When reserves are restored, the new, more efficient equipment will be operated continuously and the older equipment will again be held as stand-by. The equipment we are installing will, of course, be somewhat more efficient than any equipment we now have but the benefit will be far greater than the difference between the efficiency of the bulk of our present equipment and the efficiency of the new equipment.

We will be shutting down equipment which requires as much as three times the coal to generate a kilowatthour as the equipment we are installing. We estimate roughly that our fuel bill this year would have been reduced $3,000,000 if we had had the benefit of a 300,000-kilowatt reserve in the form of units now in process of installation. This saving, of course, would not cover carrying charges, depreciation and operating costs on 300,000 kilowatts of reserve capacity but it would certainly help.

While great strides have been and are being made in the more efficient burning of presently available fuels in power plants, the utility industry is not overlooking other important developments now under scrutiny in the field or in the nation's research laboratories. We understand that improved mining equipment is now under test. Experimentation is also going on to find ways of transforming coal into more easily transportable fuel. One line of attack is the gasification of coal by igniting underground seams and collecting the resultant gases. Another involves the use of the Fischer-Tropsch process in producing a high heating value gas above ground from mined coal. Other ideas are being studied.

Is atomic energy the ultimate solution of the fuel problem? When applied to large plants, so much engineering and other research remains to be done that it is difficult to answer this question. However, if atomic energy is the answer, it will be welcomed by the utility industry. So far as we now know, it will serve as a heat source and, as such, will not change our present methods of generating, transmitting and distributing electricity, but we will be glad to substitute it for existing fuels if it becomes available on a basis which will result in operating economies.

Longer Life of New Plant Construction

Transmission and distribution plant now being installed is expensive but it will have a longer life and be more efficient than equipment heretofore put into service. A cedar pole costs twice as much today as in 1920 but because of improved treatment it has a longer life and actually a lower per year cost. Improved alloys have increased the life also of pole hardware. Automatic substations are decreasing operating costs. Transformers are being loaded much more heavily than was believed advisable before the last war. The precise effect of all of these developments upon the ultimate cost of supplying electricity cannot now be determined, but this sort of progress will tend to offset the effects of high prices.

Thus far we have observed that the growing electric utility industry is adding new plant which is high cost in relation to the past but not necessarily in relation to the future. It appears that this new plant will be more economical in operation than the old but we do *not* now have grounds to conclude that improved efficiency will more than offset the increased capital cost. In other words, we have no assurance that the utility industry will be able to continue its historical record of unit cost reduction. The problems of the industry are not confined to building its new capacity. The new plant must also be paid for. New money must be raised.

New Capital Needed

During the thirties funds for construction purposes were largely derived from internal sources, depreciation provisions and retained earnings. In fact, many companies actually were able to reduce their debt to some extent and carry on their construction programs at the same time. This was because the need for new facilities in the post-depression period and up to the beginning of the war was relatively modest. During the war, new money was not a problem because most companies could not obtain equipment and manpower to carry out large construction projects.

The situation is now completely changed. The entire industry is faced with a construction program which will involve very large amounts of new capital. Interest rates are still relatively low. Preferred dividend rates are much higher than they were and utility common stocks can only be marketed on a relatively high yield basis. The need for new capital under present conditions will put utility managements to the test.

Some companies have already demonstrated their willingness to pay the price of maintaining a sound capital structure. A few issued securities convertible and subsequently converted into common stock to reduce their senior capitalizations during the refunding era. Many other companies have announced plans for financing their construction budgets in part through the issuance of equity securities. In the recent past management has appeared to recognize the need to maintain an adequate balance between equity and debt even if the immediate cost has been high.

I believe that the public utility industry will continue to succeed in financing its current huge construction program without relying too heavily upon debt expansion. Such a course may increase the cost of money but it will permit the maintenance of the kind of financial balance necessary to support good credit. Confidence in the financial future of the industry needs only one qualification. If the inflationary trend of the last few years continues unabated, utility costs will of necessity continue to rise. At the same time, the industry will be faced with the fixed charges and depreciation on facilities which are being built to restore a normal reserve. Finally, every replacement of old facilities at today's high prices will tend to increase the investment required to do a given volume of business. If continued long enough, the effect of these three developments, that is, spiralling costs, the re-establishment of reserves and high priced replacements, would be to reduce earnings to a point where the investor could not be paid an adequate return *unless* revenues were increased through higher rate schedules. Will the regulatory bodies of the country authorize promptly such general increases as the industry may require? There is evidence that they will.

Question of Rates

During the last year or two numerous rate increases have been granted to telephone and transportation companies. The willingness of regulatory bodies to recognize the need for these rate increases suggests a reasonableness of attitude which should be encouraging to the electric utility industry.

As you know, electric utility industrial rates frequently carry fuel clauses which call for the adjustment of charges with a rise or fall in the utility's cost of fuel. The increases thus afforded have been of material assistance to many electric utilities in the past two years. Most fuel clauses do not apply on rates for small users.

You are also probably aware that a number of rate increases have actually been granted to electric utilities in recent months and more have been applied for. The utilities serving Washington, D. C., Cincinnati, Detroit, Minneapolis, and St. Paul are among those which have been permitted increases in residential rates.

In granting a rate increase to Detroit, Edison, the Michigan Commission made the following interesting statement:

". . . this Commission cannot be unmindful of the operating costs of any utility . . . in furnishing to its customers the reasonably adequate service to which these customers are entitled. . . . Neither can it shut its eyes to the rising costs and prices which are . . . of such vital concern to Petitioner and which . . . sharply reduce its return upon its properties below all reasonable, safe and proper levels.

"Nor can this Commission overlook the stockholders of this utility . . . whose investments have made (it) possible, and who are entitled to realize a fair return on such investments. Similarly, we cannot be insensible to the need of this utility for a good, sound credit rating and standing, so that it may continue to be able to attract and obtain funds."

It would not be appropriate for me to leave this subject of rates without stating that the electric utility industry is proud of its long record of rate reductions. Those companies that can will undoubtedly postpone as long as possible application for rate increases to their residential and small commercial and industrial customers. It is worth noting here that the electric power industry has been perhaps the leading exponent of that most important principle of American industry, development of the mass market through the constant reduction of prices and costs.

You will recall that in the beginning of this address I asked whether the electric utility industry could survive the present period of unprecedented expansion in an inflationary economy without burdening itself for the indefinite future with too much capacity, a high cost plant, a lopsided capitalization, and insufficient earnings on invested capital. I have said that I think that the industry can maintain its present strong position because it is growing today and it will not stop growing in the foreseeable future, because the plant we are building, although *high cost*, is also *efficient;* because utility managements will, I believe, make every effort to maintain balanced capital structures, and, finally, because if further increases in operating costs require general rate increases, I believe that the regulatory bodies of the country will undoubtedly grant them.

Electric power is so closely related to our rising standard of living and to the industrial progress which has made America what it is today, that its future should not be subject to question. As an industry it is alive, healthy and dynamic. It has a long way to go.

Election's Effect on Business

(Continued from page 9)

dollars." While powerfully backstepped by the European Cooperation Administration program, it will not reach least year's levels unless, or *until*, we pass new lend-lease legislation.

The housing boom is also beginning to show signs of weakening, no matter what anyone tells you. The demand is not nearly as urgent as some politicians claim. As early as July, the premium for immediate occupancy of houses had disappeared in 82% of 208 cities covered in the semi-annual survey of the National Association of Real Estate Boards. One-quarter of these cities reported that they had caught up on new single-family houses. And the majority reported that prices were lower on old houses than they were one year earlier. Throughout the country, prices of new houses are so high that they are no longer being snapped up the moment a builder exhibits plans. In fact, builders are beginning to fail, here and there.

