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Needed: A Program For Strengthening Our Economy

By ALFRED P. SLOAN, JR.*
Chairman of the Board, General Motors Corp.

In pointing out our prosperity is supported by synthetic forces that breed danger to our future, Mr. Sloan urges managers, educators and government to work toward strengthening our economy to sustain high employment and rising living standards.

The fundamental question before the leadership of the world today is: Has it the will, the power and the understanding to rebuild its economics in terms of tolerant living standards before the people succumb in despair to the enticing appeals of the demagogue? And can this be done against the enormous pressure of almost irresistible and destructive social forces? The fundamental task before our own country is to manage our economic affairs so as to continue to demonstrate this


Alfred P. Sloan, Jr.

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*Opening address by Mr. Sloan as President of the Economic Club of New York, New York City, Nov. 16, 1948.

Should Government Bonds Be Supported at Present Prices?

By CLAUDE L. BENNER*
Vice-President, Continental American Life Insurance Company

Claiming Federal Reserve bond support program is fostering inflation, Mr. Benner lays rapid expansion of bank credit to heavy capital demands in excess of current savings, and urges this be checked by permitting interest rates to rise and prices drop. Says criticism against banks, life insurance and other financial institutions for selling government bonds is unfair, and denies removing of peg on government bond prices would impair bank and insurance solvency. Contends Federal Reserve could restore its prewar credit control power if bond support policy were abandoned.

The problem of Federal Reserve support of the Government bond market is more than a technical banking problem. It is not a question of adequate reserves for either member or Federal Reserve banks. Nor should the decision of support be determined by the Reserve Banks' ability to substitute short-term securities for the long-term bonds they they. This problem is a fundamental one. The ultimate decision taken on it will affect our whole economy. It underlies, as you know, the problem of inflation, rising prices and the general level of interest rates.


Claude L. Benner

The Federal Reserve authorities have sounded warnings about the dangers of inflation for over a year. Everyone fears that prices may go still higher. Our money supply is increasing and is in ex-

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*An address by Mr. Benner at the Annual Convention of the Nebraska Bankers Association, Omaha, Neb., Nov. 11, 1948.

Business Outlook—Recession or Boom?

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

Professor Slichter points out despite plausible reasoning that conditions needed to produce recession are here, heavy government expenditures and larger outlays of businss and consumers are likely to maintain level of economic activity. Foresees greater demand for public works, generous social services and defense outlays to stimulate more production, which can be had only by capital-saving inventions and more rapid technical progress. Predicts fourth round of wage increases, more government spending and higher taxes.

I

What is ahead for the next six or 12 months—recession or boom? Two weeks ago it seemed fairly clear that the prospect was a continued high level of production and employment at least until the middle of next year and probably longer. The results of the election, however, have surprised almost everyone. It would be foolish to pretend that these results do not require that all previous conclusions in regard to the business outlook be reconsidered. The best way to do this, I think, is to analyze the business outlook as it appeared before the election and


Prof. S. H. Slichter

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*An address by Dr. Slichter at 40th Annual Convention of the Grocery Manufacturers of America, New York City, Nov. 16, 1948.

EDITORIAL

As We See It

Prices Will (Will Not) Come Down

We are now entering a period of four years—or at the very least two years—in which it has been promised that prices will come down and that prices will not come down. Of course, pledges have not been made in such bluntly contradictory terms as this, but the net effect of what has been said comes very nearly if not fully to being the equivalent of it. The President again and again and again has asserted that we should have price control, and that if we had given him power to exercise these controls prices would never have reached the level of today. Since the elections, one of those unofficial, official "leaks" out of the White House has asserted that the President would give "business" an opportunity to reduce prices — probably appeal officially to "business" to reduce prices—before he again demands of a Congress, which his party will dominate, a law giving him the power to go to work in his own way to get the cost of living down.

At the same time, the farmer seems to feel assured

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Fort Knox Gold Not Worthless

By ROY GARIS

Professor of Economics, University of Southern California

Dr. Garis reviews recent attacks on gold standard and gold reserves by both British and American economists and points out their fallacies. Contends gold at Fort Knox has inestimable value not only for American people, but also for British and other non-communistic nations. Cites linking of British pound to dollar and lays attacks on Fort Knox gold reserve to "currency planners who do not want their mistakes made obvious." Concludes Fort Knox gold is not sterilized, but by maintaining confidence in dollar, serves as world value standard.

On June 30, 1948, gold in the United States Treasury, "buried" at Fort Knox, amounted to $23,532,000,000, of which $22,303,000,000 was pledged as a 100% reserve behind gold certificates. A total of $13,429,000,000 of these gold certificates were set aside by Federal Reserve banks as collateral behind $24,503,332,000 of Federal Reserve notes outstanding on June 30, 1948. On the same date total deposits in Federal Reserve banks amounted to $20,175,977,000. A reserve of at least 25% in gold certificates is required by law behind these demand liabilities of the Federal Reserve banks.

Roy L. Garis

Of what value is this $23.5 billion in gold "buried" at Fort Knox? What is its function?

After setting forth criticisms of the gold standard by D. H. Robertson, R. G. Hawtrey and Lord Keynes — all British — Professor G. N. Halm states that cover reserves are indispensable only if we want to achieve strictly automatic credit contraction in a country which is losing gold. He argues that "unlocked" cover reserves could serve as a fund of highest international liquidity. "Then, but only then, could it be suggested that gold production is less foolish than it may seem to observers from another planet who, through huge telescopes, are watching us and are puzzled as we extract gold laboriously from the bowels of the earth only to put it in a somewhat more orderly fashion and in a different place."[1]

D. H. Robertson belittles gold as "the yellow metal, originally chosen as money because it tickled the fancy of savages."[2]

R. G. Hawtrey calls the gold standard a state of "anarchy in world credit control."[3]

Lord Keynes stated that under the gold standard we lock away a large part, sometimes the major part of the gold reserves "so that it can never be used."[4]

In his recent text book "The Elements of Economics,"[5] Professor Lorie Tarshis, a disciple of Lord Keynes, states, "It is hard to see why any changes should result if gold reserves were done away with and if the Federal Reserve bank requirements were repealed. The use of gold in the present-day economy is somewhat absurd."

Mr. C. D. Calsoyas, instructor in Economics at Yale University, wrote in the "American Economic Review" for June, 1948, in an article "Commodity Currency and Commodity Storage," "The unlimited demand for gold at a high price for monetary purposes is an absurdity of the modern world."

Statements such as these raise the question of the value of the gold deposited at Fort Knox.

In an argument to the effect that the British loan of 3¾ billion dollars should have been made in gold (specie), a British writer (identity unknown), stated, "The hoard at Fort Knox would have decreased by a fifth, but the fact would have no meaning for any individual in the nation." Such a statement assumes that the gold at Fort Knox is without value to us, whereas the United States had no such supply of free gold to lend to England, virtually all of it being pledged, as stated above, as reserves behind our money and credit. It had no value to us but it would have had great value to Britain!

The gold at Fort Knox has a value of $35 per fine ounce, although this British writer contends that we treat it as if it has no value. He stated, "This is certainly the effect which the sterilization of the gold in Fort Knox produces. It is bad business."[6] Such statements are typical of the confusion that exists and the erroneous beliefs that are held concerning the gold at Fort Knox. The gold is not sterilized but is rendering service as the standard of value not only for our economy but for the entire world.

Professor A. G. Hart is of the opinion that with the passing of time gold has tended to become "more and more strictly a psychological phenomenon."[7] Since most of the monetary gold in the United States is concentrated at Fort Knox he believes that everything would go on undisturbed if all this gold disappeared suddenly provided the few persons who would know of the loss and kept the secret from the public.

As a result of this psychological phenomenon he raises the question of the wisdom of mining gold in South Africa or Canada or anywhere else merely to bury it again at Fort Knox. He even goes so far as to submit the proposition that unmined gold could be used where it is, once its amount were determined. All that would be necessary is to pretend that the gold has been mined, pay the miners and smelters for their supposed labor, and "let them go fishing." The professor questions whether it is even necessary to insist on proof that the gold exists. I assume he means in an unmined state.

As a result he concludes that there is "cause for suspicion that we are going through the motions of operating a gold system that has somehow lost its substance."

Professor G. R. Whittlesly, a critic of the gold standard, states, "The world found itself, toward the end of the Second World War, not only without an international standard but with no common desire to return to gold."[8] On page 655 of the same text he expresses the opinion that "well before the end of the Second World War, it was evident that the international gold standard could not be revived."

The author questions the accuracy of these expressions of opinion. However, they do raise the question of the function and value of the gold "buried" at Fort Knox.

In the years 1933 to 1941 gold reserves of the Treasury, "buried" at Fort Knox, increased approximately $16 billion. For, under the law all gold receipts had to be deposited by commercial banks in the Federal Reserve banks to be transmitted to the Treasury in exchange for gold certificates. This increase in the gold stocks of the United States resulted at that time in large "excess" reserves.

Professor Whittlesly points out that the word "excess" would seem to indicate that these reserves were performing "no very useful function." However, he reaches the conclusion that they were funds that should be thought of "as funds awaiting a more profitable application."[9] It would seem to be clear from this statement that its author recognizes that the gold in the Treasury but "buried" at Fort Knox had not only present but great potential future value, as reserves for our monetary and credit system, if for no other reason.

Now the purpose of reserves is to maintain the confidence of the public in our money and credit structures. Unquestionably it is in part a psychological factor. But it is more than that. The knowledge—vague as it may be—that the legal reserves are being kept is a major factor in the maintenance of confidence in the American dollar. If the gold at Fort

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1 Halm "Monetary Theory" (1946). The Blakiston Co., p. 205.
2 Robertson, "Money," p. 155.
3 Hawtrey, "Trade Depression and the Way Out." 1931, p. 18.
4 Keynes, "A Treatise on Money." Vol. 2, p. 265.
5 Houghton-Mifflin Co., 1947, pp. 335-336.
6 Economists' National Committee on Monetary Policy, "Monetary Notes," Vol. 7, No. 8. August, 1947.
7 Hart, "Money, Debt and Economic Activity." (1948). Prentice-Hall, Inc., p. 385.
8 Whittlesly, "Principles and Practices of Money and Banking." (1948). Macmillan Co., p. 28.
9 Ibid., p. 135.

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Temporary Stay of Administrative Juggernaut

SEC hearings against Otis & Co. stayed by Appellate Court pending appeal. Court finds that unless so restrained SEC may take action injurious to appellant. Precedents important to securities industry being created. Public releases of Commission attacked. No recoupment to the innocent for damage suffered through them and because of SEC methods of investigation. Remedies suggested.

In a proceeding wherein Otis & Co. is Appellant and Securities and Exchange Commission et al., are Appellees (United States Court of Appeals for the District of Columbia) the bench composed of Judges Clark, Miller and Prettyman entered an injunction order providing in part as follows:

"IT IS HEREBY ORDERED, ADJUDGED AND DECREED that pending the decision of this Court on appeal, the Securities and Exchange Commission be and it is hereby enjoined from

(a) proceeding pursuant to the Commission's orders of August 11, 1948, and October 28, 1948, insofar as those orders relate to or involve the termination of the underwriting agreement between plaintiff and Kaiser-Frazer Corporation, or the alleged instigation of a stockholder's derivative suit for the alleged purpose of avoiding plaintiff's obligations under said underwriting contract;

(b) taking any evidence, compelling attendance at hearings, or taking any action whatsoever, with respect to the above matters."

It will be recalled that in the District Court, Judge Morris decided to uphold the principle of privileged communications between attorney and client which he held could not be pierced in the absence of a prima facie showing of fraud. He further held that the SEC had made no such showing. This is a signal victory for Otis & Co.

Our readers also will recall detailed discussion of Judge Morris' decision in a previous editorial wherein we applauded the victory but were disturbed for the securities industry by that part of the determination which in effect held the SEC would not be restrained from going ahead with its hearing because the court was powerless to so interfere with the administrative process.

We pointed out that in the average disciplinary proceeding instituted by the Commission the adversaries were unevenly matched. The SEC is government subsidized, while the respondent rarely has the means to adequately combat administrative strategy through appellate channels to an ultimate conclusion. This, we said, places the whole industry in jeopardy.

From Judge Morris' refusal to enjoin further hearings before the SEC, Otis & Co. is now appealing, and the stay granted by Judges Clark, Miller, and Prettyman is temporary until the final decision of this appeal.

Without passing upon any of the merits of the Kaiser-Frazer, Otis & Co. controversy, we, in a sense, regard Otis & Co. a champion for the entire securities industry. The victory it has already achieved is, as a precedent, the victory of all brokers, dealers and underwriters. All may now be certain that in the absence of a prima facie showing of fraud the Commission may not pierce privileged communications between attorney and client. That Otis & Co. has the will and the means to fight is a happy augury, for these may result in other important precedents.

This conflict leads us to another disturbing element, the releases promulgated by the SEC bearing upon its activities. We have always felt that some means should be found to control these because of the incalculable damage done to respondents, many of whom are ultimately found innocent of any wrong doing.

Somewhere in almost every release is a statement that

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Incentives—The Foundation of Our Economy

By GWILYM A. PRICE*
President, Westinghouse Electric Corporation

Decrying predictions another depression will spell doom to our economic system, prominent industrialist says it is prime responsibility of American businessmen to study our capitalist system and keep it in healthy condition. Stresses need of incentives in industry and criticizes British socialism, while praising Belgium's private enterprise policy. Holds in U. S. we have cut our incentives thin by inflation and unwise taxation and urges giving workers more incentives through profit sharing. Sees necessity of greater incentives for management and stockholders by removal of high income taxes and double taxation on dividends.

There may be some disagreement among businessmen themselves on what their responsibilities are today. Believe me, there is none in the minds of the public-at-large. You are to pay higher wages and make better products at lower selling prices. You are to expand your productive capacity, provide employment for all, pay taxes, make a profit, and deliver dividends.

Gwilym A. Price

American industry, as a matter of fact, has been doing all those things most of the time for the past hundred years. You are expected to continue to do so—and better than ever.

In our complex society, one might expect all groups to share the obligation of keeping our economy on a reasonably even keel, and to share responsibility should it weaken. But let us make no mistake. If our economy fails to produce steadily, businessmen will not only share in the painful results of that failure; they will, as in times past, be blamed for it.

Like all other economies, ours will have its downs as well as its ups. But it has been said, in truth more than jest, that our downs are almost as good as the other fellow's ups. I am convinced that we will handily survive any downs we are likely to encounter, and I deprecate the careless talk that another depression would spell doom for our system. That system is a great deal tougher and sounder than many believe. However, it is true that a severe dislocation such as we experienced in the thirties would cause many to lose their newly fortified faith in American capitalist democracy, and to experiment with radical changes in its institutions. Of further critical importance is the fact that the enemies of this country are counting on failure of the American system. Their policies and actions are based on the communist premise that capitalism is inherently unstable and that recurring depressions will bring about its collapse.

Keep Capitalist System Strong

It is therefore the prime responsibility of American businessmen to study and understand the American capitalist system, to work to keep it in a healthy condition, and to fight the forces that would weaken or destroy it.

How are we to do it? How are we to keep American business and industry—American capitalism—working and working well?

To that, I know there are many answers. Let me dwell a moment on one which I believe is preeminent.