When judging current prices on real estate, the ability of people to pay, not *promise* to pay, should be the criterion. In this connection, you will be interested to know that a recent survey made for the Federal Reserve Board shows that the median monthly rent in the United States at the beginning of this year was only $30! This figure throws a brilliant light on some of the things now going on in the field of real estate!

To be sure, the great postwar housing shortage has increased the market value of all houses, but it takes income to support that increased valuation—in plain English, such valuation has no lasting basis unless there is net income. And, although rents will continue upward for some time, there is no rent level in sight which will maintain the present high prices of new homes!

Capital Goods Boom

The industrial capital goods boom is still going strong. In fact, the biggest element in the boom from now on will be the increasing government expenditures for rearmament and the continuing heavy investment by business in plant and equipment. A joint survey by the Securities and Exchange Commission and the United States Department of Commerce indicates that American business in 1948 will spend a record-breaking $18,630,000,000 on new plants and equipment, which is $2.4 billion more than last year. Lionel Edie, the well-known economist estimates that business will need $105 billion of new capital during the next five years to sustain business volume within 5% to 10% of the present level. Although these estimates seem high, we do know that high labor costs cause the substitution of capital for labor, so they may not be far out of line. Nonetheless, you must keep in mind that capital expenditures are very sensitive to ultimate demand. Any consequential drop in consumer demand will have a drastic effect on such business spending.

Despite claims by some economists to the contrary, this analysis shows that our present boom has been caused by forces which will not continue indefinitely. Some of these supports, such as the agricultural boom, are already at an end. Others are showing signs of weakness. Only rearmament and capital expenditures are still going strong, and the capital expenditures boom is a derivative boom based on forces which are beginning to weaken.

Unfortunately, the present high rate of business activity hides several serious weaknesses in the economic structure. Among many others, I refer especially to the economic evils directly flowing from our heavy and repressive taxes, particularly those on the creation of capital. Adequate savings with continuing capital investment in new and old enterprises is the very life-blood of competitive capitalism, but we don't have time to explore that now.

Summary

Summarizing, weak spots are beginning to appear here and there in business activity. The same sort of mentality "which plowed under the little pigs," now holds that shortages will continue indefinitely; but I say that shortage, in an economic sense, is not an American word! In my opinion, barring war or heavily increased military expenditures, a business readjustment is in the making. This does not mean a repetition of 1920, 1932 or even 1937. There will be no reduction of purchasing power through widespread bank failures as in 1920 and 1932. Because of deposit insurance, there will be no runs on banks, so they will not be forced to demand repayment of loans and further reduce purchasing power, as in those earlier periods.

Our enormous debt and military machine require a high level of economic activity to maintain them. So you may be certain that the government will intervene before deflation gets out of hand, as it did in the past. Then, too, the fixed character of a large part of government expenditures must not be overlooked. Also, according to the Census Bureau, the total tax collections of the Federal, state and local governments for the fiscal year ending June 30, 1947, reached the amazing total of $49,603,000,000. Contrast that with the national income of $39.6 billion in 1933 and it becomes painfully clear why business activity cannot be permitted to drop as in the past.

Now, in closing, just a word about the long-range outlook. Unless we turn again to isolationism—which is not likely—world leadership is inevitable. We have the capital, we have the productive capacity, we have the military power and, greatest of all, we have a people and system of government which can make a great contribution to the welfare of mankind. Sooner or later, the international currency chaos will end, a world trade will revive and we, as a nation, will have a golden opportunity to bring the world closer together, if we will but embrace it.

Is Lack of Equity Financing Overstressed?

(Continued from page 13)

dend policy in some concerns has probably been formulated with an eye to minimizing the personal tax payments of large stockholders who often have an important voice in corporate affairs.... Another reason for the retention of a large part of earnings after taxes in recent years has been to make good the deficiency in depreciation allowances. Funds set aside for this purpose, based on low original costs of plant and equipment, have proved inadequate to cover the high postwar costs of replacing worn-out fixed assets.

"There are many other factors in addition to the growing use of internal funds in financing corporate capital needs that have contributed to the low level of common stock financing—low interest rates, the heavy demand for debt instruments accompanying the growing institutionalization of savings, and the fact that interest as an expense of business is not subject to tax while dividends on stocks are taxable as part of corporate profits."

Mr. Miller believes that the damaging influence of high surtax rates on the volume of venture savings in the aggregate may have been exaggerated. "While it has been claimed that the high surtax rates on incomes in the upper brackets have greatly curtailed the volume of venture savings of the higher income groups, there have been offsets in the substantial wartime accumulation of savings in liquid form in all income groups (including savings which have been invested directly and indirectly in government securities but may readily be tapped through sale to the banking system) and in the very marked growth of income earners in the middle income brackets. This expansion has been especially noticeable in the case of unincorporated enterprises and in farm incomes, two areas in which the opportunities to minimize tax payments are greatest . . . Certainly, too, the lower, long-term capital gains tax rate should tend to stimulate risk taking, given reasonable chances of success of the venture."

On the other hand, the author feels that insufficient attention has been given to the effect of stock prices on the availability of venture capital. "The course of stock prices is probably the most potent factor influencing the volume of new common stock issues. Common stock flotations have increased substantially during sustained periods of rising prices of outstanding equity securities. This was true not only of 1927-1929 but also of 1936-1937 and of 1945-1946 as well. One can almost categorically state that had not the bull market in common stocks been cut short in the middle of 1946, the volume of new common offerings would have been substantially higher than the $700 million total actually achieved. In times of rising stock prices, not only is investor receptiveness to new issues stimulated, but corporate management's willingness to float new stock issues in preference to bonds is enhanced by the fact that rising prices reduce the yields on stocks and consequently substantially reduce the cost of money obtained in this way.

"Investor receptiveness or willingness to purchase new or outstanding common stocks, furthermore, has been considerably dampened since the middle of 1946 by the many predictions of an approaching postwar business recession. These pessimistic views have been recurrent despite their contradiction by events. Such an atmosphere is hardly one to encourage the ready investment of risk capital. . . . Margin requirements on outstanding issues, as set by the Board of Governors of the Federal Reserve System, have not been below 75% of market value of shares since July 5, 1945, and for a little more than a year no credit at all has been available to the stock market since requirements have been placed at 100%. The much lower margin requirements set on new security issues to existing stockholders make little difference; the salability of new common issues is dependent largely on the price trend of outstanding stocks, and the high margins on the latter have tended to restrain the increase in prices."

SEC Appoints Holden

The Securities and Exchange Commission announced the appointment of Walter G. Holden as Assistant Director of the Division of Trading and Exchanges.

As Assistant Director, Mr. Holden will be in charge of the division's investigative and enforcement activities. He has specialized in this field since his appointment to the Commission's staff in June, 1940.

For six years prior to his appointment to the Commission's staff, Mr. Holden was employed by the Home Owners' Loan Corporation, where he served first as District Counsel in Sioux City and later as Assistant State Counsel in Des Moines, Iowa. He had been engaged in the private practice of law in Jefferson, Iowa, during the preceding 10 years.

Richards With Arthur Rand

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Burr Richards has become associated with Arthur Rand & Co., 45 Milk Street. Mr. Richards was formerly with C. G. Newton & Co. and did business as an individual dealer in Boston.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

• Alabama Power Co. (12/7)
Nov. 5 filed $12,000,000 first mortgage bonds, due 1978. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Lehman Brothers; Harriman Ripley & Co.; Shields & Co. and Salomon Bros. & Hutzler (jointly); Morgan Stanley & Co.; Drexel & Co. Expected about Dec. 7. **Proceeds**—For construction.

American Bemberg Corp.
Oct. 19 filed (by Attorney General of the United States) 6,175 shares of class B preferred, 91,851 shares of class C common and 34,058 shares of class D common. **Underwriters**—Stock will be sold at competitive bidding. Probable bidders: Kuhn, Loeb & Co., Lehman Brothers and Glore, Forgan & Co. (jointly); Kidder, Peabody & Co.; Blyth & Co., Inc., and Merrill Lynch, Pierce, Fenner & Beane. [For details regarding proposed changes in existing stock, see under North American Rayon Corp. in issue of Oct. 21, page 45.] Bids expected early in December.

• American Metal Finishing Co., Grand Rapids, Michigan
Nov. 3 (letter of notification) 40,000 shares of common stock (par, $1). Price, par. **Underwriter** — DeYoung-Tornga Co., Grand Rapids, Mich. To enlarge manufacturing facilities and for additional working capital.

American Steel & Pump Corp.
Sept. 21 filed 200,000 shares ($2 par) convertible class A stock. **Underwriters**—Herrick, Waddell & Reed, Inc. and Sills, Minton & Co., Inc. **Price**—$8 per share. **Proceeds**—To retire indebtedness and for working capital.

• American Telephone & Telegraph Co.
Nov. 10 filed $150,000,000 25-year debentures, due Dec. 1, 1973. **Underwriters**—Names will be determined by competitive bidding. Probable bidders: Morgan Stanley & Co., Halsey, Stuart & Co. and The First Boston Corp. (jointly). **Proceeds**—For advances to subsidiary and associated companies; for the purchase of stock offered for subscription by such companies; for extensions, additions and improvements to its own telephone plant; and for general corporate purposes.

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.

• Basic Metals Corp. of Arizona, Chloride, Ariz.
Nov. 4 (letter of notification) 295,000 shares of capital stock. **Price**—$1 per share. **Underwriter**—Jim Jamison. To construct and equip a flotation mill.

California Water Service Co. (11/16)
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. **Bids**—Bids for purchase of bonds will be received up to 9:15 a.m. (California time) Nov. 16 at office of American Trust Co., 450 California Street, San Francisco.

California Water Service Co. (11/16)
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. 16.

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. It is expected that subscription warrants will be issued Nov. 20 and that rights will expire Dec. 5. **Underwriters**—Company will invite bids for unsubscribed shares. Probable bidders: Blyth & Co., Inc., Smith, Barney & Co. and Harriman Ripley & Co. (jointly); Lehman Brothers and Lazard Freres & Co. (jointly). **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). **Underwriter**—Rodger, Kipp & Co., Chicago. 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.

Consumers Power Co., Jackson, Mich.
Oct. 14 filed 458,158 shares (no par) common stock. **Offering**—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 also have the right to subscribe to additional shares not purchased by other stockholders. Commonwealth & Southern Corp. (parent) announced Nov. 9 that it had completed necessary financing arrangements and had exercised its right to purchase 402,603 shares of Consuumers common stock at $33 a share, or $13,285,899, and also applied for an over-subscription of 9,456 additional shares for $312,048. **Underwriting**—None. **Proceeds**—For property additions and improvements and other corporate purposes.

• Crader Oil Co., Inc., Fort Worth, Tex.
Nov. 1 (letter of notification) 31,000 shares of common stock (par $1). Price, par. No underwriting. For maintenance of the company.

Dayton (Ohio) Power & Light Co. (11/30)
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. 30.

Detroit Edison Co.
Oct. 19 filed $46,649,500 10-year 3% convertible debentures, dated Dec. 1, 1948, due Dec. 1, 1958. **Underwriting**—None. **Offering**—Stockholders of record Nov. 10 are 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.

• Dorset Fabrics, Inc., New York
Nov. 5 (letter of notification) 13,200 shares of capital stock (par $1). **Price**—$2 per share. **Underwriters**—Blair & Co., Inc.; Maxwell Marshall & Co.; Luckhurst & Co., New York. **Proceeds** to Adolf Bleiman, a stockholder.

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.

• Easton (Md.) Publishing Co.
Nov. 1 (letter of notification) 300 shares ($10 par) capital stock. **Price**—$75 per share. No underwriter. To construct a new newspaper office and plant and to extend its normal operations.

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.

• Electrodrill Corp., Bartlesville, Okla.
Nov. 4 (letter of notification) 2,500 shares of common stock (10¢ par). No underwriting. To buy equipment.

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.

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.

• Field School of Upholstery & Allied Trades, Inc., New York
Nov. 4 (letter of notification) 20 shares of 6% cumulative preferred stock (par $500). Price, par. **Underwriting**—None. Working capital.

• Florida Power Corp., St. Petersburg, Fla.
Nov. 5 filed $8,500,000 30-year first mortgage bonds. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Halsey, Stuart & Co. Inc.; Smith, Barney & Co.; The First Boston Corp.; W. C. Langley & Co. **Proceeds**—To finance company's construction program.

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.

Fuller Brush Co., Hartford, Conn.
Nov. 8 filed 11,606 shares of 4½% cumulative nonvoting first preferred stock ($100 par). **Underwriting**—None. Price, par. **Proceeds**—To increase working capital.

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. Expected about Nov. 30.

• Golden Dawn Mining & Milling Co., Searchlight, Nevada
Nov. 3 (letter of notification) 1,000,000 shares of common stock to be sold at par, 10 cents per share; and 2,500,000 shares of common stock to Homer C. Mills. No underwriting. For equipment, materials and operation expenses.

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

NEW ISSUE CALENDAR

November 12, 1948

Peninsular Telephone Co.________________Preferred

November 15, 1948

Iowa Public Service Co._______Bonds and Common

November 16, 1948

California Water Service Co.
9:15 a.m. (PST)________________________Bonds
California Water Service Co.______________Preferred
Detroit Edison Co., 11 a.m. (EST)________Common
New York Bay RR., noon (EST)______________Bonds
Northern Indiana Public Service Co.
11 a.m. (EST)___________________________Bonds
Northwestern Bell Telephone Co.
11:30 a.m. (EST)____________________Debenture

November 17, 1948

Illinois Terminal RR., noon_______Equip. Trust Ctfs.
Southern Indiana Gas & Electric Co.______Common
Youse (E. S.) & Co.___________________Common

November 22, 1948

Transcontinental Gas Pipe Line Corp.__Notes, Com.

November 23, 1948

Bangor & Aroostook RR.
Noon (EST)_________________Equip. Trust Ctfs.
Pennsylvania RR., noon (EST)__Equip. Trust Ctfs.

November 29, 1948

Northern Natural Gas Co.____________Debentures

November 30, 1948

Dayton Power & Light Co._________________Bonds

December 7, 1948

Alabama Power Co._______________________Bonds
Rochester Telephone Corp.____________Debentures

the long term bank loan to Hyde Park Breweries, Inc., with which company will merge, and to finance expansion.

● **Hajoca Corp., Philadelphia**
Nov. 5 (letter of notification) 5,756 shares of common stock (par $1) for sale to existing stockholders and 1,000 shares for sale to employees. **Price**—$35 to stockholders; $40 to employees. Stockholders of record Nov. 15 will be given the right to subscribe in ratio of one new share for each 20 shares held. Rights expire Dec. 15. **Underwriting**—None. Working capital.

● **Harmonic Reed Corp., Philadelphia**
Nov. 5 (letter of notification) 16,667 shares of common stock (par 50¢). **Price**—$1.50 per share. The stock will be purchased by a group of less than 12 persons as an investment and not for resale. Working capital.

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.

● **Hotelevision, Inc., Long Island City, N. Y.**
Nov. 3 filed 160,000 shares ($1 par) class A stock. **Underwriter** — Cantor, Fitzgerald & Co., Inc., New York. **Price**—$3 per share. **Proceeds**—To develop, exploit and distribute a television innovation.