One element above all others characterizes American capitalism and sets it apart from other systems. It is both a cement which holds the system together and a nutriment which makes it grow. Reduce that element and you weaken the system. Remove it and you will have something left, but it will not be capitalism, and I doubt if it will be democracy. I give you the much-abused but still shining word "incentive."

To take advantage of our present-day opportunity and to meet our corresponding responsibility, it is essential that we understand, appreciate and maintain the incentives of our system. In the words of Winston Churchill, greatest prophet of our age, "We must beware of trying to build a society . . . where enterprise gains no reward."

I do not refer to incentive simply as something worked out in a factory with a stop watch. The study of incentives is much broader than work curves and bonus rewards. It has moved out of the industrial plant and is being carried forward on an international scale. We are seeing throughout the western world, almost as if under laboratory conditions, large-scale experiments in the use and non-use of incentive measures.

If I tried to, I could not overstate the potential importance of these experiments. They are enabling this generation to base its conclusions on demonstrated events rather than on theory. Those conclusions may be a decisive factor in our history.

What we have learned—or rather, relearned—is simply that people do not work because they want to, but for what they can get out of it. Nations do not flourish unless their people work hard; and their people do not work hard unless they have adequate incentives.

Is this so obvious as to seem stupid? Is it like discovering that men must breathe and eat if they are to live? Well . . . a whole philosophy of government has sprung up in the world which denies this. The trade union movement in Europe operates on premises which deny it. The governments of Europe have either recently relearned it, or have not learned it at all.

In western Germany we have seen incentive reduced to its most primitive meaning. For three years that land operated with a currency so debased that it had almost no worth. Despite laws, controls and penalties, the German worker refused to work for that currency. The German farmer had to be driven to plant and goaded to harvest, and no persuasion, threat or punishment could keep him from selling his product on the black market, where it brought him some of the things he wanted.

Last June a currency with some value was introduced into Germany. You know the first results of that operation. The experiences of one factory owner are typical. He had carried three times as many workers on his payroll as he needed, since each man spent most of his time scrounging food. This employer was embarrassed on the first working day after currency conversion. All his men showed up for work, and there wasn't room enough for all of them in the plant.

Ruhr coal was recognized as the key to Europe's recovery. The Ruhr miner was producing it only in dribbles. When an incentive plan was introduced, he began to get the coal out of the ground. He received such real wealth as extra food, two pairs of shoes and a suit of clothes a year, 15 cigarettes a day, and CARE packages for meeting group quotas. Coal production in the Ruhr in 1938 was 400,000 tons per day. It is now being mined at a rate well over 300,000 tons.

As a descendant of Welshmen, it pains me when anyone other than Gwilym Price criticizes the British, and I do not criticize them easily. I think I realize the price Britain has paid in men and money in fighting two world wars, and the importance of American cooperation with Great Britain in world policy. In Great Britain, nevertheless, we are seeing the logical result of a generation of economic error. We are seeing living proof that every restriction lessens incentive, and that without incentive a nation moves toward the brink of ruin.

Socialized or operating under the threat of socialization, British industry has no incentive to produce, to modernize or to expand. The London "Economist," a liberal paper, recently stated: " . . . the most fundamental problem of the long run that faces the British economy is the rate at which it will create capital." And yet their government has imposed rigid restrictions on new enterprises and a tax on investments so heavy that it is forcing partial liquidation.

Their situation today calls for prodigious amounts of work, but with little to buy, the Briton has no sufficient incentive to work. He wants food, clothing and perhaps, in the words of the college student to his father, "enough money to raise a little hell with." Instead he is told to work for export and for mills and machinery which will not come into production for several years. The result is national apathy, and this apathy, of course, is fought with more controls—with compulsions, penalties and punishments. The British cradle-to-grave, womb-to-tomb economy is dealing what seem to be the finishing blows to

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*An address by Mr. Price before the Economic Club of New York, New York City, Nov. 16, 1948.

Faith in Security Values

By CLAYTON D. QUAW
Penington, Colket & Co., New York City,
Members of the New York Stock Exchange

Recalling that under Democratic Administration most companies have become stronger financially than ever before, Mr. Quaw maintains it is logical to believe Democrats will not enact laws to cripple business and securities. Points out stocks have not advanced in price along with commodities and wages, and are therefore not poor risks but good income producers.

Almost everybody was surprised by the election. Many were shocked because the assurances of a Republican victory were so abundant. It is apparent that many of those who were shocked have sold stocks with little or no attention paid to favorable news of earnings or dividends. This article is written to try and strike a balance in people's minds with regard to security and securities. We do not think it is either practical or informative to put on rose-colored glasses or to blind ourselves to the possibilities of higher taxes and wages and any renewed wartime controls. We believe that we, as brokers, and all of our friends and clients who are investors should keep well aware of the risks that are inherent in an economy where most of us agree that the prices of many articles, foods and materials are already too high.

To be realistic, however, we think it would be wise to recall the many trials, tribulations, controls and 90% taxes that practically all of our good companies have survived with great success in the past 20 years. Security markets having been bombarded for almost all that time by new restrictions, regulations and high taxes should not be vulnerable now to a great extent to any further "anti-big business legislation" which the Democratic Administration may try to enact into law. The Democratic law-makers have many friends in big business and in some strong Democratic states like Texas, Oklahoma, Arkansas and Louisiana they have welcomed the influx of big business within their borders, for the past several years. It is not reasonable that they will support legislation that will restrict the growth of these new taxpayers and high wage payers.

If one looks back, it is easy to remember that business executives and stockholders would have been frightened beyond imagination if they were told that they had to absorb the wage increases and the tax increases that they have managed to pay since 1941. We think that two points should be emphasized as strongly as possible: (1) That most companies today are in stronger financial positions, with larger liquid assets, far more production facilities, higher earning power than ever before; and (2) that these results have been accomplished under Democratic Administrations which we are now facing for another four years.

We do not think it is logical to believe, or fear, that the Democrats will enact laws which will cripple business. We do not think that they will vote any legislation which would result in many dividend reductions. Therefore, securities which *have not advanced in price* in common with commodities, wages and materials, do not seem poor risks at current levels. Contra, they are fine income producers.

At the risk of repetition, we recognize the probability that higher prices and higher wages may act as a damper to further increases in business and may bring about some decreases in sales and a larger percentage decrease in net earnings, but we continue to feel that earnings can come down materially with little prospects of getting close to the dividend level and that most equity prices are reasonable even if earnings declined by 30%.

We cannot find fault with company after company showing *substantial gains in sales, because of enlarged property employing more people* with only slight increases in net income—thereby serving customers on a little lower profit margin. Is there anything wrong or disturbing with progress of this kind?

We agree that it is unreasonable to look for any wave of optimism or any great bull market in the near future, *but keep in mind we were all fooled by the Election.* We think that caution should be exercised and both industry and company records fully scrutinized before investing, but we have always thought that. There is no doubt in our minds that good sound equities are as cheap today on the basis of two to five times earnings as they were unquestionably high in 1928-1929-1946 at 12 to 25 times earnings. Using another yardstick, we must believe that good stocks are cheap with the yield to the investor from 7 to 10%, or about two or three times the yield available on good bonds. On this basis, it may be well to remember the late Andrew Mellon's warning early in 1929 to the effect that *the yield at that time on stocks was below that obtainable on a representative list of bonds.*

Why are we not more pleased and encouraged by the fact that Mr. Wallace only polled 1 vote out of 47? That is a pretty solid majority for the American way of life—not a reason for alarm. Why do we not enthuse more on proven facts that farmers, laborers and *corporations* have more wealth and better health than ever before in our history? Why don't hundreds of thousands of investors have faith in proven increases in earning power, increased dividends and brilliant, far-seeing management? We think they should. Full employment with consequent large income to support record production of farm and factory is no theory, it is a fact. Why should the party in power want to do anything to destroy or tear down this huge source of revenue? We don't think they will. It seems much more logical that most of their efforts will be to promote a continuation of the present prosperity so that voters may give them credit, as they did in the last election.

Have faith in facts!

Put and Call Brokers To Honor Sidney Harnden

Members of the Put and Call Brokers and Dealers Association, Inc., are tendering a testimonial dinner tonight (Nov. 18) to Sidney Harnden, who has been President of the Association since 1942. The Committee on Arrangements for the dinner, which will be held at the Hotel New Yorker, are Charles S. Godnick of Godnick & Son and Lawrence G. Botts of Thomas, Habb & Botts.

With Havener, Gill Co.

Havener, Gill & Co., 61 Broadway, New York City, members of the New York Stock Exchange, announce that John F. Murray is now associated with the firm as a Customers' Broker.

The State of Trade and Industry

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

The course of industrial production for the country as a whole the past week held steady and almost without change from the preceding week's level. It was noted that slight declines in some industries last week were offset by a stepping up of output in others.

The week was not devoid of strikes, being confined to scattered areas, but employment in the main was unaffected and continued to maintain an even and high rate. Continued claims for unemployment insurance dropped nearly 5% and initial claims fell more than 8% for the period ended Oct. 16. In keeping with the high employment rate, payrolls continued near the high levels of the previous week.

A dark spot in the news the past week was the announcement made at 12:01 a.m. on Saturday by Joseph P. Ryan, President of the A. F. L. Longshoremen's Union that 65,000 of the unions members had voted overwhelmingly to reject a wage increase offered on Monday of last week. This action signalized the beginning of a complete tie-up of the nation's shipping with ports from Maine to Virginia affected. Spokesmen for Gulf Coast stevedores said their locals would follow suit. West Coast shipping has been tied up for weeks because of a dock workers' strike.

As a result of the three-day-old wildcat strike of the A. F. L. longshoremen, an embargo on almost all export freight destined by rail for New York City or Boston was ordered by the Association of American Railroads, effective as of last Saturday.

Mr. Ryan, President of the longshoremen's union, gave the assurance that Marshall Plan shipments to Europe and Army cargoes "will go" and that New York need not "worry" about food.

* * *

As an offset to the unfavorable news of the longshoremen's strike, D. P. Loomis, Chairman of the Western Railway's Wage Committee, on behalf of the nation's carriers, announced the settlement of the dispute between the three operating railroad unions representing 250 000 engineers, firemen and switchmen. The three rail unions advised the roads they would accept the carriers' offer of a 10-cent an hour increase, retroactive to Oct. 16, 1948.

A like increase had previously been accepted by the other two operating unions, representing conductors and trainmen, with the demands of the 16 non-operating unions, representing about 1,000,000 workers, for wage increases and rules changes still unsettled.

* * *

A striking characteristic of the current economic situation, says the November "Business Bulletin" of the La Salle Extension University of Chicago, is the stability at a very high level in the rate of total business activity.

Pointing to the fact that business as a whole is making steady progress, it observes, that the advance during the last year in most of the significant general indicators has been much less than in either of the two preceding years. It further notes, that the gain in industrial production, employment, payrolls, steel production, commodity prices at wholesale, cost of living and many other indexes has been much less than it was in the previous 12 months. Many of them, the "Bulletin" states, are advancing less than half as rapidly.

Setting forth its own conclusions for the slower pace of business and industry, it continues by saying, that not all this slowing down is due to lack of demand for buyers are eagerly bidding high prices for large numbers of commodities. Much of it, according to the "Bulletin," is due to the fact that operations are close to the limit of plant capacity and that additional raw materials and labor are not available.

All are being increased but such expansion on top of conditions where resources are already being quite fully utilized must come very slowly. Further increases in employment are difficult because a much larger percentage of the population is now at work than ever before, and unemployment is close to the minimum. Plant capacity is being increased by the heavy capital expenditures made by business concerns. Although new plants are being put in operation each month, a considerable portion of these capital expenditures have been used to replace obsolete plants and equipment.

Concluding, it states, current indications are that business spending of this kind will continue at about the present rate and will provide a strong supporting factor for an indefinite period.

* * *

Continued unseasonable weather in many parts of the country was reflected in a slight decline in retail dollar volume during the week. Although dollar volume continued to be fractionally above the level of a year ago, unit volume was slightly below the 1947 level in some areas. House furnishings and small electrical appliances continued to sell well with gift items frequently requested.

The volume of wholesale orders last week remained near the high level of previous weeks. Prompt delivery was requsted by many buyers as they sought to re-stock diminished inventories of seasonal goods. The re-order volume of women's Winter apparel continued to be sizable and orders for Spring styles were booked in an increased volume.

STEEL OUTPUT SCHEDULED AT 99% OF CAPACITY FOR CURRENT WEEK

Steel demand is not yet ready to fall and it may be a long time before it even shows signs of a slowdown, according to "The Iron Age," national metalworking weekly, in its current summary of the steel trade. Reports in the past few weeks of easing in steel requirements have been generated by people looking for only that. Such reports have appeared periodically since the end of the war.

The country is closer to a more "normal" flow of steel orders than it was one, two or three years ago. But that is all that can be said at this time. There just hasn't been any falling off in total steel business since the election and there has been no change in the demand pattern, the magazine notes.

If anything, Midwest steel users claim this week that steel is

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Observations . . . .

By A. WILFRED MAY

NEW METHODS FOR PROFIT IN THE STOCK MARKET*

Garfield A. Drew has just completed a new edition of his "New Methods for Profit in the Stock Market," first published in 1941. Mr. Drew is a veteran of the market place, being associated with United Investment Counsel, Inc. and United Business Service, and having won "Barron's Open Forum on the Best Securities for Recovery or Inflation."

A. Wilfred May

So great has been the change in the investment background that has occurred in the eight years since the author's earlier effort, that the present volume is really a new work rather than just a "second edition." And the post-publication election results with its "mandate" for intensified anti-capitalism and anti-investorism (with specific weapons like "excess" profits taxation) further enhances the importance of fresh reconsideration of the problems which Mr. Drew covers.

Fundamental Policy Difficulty Highlighted

The book is important to discuss primarily because it manifests the great difficulties in which the buyer of securities (I bypass the word "investor" intentionally) finds himself. It is "a must" for the owner of capital to read and own, because of its complete factual and objective coverage of the various systems which the market community has concocted in its attempt to operate successfully. It performs a real service in putting between two covers a detailed and ordered explanation of market methods, clarifying for the uninitiated what the technical methods really are, and the experience providing with a common basis for discussion. This latter service is made particularly valuable by the growing proclivity of the respective systems' proponents to reply to anyone citing its shortcomings—either on the ground of logic or actual operating results—that he does not understand the intricacies comprehensible to the *inner sanctum*.

The "Internal" Market Approach

Mr. Drew's descriptions almost entirely encompass market methods in the "technical" category—that is, *internal* market operation which disregards so-called "fundamentals" including business and economic evidence as well as individual security-appraisal. These technical approaches encompass (1) methods defining the so-called "trend," (2) methods analyzing the character of the market, (3) formula plans, (4) cycle forecasting, and (5) measures of market psychology.

In the trend-defining category, Mr. Drew includes detailed description and commentary on the highly-publicized Dow Theory and explanations of such other "tools" as esoteric as the *semaphore* and the *technometer*. For analyzing the character of the market, he describes various supply-and-demand measures ranging from an index contrived to gauge professional activity to *Hood's group action*, whose basic idea is that market strength can be measured by watching the continuing relative performance of its 38 component sections for "signals." Attention to formula plans is not confined to the so-called Vassar and Yale procedures but is extended to the *Keystone Seven-Step Plan*, the *F. I. duPont Institutional Plan*, the *Burlingame Plan*, and simple *Dollar Averaging*. Among the cycle-forecasting attempts followed, the book describes methods ranging from the popularly publicized nostrums of Dewey and Dakin to the even more dubious attempts to relate stock market action to sidereal radiation coming from the stars.

Ironically, Mr. Drew's commendable self-restraint in refraining from making claims on behalf of the "technical" market approach with which he sympathizes is highligted by the typical claims which are contained on the volume's jacket and foreword. For the "blurbs" hold out to the reader the promise that market breaks, as that of 1946, can be foreseen by the market systems, and that the market can be "beaten."

As for Mr. Drew himself, he neither makes claims for the workability of the systems, nor does he set forth clearcut conclusions about their shortcomings—either generally or specifically. In fact, the chief weakness of the book is the quite tantalizing withholding from the reader of the concrete conclusions to which such a thorough and honest student of the field has himself been led. The book in this phase falls between the two stools of confinement to bare facts and completely subjective conclusions.

To this writer Mr. Drew seems almost deliberately to inhibit himself from calling attention to some of the little-concealed weaknesses in the specific systems which he describes as well as in the methodology as a whole—despite giving the distinct impression that

(Continued on page 47)

**NEW METHODS FOR PROFIT IN THE STOCK MARKET, with a "Critical Analysis of Established Systems," by Garfield A. Drew. 300 pp. The Metcalf Press, Boston. $4.50.*

N. Y. Inv. Ass'n Gets Slate for Officers

The Nominating Committee of the Investment Association of New York has presented the following slate for consideration by the membership at the annual meeting to be held Dec. 14, 1948:

President—Stanley A. Russell, Jr., Blyth & Co., Inc.

Vice-President—George Washburn, Eastman, Dillon & Co.

Secretary—Roger T. Gilmartin, Merrill Lynch, Pierce, Fenner & Beane.

Treasurer—Dudley F. Cates, Kidder, Peabody & Co.

Executive Board: Vernon Lee, New York Curb Exchange; Robert C. Baldridge, Morgan Stanley & Co.; Paul Hallingby, Jr., E. F. Hutton & Co.; Donald McDonnell, McDonnell & Co.

The annual meeting will be held at The Lunch Club, 63 Wall Street, beginning at 3:45 p.m. Admission will be $2 per member, which will include drinks and refreshments.

The Placement Information Committee, under Howard Brundage of Morgan Stanley & Co., is still anxious to receive any suggestions from members with respect to available openings in investment banking and brokerage firms. There is a real service to be done here, and it is hoped that the membership of over 200 can uncover opportunities for younger applicants interested in a career in the "Street."

The following new members have recently been elected by the Association:

John L. Carson 3rd, Graham, Parsons & Co.; Walter L. Emery, Orvis Bros. & Co.; Walter Frank, Schroder Rockefeller & Co.; Robert E. Greene, W. E. Hutton & Co.; Charles L. Grether, Goodbody & Co.; Ralph Hornblower, Jr., Hornblower & Weeks; C. Dale Keys, Orvis Bros. & Co.; William B. Knowles, Goodbody & Co.; F. Brent Neale, Carl M. Loeb, Rhoades & Co.; James G. Nuland, Carl M. Loeb, Rhoades & Co.; Frederick C. Palen, Wood, Struthers & Co.; Fred Plimpton, Eastman, Dillon & Co.; Charles P. Stetson, Union Securities Corp.

With Miller, Kenower Co.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—Raymond C. Kerr is with Miller, Kenower & Co., Ford Building, members of the Detroit Stock Exchange.

Economic Signs of Our Times

By RAYMOND RODGERS*
Professor of Banking, New York University

Though maintaining election outcome does not materially change business trend, Dr. Rodgers contends, in view of burdens growing out of war and disturbed international situation, a business readjustment is inevitable and there are distinct signs time is running out on the boom. Holds, however, barring war and large increase in government spending, supply and demand should be in such balance as to make most lines again competitive and knowledge, ability and effort will again determine individual business man's profits. Urges business men keep economically literate.

In an economic sense, *we are in a new world.* Far-reaching and basic changes have created a great gulf between the past and the future. To those who claim otherwise, I repeat the old adage: "None is so blind as he who will not see!" Business used to be comparatively simple. As the popular song puts it, the business man just did "what comes naturally." But, then, a serpent in the form of World War I, with its boom and bust, entered the business Eden which we enjoyed in America. A little later, the secondary expansion flowing from World War I culminated in the severe depression starting in 1929. This depression sired the New Deal, with its philosophy of social security and government regulation of business. But, before we had time to digest these fundamental changes in the very fabric of our economic system, World War II descended on us.


Raymond Rodgers

The economic heritage of World War II is so staggering, that some economists claim it will overwhelm us. Certainly, the economic implications of an intransigent Russia, of a quarter of a trillion dollar debt, of a threefold increase in our money supply, of government control of our money and credit, and of the great increase in the productive capacity of the country, are in the realm of imagination. There are no direct precedents to guide us. In these economic "minefields," we have to do as the army did in the real minefields; that is, put up the guideposts as we go along.

Business Must Be Economically Literate

All of this means that the business man of today must keep abreast of the times. He can no longer afford the luxury of economic illiteracy!

How can the busy business man keep up with the developments vitally affecting his own activities? The radio offered great possibilities along these lines, but, unfortunately, it has fallen short of its opportunities. In my opinion, it has not yet achieved that calm objectivity which is so essential in economic reporting. There has been too much projection of the personality of the speaker. Also, their presentations have tended to overflow with the milk and honey of the promised land, or, at the other extreme, to reek with the voice of inescapable doom!

Some business men subscribe to the specialized economic news and forecasting services. Others, especially the larger companies, maintain statistical departments to collect and interpret economic data, or retain economists as part-time consultants.

Businessmen also find it very worthwhile to get together in meetings such as this and swap experiences and views as to the future. As a matter of fact, it is really amazing how many trade associations and similar meetings are held by business men.

The great indispensable sources of information are the trade press and the daily newspapers. Earnest study of the large volume of valuable information appearing in our trade publications is imperative. Likewise, now that we have such a large element of government control in economic affairs, close reading of the economic and political news appearing in your daily newspaper may mean the difference between success and failure in your business.

The very completeness of the modern newspaper—the effort to print "all the news that's fit to print," as one great newspaper puts it—complicates the problem somewhat. Very properly, conflicting views are presented. In fact, the more startling the view, the more likely it is to be published as "news." In the midst of this great weiter of claims and counterclaims, what is a man to believe?

When Doctors Disagree

When you have distinguished economist confidently announcing that this boom will continue indefinitely, and other just as distinguished economists announcing that disaster lurks around the next corner, or maybe the corner after that, what can you believe? When the doctors disagree, what is the patient to do?

In economics, as in medicine, there is a high degree of specialization. Most economists are highly specialized, devoting their main interest to a particular field of economics, such as labor, consumption, money and credit, or taxation, and so on. Their specialization naturally determines their evaluation of economic phenomena. And, no matter how hard they fight against it, their specialization almost inevitably colors their judgment. But, in any event, they cannot possibly know as much about your business as you ought to know about it.

The practical solution is to read and weigh all the facts in the news and those presented by the various economists, statisticians and public figures, and arrive at your own opinion. That will not be too much of a task as you will usually find that there are not too many facts affecting your own business and that many of them will be identical or quite similar. On the basis of the important economic facts—and, as I said, there aren't too many—you can form your own judgment so far as your own business is concerned. You can thus, in a sense, be your own economist and, of course, when you need help, you can arrange with a consulting economist to study your particular problem and give you specific advice on it.

Signs of the Times

Let us now, together, take a look at these economic signs of the times.

First, everyone professes to expect great changes because of the election; yet, if you read your newspaper carefully to get the facts, you know that there will be no consequential changes.

As a matter of fact, there were less promises of change made in this Presidential campaign than in any campaign I can recall. Specifically, the Republicans largely confined themselves to a "me too; but I'll do it better" position in their oratory. And even if great promises had been made (and they weren't), there is little change that they could make in the basic forces affecting our economy.

The election notwithstanding, Russia is still Russia. The Kremlin dream of the world triumph of communism is just as dangerous today as it was a month ago, or a year ago. The Kremlin policy of all mischief short of war is just as true today as in the past. Democracy is still on the defensive. From bitter necessity, we have become a war-like people. This means a continuation of heavy and increasing military expenditures, regardless of party.

Financial Burdens

The terrific financial burden of an armed peace is not generally realized. In the fiscal year ending July, 1949, we shall spend some $13 billion on the military establishment. Furthermore, there is a very strong likelihood that this amount will be increased now that the election is over. In addition, we shall spend $7 billion on foreign aid and foreign financing, and international affairs, which also may properly be considered an expenditure for national defense. This gives us a total **annual** burden of $20 billion just to defray the cost of preparing for future wars!

Interest on the public debt and veterans' benefits will require an additional $13 billion in the current fiscal year. This gives us a total direct annual cost of $33 billion for past and future wars—a total which will be **increased,** rather than **reduced,** if the present world political uncertainty continues—and I see no real ray of hope on the political horizon. It is indeed a bitter commentary on civilization that the biggest cost of our government is the expenditure necessary to pay for past wars and prepare for future ones. And, as I said before, regardless of the election, the chances are better for these expenditures to go up than to go down.

The social activities of our government have become quite expensive in recent years. The Democrats want to expand these services of government. The Republicans also seem to favor an expansion of such activities. Certainly, I know of no official Republican proposal to abolish or curtail them. I think we might as well frankly face the fact that the Republicans have learned to weep just as loud and as long for the underprivileged, common man, as the Democrats. The Republicans have learned that it pays off at the polls, so the Democrats have apparently lost the monopoly which made them invincible in national elections during the thirties. Regardless of which party rescues the common man from the storm of adversity, it will cost us a great deal of money.

Another thing which no election can change is our great national debt of more than $250 billion. Elections and politicians may come and go, but the **debt** will be with us for a long, long time.

These great expense factors in our budget mean that inevitably we must look forward, in the foreseeable future, to a Federal

(Continued on page 43)

*An address by Dr. Rodgers at the Annual Meeting of the Mohawk Carpet Mills Distributors, Amsterdam, N. Y., Nov. 17, 1948.

Tax Saving Through Stock Switching

By SIDNEY D. COHN
Investment Service Dept., Peter P. McDermott & Co., Members of New York Stock Exchange

Urging investors examine holdings with view to using all tax benefits under new law, Mr. Cohn points out one dollar of short-term loss will offset two dollars of long-term gain, and therefore taking advantage of short-term losses is greatest benefit taxwise. Cites examples of profitable switches.

With the Truman Administration elected for the next four years, it appears possible that a modified excess profits tax may again be imposed upon corporate profits. Pressure for voluntary price cuts will become more insistent, although we do not believe we will get another OPA. The OPA proved that you cannot enforce a fixed price structure without developing a black market when demand exceeds the supply. Until the base years are known, it is impossible to know which industries will suffer the least from an excess profits tax. A possibility exists that limited relief for double taxation of dividends may be combined with any excess profits tax. This would be very bullish for the stock market. However, selectivity more than ever is bound to dominate the action of stocks next year.

Selectivity has always been the keynote of the stock market's action, and the investor with the "right stocks" is the one likely to show profits. The new tax law, with the lowest rates in a long time, makes it expedient that everyone examine his holdings with an eye to utilizing all the tax benefits available to include those equities which appear to possess the most promise for the coming year. Investment trusts, estates and corporations profit from full use of the tax laws and there are also extremely important savings available to the smaller investor. Here is a short summary of certain provisions of the tax law which will aid you in accomplishing this purpose:

Short-term capital gains and losses result from sale or exchange of capital assets held six months or less—long-term gains and losses are those held over six months. For individual tax purposes, the amount of gain or loss is 100% on short-term transactions, and 50% on long-term. Capital losses are deductible from capital gains. A net capital loss, the excess of capital losses over capital gains, whether short-term or long-term, may be deducted from other income up to a maximum of $1,000 in any one year. Any unused portion may be carried forward for five succeeding years.

The above illustrates the advisability of establishing capital losses as an offset to capital gains and net taxable income. The recent decline in the market has left many investors with such short-term losses, and it is advisable to take the opportunity now to record the loss and the tax saving. **One dollar of short-term loss will offset two dollars of long-term gain,** so that short-term losses are of greatest benefit taxwise. However, any tax loss, short-term or long-term, is of value to reduce the total tax liability. Thus, supposing one bought 100 shares of "X" stock for $2,500 and sold it for $5,000 after six months. Only $1,250 of the $2,500 gain would be taxable. If one bought 100 shares of "X" securities for 3,750 and then sold the stock within six months after the purchase for $2,500, the entire loss of $1,250 is recognized for tax purposes offsetting the entire $2,500 profit in the first transaction, and no tax at all would be paid. Even if there are no capital gains, the recording of capital losses establishes tax savings.

Under the Federal income tax law, applicable to 1948, there is an effective maximum capital gain tax of 25% on the excess of net long-term capital gain over net short-term capital loss. However, it is not profitable to use this optional method unless the surtax net income (including such capital gains) is equal to at least $22,000 in the case of an individual making a separate return or where the combined surtax net income of a husband and wife who file a joint return is equal to $44,000 or over.

An equity sold to record a gain may be purchased back immediately, the advantage being the establishment of a higher cost basis for future tax purposes, and the recording of the gain for present tax purposes. However, a stock sold at a loss cannot be purchased for 30 days if the loss is to be recognized for taxation. If the loss should be taken, and the investor does not want to lose his position in the stock, he can buy an equivalent amount of stock, hold the double amount for 31 days, and then sell his original purchase and record the loss that way. Another method, eliminating the necessity of buying more stock, is to switch into similar securities in the same industry. Before doing that, however, the investor should consider the possibility of switching into an industry with even greater promise and thereby strengthen the entire portfolio.

The following switches are illustrative of what we have in mind: Chrysler for General Motors, and vice versa; Electric Auto-Lite for Electric Storage Battery; R. J. Reynolds for Philip Morris; Philco for Zenith; C. I. T. for Commercial Credit; Ruberoid for Masonite; Standard Oil of California for Gulf Oil; Boeing for Grumman; U. S. Steel for Youngstown Sheet & Tube, etc.

The industries which will lead the way next year will still be the groups where supply has not yet caught up with the demand such as steel, automobile and accessories, aluminum, oil, copper, natural gas and television equipment. A cut in the price structure would be a boon to the building and building materials industry.

This is the time to reexamine your portfolio with the two-fold idea of securing tax savings and of careful switching to choose equities which will be of greater eventual benefit.

Vincent M. Doherty With F. D. Newman Co.

(Special to THE FINANCIAL CHRONICLE)

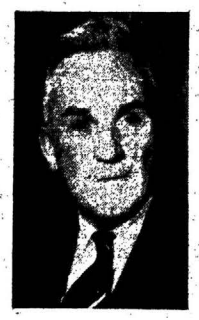
MIAMI, FLA.—Vincent M. Doherty has become associated with Frank D. Newman & Co., Ingraham Building. Mr. Doherty was formerly with Leedy, Wheeler & Alleman, Inc., The Ranson-Davidson Co., and Corrigan & Co. In the past he conducted his own investment business in Miami, Florida.