● **Household Service, Inc., Clinton, N. Y.**
Nov. 3 (letter of notification) 1,000 shares of preferred stock (par $25) and 200 shares of common stock (par —$10). **Underwriter**—Mohawk Valley Investing Co., Inc., Utica, N. Y. **Price**—$125 for five shares of preferred and one share of common. Installations.

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.

● **Insurograph, Inc., Birmingham, Ala.**
Nov. 8 (letter of notification) 8,367 shares ($1 par) common stock. **Price**—$7.50 or less per share. No underwriter. For the manufacture of additional vending machines.

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**—Bids for purchase of bonds will be received up to 11:30 a.m. (EST) Nov. 15 at Room 3700, 30 Broad Street, New York.

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.

● **Joe Dandy Mining Co., Colorado Springs, Colo.**
Nov. 8 (letter of notification) 8,393,000 shares (1¢) common stock. **Price**—1½¢ per share. No underwriter.

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. Indefinitely postponed.

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. Unsubscribed will be offered to employees. **Price**—$12.50 per share. **Proceeds**—For construction.

● **Lakewood (Ohio) Consumer Co-operative, Inc.**
Nov. 4 (letter of notification) 9,483 shares of common stock (par $10). Price, par. No underwriting. For additional working capital.

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.

● **Lockheed Aircraft Corp., Burbank, Cal.**
Nov. 2 filed 34,750 shares ($1 par) capital stock, to be offered officers and employees. **Underwriting** — None. **Proceeds**—For general corporate purposes.

● **McDonald (J. M.) Co., Hastings, Neb.**
Nov. 1 (letter of notification) 22,915 shares of common stock. **Price**—$13 per share. To be offered to stockholders first and then to employees of the company. No underwriting. For business operations and the opening of additional retail stores.

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.

● **Masonite Corp., Chicago, Ill.**
Nov. 5 filed 81,250 shares (no par) common stock. **Proceeds**—To be exchanged for Marsh Wall Products, Inc., stock (par $1) with holders of Marsh common to be allowed to exchange their holdings on the basis of eight shares for one share of Masonite stock.

● **Mellin's Food Co. of North America, Boston, Massachusetts**
Nov. 4 (letter of notification) 1,000 shares of 5% cumulative preferred stock (par $100). Price, par. No underwriting. For working capital.

● **Mercantile Acceptance Corp. of Calif.**
Oct. 29 (letter of notification) 1,000 shares of 5% first preferred stock (par $20). Price, par. No underwriting. To be offered as a bonus to employees only.

● **Mercantile Acceptance Corp. of Calif.**
Oct. 29 (letter of notification) 3,376 shares of 5% first preferred stock (par $20). Price, par. **Underwriter**—Guardian Securities Corp., San Francisco, Calif. For general corporate purposes.

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.

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.

● **Moritt (I. J.) Corp., Brooklyn, N. Y.**
Nov. 8 (letter of notification) 400 shares of common stock. **Price**—$600 per share. **Underwriting**—None. Cost of tooling, working capital.

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.

● **New Bedford (Mass.) Gas & Edison Light Co.**
Nov. 9 filed $5,000,000 25-year notes, series A, due 1973. **Underwriters** — Names to be determined by competitive bidding. Probable bidders include Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co. **Proceeds**—For payment of outstanding notes held by First National Bank of Boston and to repay the company's plant replacement fund from which funds were borrowed for construction.

● **Nineteen Hundred Corp., St. Joseph, Mich.**
Nov. 2 (letter of notification) 10,000 shares ($5 par) common stock. **Price**—$10 per share. No underwriting. For working capital.

North American Rayon Corp.
Oct. 19 filed (by Attorney General of United States) 177,398 shares of common stock, class C, and 88,853 shares of common stock, class D. **Underwriters**—Stocks will be sold at competitive bidding: Kuhn, Loeb & Co.; Lehman Brothers and Glore, Forgan & Co. (jointly); Kidder, Peabody & Co.; Blyth & Co. and Merrill Lynch, Pierce, Fenner & Beane. [For proposed changes in existing stock, see under North American Rayon Corp. in issue of Oct. 21, page 45.] Bids expected early in December.

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. **Bids**—Bids for purchase of the bonds will be received at Harris Trust & Savings Bank, Chicago, up to 11 a.m. (CST) 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.; Blyth & Co., Inc. **Proceeds**—To replenish working capital and for construction expenses. **Bids**—Bids for purchase of the bonds will be received 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**—Bids for purchase of the bonds will be received up to 11:30 a.m. (EST) Nov. 16 at Room 2315, 195 Broadway, New York.

● **Oklahoma Gas & Electric Co.**
Nov. 4 filed $7,500,000 first mortgage bonds, due 1978. **Underwriters**—Names to be determined through competitive bidding. Probable bidders include Halsey, Stuart & Co. Inc.; The First Boston Corp.; Merrill Lynch, Pierce, Fenner & Beane; Equitable Securities Corp. **Proceeds**—To prepay notes and finance construction.

● **Olamont Mining Co., Butte, Mont.**
Nov. 5 (letter of notification) 50,000 shares of common stock (par $1). Price, par. No underwriting. For the equipment, operation and development of mining property.

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. (11/12-15/17)
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.

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.

● **Picture Finance Corp., Los Angeles, Calif.**
Nov. 3 (letter of notification) 150 shares (no par) common stock (to be sold at $5 per share) and $150,000 of notes, due Nov. 1, 1951. No underwriting. For general corporate purposes.

● **Potomac Edison Co., Hagerstown, Md.**
Nov. 9 filed $5,500,000 first mortgage and collateral trust bonds, due 1977 and 30,000 shares ($100 par) cumulative preferred stock, series B. **Underwriters** — Names will be determined by competitive bidding. 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). **Proceeds**—For property additions and improvements by company and its subsidiaries.

(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 $30,000,000 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.

● **Rec-Hall, Inc., Fanwood, N. J.**
Nov. 4 (letter of notification) 200,000 shares of class A stock. Price—$1 per share. Underwriter—Farrell Securities Co., New York. Erect and operate a recreation center.

● **Regent Oil Corp., Oklahoma City, Okla.**
Nov. 1 (letter of notification) 1,200,000 shares of common stock (par 1¢). Price—25¢ per share. Underwriter—Tellier & Co., New York. For organizational expense, drilling, etc., and working capital.

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.

● **Rochester (N. Y.) Telephone Corp. (12/7)**
Nov. 3 filed $8,500,000 sinking fund debentures, due 1963. Underwriters—Names to be determined through competitive bidding. Probable bidders include Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & Co.; Shields & Co.; Union Securities Corp. and Kidder, Peabody & Co. (jointly). Proceeds—To pay bank borrowings of $4,000,000, to pay $1,700,000 of borrowings from the trustee of the company's employees' pension fund to pay $1,200,000 of indebtedness to New York Telephone Co., and provide funds to pay indebtedness to Federal Telephone & Radio Corp. Expected about Dec. 7.

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.

San Jose (Calif.) Water Works (11/16)
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. Tentatively expected Nov. 16.

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 Crescent, Inc., Kellogg, Idaho**
Oct. 30 (letter of notification) 550,000 shares of assessable stock. Price—18¢ per share. Underwriters—R. L. Emacio & Co., Inc., and Hachez & Brown, Inc., Spokane, Wash. For mining operations.

Silver Ridge Mining Co., Ltd., Nelson, B. C.
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. 6 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.

● **Spokane (Wash.) Slocan Co.**
Oct. 29 (letter of notification) 800,000 shares of common stock. Price—10 cents per share. No underwriting. To meet current bills, accounts assumed, for additional equipment and for development of the company's mines and for working capital.

● **Standard Factors Corp., New York**
Nov. 5 (letter of notification) 12,300 shares of 75¢ cumulative preferred stock (no par) and 20,000 shares of common stock (par $1). Price—Preferred, $15 per share; common, $5.25 per share. Underwriting—None. Additional working capital.

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.

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.

● **Taylor Food Co., Raleigh, N. C.**
Nov. 5 (letter of notification) 23,000 shares of common stock (par $1). Price—$1.75 per share. Underwriter—Griffin & Vaden, Inc., Raleigh, N. C. For purchase of additional machinery, to defray the costs of sales promotion and for working capital.

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.

● **Theatre Enterprises, Inc., New York**
Nov. 19 (letter of notification) 12,500 shares of common stock (par $10). Price, par. Underwriting—None. Establishment of a school of the theatre.

Times Square Stores Corp., Brooklyn, N. Y.
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.

● **Tobin Packing Co., Inc., Rochester, N. Y.**
Nov. 1 (letter of notification) a maximum of 10,000 shares of common stock (no par). Price—$9.50 per share. Underwriting—None. To be offered to employees.

Transcontinental Gas Pipe Line Corp. (11/22)
Nov. 9 (by amendment) $26,500,000 5% notes due May 1, 1951 (which will be payable at maturity by delivery of cumulative preferred stock, $5 series, at rate of one share for each $100 principal amount) 265,000 shares of common stock (50¢ par) and warrants for an additional 265,000 shares of common stock (exercisable between Oct. 1, 1949 and Dec. 20, 1949, at $10 per share), to be offered in units of $100 of notes, one share of common and a warrant to subscribe for one share of stock; also filed 2,250,000 shares of common stock to be offered to outstanding common stockholders at $10 per share at the rate of 3 shares of common for each share held. Company also contemplates private sale of $143,000,000 3⅝% first mortgage pipe line bonds. 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. 22.

● **Unexcelled Chemical Corp., New York**
Nov. 8 (letter of notification) 52,095 shares of capital stock (par $5). Price, par. Underwriting—None. To be offered existing stockholders of record Nov. 16 in ratio of one new share for each five shares held. Rights expire 30 days after date. Additional working capital.

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.

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. Stockholders will also have the right to subscribe to additional shares not purchased by other stockholders, subject to allotment. Price by amendment. Underwriter—Stone & Webster Securities Corp. Proceeds—For construction.

Wiegand (Edwin L.) Co., Pittsburgh
Sept. 28 filed 200,000 shares (no par) common stock. Underwriter—Hemphill, Noyes & Co., New York. Price, by amendment. Proceeds—Will go to selling stockholders. Offering indefinitely postponed.

Younker Brothers, Inc.
Oct. 18 filed 34,000 shares of 5% sinking fund cumulative preferred stock ($50 par) and 70,000 shares (no par) common stock. Underwriter—A. G. Becker & Co., Inc. Proceeds—To retire unsecured bank loans and for general corporate purposes. Expected this month.

Youse (E. S.) Co., Inc. (11/17)
Sept. 27 filed 57,000 shares ($2 par) common stock, of which 12,000 are being offered by the company and 45,000 by three stockholders. Underwriter — Suplee, Yeatman & Co., Inc., Philadelphia. Price—$7.62½ each. Proceeds—From company's offering will be used to pay for opening a new branch store in Lancaster, Pa.

Prospective Offerings

● **Arkansas-Missouri Power Co.**
Company has petitioned the Arkansas P. S. Commission for authority to sell 15,000 shares of 5% cumulative preferred stock (par $100) and $1,000,000 30-year 3½% bonds (the latter to be sold privately at par to Mutual Life Insurance Co., New York). Stock will be underwritten probably by Edward D. Jones & Co. and G. H. Walker & Co.

● **Bangor & Aroostook RR. (11/23)**
The company will issue, subject to ICC authority $2,100,000 serial equipment trust certificates, dated Dec. 1, 1948, and maturing $140,000 annually, Dec. 1, 1949-63. Bids will be received at office of Curtis M. Hutchins, President, until noon Nov. 23, 1948. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler, Harriman Ripley & Co. and Lehman Brothers (jointly); Harris, Hall & Co. (Inc.).

● **Chesapeake & Ohio Ry. (11/23)**
Bids for the purchase of $40,000,000 new series refunding and improvement mortgage bonds authorized by directors Nov. 5 be returnable Nov. 23. Interest on the issue, which has a 25-year term and carried a 1% sinking fund, will be specified by the successful bidder. Probable bidders: Blyth & Co., Inc.; Halsey, Stuart & Co. Inc.

● **Cleveland Electric Illuminating Co.**
Nov. 8 reported company some time next year will need to issue $20,000,000 to $30,000,000 of new securities to finance in part its present $127,000,000 new construction program. Probable bidders: Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Blyth & Co., Inc.

● **Detroit Edison Co. (11/16)**
American Light & Traction Co. is inviting bids for the purchase of 192,734 outstanding shares of capital stock of The Detroit Edison Co. Bids will be received by the American Light & Traction Co. at Room 1730, 165 Broadway, New York 6, N. Y., up to 11:00 a.m. (EST). Probable bidders: Blyth & Co., Inc.; The First Boston Corp., Coffin & Burr and Spencer Trask & Co. (jointly).

● **Factors Corp. of America**
Nov. 5, the directors authorized, subject to stockholder approval, an increase in capitalization by 5,000 shares of capital stock and the issuance in 1949 of up to $250,000 10-year debentures.

● **Illinois Terminal RR. (11/17)**
The company has asked for bids by noon Nov. 17 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; Harriman Ripley & Co. and Lehman Brothers (jointly); R. W. Pressprich & Co.

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; Harriman Ripley & Co.; Kuhn, Loeb & Co.

● **Pennsylvania RR. (11/23)**
Bids for the purchase of $7,935,000 equipment trust certificates series V, will be received at office of Geo. H. Pabst, Jr., Vice-President, at Room 1811, Broad Street Station, Philadelphia, up to noon (EST) Nov. 23. Certificates will be dated Nov. 1, 1948 and will mature $529,000 annually Nov. 1, 1949-1963. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Brothers & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. and Lehman Brothers; The First Boston Corp.

● **Plywood, Inc., Detroit, Mich.**
Nov. 8 it was stated company contemplates further financing (in addition to $500,000 debentures now being offered) through the sale of additional common stock. Traditional underwriter: P. W. Brooks & Co., Inc.

● **Transcontinental & Western Air, Inc.**
Nov. 12 directors will meet to consider a proposal to offer 400,000 to 500,000 shares of common stock to present shareholders at $10 a share. If the issue is approved, proceeds from the sale will be used for general corporate purposes.

Observations

(Continued from page 5)

attained the status of a full-fledged national political party, has been returned to power with a secure Congressional majority."

A fortnight later the "Times" observer reported the composure of London's City (her Wall Street) over the new Government's early steps, as follows:

"FIRST ATTLEE ACTS CALLED TOO STAID

"Two weeks after Labor victory and no revolution yet, people say with relief. After some flutterings in the dovecotes of the City, the financial community has settled down to accepting the new state of affairs, which at any rate is likely to continue for five years at least. The market is steady, if not bullish.

"This moderate reaction to the prospect of a peaceable Socialist revolution is a token of the fact that the Labor party has reached sober maturity and has received a mandate from the people that only carping diehards could challenge."

Two months later Lord Catto, Governor of the Bank of England, reassured the City that any steps toward the Bank's nationalization would be "limited and reasonable."

Attlee's "Conservatism"—The 1945 Pre-View

Similarly, the "Economist" of London in the early days of Britain's Labor administration, under the soothing caption, "Old Wine in Old Bottles," editorialized:

"Mr. Attlee has not, after all, gone in for boldness or for experiment. Both in its personnel and in its structure, his new government is conservative," and pronounced that "The risk is not that the Labor party will change British society too much, but that it will change itself too little."