Vincent M. Doherty

From Washington Ahead of the News

By CARLISLE BARGERON

There is probably nothing more illustrative of the attitude which prevailed in the minds of the Dewey high command than the post-election remark of Mr. Ed Jaeckel. He is quoted in a news-magazine as saying that it was realized from the start that Dewey had to carry an awfully heavy load in the Tafts and Martins of the party. In other words, Dewey had the Republican Party astride his back and it was too much.



Carlisle Bargeron

Inasmuch as it was the Republican nomination which Dewey sought and got, it is rather amazing that the party should have been considered a too heavy load for him to carry. But it affords a striking commentary on his thinking and that of his close associates. Also, it is the explanation for his defeat.

The tremendous propaganda tide that is beating against Taft and Martin doesn't seem to be making much impression on the latter. He seems to be too deeply intrenched. But with Taft it is another story. The forces that are moving against him are determined to pave the way for his defeat in 1950. He would be in for a hard enough time as it is. But if he can be removed now from his position of leadership in the Senate, the skids will have been greased.

He has gone off to Europe and his enemies are making hay in his absence. In his favor is the fact that the so-called Republican liberals in the Senate don't seem to have enough respect for the other fellow's liberalism to agree upon any one of their number for the leadership. It is a commentary on their professed devotion to liberalism, to the cause of injecting more progressive blood into the party, that each individual member of the group loses interest when he, himself, is not being considered for the leadership.

There is the ineffable Senator Morse who has frequently made it plain that he accepts nobody's leadership except his own. Then there is Senator Tobey who sounds so much like Senator Claghorn on Fred Allen's program as to be often mistaken for him.

It is downright funny that in his bouncing around in public life, he should now appear with the "liberal" mantle. It seems, though, that he is "for the peepul" as against the "interests." He must be that because he has frequently said so.

One of the most fascinating exhibitions this writer has seen in a long time was his campaign of 1944. He had been an isolationist and now his opponent was Foster Stearns, whose father was Calvin Coolidge's close friend. Foster had long been an internationalist.

Well sir, Tobey turned the thing around to make Stearns the isolationist and he, the man who all along had had the broad global mind.

I should like to see Tobey being lined up now to support any one in that so-called liberal group for the leadership except himself.

The trouble with the group, when it comes to their organizing for or against anything, is that they have acquired their liberal labels by way of attracting attention to themselves. In their pursuit of recognition they have been critical of the Taft leadership. The idea was they should have the leadership, but just which one of them should have it is another and seemingly insoluble question.

Margaret Smith, the new Senator from Maine, is being listed in the group that is going after Taft's scalp. She is probably quite surprised to be so suddenly embraced in these "liberal" circles.

When she was a member of the House, she kept shy of controversy, and it was this writer's observation that she confined her activities to doing errands for the home folk and writing them friendly letters about what interesting experiences she was having in Washington. The "liberals" in the Senate, however, have insisted she is one of them and inasmuch as they have so warmly greeted her, she probably will be.

You get to prying into George Aiken's record—Aiken of Vermont—to get the justification for his "liberal" label. Well, he's for public power, wants the St. Lawrence waterway project. Saltonsall of Massachusetts is an opponent of the project, but apparently he's a "liberal" because he accepts CIO support. Both of them voted for the Taft-Hartley bill.

It will probably take more than this motley, individualistic group to remove Taft from his leadership. But it may be done by Vandenberg. He has been occupied with being President *pro tempore* of the Senate and as the chairman of the Foreign Relations Committee. But both of those are gone. He outranks Taft in seniority so it is not unlikely that the forces determined to "get" Taft may accomplish it by giving the leadership to Vandenberg. Anything to "get" Taft.

Outlook for Hotels in 1949

By ALLAN C. GEORGE, C.P.A.*

Partner, Harris, Kerr, Forster & Company

Asserting hotel business closely parallels trend of general economic activity, Mr. George says financial position of hotel industry is now healthiest in history. Contends rise in hotel rates has been lower than in general price trend and must be adjusted further to meet higher operating costs and provide reasonable profit. Points to improvement and modernization of hotel properties.

It is always a great pleasure for me to discuss the subject of hotels with members of the American Institute of Real Estate Appraisers. I have had many interesting discussions with appraisers working on hotel valuation problems and have great admiration for a group of men who are willing to commit themselves to the expression of definite opinions about values. I must confess that my accounting mind finds it difficult to follow the intricate calculations involved in the translation of the potential income of the imponderable future into a valuation expressed in uncertain dollars.

Allan C. George

Appraisers must not only review the experience of the past, but have a well considered forward look into the future. This is in contrast to the accountant whose principal concern is to give proper weight to the facts of the past. You will, therefore, understand my natural concern when I was assigned the subject "The Outlook for Hotels in 1949." With the so-called science of forecasting in very bad repute because of recent political happenings, I approach the subject with great trepidation. However, I believe that my conservative accounting viewpoint will enable me to qualify any definite statements I may be tempted to make.

Many Small Businesses Make Large Hotel Industry

First, let us see what we mean when we talk about the hotel business. According to the 1939 census, there were 16,000 hotels of over 25 rooms, accounting for a total of approximately 1,300,000 rooms. This would indicate an average size of about 80 rooms per hotel. It is interesting to note that there were approximately 3 000 hotels with over 100 rooms and of these, only 550 hotels were over 300 rooms.

It is estimated that the hotel business now does a volume of over $2 billion annually and has an estimated property valuation of over $6 billion. Although a large and important business collectively, hotels are essentially in the small business category as a great number of hotels are operated directly by the proprietors.

The hotel business is organized into very active trade associations in each State with subsidiary organizations in the larger cities. These State associations are linked together nationally into the American Hotel Association. The combined membership is approximately 5,700 hotels containing about 622,000 rooms, or an average of 108 rooms per member hotel.

Many progressive steps have been taken by the hotels working together through their hotel associations. One of the outstanding achievements, which goes much beyond that accomplished by any other industry, was the adoption of the Uniform System of Accounts for Hotels. Through the facts and figures which can be assembled on a uniform basis, we have a wealth of information about the hotel business. We are therefore able to review the experience of the past and form our considered judgment of the future outlook.

Our studies over the past 20 years have shown that the trend of the hotel business closely parallels the trend of economic activity of the country generally. This is not surprising when it is realized that hotels, like railroads and other forms of transportation, take care of the needs of the public when they travel and move about. Hotels are also the centers of community life and entertainment in cities and towns, small and large throughout the country. It therefore may be safely predicted that if economic activity continues in 1949 at its present high level, the high volume of hotel business should continue.

High Occupancy Expected to Continue

Room occupancy of hotels is currently averaging about 87 to 88%. This represents a decline from the 90% average in 1947 and the wartime peaks of 93% reached in 1945 and 1946. Going back over the record of the past 20 years, we find occupancy ranged from 69% in 1929 down to the depression low of 49% in 1933, then up to the 90's from 1944 to 1947. Thus, we see the swing of the economic pendulum from the period when the hotel business was caught with an oversupply of hotel rooms and a low depression demand to a time when hotel rooms are being almost fully utilized in a period of extreme economic activity.

What is normal occupancy is difficult to say. Certainly, it must be recognized that the depression conditions were not normal and since that time there are a number of important changes in conditions which have greatly improved the occupancy outlook. Since 1930, there has been no material addition of new hotel rooms to the existing supply with the exception of the growth and development of motels and new hotel construction in Florida and California. The increase in population, its geographical distribution and the education of more of the public to use hotels have greatly enlarged the occupancy demand. Also, during this period, political and governmental concepts have changed and with the inflationary pressures and the outlook for high economic activity there is every reason to believe that hotels will continue to operate at high occupancy levels.

It must be recognized that the

(Continued on page 38)

*An address by Mr. George before the Convention of the American Institute of Real Estate Appraisers, New York City, Nov. 17, 1948.

Garvin K. Shields Forms Own Inv. Firm

Garvin K. (Guy) Shields and M. J. Shields have formed a copartnership under the name of G. K. Shields & Co. to deal in unlisted securities. The firm will maintain offices at 15 William Street, New York City. Garvin K. Shields formerly was manager of the investment trust department of Laird, Bissell & Meeds and prior to that with Goodbody & Co. In his most recent connection with Central National Corporation he was manager of the unlisted trading department.

The Election and the Securities Market

By HAROLD E. AUL*
Vice-President, Calvin Bullock

Mr. Aul lists as consequences of election: (1) impetus to inflationary trend; (2) probable increase in taxes; (3) continuation of support of government bond market; (4) further decline in high grade corporate bond issues; and (5) a squeeze in operating profit margins and equity earnings. Foresees no immediate war with Russia, but if war should come, says equities would be preferred to cash or credit instruments. Points out business boom is frayed at fringes, and expresses concern regarding credit situation. Predicts government policy will be anti-inflationary but not deflationary, and common stocks at present prices are good hedge.

It is scarcely debatable, I think, that the most important single factor in the outlook for the securities markets is the outcome of the Presidential election on Nov. 2, which is probably the greatest political upset in our history. The election of an Administration with a strong labor bias requires a reorientation of our thinking and a careful reconsideration of established investment policies.

The prospect is hardly a cheerful one from the point of view of the owner of American enterprise, that is the common stockholder. He may be caught between the nether millstone of higher wage costs and taxes and the upper millstone of controlled prices. What effect the ensuing squeeze on equity earnings margins will have on the ability and willingness of corporate management to carry out plant expansion programs upon which the health of our economy depends is a question to be weighed thoughtfully by all elements of our society—including labor.

Major Economic Consequences

Let us take up in their order what appear to be the major economic consequences of the victory of an Administration in which labor may have a dominant voice.

In the first place it seems to me that this will give added impetus to the basic inflationary trend. The encouragement of further wage and other labor cost increases, the maintenance of a high floor under farm, that is, food prices, increased government spending for public works as well as defense with the consequent probability of renewed deficit financing and continued pursuit of an easy money policy through the support of the government bond market by the Federal Reserve, all point to a further expansion of the fundamental cause of inflation. On the other hand we may contemplate an effort to deal with the manifestations of inflation through increased personal and corporate taxes and some form of direct or indirect regulation of consumers' goods prices.

The victory of the Democratic Administration strengthens the probability of the continued maintenance of the long-term government bond market at or about par for some time ahead. How long the Federal Reserve will be able or willing to continue to purchase huge amounts of long-term government bonds remains to be seen. In the last 12 months the Federal Reserve has been called upon to purchase almost $10 billion of long-term bonds in pursuit of its support program, a large part of which has come from non-bank investors. But in spite of this, if we are to rely upon recent statements of principal financial officers of the Administration, no early abandonment or modification of long-term government bonds support policies seems probable. On the other hand we can anticipate efforts to prevent further credit expansion through increased reserve requirements and a continued rise in short-term rates. It is also probable that we shall see a further decline in long-term high grade corporate bond prices approaching at least a 3% yield basis with a widening in the yield spread between these and long governments. In view of the drastic decline in municipal bond prices during the past two years and the prospect of some increase in income taxes, these bonds should enjoy a firmer market tone.

In the light of these conclusions, and because of the inadequate purchasing power of high-grade bond yields in the present inflationary environment, I should hold the proportion of high-grade bonds in the portfolio to the minimum limit of prudent conceptions and would concentrate holdings of this segment of the portfolio, for the present, in long-term treasuries and also municipals to the extent that the tax exempt privilege of the latter is of substantial value.

Lower Equity Earnings

So far as operating profit margins and equity earnings are concerned, these appear to be in for a squeeze. Some increase in corporate taxes seems likely, though I believe an across-the-board rise is more probable than the imposition of an excess profits tax, for which it would be difficult to find an equitable base. Whether or not we shall see a return to price controls and rationing will depend, I believe, upon the course of the cost of living from here. If wage rises are moderate it is conceivable, in the light of the decline in farm prices and an adequate supply of most consumers goods, that we shall see some decline in consumers prices arising from natural causes which may avert a general application of price controls. But the threat will be there—and it will exercise a restraining influence on pricing policies.

Beyond the threat of domestic policies that might result in a dilution of corporate earning power, the market will also continue to be exposed to the threat of recurring crises in our relations with Russia. Up until the debacle of Nov. 2nd the major market depressant was the threat of war with Russia. The Communist leaders have furnished us a clear blueprint of their designs for world conquest as did Hitler before them. What troubles our minds today is the certain knowledge that we can have no faith in any agreement with an avowed and utterly unmoral aggressor who enters agreements only for the temporary advantage to be gained from their violation. We can meet this threat only by being strong—strong in our armed defenses—strong in a soundly conceived and sustained world balance of power—strong in the vitality of our economic and social institutions at home.

After watching the market break sharply on six successive "blue Mondays" recently, as a reflection of a profoundly disturbed mass psychology, I have found myself wishing wistfully that we could somehow find a way of offsetting the Sunday horror stories of the more lurid radio commentators.

Equities and War

However, without attempting to minimize the risks, it is my conclusion based on a careful canvass of informed opinion, that the balance of probabilities is so strongly against the outbreak of war in the near future as to make the sale of good common stocks, against this particular contingency at any rate, a poor investment risk. Moreover from a longer term view, if war should come, I should prefer to hold equities rather than cash or credit instruments.

Furthermore, the human spirit has the saving gift of adaptation. I believe that we shall gradually make the necessary psychological readjustment to the state of "cold war" and I think I can see that readjustment beginning to take place now. As we accustom ourselves to the environment of international tension we shall become immunized against "headline fever"; and the fundamental economics of investment values should begin to assert themselves.

In the sphere of foreign relations we can derive some comfort from the election results as they have removed almost the last vestiges of isolationism and have given us a unified government firmly committed to a dynamic policy of international cooperation as the means of preserving world peace.

Boom Is Frayed at Fringes

Another major negative factor in the outlook is the age of the primary post-war boom. Admittedly the boom is growing older and it is beginning to appear frayed at the fringes. It has now run for more than three years without any important interruption. Historically that is a long time. In industry after industry, particularly consumers goods, supply is coming into balance, or overbalance, with demand. The rate of industrial activity has flattened out and commodity prices appear to have passed their crest.

As the rate of activity in our capital goods industries is a strategic element in our economy, the actual and planned expenditures of industry for plant and equipment should be scrutinized closely for signs of a coming readjustment. In the current year these expenditures will reach a new all-time high of about $18.8 billion, comparing with about $12 billion in 1946 and $5.2 billion in 1939; but there are signs currently of a tapering off of these expenditures. Planned expenditures for the fourth quarter of this year are at an annual rate of $18.7 billion as against actual expenditures in the second quarter at a rate of $19.2 billion. In a number of industries, it appears that postwar expansion programs will have been largely completed this year. A recent check made by one of the leading investment houses suggests planned expenditures for 1949 in the neighborhood of $16.7 billion. This check moreover was made prior to the national election. It is entirely conceivable that the outcome of the election and its implications may result in a sharp cut-back of plant expansion programs from here out, especially in view of tightening credit and capital market conditions, high construction costs, the prospect of lower earnings and the increase which has already taken place in productive capacity in relation to demand.

Curiously enough there are those who, in the midst of a strongly inflationary environment would

(Continued on page 35)

*A talk by Mr. Aul, before a group of investment bankers at the Duquesne Club, Pittsburgh, Pa., Nov. 16, 1948.

Dealer-Broker Investment Recommendations and Literature

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

As We Regain Our Balance—Study of the future of American buisness and the stock market—Brochure—Bache & Co., 36 Wall Street, New York 5, N. Y.