Reviewing the King's speech (a counterpart of our Presidential messages) the "Economist" chortled that it was "moderate and not an instalment of Red Revolution"—this, 30 months before that publication's inveighings against an actually-incurred capital levy, and three years before its now-current issue (Nov. 6, 1948) whose lead editorial is devoted to excoriating the Government for bringing in the Steel Nationalization Bill.

The Lesson for the American Liberal

Remember, Mr. American Liberal, that Britain's Fabianism was ushered in with reassurances that if it was Socialism it was by the people's consent, that Socialism is not communism, that Mr. Attlee loved freedom and was not a revolutionary, etc.

Remember that, as David Hume wrote two centuries ago, "It is seldom that liberty of any kind is lost all at once." Do not imagine that planning is a medicine that can be added to the free market in small doses, and that it is easy to avoid eventually creeping into full collectivism through the back door of bastardized socialism.

Do not wishfully disregard the stated aims of the newly-authenticated leaders of the impending Greater New Deal: as many did in disregarding the clearly-reiterated philosophy of President Roosevelt and his spending-taxing-spending lieutenants (recorded in detail in the currently published volume, "Roosevelt and Hopkins," by Robert E. Sherwood). While "Wall Street gluttony" may be a figment of flippant campaign oratory, the keystones of the voter-approved Truman New Deal are class division, subsidization, and the general rearrangement of the economy for the achievement of political goals. (In Argentina the military government in 1943 effected the masterful "economic" measure of lowering rent ceilings by 15%.)

Remember that irrespective of the exact nature of the "mandate" which the voters have just delivered to Mr. Truman, he has permanently frozen the rule for office-seekers that for success at the polls, they must take full advantage of that flaw in our democracy which rewards the administration that dissipates the nation's production and savings to the benefit of politically-strong groups.

And Mr. Wall Street Liberal—particularly in case our stock market does not collapse during the coming months and you are thereby made happy—bear in mind that British stock prices during the period of the concurrent socialization and Fabianization rose from 105 in the Financial News Index in August, 1945, to 140 in January, 1947, and now, even on the eve of steel nationalization, is 121. Even English bonds have acted satisfactorily pricewise, having only declined from 136 in 1945 to 133 now.

And above all, let all Americans be dissuaded from letting pleasant rationalizations and complacency over the election's true significance now lead them into still another abortive forecast—this time vitally ruinous to the entire future of our country's freedoms!

Our Reporter's Report

The current period probably will go down as one of the dullest weeks this year in new corporate underwriting what with only one issue of any consequence, $4,000,000 first mortgage collateral bonds, due 1978 of Brockton Edison Co. scheduled for market.

There was very little complaining among underwriters, however, perhaps for the reason that what has happened in the post-election stock market did not make the proper kind of setting for any substantial undertakings.

Bankers undoubtedly were just as well satisfied that they were not called upon to bid for any large new issues, in the circumstances, and appeared to be satisfied to let the situation level off and create a new base from which to start.

There is no gainsaying the fact that underwriters, like others who were hoping for a change in Administration, as a result of last week's balloting, were keenly disappointed with the way things turned out.

But like the others in that category, and they are legion it appears, the bankers are not of a mind to sit on their hands and fret. Rather, it is obvious from talking to some of their number that they are prepared to take the outcome in stride and go back to work.

As one of their number put it "we'll be around doing business as usual and adjusting our positions to circumstances as they develop as we have right along."

High Grades Ignore Stocks

In spite of the lashing which the stock market has endured since the elections, the high-grade bond list has ridden out the storm without as much as a tremor. True secondary and speculative liens have reflected the unsettlement in equities, but selling has been limited to those categories.

Accordingly with the several big equity projects which have been warming up on the back of the stove, several of them scheduled for marketing next week, there is enough in the way of new bond business on tap to make that period an interesting one.

Stock deals which could, though they may not, be delayed, include Southern Indiana Gas & Electric Co.'s 675,000 shares of common; Detroit Edison Co.'s 195,000 shares; Virginia Electric Light & Power Co.'s 720,000 shares of common and the potential 350,000 shares of Carolina Power & Light Co. common.

Bond Issues on Slate

Among the bond issues slated for bids the largest is Northwestern Bell Telephone Co.'s $60,000,000 of new 31-year debentures on which tenders will be opened next Tuesday, with two large groups in the running.

On the same day Pennsylvania Railroad Co. is scheduled to market $14,508,000 new bonds of the New York Bay Railroad Co., guaranteed both as to principal and interest by the parent company.

The third issue up for bids that day, unless plans are revised, will be Northern Indiana Public Service Co.'s $11,000.000 of new first mortgage bonds due in 1978.

Crossing Up the Bankers

American Telephone & Telegraph Co.'s huge offering, $150,000,000 of new 25-year debentures, will be up for bids on Dec. 7 next, just about a week ahead of the date which had been expected.

The change in schedule here may prove a bit disconcerting to some of the members of the Investment Bankers Association who had counted on being in Hollywood, Fla. at that time.

It so happens that the IBA's convention is scheduled to open on Dec. 5 and run through the entire week. But with this kind of business in sight, and two huge syndicates organized to go after the issue, it's a certainty that enough of the working forces of the firms involved will be around their home diggings to take care of the situation.

White With Draper, Sears

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Gordon K. White has become associated with Draper, Sears & Co., 53 State Street, members of the New York and Boston Stock Exchanges. He was formerly with Gordon B. Hanlon & Co. and in the past was a partner in Watson & White.

With J. H. Goddard & Co.

(Special to THE FINANCIAL CHRONICLE)

MANCHESTER, N. H.—Edwin M. Campbell and Charles Locke are now connected with J. H. Goddard & Co., Inc., 85 Devonshire Street. In the past Mr. Campbell was a principal of E. A. Straw & Co.

SITUATION WANTED

Economist, Junior (25)

A. B. 1948. Interested in economic research, investment analysis and selling, or clerical position with a future. Salary secondary. Married veteran.

Lynn Zimmerman, HA 4-9498

Box Z 1110, Commercial & Financial Chronicle, 25 Park Place, New York 8, N. Y.

Wallace With Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Robert K. Wallace has become associated with Merrill Lynch, Pierce, Fenner & Beane, Board of Trade Building. He was formerly with C. J. Devine & Co., Inc., and Harris Hall & Co.

Nelson With J. P. Marto

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Charles P. Nelson has become associated with J. P. Marto & Co., 30 Federal Street. Mr. Nelson formerly conducted his own investment business under the firm name of C. P. Nelson & Co. and was associated with Schirmer, Atherton & Co.

C. L. O'Brien in Westfield

(Special to THE FINANCIAL CHRONICLE)

WESTFIELD, MASS.—Catherin L. O'Brien has opened offices at 290 Western Avenue to engage in a securities business.

With Peter Silowan Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Robert B. Naylor has been added to the staff of Peter Silowan, Sr., Co., Hotel Touraine.

DIVIDEND NOTICES

ATLANTIC

THE ATLANTIC REFINING CO.

COMMON DIVIDEND

At a meeting of the Board of Directors held November 3, 1948, a dividend of fifty cents (50c) per share and an extra dividend of thirty-seven and one-half cents (37½c) per share were declared on the Common Stock of the Company, payable December 15, 1948, to stockholders of record at the close of business November 22, 1948. Checks will be mailed.

RICHARD ROLLINS
November 3, 1948. *Secretary*

COLUMBIAN CARBON COMPANY

One-Hundred and Eighth Consecutive Quarterly Dividend

A quarterly dividend of 50 cents per share will be paid December 10, 1948 to stockholders of record November 19, 1948, at 3 P. M.

GEORGE L. BUBB
Treasurer

IOWA SOUTHERN UTILITIES COMPANY of Delaware

Dividend Notice

The Board of Directors has declared a dividend of 25¢ a share on the Common Stock of the Company payable December 1, 1948 to stockholders of record November 15, 1948.

EDWARD L. SHUTTS, *President.*

November 6, 1948.

NOMA Electric Corporation

55 W. 13th St., New York 11, N. Y.

The Board of Directors of Noma Electric Corporation at a meeting today (November 4th) declared a quarterly dividend of Thirty-seven and one half cents (37½¢) a share on the Common Stock, payable December 20, 1948 to stockholders of record at the close of business December 6, 1948.

HENRI SADACCA
President

E. W. Daniels Dirs.

E. W. Daniels, Chairman of the board announced that, at a meeting of the board of directors of Harbor Plywood Corp. held yesterday, E. J. Evans had been elected to fill a vacancy on the board. Mr. Evans is Chairman of the board of First California Company with offices in Los Angeles and San Francisco.

With Clayton Securities

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—William H. Mahoney is now connected with Clayton Securities Corp., 82 Devonshire Street. He was formerly with duPont, Homsey Co.

DIVIDEND NOTICES

The Singer Manufacturing Company

The Board of Directors has declared a quarterly dividend of $1.50 per share and an extra dividend of $1.50 per share payable on December 14, 1948 to stockholders of record at the close of business on November 23, 1948.

D. H. ALEXANDER, Secretary.

November 5, 1948.

LION OIL COMPANY

A regular quarterly dividend of 75¢ per share has been declared on the Capital Stock of this Company, payable December 15, 1948, to stockholders of record November 30, 1948. The stock transfer books will remain open.

E. W. ATKINSON, *Treasurer*

November 5, 1948

Imperial Oil Limited

Toronto 1, Ontario

NOTICE TO SHAREHOLDERS AND THE HOLDERS OF SHARE WARRANTS

NOTICE is hereby given that a dividend of 25 cents per share in Canadian currency has been declared and that the same will be payable on or after the 1st day of December, 1948, in respect of the shares specified in any Bearer Share Warrants of the Company of the 1929 issue upon presentation and delivery of coupons No. 71 at:

THE ROYAL BANK OF CANADA
King and Church Streets Branch,
Toronto 1, Canada.

(For convenience coupons are also negotiable without charge at any branch of The Royal Bank of Canada in Canada.)

The payment to shareholders of record at the close of business on the 15th day of November, 1948, and whose shares are represented by Registered Certificates of the 1929 issue, will be made by cheque mailed from the offices of the Company on the 30th day of November, 1948.

The Transfer books will be closed from the 16th day of November, 1948, to the 30th day of November, 1948, both inclusive and no Bearer Share Warrants will be converted into other denominations of Share Warrants during that period.

The Income Tax Act of the Dominion of Canada provides that a tax of 15% shall be imposed and deducted at the source on all dividends payable by Canadian debtors to non-residents of Canada. The tax will be deducted from all dividend cheques mailed to non-resident shareholders and the Company's Bankers will deduct the tax when paying coupons to or for accounts of non-resident shareholders. Ownership Certificates (Form No. 600) must accompany all dividend coupons presented for payment by residents of Canada.

Shareholders resident in the United States are advised that a credit for the Canadian tax withheld at source is allowable against the tax shown on their United States Federal Income Tax return. In order to claim such credit the United States tax authorities require evidence of the deduction of said tax, for which purpose Registered Shareholders will receive with dividend cheques a Certificate of Tax Deduction, and Bearers of Share Warrants must complete Ownership Certificates (Form No. 601) in duplicate and the Bank cashing the coupons will endorse both copies with a Certificate relative to the deduction and payment of the tax and return one Certificate to the Shareholder. If forms No. 601 are not available at local United States banks, they can be secured from the Company's office or The Royal Bank of Canada, Toronto.

Subject to Canadian regulations affecting enemy aliens, non-residents of Canada may convert this Canadian dollar dividend into United States currency or such other foreign currencies as are permitted by the general regulations of the Canadian Foreign Exchange Control Board at the official Canadian Foreign Exchange control rates prevailing on the date of presentation. Such conversion can be effected only through an Authorized Dealer, i.e., a Canadian branch of any Canadian chartered bank. The Agency of The Royal Bank of Canada, 68 William Street, New York City, is prepared to accept dividend cheques or coupons for collection through an Authorized Dealer and conversion into any permitted foreign currency.

The Secretary will on request and when available forward to the holder of any Bearer Share Warrant of the Company a copy of the Company's annual report for the fiscal year.

BEARER WARRANT HOLDERS SHOULD PARTICULARLY NOTE THAT COUPON NO. 70 WAS BY BOARD RESOLUTION DECLARED NOT AVAILABLE FOR DIVIDEND PURPOSES BUT WAS REQUIRED TO BE SURRENDERED AS EVIDENCE OF THE ISSUANCE OF RIGHTS IN CONNECTION WITH THE RECENT SALE OF THE COMPANY'S HOLDINGS IN INTERNATIONAL PETROLEUM COMPANY, LIMITED AND IN CONSEQUENCE COUPON NO. 71 IS DESIGNATED FOR THE PURPOSE OF THIS DIVIDEND.

By Order of the Board,
COLIN D. CRICHTON, General Secretary.

56 Church Street,
Toronto 1, Ontario,
November 3rd, 1948.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—Some of the older political heads see two rather spectacular paradoxes emerging as a direct result of the circumstances involved in the election.

The first of these is that President Truman may find himself all but forced to nearly reverse the role he has played in the past year or so. He has been the aggressive advocate of the measures of the Left. It was he who demanded more spending, controls, and reforms. Of course by no flight of imagination may he be expected to become the spokesman of conservatives. Nevertheless, he may inevitably find that it is he who must say, and say often, "take it easy; go slow."

From Capitol Hill the President has heard "no" said to his leftwing proposals. Yet, henceforth from Capitol Hill will come the cry for action, and action now, on three or four broad fronts at least, maybe on a dozen fronts. The demand for more spending, for controls, for more government in business will come from the new Congressional majority, flush with victory, full of a sense of power, and impatient to enact the proposals of the Left so long stymied by the former, relatively more conservative Congress.

* * *

The other likely paradox is that it is quite possible to expect the net result of the 1949 session of Congress to be no greater in terms of the Left than it might have been had Gov. Dewey been elected President and carried with him a Republican Congress—with one exception to be mentioned later.

* * *

The most important change in Mr. Truman's position is that for the first time he acquires *de jure* an all-around responsibility. Under the U. S. Constitution, Mr. Truman heretofore was and was not President at the same time. He legally occupied the office and discharged the duties of office, particularly the paramount responsibility of conducting foreign affairs through the Secretary of State. But he was often at a loss to acquire the real backing in and out of Congress his constitutional position would seem to entitle him to. He had the hostile Congress.

* * *

Mr. Truman's *de jure* leadership places him on an entirely different spot. To the extent he had lost leadership over all but a small element of his party and was ignored as the President of the United States, he was in a position of semi-irresponsibility for national policy. He operated pretty much, in his variegated legislative program, as an irresponsible political leader throwing out many lines to catch the voting fish.

The position Mr. Truman now occupies, with the substance as well as the shell of power, is of immense fundamental importance in gauging the future outlook. In everything Mr. Truman backs strongly, and in everything he opposes, he may if he tries hard enough, have his way. Or, if he fails to achieve his legislative objectives, there is no practical political alibi. It is his responsibility and that of his party.