Common Stock Program for Investors—Selected list—G. H. Walker & Co., 1 Wall Street, New York 5, N. Y.

Excess Profits Tax—Tabulation of effect of a new tax on earnings of 100 representative companies—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Federal Income Tax Digest & Manual for Individuals—Containing check lists of conclusions, exclusions, deductions and non-deductible items under the "Tax Reduction" Revenue Act of 1948—Estabrook & Co., 15 State Street, Boston 9, Mass., and 40 Wall Street, New York 5, N. Y.

Graphic Stocks—Book of 900 charts showing monthly highs and lows for 11 years—Single copies, $10.00—F. W. Stephens, 15 William Street, New York 5, N. Y.

New Price Index of the Oldest Securities Market—Booklet describing new 10-year industrial stock price index of over-the-counter securities—National Quotation Bureau, Inc., 46 Front Street, New York 4, N. Y.

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

Over-the-Counter Speculations—Analysis of **Polaroid Corp., Texas Eastern Transmission Corp.,** and **Beryllium Corp.**—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Also available is a list of **common stocks** for investment, and a list for capital gain, and analysis of **Warren Foundry & Pipe Corp.**

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

Railroad Stocks—Analysis—Smith, Barney & Co., 14 Wall Street, New York 5, N. Y.

Also available is a bulletin on **Missouri Pacific Railroad Co.; New Orleans, Texas & Mexico Railway Co.** and **International Great Northern Railroad.**

Security and Industry Survey—Analytical guide for investors—Merrill Lynch, Pierce, Fenner & Beane, 70 Pine Street, New York 5, N. Y.

* * *

American Airlines—Leaflet—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Also available are analysis of **Colonial Mills, Erie, Petroleum Heat & Power Co., Standard Oil Co. of Ohio, U. S. Steel** and a circular on **Youngstown Sheet & Tube.**

Amott-Baker Realty Bond Price Averages—Tabulation—Amott, Baker & Co., Inc., 150 Broadway, New York 7, N. Y.

Buffalo Bolt Co.—Detailed circular—Taussig, Day & Co., Inc., 316 North Eighth Street, St. Louis 1, Mo.

Canadian Investment Fund, Ltd.—Analysis in current issue of "Investment Securities Review"—James Richardson & Sons, 367 Main Street, Winnipeg, Man., Canada.

Canadian Pacific Railway Co.—Analysis—Milner, Ross & Co., 330 Bay Street, Toronto 1, Ont., Canada.

Central Paper Co.—Circular—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

Collins Radio Co.—Circular—Lee Higginson Corp., 231 South La Salle Street, Chicago 4, Ill.

Coral Gables Tax Participation Notes—Memo—Buckley Securities Corp., 1420 Walnut Street, Philadelphia 2, Pa.

Detroit Edison Co.—Circular—Coffin & Burr, Inc., 60 State Street, Boston 9, Mass.

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

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

Girdler Corp.—Write-up—Coffin, Betz & Sullivan, 123 South Broad Street, Philadelphia 9, Pa.

Also available is a write-up on **Tracerlab.**

F. L. Jacobs Co.—Analysis—Straus & Blosser, 135 South La Salle Street, Chicago 3, Ill.

Minnesota Valley Canning Co.—Circular—J. M. Dain & Co., Rand Tower, Minneapolis 2, Minn.

Also available is a circular on **St. Paul Fire & Marine Insurance Co.**

Missouri Pacific Railroad Co.—Memorandum—Sutro Bros. & Co., 120 Broadway, 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.

National Casket Co.—Circular—McCarley & Co., Vanderbilt Hotel Bldg., Asheville, N. C.

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.

Public Service Co. of Indiana—Circular—R. W. Pressprich & Co., 68 William Street, New York 5, N. Y.

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

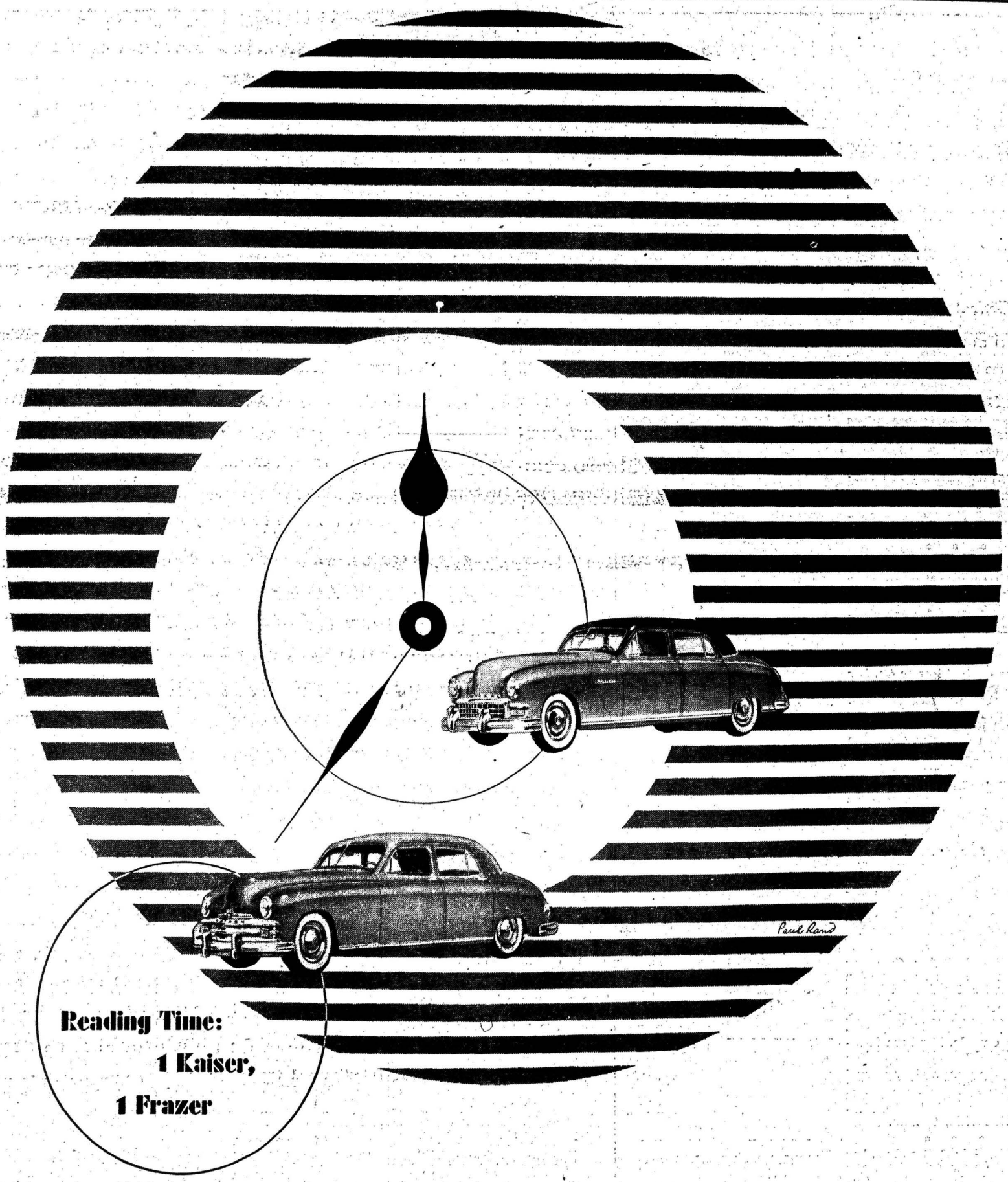
South Carolina Electric & Gas Co.—Brief analysis in current issue of "The Public Utility Stock Guide"—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

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.**



While you read this advertisement, one new Kaiser and one new Frazer automobile will be completed . . . yet 30 months ago, the Kaiser-Frazer Corporation wasn't even in production! But the very first car off Willow Run's assembly line set such completely new standards for the medium-price field . . . in design, comfort, performance and value . . . that Kaisers and Frazers are now *the most copied cars in history.* K-F has become the largest 'independent' passenger car maker, and even in Dealer-Service organizations, the old 'Big Three' is now *The Big 4!* The men who accomplished all this . . . in just 400 working days from absolute zero . . . are *builders.* They have built ships and planes, flat-tops and dams, blast furnaces and aluminum mills. In the fires of war-time production, they learned how free men, working together with imagination; in dignity and mutual respect, can accomplish *miracles.* By proving it again at Willow Run, they have written *one of America's Greatest Success Stories,* and set an example for the whole industrial world!

Kaiser ★ Frazer Corporation

★ One of America's Greatest Success Stories!

Connecticut Brevities

Hartford-Empire Company and Standard-Knapp Corporation of Portland, Conn., are to be merged as of Dec. 1, 1948. Negotiations for the acquisition of Standard-Knapp by Hartford Empire were completed in December, 1947, at a price of $3.5 million, but the companies continued to be operated as separate corporations. Net earnings for Hartford-Empire for the nine months ended Sept. 30, 1948 amounted to $421,266 after a reserve of $235,750 for amortization of the cost of purchasing Standard-Knapp. This is equal to $1.56 per share.

* * *

The Fuller Brush Company filed a registration statement with the SEC on November 8 covering a proposed offering of 11,606 shares of its 4½% cumulative non-voting first preferred stock ($100 par) at $100 a share. No underwriting is planned. The proceeds of the sale will be used to increase the company's working capital and to partially reduce bank loans incurred to finance increased inventories. Present plans call for sale of the stock within the company.

* * *

C. King Woodbridge has succeeded Merrill B. Sands as President of **Dictaphone Corp.** effective November 1. Mr. Sands is continuing as a director.

* * *

The U. S. Air Force announced on October 28 that it had placed orders for 36 helicopters, divided between the **Sikorsky Aircraft Division of United Aircraft Corporation** and Kellett Aircraft Corporation.

* * *

The Connecticut Power Co. has requested permission to issue $6,000,000 first mortgage bonds. The Connecticut Public Utilities Commission set November 4, 1948 as a date for the hearing on the company's application.

* * *

The strike at **Royal Typewriter's** Hartford plant, which commenced on October 11, was settled on November 1 and operations have been resumed. The original company offer of wage increases of from 8 to 14 cents per hour had been initially turned down by the union, which demanded an increase of 25 cents. The dispute was settled on the basis of wage increases of from 9 to 14 cents.

* * *

Gray Manufacturing Company has announced the signing of a contract with Northern Electric Company, Ltd., Montreal, under which the latter will manufacture, sell and service the Gray Audograph in Canada. Northern Electric, affiliated with Western Electris, is one of the largest manufacturing organizations in Canada. The Audograph wil be built at the company's electronics division in Belleville, Ontario.

* * *

G. F. Heublein & Bro., Inc., has organized a new subsidiary, the Heublein Food Importing Co., which will engage in the importing of foods, particularly highly specialized products.

* * *

Connecticut Light & Power Co. has applied to the Connecticut Public Utilities Commission for an increase in rates averaging approximately 10% for all classes of gas and electric customers.

* * *

Bridgeport Brass Co. has entered the chemical field with the introduction on November 1 of a new household deordorant called "Good-Aire." The product is being marketed initially in New York.

* * *

Pratt & Whitney Aircraft Division of United Aircraft Corporation announces that its Turbo-Wasp jet engines are now beginning to roll off the assembly line. Output is in limited quantity but will increase steadily. Current production is for installation in the Grumman F-9-F fighter. The new engine represents the Pratt & Whitney version of the Rolls Royce Nene engine.

* * *

Stockholders of the **Hotel Bond Co.** will meet November 22 to act on a resolution authorizing purchase by the company of 1,953 shares of the common stock from the estate of Harry S. Bond. The proposed consideration in the purchase will be the cancellation of the entire indebtedness of the estate to the Hotel Bond. This amounts to $239,746.

* * *

Gosnold Mills Corp., subsidiary of **Powdrell & Alexander, Inc.,** called for redemption on Nov. 15, 1948 its outstanding 5% prior preference stock and 6% preferred at $25 and $105, respectively, at First National Bank, New Bedford, Mass.

Graham to Talk on Security Analysis

Benjamin Graham, President of Graham-Newman Corporation and lecturer in finance, will speak on "Practical Techniques for Analyzing and Appraising Specific Issues" at the New School for Social Research, 66 W. 12th Street, on Thursday, Nov. 18, 5:30 p.m. Mr. Graham is guest lecturer in the course, "Investment Today," given at the New School by A. Wilfred May, economist and editor.

Benjamin Graham

With The Marshall Co.

(Special to THE FINANCIAL CHRONICLE)

MILWAUKEE, WIS.—Theodore Gumina is now associated with The Marshall Company, 762 North Water Street. Mr. Gumina has recently been with Loewi & Co. In the past he was with Paine, Webber, Jackson & Curtis.

Coming Tax Legislation

By JOSEPH J. KLEIN*

of Klein, Hinds & Finke, CPA's

Member New York Bar; former President New York Society of Certified Public Accountants

Tax authority predicts Eighty-First Congress will reenact profits tax as item number one. Anticipates family income-splitting will remain undisturbed, excise taxes will be retained, social security expanded, and that Washington's favorable 1948 tax climate is "dead as a doornail."

Despite 30 years' observation, contact and experience in the field of taxation as lecturer, author, editor, professor, practitioner and unofficial government and legislative advisor, I hesitate to prognosticate future Congressional action. Even administrative and legislative leaders may not have the answers yet. Nevertheless, you would like me to read the crystal ball for you. Clients do not hesitate to ask, so why should you, especially after your program committee chairman informed me that this group expected exactly that and I agreed, in accepting your invitation, to face the music. I ask you to bear in mind that in what I am about to say, I am as objective as I can possibly be and that I am not presenting either what I advocate or oppose, but merely what I believe or guess may occur. So here's the season's first preview of possible post-election taxes.

Dr. Joseph J. Klein

Excess Profits Tax Outlook

The excess profits tax on corporations was repealed for 1946 and thereafter. Will it be reenacted? I am inclined to believe that if there is danger of budgetary unbalance—and there is—reinstatement of the excess profits tax will be attempted as item number one on the tax program. Even in the absence of immediate budgetary needs, an excess profits tax is to be expected. Associated with this reenactment there may be some upping in the corporate rate, say, to 40%. I believe that the new excess profits tax will exempt a considerable group of more or less ill-defined small businesses and that, at least in its initial stages, the burden of the new law will be considerably less than the old. A $50,000-$100,000 specific exemption is quite possible, but it is quite inconceivable that base period income, instead of at least 50% more, will be the peacetime measure of taxable excess profits.

The 1948 Act reduced the individual income tax burden generally and principally through the device of splitting marital income. Will these reductions continue? So far as family income splitting is concerned, the device makes available to residents of non-community property states the privilege long enjoyed by a relatively small group of citizens. While we can be positive of few things in taxation, I am confident that family income splitting for income tax, gift tax, and estate tax purposes will remain undisturbed. Nor do I believe that individual rates will be increased at once. Consideration of rate adjustments will be deferred, I believe, until the fiscal picture becomes clearer than it is today. However, if additional revenue is needed because of expenditures threaten to exceed receipts, upward adjustment of rates, first in the upper brackets and then in the middle ranges, appears likely to be item number two on the Washington tax program.

How about excise taxes? I believe that, generally, they will be retained. But, on the other hand, I am quite sure that there will be no general sales tax, a project which this group has successfully combated on a number of occasions. Much has been said about Washington lobbies; they will continue, but more successfully on behalf of groups which did not fare over well in appeals to the Eightieth Congress. Certainly, we may expect the fur industry to battle for reduced excise tax rates, and the cosmetic and handbag industries to make their needs vocal. There is no reason why any industry which believes itself entitled to tax relief should refrain from seeking help from every proper source and in every legitimate way. This is democracy in action.

And how about social security? Social security coverage will undoubtedly be expanded both in the measure of benefits and in coverage. The self-employed should, and probably will, be brought in. Under existing law, the present 1% tax contribution by employer and by employee (frozen several times by Congressional action) continues through 1949, then becomes 1½% for the years 1950 and 1951, and 2% thereafter.

So much for the more general and basic features of prospective tax legislation. And now as to certain selected items which may be of particular interest to this group.

The Tax Climate

First, let me say that there are those who insist that the Washington tax climate of 1948 is a thing of the past, and that the Knutson-type attitude toward tax reduction and tax reform is as dead as a door nail. These observers are correct, for the time being, as to tax reduction, but they are in error, I believe, as to tax reform. I'll tell you why.

The Revenue Act of 1948 was enacted April 2, 1948, over the President's veto. Earlier in the year, the Treasury made 49 recommendations to take "the steps necessary to eliminate from the tax structure its inequities and administrative and other defects." At the same time, the Treasury announced that a further list of recommendations was in course of preparation. HR 6712 incorporated a number of the Treasury's proposals. The Bill passed the House on June 19, but was not considered by the Senate. One of the two stated purposes of the Bill was "to correct tax inequities."

In view of the Treasury's recently expressed attitude toward tax reform, I feel justified in believing that the Treasury will persist in its recommendations and that the Congress will cooperate. The question then becomes: What tax reform amendments may be expected from the new Congress? My crystal gazing shows a considerable number of early Internal Revenue Code changes.

(1) **Net Operating Loss Deduction:** There is reason to believe that the present two-year carry-back and two-year carry-over (forward) will be supplanted by a one-year carry-back and a four-year or a five-year carry-over. The Treasury should find it relatively simple to function under a liberal net loss carry-over deduction procedure while a carry-back, involving refunds, is administratively disturbing. The longer carry-over is particularly helpful to new enterprises.

(2) **Employee Stock Options:** It is generally recognized that executive incentive must be furnished otherwise than through high annual compensation subject to high tax rates. Executives (in common with CPA's and members of other professions) realize how utterly impossible it has become to create, out of compensation, a competence for old age and for dependents. A lawful device to overcome this hardship was thought to exist in options to employees to acquire stock of the corporate employer. But such options may result (and have resulted) in inordinately heavy tax burdens on the employee. The Treasury is now on record as favoring tax revision to ease the situation. Perhaps the Treasury may be willing to adopt the provision in HR 6712 which subjected the profit resulting from sales of option stock held for more than three years to the capital gain tax.

(3) **Annuity Income:** Three per cent of an annuity is treated as taxable income. The result has often been a tax on capital. I believe that the inequity will soon be remedied by the pro-ration device sponsored by the Treasury.

(4) **Small Corporations:** Corporations with net incomes between $25,000 and up to $50,000 are subject to a 53% rate on the net income over $25,000. The rate on corporations with net income of $50,000 and over is 38%. The "notch" rate should be lowered or some solution should be found to provide a more desirable relationship between the tax rate on corporations in the $25,000-$50,000 range and other corporations.

(5) **Payment on Account of Deceased Partner's Interest:** Payments of a share of a firm's profits, after the death of a partner, to the decedent's estate or heirs, may result in tax to the surviving partners. Equity would be served if the recipient, and not the payors, were liable for tax on such payments. The Treasury should continue to favor the indicated revision.

Among proposals for revenue revision which were not included among the Treasury's 49 recommendations, I selected a few which should be enacted and which, I trust, may find Treasury support:

(1) **Sale of Residence:** An employee, whose place of employment has changed, may have to sell his residence and buy another. Because of inflation, he may have a cash profit on his sale but he will be unable to use the entire proceeds in acquiring a new home, perhaps worth no more (or even less) than the old, because of his tax liability on the "profit." It has been urged that there be no tax in such cases if a new home is purchased shortly before or after the sale of the old. The proposal is manifestly meritorious.

(Continued on page 38)

*Excerpt of an address before Metropolitan Controllers' Ass'n, New York City, Nov. 17, 1948.

A Higher Stock Market Under Truman

By DAVID L. SHILLINGLAW

President, Shillinglaw, Bolger & Co., Chicago

Describing post-election stock market break as due to emotional selling, Mr. Shillinglaw contends Truman's campaign policies will prove stimulant, and not deterrent, to higher stock prices. Says Dewey's victory might have produced deflation slump while present Administration's domestic and foreign commitments will strain nation's productive capacity.

The stock market's initial reaction to the most startling political upset in American history was clearly indicated even before the ballots were completely counted. During the morning following election day, selling pressure reached near panic proportions. After three full trading sessions many leading stocks had declined four points and more—average prices were down over 6½% and the pre-election rally wiped out. Upon only two occasions since Pearl Harbor had the market witnessed a sell-off of like magnitude. Unlike the market declines of February and September, 1946, recent selling was not the reversal of a technically overextended bull market. Instead it was the result of the shock and dismay with which investors greeted the totally unexpected Democratic victory.

David L. Shillinglaw

The public opinion pollsters and political pundits had promised industry and the stock market a new and friendly administration in Washington for the first time in 16 years. Some 23,000,000 voters revoked that promise. The emotional selling that ensued has not, in our opinion, reflected a careful and objective appraisal of just how the 1948 elections will probably affect future levels of business activity, corporate earnings, and dividends.

We suggest that recent campaign promises have committed President Truman to policies which ultimately will prove a stimulant, not a deterrent, to higher stock prices. These policies will necessitate a sharp increase in governmental expenditures and the continuation, if not acceleration, of the inflationary spiral. This, alone, is a good omen for stock prices over the years immediately ahead.

There is quite a contrast between the inflationary implications of Truman's victory and the probable course of events had Governor Dewey been elected. A Republican administration would have emphasized a balanced budget, debt reduction, and decreased expenditures by the government. Many observers expected that a mild degree of carefully controlled deflation would set in soon after Dewey took office—that stock prices would react accordingly and at a later date stocks could be purchased at somewhat lower levels. Thus, in the face of what was considered a certain Republican victory, the stock market adopted a hesitant and cautious attitude. Security prices made their highs for the year before the national conventions and then dropped off considerably. Until almost the last week of the campaign the market moved within a narrow price range with volume of trading at subnormal levels.

The outlook has changed. Domestic and foreign commitments made by the present Administration undoubtedly will place a heavy strain upon the productive capacity of the nation. National rearmament, the new military Lend-Lease, and European Recovery Program requirements will probably require the diversion of some $23 billion worth of production annually. Promises made to farm interests mean substantially enlarged governmental expenditures for rural electrification and land reclamation. Consequently shortages will continue to confront the domestic consumer. The return of a buyers' market becomes even more remote. Under such circumstances the outlook for a continued high rate of industrial activity can hardly be considered less favorable than before.

It is reasonable to assume that national income will continue rising. The policy of supporting farm prices at 90% of parity will prevent the possibility of a significant drop in farm income. Full employment—certainly a necessity to meet the production goals of the Administration's policy—appears assured. Retail sales should continue at extremely high levels.

In view of the above considerations the question arises as to the reason for the current market decline. Primarily, stock prices are reflecting the fear that the Administration will now turn completely, pro-labor, that rigid price controls will reappear, and that excess profits taxes will be reinstituted. We believe these fears ignore considerations of basic importance. Admittedly the atmosphere in Washington will be cool to industry. However, the very program to which the Administration is committed demands an all-out production effort that can hardly be attained without the cooperation of management. Such cooperation would obviously not be forthcoming if the government refuses to allow increased production to be profitable for industry.

The Taft-Hartley Act will be revised, if not repealed entirely. However, it is admitted by Democrats as well as Republicans that nationwide strikes cannot be allowed to tie up our economy. Repeal would only bring about new legislation to prevent crippling labor stoppages. Truman's dependence upon labor support, now that the election is over, will not prevent him from acting again as he did in the face of recent coal and rail strikes.

Vice-President-elect Barkley recently indicated that price legislation would be in the form of stand-by price controls. Since such controls would probably apply only to cost of living items the effect upon industry is hardly as serious as first appears. Some increase in corporate taxes is to be expected. However, the technical problems of establishing a so-called "normal profit base" makes the practical application of excess profits taxes almost impossible during peacetime. We are of the opinion that any more than an increase from the present rate of 38% to 50% is unlikely. In view of the present high levels of corporate earnings this increase would not be overburdensome. Most corporations are now paying out less than 50% of earnings as compared with prewar dividends averaging 70% to 80% of net profits. Now that many companies have completed their postwar expansion programs and considering that increased business activity will probably be reflected in larger pre-tax profits, we cannot see that present dividends are in any way jeopardized.

Seldom before have stocks sold at prices so low in relation to both earnings and dividends. Today many high grade issues may be purchased for less than 5 times earnings with a yield of 7% or better. We believe that the present reaction to the election results will prove to offer an outstanding opportunity to buy stocks advantageously.

In our opinion Truman's election has set the stage for a new bull market. The farm price policy, rearmament, European recovery aid, a new housing program, and the government's bond price policy promise a continuation of the inflationary trend and new peaks of national income. We believe that stock prices will move upwards along with this trend.

With Harris, Hall & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Robert L. Sanders is now connected with Harris, Hall & Co. Inc., 111 West Monroe Street, members of the Chicago Stock Exchange.

With Robert G. Lewis

(Special to THE FINANCIAL CHRONICLE)

ROCKFORD, ILL.—Charles T. Smith has become affiliated with Robert G. Lewis, Central National Bank Building.

Missouri Brevities

Stockholders of Monsanto Chemical Co., St. Louis, were advised on Oct. 29 by Edgar M. Queeny, Chairman of the board, that the company's claims for loss resulting from the Texas City disaster have been settled for $17,312,000. Mr. Queeny said that the company "regards this consummation as preferable to the only alternative —long and costly litigation." He further added "Excluding the insurance recovery, earnings for the nine months ended Sept. 30, 1948 were $11,568,483, equivalent, after provision for preference dividends, to $2.51 per share on the 4,274,495 common shares outstanding at the end of the third quarter. This compares with $12,395,367, or $2.79 per share earned in the similar period of 1947. Sales for the period amounted to $119,382,197 — approximately 13% greater than those for the corresponding period of last year."

* * *

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

* * *

Gleaner Harvester Corp., Independence, on Nov. 5 paid a 33⅓% stock dividend, increasing the outstanding common stock to 400,000 shares and the capitalization to $1,000,000, from $750,000. A special cash year-end dividend of $1 per share was paid on Oct. 25, both payments being made to stockholders of record Oct. 11, 1948. The net profits per share after taxes were $8.42 for the year ended Sept. 30, 1948, as compared with $5.21 for the preceding fiscal year. Plans have been approved for an addition to the factory of about 90,000 square feet, at an estimated cost of $500,000.

* * *

Stifel, Nicolaus & Co., Inc., St. Louis, A. C. Allyn & Co., Inc., Chicago, Ill., and E. H. Rollins & Sons, Inc., New York, N. Y., acted as agents in the private placement of the following securities of United States Sugar Corp. with two insurance firms: $2,500,000 4% mortgage promissory note due Sept. 1, 1959, and $1,500,000 serial notes due Sept. 1, 1949 to 1951.

* * *

Clinton H. Crane, Chairman of the Board of St. Joseph Lead Co., on Oct. 18 announced that operations have been resumed at all mining milling and smelting properties of its Missouri Division, which were closed down by the strike of July 7, 1948. "Production of lead is again at the rate prevailing prior to the strike," he added.

* * *

Stern Brothers & Co. and Burke & MacDonald, both of Kansas City and Newhard, Cook & Co., A. G. Edwards & Sons, Edward D. Jones & Co., Reinholdt & Gardner and Stix & Co., all of St. Louis, on Oct. 21 participated in the public offering of 250,000 shares of Oklahoma Gas & Electric Co. common stock (par $20) at $34.25 per share. This stock represents part of the 750,000 shares owned by Standard Gas & Electric Co. who will receive the net proceeds of the sale.

* * *

Pursuant to an order of the U. S. District Court at St. Louis, the trustee of the Missouri Pacific RR. will purchase up to noon of Dec. 1 all Central Branch Union Pacific Ry. 4% first mortgage bonds outstanding in the hands of the public. Purchase of the bonds, with all unpaid coupons maturing on and after June 1, 1940 attached, will be made at 80% of the principal amount. Under a modified plan of reorganization recommended by Examiner Jewell of the Interstate Commerce Commission on Oct. 28, it is proposed to exchange for each $1,000 principal amount of these bonds, $316 each of series B 35-year and series C 50-year first mortgage 4% bonds, $630.33 of series A 65-year general mortgage income 4½% bonds of Missouri Pacific RR. and $61 in cash.

* * *

Newhard, Cook & Co., A. G. Edwards & Sons and Smith, Moore & Co., all of St. Louis, were among the investment bankers who on Oct. 20 publicly offered at $11 per share $300,000 shares of no par value common stock of Central Arizona Light & Power Co.

* * *

Warren Lee Pierson, Chairman of the Board of Transcontinental & Western Air, Inc. on Nov. 12 announced that the board of directors has authorized its officers to explore the possibility of offering shares of its common stock to its stockholders on a pro-rata basis. From 400,000 shares to 500,000 shares are expected to be offered at $10 per share, the net proceeds to be used for general corporate purposes.

* * *

The preferred and common stockholders of General Engineering & Manufacturing Co., St. Louis, of record Sept. 30 had the right to subscribe for 295,000 shares of additional common stock at par ($1 per share) on the basis of one share of new common stock for each share of preferred or common stock held. The net proceeds will be used for general corporate purposes. Rights expired on Nov. 5. The offering was underwritten by Dempsey-Tegeler & Co. and J. W. Brady & Co., both of St. Louis.

On Sept. 18, the stockholders of G. E. & C. voted to change the par value of the common stock from $2 to $1 per share and increase the authorized common stock from 500,000 shares (outstanding 252,205 shares) to 800,000 shares. One share of the new $1 par stock was issued in exchange for each $2 par share held, and $252,205 was transferred from stated capital to the surplus account.

* * *

Stix & Co. and Barret, Fitch & Co., Inc. on Oct. 20 participated in the public offering of 141,490 shares of Otter Tail Power Co. common stock (par $5) at $18.75 per share.

* * *

On Nov. 23, the stockholders of American Investment Co. of Illinois, St. Louis, will vote on increasing the authorized capitalization from 300,000 shares of preference stock, par $25, and 1,800,000 shares of common stock, par $1, to 500,000 shares of preference stock, par $25, and 2,500,000 shares of common stock, par $1. It is planned to issue preference stock in exchange for the stock of The Ohio Finance Co. on the following basis: Four shares of series A $1.25 convertible preference stock (par $25) for each share of 5% prior preference stock (par $100) of Ohio; four shares of 4½% preference stock (par $25) for each share of 4½% preferred stock (par $100) of Ohio; and four-fifths of a share of series A $1.25 convertible preference stock for each share of common stock (no par) of Ohio.