Hence what Mr. Truman now really backs and what he really opposes, will have to be selected with a view not only to its effect upon the welfare of the country, but the welfare of the political party that he heads.

This broad circumstance makes for caution. The horse-backing of the political campaign is gone. The casual throwing out of a legislative program of the magnitude Mr. Truman sought in 1948, also is gone. At this point it is necessary to distinguish between solid fact and the great deal of apparent fiction which will be thrown out between now and the time the new Congress really settles down to work. Obviously Mr. Truman cannot tell any of the pressure groups that anything which he promised, he is not 100% enthusiastic about. It may be doubted that, by as much as a grimace, the President will infer he is not for any important project for which he has committed himself. Many irresponsible statements are and will be issuing as to all the things Mr. Truman will have the Congress do. These must be discounted.

* * *

The other election circumstances which may impel the President toward a cautious attitude are those which relate to Congress. Mr. Truman's apparent command of the Congress is large. Indeed, even crude political management will not diminish it for a time. The beating which the President gave his opponents will result—for a time—in the self-suppression of the antagonism of his most bitter critics among the Democrats, and even the Republicans might show up a little punch drunk at first.

What Mr. Truman has achieved on a transitory basis is an amorphous farmer-labor party — a farmer-labor party which has always been the idealistic aim of the Left—but which in practice proves to be too brittle to endure long.

Mr. Truman's present following, allured as it was by fundamentally conflicting commitments, also is brittle. If the reports from the provinces are correct, much of the Democratic swing in the farm belt was attributed to the fear of farmers that they would lose their 90% supports. In this connection it is of considerable philosophic interest to comprehend that the farm organization leaders, the principal ones, found that their realistic idea of lowering the supports for the long-run good of the farmers, found no favor with their dues-paying members.

* * *

The instability of the Congressional following etches out more closely in a bath of particular issues. If the farmers were so frightened by fear of lowered supports, they certainly will not go for price control. No matter how it may be argued that price control will not lower food prices, farmers will fear it will. Congress was probably not composed of dopes in opposing price control, because the legislators knew that controls meant lower returns to all producing groups, if they worked. But Mr. Truman, in his former position of irresponsibility, could appeal to both consumers and producers — or at least it would seem he got away with it.

Yet price control is now one of the foremost desires of the labor unions.

* * *

Then there is the matter of the repeal of the Taft-Hartley law. This is the most strident demand of the unions. Mr. Truman promptly will be confronted with that one. Yet the "farmer members" of Congress will not go for that one. By and large the farmers are opposed to organized labor and sold on Taft-Hartley. This goes for many of the new-born Democrats of the farm belt, as well as for hold-over Congressmen.

Finally there is that tough one, civil rights, and coupled with it, the corollary but nevertheless important question of where the South will go. Let it be taken for granted, as the professionals assert, that if Mr. Truman actually does lead a determined drive to get civil rights enacted, particularly a national FEPC law, the scarcely scabbed wound of the southern revolt will break wide open.

The cockier lefties are inclined to say, "so what, we don't need 'em. We licked them and got along without them." The high and handsome boys are going to scream at the very outset when, as it has been reported Mr. Truman favors doing, it is proposed to let the southerners acquire the important committee posts to which they are entitled under seniority.

What to do about the South presents Mr. Truman with one of the greatest difficulties of his new term. He wants to put the light in the window so they will come back from the South. By and large Mr. Truman differs fundamentally from his late predecessor in that he is not capable of sustained vindictiveness on any scale. He wants to be liked by people. He probably even wants to be liked by the National Association of Manufacturers, whom he whipped so harshly in his campaign. He wants to build and leave a strong Democratic party for 1952, even if he doesn't run. And he doesn't enjoy sticking pins into flies.

Nobody but the cocky boys believe Mr. Truman can afford to write off the South. A determined drive for a national FEPC law (perhaps not on some lesser civil rights proposals) would not merely recreate, as in any case it will tend to reappear, the southern-northern conservative alliance of the New Deal era, it may even formalize that alliance, cement it, and clear the way for an entire realignment of parties.

If Mr. Truman shoves civil rights down the Congressional throat he will splinter a large element of his support, even if grudging support. Same for Taft-Hartley repeal. Same for price control.

* * *

Hence, as the circumstances are now sized up, the almost conventional pattern forced upon Mr. Truman is to delay the controversial issues. Maybe some face-saving amendments to Taft-Hartley. Maybe something (if not as much as the Reserve Board wants) in the way of credit control in lieu of price control. Concentrate first on the foreign situation; emphasize this with the old gag of "first things first." Stall on the controversial things meanwhile. Likewise something in the way of a relatively "mild" New Deal—housing, Federal aid to education, maybe medical aid. This is a suggestive list, not a summary of possibilities.

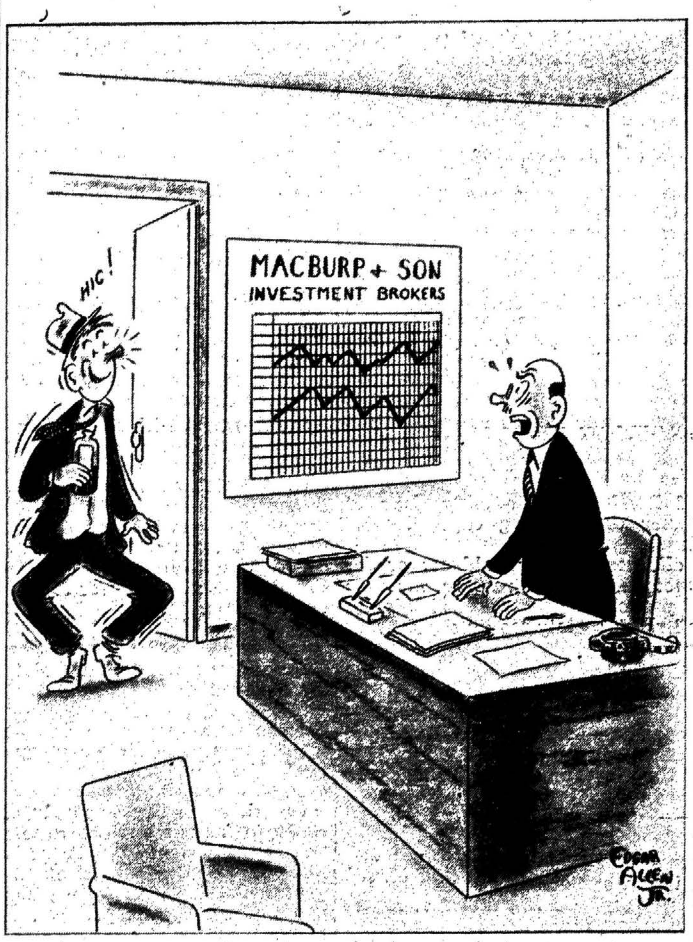
This is not a forecast. This is merely a delineation of the frame in which Mr. Truman will operate. Mr. Truman MIGHT have some fancy notions, like breaking up the old backing for the Democratic party and rebuilding something new. He might have other ideas, which scarcely anyone here is in a position now to suspect. However, more people are inclined to hope that power and success will temper Mr. Truman and enlarge his character than there are people who will fear he has become infatuated with himself and will go off on a tangent.

* * *

If Mr. Dewey had been elected with a GOP Congress, something of a mild New Deal program probably also would have been adopted. The big difference, net, is probably two to three billion more of expenditures might arise under Mr Truman than under Gov. Dewey. This threatens the possibility of increased taxes.

It is premature, however, to fear too much the restoration of the excess profits tax proposal of 1948. In this connection note that the Chairman of Senate Finance is Senator George. Higher corporation income taxes, if necessary, look at this distance like a better bet.

BUSINESS BUZZ



"I did not say 'Go get a quart'—I said 'quote'!"