* * *

Edward D. Jones & Co., St. Louis, on Nov. 4 offered publicly 4,000 shares of common stock, par $10, of N. O. Nelson Co., St. Louis, for account of six selling stockholders. The Nelson firm is a wholesale distributor of plumbing heating, industrial and mining supplies and has more recently expanded its business into refrigeration and air conditioning supplies and equipment.

* * *

Dempsey-Tegeler & Co., St. Louis, just recently offered and sold $2,500,000 Sister of St. Mary, St. Louis, first and refunding mortgage 2½% to 3% serial bonds, dated Nov. 1, 1948, at 100 and interest, the net proceeds to be used to refund outstanding indebtedness and to pay for improvements.

Michigan Brevities

The stockholders of the Detroit Edison, having on Oct. 26 approved the issuance of up to $47,000,000 of 10-year convertible debentures, stockholders of record Nov. 10 have been given the right to subscribe on or before Dec. 1, 1948 for $46,649,500 of such debentures due Dec. 1, 1958 at par (flat) to the extent of $100 principal amount of debentures for each 15 shares of capital stock held. On Nov. 6, the directors voted to change the interest rate on the new debentures from 2.80% to 3%. Upon subscription, payment may be made in full, or 20% thereof at the time of subscription and the balance in four equal instalments on or before March 1, June 1, Sept. 1 and Dec. 1, 1949. Prepayment may be made at any time of all instalments payable. The net proceeds will be used, to the extent available, first toward repayment of monies borrowed for construction purposes from banks since July 1, 1948 on short-term notes estimated to aggregate on Dec. 1, 1948, $21,000,000, and second toward financing construction after Dec. 1, 1948, $25,269,500.

* * *

An issue of $75,000,000 Michigan Bell Telephone Co. 40-year 3⅛% debentures due Oct. 15, 1988, was publicly offered on Oct. 20 at 102.25% and interest, the net proceeds to be used to repay American Telephone & Telegraph Co., parent, for advances received for general corporate purposes, including extensions, additions and improvements to plant. The Michigan bankers participating in this offering were: Campbell, McCarty & Co., Inc., Crouse & Co., First of Michigan Corp., S. R. Livingstone & Co., Mac Naughton, Greenawalt & Co., McDonald-Moore & Co., Wm. C. Roney & Co., John R. Schermer & Co. and Watling, Lerchen & Co.

* * *

The Detroit Stock Exchange reports that trading volume in October was 240,597 shares with a dollar value of 3,372,256. These figures represent an increase over September when 188,620 shares with a dollar value of $2,666,754 were traded.

The ten most active stocks during October were: Electromaster, Inc., Detroit Edison Co., Avco Manufacturing Corp., Commonwealth & Southern Corp., Gerity-Michigan Corp., Parke, Davis & Co., Sheller Manufacturing Corp., McClanahan Oil Co., Gar Wood Industries, Inc. and Udylite Corp.

* * *

On Nov. 3, the directors of the Dow Chemical Co., Midland, declared a 2½% stock dividend on the common stock, payable Dec. 15 to holders of record Dec. 1. The usual quarterly cash dividend of 25 cents per share was also declared, payable Jan. 15, 1949 to holders of record Jan. 3, 1949. For the three months ended Aug. 31, 1948, consolidated net income amounted to $6,393,445, after charges and taxes. This was equivalent to $1.15 per common share, after providing for dividens on both classes of preferred stock, and compares with a net of $4,396,398, or 79 cents per common share, for the same period in 1947.

* * *

The Dow Chemical Co. on Nov. 15 announced the availability of 105,176 shares of its common stock for purchase by 15,000 employees of the company and certain of its subsidiaries and associated companies at $44.31 per share under a pay check deduction plan. The plan permits subscriptions up to one share for each $200 of the individual employee's annual wage or salary, payable over a year's period. There are options of paying up, reducing or cancelling subscriptions. The offer expires Dec. 6. Directors and elected officers are not eligible to subscribe.

* * *

United States Radiator Corp., Detroit, under its recent invitation, accepted tenders of 5,813 shares, a little over 9% of its outstanding $50 par value preferred stock at an average price of $42 per share. This involved an aggregate cost to the corporation of $244,153, and reduces the outstanding preferred stock to 57,331 shares.

* * *

First of Michigan Corp., Detroit, also on Oct. 20 participated in the offering and sale of $10,000,000 first mortgage bonds 3⅛% series due 1978, of Public Service Co. of Colorado.

* * *

Argus, Inc., Ann Arbor, proposes to offer to its common stockholders the right to subscribe at par ($10 per share) for 115,315 shares of 5½% cumulative convertible preferred stock at the rate of one share of preferred for each 3½ shares of common stock held. The preferred stock will be convertible into common stock on a share-for-share basis, and with each share of such preferred stock the corporation will issue a purchase warrant entitling the holder thereof to purchase 80/100ths of a share of its common stock (par $1) on or before Dec. 1, 1950 at a price to be established before the offering is made. The subscription offering will be conditioned upon the purchase by underwriters of at least 25,000 shares of the preferred stock not subscribed for by the stockholders. The offering will be underwritten by Leason & Co., Inc. and First Securities Co. of Chicago. A registration statement covering the new shares was filed with the Securities and Exchange Commission on Nov. 1.

* * *

Of the 100,000 shares of Yankee Fibre Tile Manufacturing Co., Detroit, common stock par $1) publicly offered in October by Baker, Simonds & Co., Detroit at $5 per share, 20,000 shares were for account of the company and 80,000 shares for account of certain principal stockholders. The Yankee Fibre company will use its part of the net proceeds for the purchase of new equipment and to replace in part working capital expended for the purchase of the new Bellevue Avenue plant.

* * *

An issue of $500,000 additional 5% sinking fund debentures due Aug. 1, 1967, of Plywood Inc., Detroit, was publicly offered on Nov. 8 by P. W. Brooks & Co., Inc., New York, N. Y., at 97% and interest, a warrant to purchase one share of common stock being issued with each $10 principal amount of debentures. The net proceeds are to be used for additional working capital and may be used for the acquisition of standing timber, or additional plant facilities, or both.

Plywood, Inc., Detroit, is also contemplating further financ-

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Our Dynamic Capitalism

Harry A. Bullis of General Mills tells stockholders company's heavy investment in new production facilities is profession of faith in America's future.

At a regional meeting of stockholders of General Mills held in New York City on Nov. 15, Harry A. Bullis, Chairman of the Board of General Mills, in referring to the $17 million invested in past two fiscal years by the company in new facilities and in improving present plants stated:

Harry A. Bullis

"This investment in new production facilities is a profession of faith in America and in the future. It is a demonstration of dynamic capitalism," Bullis continued. "I want to emphasize that American industry everywhere is using its earnings, just as we are, in this dynamic fashion. It is this expansion which has made possible high productive employment at increasing wages."

Mr. Bullis added that until the public provides savings for investment, business must continue to plow back a large share of earnings into plants and equipment. Only by producing more, he said, can America maintain and expand its standard of living in the face of a growing population.

"Good earnings are absolutely essential," Bullis said, "if industry is to continue its high wage payments, maintain its plants, finance expansion, pay dividends to stockholders, and prepare for a possible turn in the business cycle."

Bullis opened the meeting by saluting the stockholders as the true owners of General Mills. He emphasized that each stockholder is a part owner and a partner in General Mills. It is with this concept in mind that the company carries the story of its operations to the owners, in person, at informal meetings throughout the country.

"Your management and your board of directors act as a balance wheel for the interests of stockholders, employees and the consuming public," Bullis said. "Management is in a position of trusteeship for each of these groups."

Cites Importance of Human Relations

One of the principal responsibilities of a corporation executive today, Bullis said, is the administration of problems in human relations. The human element in business is more important than ever before.

"The more than 12,000 men and women who are on our payroll have made possible the high sales, the high production, and the good earnings. To their neighbors and to our customers, they *are* the company. I want our stockholders to know that they have worked faithfully for all of us who are the owners of General Mills."

Mr. Bullis said General Mills constantly strives to improve its employee relations policies.

"We endeavor to have a realistic, humanistic, labor policy which does not treat our employees as mere fixtures or cogs in a machine, but honors them as associates who have self respect and self confidence."

Company wages and salaries have increased in line with industrial trends. The General Mills retirement plan provides security for employees in advancing years. Hospitalization benefits, group insurance, and other advantages are offered to company men and women, he said.

Want Short Selling and Trading Rules Eased

A delegation of officials of the New York Stock Exchange, headed by Emil Schram, its President, met in Washington, on Nov. 9, with the Securities and Exchange Commission to discuss easing of the short selling and floor trading rules now in effect. Under present regulations short sales may be made only on the "up-tick," that is one-eighth point above the last sale. Floor traders under current regulations, are prohibited from purchasing lots of stock on the "up-tick" for their own account.

Emil Schram

It is reported that the proposals recommended by the New York Stock Exchange delegation seek a relationship between the last sale on the previous day, or last transaction in the security, instead of the last sale on the same day the trade is made. The proposed changes would allow short selling on the Exchange as long as the price of the stock involved is above that quoted at the close of the previous day. A similar proposal was made for amending the floor trading rules, so that a floor trader would be allowed to buy stock for his own account if the price of the security is below the close of the previous day.

Three Peas in a Pod:
Prices, Profits, Productivity in Petroleum

By ROBERT G. DUNLOP*
President, Sun Oil Company

Deploring popular misconceptions of both nature and function of profits, oil executive stresses influence of profits as gauges for greater productivity in industry and expanded capital investment. Points out heart of profit system is a price mechanism which adjusts supply and demand. Cites oil industry as demonstrating prices, profits and productivity are interdependent. Says oil industry profits are not out of line with prewar earnings.

Never in recent years, at least, has there been more widespread ignorance and misunderstanding of the function of prices and profits as stimulators of productivity under our competitive enterprise economy than exists today. In view of the steady stream of collectivist propaganda to which the American people have been subjected since the war's end, it is not surprising that this should be so.

Robert G. Dunlop

But unless this ignorance and misunderstanding can be cleared away, our competitive enterprise system is in serious jeopardy of being disrupted by ill-conceived governmental restrictions. Consequently this subject merits the attention and concern of each of us.

We must correct the widespread popular belief that profits are just a residue paid out to stockholders when a company's books are closed. We must make it clear to all our people that profits have definite jobs to do that are vital to the operation of our competitive economy. And let there be no misunderstanding. Our interest in a competitive economy is not as an end in itself, but as a means to an end: the end being an improved standard of living for the American people.

Functions of Profits

First, profits constitute the wages or rental that a company pays for the plant and tools supplied by stockhoders—the plant and tools on which productivity is based and which are the very foundation of well-paying jobs.

But, as you well know, profits in a competitive enterprise economy perform many other functions. They are the guages in our general office control rooms which signal the economic temperatures and pressures of the times.

For example, profits when they become large, signal the need for expansion in those lines of production in which demand is increasing. Contrariwise, a lack of profits indicates the necessity of contraction in those industries which have been over-expanded or whose products are in diminishing demand.

Not only do profits signal the need for expansion, but profits induce people to risk their savings in those enterprises which will produce goods and services that the rest of us want and are able to buy.

Profits serve as the most important method of accumulating funds which are needed for new capital investment. This is true whether the profits are reinvested in the business or paid out to stockholders. In either instance they are the means for capital formation which is essential to all industrial expansion.

Once an investment has been made, the margin of profit serves as a recorder or yardstick of the efficiency of the managers of the enterprise, unless the latter enjoys some kind of monopoly position. Thus to maintain reasonable profits in a competitive industry, the managers must be alert to improved quality and services, increased volumes of sales and prices as low as those of their rivals.

Adequate profits are essential for business and industry to fulfill their responsibilities to serve the general welfare. They stimulate expansion and competition, thus providing more and better goods with consequent lower prices. They give people an incentive to invest their savings. And they act as a guide and a regulator of the flow of capital funds.

As long as profits are permitted to perform these functions, our economy will remain dynamic and strong, serving the needs of the American people.

The hearth of the profit system is the price mechanism which in a free market adjusts the supply

(Continued on page 36)

*An address by Mr. Dunlop before the Annual Meeting of the American Petroleum Institute, Chicago, Ill., Nov. 11, 1948.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Insurance Stocks

With the elections two weeks old, discussions have been taking place in financial centers as to the shape of the economic and political framework within which business will have to work out its problems over the next four years.

While the final answers to many of the questions raised will not be available until after Congress convenes in January, 1949, campaign speeches and pronouncements of important officials offer substantial evidence as to the nature, if not the extent, of prospective legislation.

Prominent among the subjects mentioned for immediate action when Congress convenes are labor relations, price controls, allocation of scarce materials and taxation of corporations.

While it is dangerous at this time to generalize about the form such a program will take and its effect upon business, certain observations with respect to possible areas of impact would seem to have some merit. Obviously, different industries, because of the nature of their operations, may be affected in varying degrees according to the type of regulations enacted.

For the most part, it appears that fire insurance companies would not be directly concerned with the phases of the legislative program relating to labor relations, price control or materials allocation. Only in the field of taxation would such insurance companies be directly affected and even here they appear to be in a relatively favorable position.

In the first place, a substantial portion of their investment income is exempt from income taxes. 85% of the dividends received from common and preferred stocks is exempt and most insurance companies have large holdings of these types of equities. In addition, five companies own considerable amounts of tax exempt securities such as government, state and municipal bonds.

Thus, it would appear, the investment income of five insurance companies, which is the primary determinant of dividends, would not feel the full impact of either an increase in the normal tax or restoration of an excess profits tax.

Indirectly, some loss of dividend income might be experienced if the tax enacted was severe enough to force a reduction in dividend distribution. However, most industrial corporations are paying out only about 50%-60% of earnings and it would appear that a considerable reduction in earnings would have to take place before any material change in dividend payments from the levels of the past two years would be necessary.

At the same time, there is a continuing flow of new funds from increased premiums which provides additional sources of income. For these reasons the present level of investment income for most fire companies is believed relatively secure.

For comparative purposes the following tabulation of a selected list of fire insurance companies is presented. It shows the underwriting results, investment income and net earnings for 1947 on a per share basis, together with current annual dividends, current price, yield and 1948 price range.

	1947 Earnings				Bid		1948	
	Underw. Profit	Invest. Income	Net Earn.	Annual Div.	Price 11-15-48	Yield	Price Range	
	$	$	$	$	$	%	$	$
Aetna Insurance	—0.83	2.93	2.13	1.80	45½	3.96	49	- 41
Agricultural Insurance	—10.00	5.44	—4.52	3.00	62	4.84	67	- 51
American Ins. (Newark)	—0.34	1.03	0.67	0.70	16½	4.24	18⅛	- 14⅞
Continental Insurance	2.17	3.61	5.50	2.00	58¾	3.40	64	- 48½
Federal Insurance	4.31	2.28	5.28	1.60	56	2.86	59	- 47½
Fidelity-Phenix	1.91	4.18	5.86	2.20	65	3.38	69½	- 53
Fire Association	0.94	4.63	5.42	2.50	55	4.55	61	- 44½
Fireman's Fund	2.23	3.54	6.03	2.60	74	3.51	78	- 65¾
Fireman's (Newark)	0.83	1.42	2.25	0.50	13½	3.70	15¼	- 11¼
Glens Falls	2.22	2.25	4.44	1.60	42¾	3.74	47	- 40¼
Great American Insur.	0.75	2.13	2.89	1.20	30	4.00	32¾	- 26
Hanover Fire Insur.	—0.68	2.23	1.54	1.20	28¼	4.25	30	- 23¾
Hartford Fire	7.14	5.40	11.87	2.50	112½	2.22	122	-100
Home Insurance	1.84	1.97	3.48	1.30	27½	4.73	29¾	- 23
Ins. Co. of No. America	1.25	6.21	7.71	3.00	102	2.94	108	- 92
National Fire	—5.93	3.79	—2.14	2.00	43½	4.60	49½	- 41
National Union Fire	0.26	1.86	2.12	1.40	32½	4.31	36½	- 29¾
Phoenix Insurance	1.54	4.61	6.03	3.00	81	3.70	90	- 73½
Providence-Washington	—0.09	1.80	1.71	1.40	30½	4.59	35¼	- 30½
St. Paul Fire & Marine	5.59	3.80	9.07	2.25	75	3.00	81	- 65½
Security Insurance	—1.55	2.52	1.39	1.40	27½	5.09	31	- 23
Springfield Fire & Mar.	0.35	2.20	2.55	1.90	43	4.42	46¾	- 39½
U. S. Fire	0.78	3.27	3.98	2.00	54	3.70	57	- 45½

As can be seen from the above figures, current dividend payments are generally conservative in relation to investment income. At the same time, dividends and interest received for 1948 should be considerably higher than last year, both because of larger payments by most industrial companies and higher interest rates as well as a generally larger amount of invested funds. This should result in a considerable increase in investment income for most fire companies for the current period.

In the meantime insurance stocks after reaching new highs several weeks ago have declined in sympathy with the general market. While the reaction has not been as severe as for some groups of industrial companies, a number of stocks are selling considerably below their previous peaks.

J. M. Alford Opens

McCOMB, MISS.—J. M. Alford is engaging in a securities business from offices at 222 State Street. Mr. Alford was formerly with Howard, Labouisse, Friedrichs & Co.

Carter & Co. in L. A.

LOS ANGELES, CALIF.—Rufus Lee Carter is now doing business from offices at 215 West Seventh Street under the firm name of Carter & Co. Mr. Carter was previously a partner in Carter & Whitney.

Economic Fallacies of Price Supports

By W. M. CURTISS*

The Foundation for Economic Education, Inc.

Holding price supports are form of price control, Mr. Curtiss points out they are no aid to price stabilization, since major swings in price level lie in monetary and fiscal policy. Holds free market system is essential to free enterprise, and no administrative bureau can properly operate the delicate price mechanism. Concludes price fixing requires both production and consumption control and hampers progress as well as leading to complete economic domination of population.

Major swings in our price level such as occurred during the depression of the early 1930s and the rapid inflation since the beginning of the recent war are forces which rock any economy on its foundation. Not knowing the causes, pressure groups frequently demand measures which, when adopted, change a voluntary economy into a controlled or managed economy.

W. M. Curtiss

Stripped to its essentials, the basic objective of the over-all price support program for agriculture is to prevent a general collapse in farm prices such as those of 1921 and 1929. Few persons would disagree with the desirability of the objective; the basic disagreement lies in whether or not the price supports are suited to this end. Other stated objectives of price controls, such as the protection of the nation's food supply are largely for the purpose of making the program more palatable to consumers.

The general price level might be compared with the level of water in a lake. The level rises and falls because of what happens at the inlet and the outlet. On the surface are ripples or waves, corresponding to the prices of individual commodities. They rise and fall in some degree even though the level of the lake does not change. A price support or ceiling on one commodity may change the height of that ripple, but it is offset by others and has little or no effect on the over-all level of the lake, the general price level.

The changes in prices of individual commodities, constantly going on even in a stable economy, serve a useful and important function. We see this function in operation this fall in the relation of the price of hogs to corn. With a very short corn crop in 1947, corn prices advanced relative to hogs and farmers economized in the feeding of corn. Now with a very large corn crop, farmers have the signal, cheaper corn, to expand the feeding of corn to hogs. These adjustments run all through our economy. In a free market, farmers will constantly shift their production of cabbage, potatoes, sweet corn and all other crops and livestock products to meet changing price relationships.

It is not denied that the price of a single commodity or several commodities can be maintained above or below where they would be in a free market. The price of potatoes, for example, could be set at 25 cents a bushel or at $25 a bushel, and if a large enough number of policemen were assigned to the job of rationing the very small production at 25 cents, or of restricting the very great attempted production at $25, the price could be maintained.

Even if this were done for one commodity, or for many commodities, the major problem of preventing general inflation or deflation would not be solved.

The solution of the problem of the giant swings in the general price level lies in the area of the monetary and fiscal policy of the nation.

It might be asserted that price supports or price ceilings on individual commodities are not effective in preventing major inflationary and deflationary swings, and end the discussion there. But it is important to point out some of the harmful effects of such programs.

Price supports are a form of price control. They then become a part of a broader and more important question, namely, whether the nation shall have an economy of free markets, or whether it shall be one of price control, production control, allocation of labor, and ultimately, socialism. It matters little whether the outcome of the latter choice is called Democratic Socialism, Socialized Capitalism, State Socialism, Marxian Socialism, Collectivism or just plain Communism.

The Function of the Free-Price Mechanism

A free-market system is perhaps the most essential ingredient of the voluntary economy. Without this freedom to express his wants and thus have a hand in guiding production and consumption, man can hardly be called free.

The sole purpose of economic production is to satisfy the wants of consumers. The most satisfactory method known by which consumers can make their preference known to producers and thus guide production, is through the free-price system. Millions of individuals are thereby enabled to vote for or against individual products by their acceptance or rejection of items of consumption.

Another method of guiding production and consumption is to let the decision of a single individual or of a central bureau be substituted for the decisions of millions of individuals interested in that particular or related commodity. There is no third choice. Either the free-price system will be permitted to do the job or it will not. The only way in which there is a middle ground, is in the sense that not all items of goods and services may be under control. Some may be free and some controlled for a time, but there is abundant evidence to indicate that, once started, price control spreads because of the complex influence which products have on each other. First, the price of a single item may be controlled and then it is found necessary to control its substitute and then the substitutes for the substitute, and so on and on.

It must be assumed that those who favor price control of a commodity, whether it be price supports, price ceilings, subsidies, marketing agreements, forward pricing or other form, believe the price should be either higher or lower than it would be if voluntarily arrived at by a willing buyer and a willing seller. Otherwise it would not be price control.

The free-price mechanism is as delicate as a fine precision instrument with millions of moving parts. Each part contributes to the operation of the whole. It operates so smoothly that it is sometimes called automatic. But it is anything but automatic in the sense that it runs without direction.

Consider, for example, some of the factors which, together, make the price of a bushel of wheat. We boil them down into two expressions—supply and demand. That sounds simple, but back of supply may be such factors as the prospects for rain in the wheat country, the amount of snow in the mountains, the amount of insect damage, the availability of harvest help and machinery, the burning of a few thousand bushels in a local elevator, the availability of boxcars for shipping, the amount of wheat fed to livestock, the production of wheat in Canada, China and Russia, and literally thousands of other things that are wrapped up in what we call supply, or prospective supply.

The demand side is equally or even more complex. It is influenced by the price of oats, corn, potatoes, rye, and many other competing crops. The general level of prosperity in the country, the amount of wheat purchased for foreign account, the price of automobiles, and radios, and an unknown number of other factors all have a bearing on demand.

No one person or bureau can possibly know all the contributing reasons why I reject a radio offered at $12.98 and you decide to buy it. Perhaps my wife wants a new hat and yours doesn't. Fortunately it is not necessary that each buyer and seller have all this information. All that is necessary to consummate a sale is for a seller to say, "I am willing to sell for this," and the buyer to say, "I am willing to pay it." The seller may conclude, "I can't continue to sell for that and stay in business," or the buyer may say, "I can't continue to pay that much and stay in business." Suffice it to say, the exchange was made, and with the alternatives known to each party, the exchange was agreeable to both.

Basic Question: Who Should Plan?

The basic question involved here is not whether there should be economic planning or not, but rather who should do it. Economic planning there will be. If either will be done by thousands and thousands of individuals who are directly concerned, each making independent decisions, or by a central planning committee.

A central statistical bureau may assemble volumes of data concerning the demand and supply of a certain commodity. There is a great temptation for them to feel that they know so much more about conditions than a single producer or consumer can possibly know, that they can therefore decide the price more wisely. The fact is that they cannot have all the pertinent facts and perhaps not even the most important ones, and even if they had, they could not move quickly enough to change with each changing situation.

This delicate price mechanism works miracles in guiding workers into each branch of the economy and in guiding the use of raw materials and other resources according to the wishes of consumers. Some have argued that our economy has become too complex to let it run without a central plan. Actually, the more complex it becomes, the more important it is to have the economic planning done by the individuals concerned, and their decisions reported in a free market.

The free market serves as a guide to persons in deciding

*An address by Mr. Curtiss before the Northeastern Vegetable and Potato Council, New York City, Nov. 13, 1948.

whether they should be dentists, doctors, farmers, lawyers, school teachers, grocery clerks, or bank clerks. When this function of price is tampered with it becomes necessary to dictate to the workers what jobs they shall fill and how they shall fill them. England has already discovered this.

The free-price system is a guide as to how much steel should be used for tractors, automobiles, for housing, for toys, for railroads and for other purposes. It suggests whether oil or gas or coal should be used for heating a house. It serves as a guide in determining how much feed grain should be fed to dairy cows or hens, or to hogs. This system tells the users of a commodity whether to economize in its use or to expand it. It tells the potato producer, for example, how many acres to plant and whether to harvest all of his crop or leave the small potatoes on the ground at harvest time. It suggests how much fertilizer to use and whether or not it will pay him to put in an irrigation system. It tells him whether to pack his crop in wholesale lots or in consumer packages. All this guidance appears almost accidental and without direction, but with the result that the crop moves to market in an extremely orderly fashion just meeting the demand, as well as serving as a guide to producers of next year's crop.

If the price of a commodity is arbitrarily set by a central bureau it might conceivably be at the same level that a free market would place it, in one certain spot at one certain time, and if so it serves no purpose. It is certain to be wrong at other spots or at other times because it can't possibly have the flexibility or location differentials that a free market provides. There is no one price for a commodity like potatoes. There are literally thousands of different prices, depending on different conditions, making up what we think of as "the market price." And strangely enough, in a free market, each of the many different prices is the "right" price for the given situation.

Prices As Signal

As an arbitrarily set price for a commodity probably always is wrong, the repercussions affect all interests. Price is somewhat like the signal which the captain on the bridge of a ship sends to the engine room. If the signal is right the ship stays on its course the way the captain intended. If it is wrong, the ship may get out of control.

Price is a signal to both producers and consumers of a commodity as well as to all of the agencies involved in distribution. It isn't as though our economy has had no experience with mixing up the signals. We have seen potato prices set too low with a resulting potato famine before a new crop came along. The signal to consumers to economize in the use of potatoes failed to reach them. Had this faulty signal continued, it would also have been interpreted by producers to cut future production. A similar situation has existed in the rents of dwellings which were fixed too low. The signal to renters was not to economize on space but to expand, and they did just that. The signal to build new housing was not given, with the result that we have had a housing famine. When the price of a commodity is set lower than the market would set it, the product becomes scarce and its allocation becomes a problem. When a free price is not permitted to ration a product, some other method must be used, and it may be done in black markets, or with tickets, or special favoritism, or some other method.

In the other direction, we have had experience with arbitrarily setting prices of a commodity higher than a free market would set them. Price supports contemplate this type of action. In such a situation, the signal to both producers and consumers is wrong, with the result that a "surplus" arises. The consumer is discouraged from expanding consumption because of a price higher than he would willingly pay for the available commodity. The producer is encouraged to expand production beyond where he otherwise would.

Experience in Setting High Price

A system of price supports where prices are maintained above the free market level by government is not unlike a system tried by a number of agricultural marketing cooperatives 25 years ago. They found that by keeping prices too high they encouraged more and more production and discouraged consumption. They discovered they were building up larger and larger carry-overs from one crop to the next. One after another, cooperatives based on this principle either failed, or changed their policy. An important difference of course between the government and a private cooperative following such a policy is that the government has taxing power behind it and can financially conceal the error for a longer time.

Whereas scarcities, due to setting prices too low, require some kind of a rationing system, surpluses require some kind of arbitrary production controls. Without such controls or with only acreage controls, we find potato farmers putting in irrigation systems, and using heavy applications of fertilizer to produce potatoes which may be used for livestock feed or be destroyed.

Agricultural leaders have long been trying to devise some system to raise the price of agricultural commodities above free-market prices, without at the same time exercising some direct control over production. Such a search seems doomed to failure because of the very nature of the price system. If prices of individual commodities are too high, they stimulate too much production and too little consumption at that level of prices; some kind of production controls are necessary unless the government dumps its surplus abroad or gives it away or diverts it into other uses at home. If prices are too low, some other type of stimulus such as subsidies or direct compulsion is required to bring out the production assumed necessary. It is but a short step from there to the British system where prices are guaranteed and farmers told what to produce. It is a still shorter step from that to complete nationalization of agriculture. Our own Supreme Court has said that it is logical to expect government to control that which is subsidizes.

Keeping Inefficient Producers in Business

Another consequence of a price support which holds a price above where it would be in a free market is its effect in keeping inefficient producers in business. A competitive economy, based on free market prices has been an important factor in improving efficiency in all types of business. The market price serves as a signal to the inefficient producer to use his talents and resources elsewhere. Think what would be the situation in the automobile business today if, through support prices, all of the hundreds of auto manufacturers that have fallen by the wayside, had been kept in business. Suppose we had adopted a system of price support to keep buggy manufacturers in business.

An illustration may serve at this point. The New York State College of Agriculture supervises detailed cost accounts on a number of New York farms each year. On ten of these farms, in 1946, potatoes were grown and detailed records of costs were kept. The cost to produce a bushel of potatoes varied from 49 cents for the lowest to $1.92 for the highest-cost farm. The average cost was 75 cents a bushel. The average returns were $1.09 per bushel and most of the growers made a profit on the enterprise. Two of them, however, lost on the enterprise. This is not an uncommon situation, even when average returns are satisfactory.

Now, suppose in 1946 the combined judgment of potato growers is that for next year the potato business doesn't look as attractive as some other crop and they decide to reduce potato acreage. Which ones should reduce? We will probably all agree that unless the high-cost producers had some special situation that they can correct, they might better spend their time growing something more profitable. The free market suggests this course of action and the entire economy, as well as individual producers, benefit.

Suppose in this situation, instead of a free market for potatoes, the price is arbitrarily set at, say, $1.50 a bushel. What happens? Not only are the inefficient producers encouraged to stay in the potato business but even less efficient producers may be drawn in. As a result, more potatoes may continue to be produced than can be sold at the designated price. The problem of the planners now is what to do about the surplus production. They may decide that acreage should be reduced or marketing quotas should be established. How will they do it? Your guess is as good as mine because it is now a political football. They may decide to scale down each grower's acreage by the same percentage. Any method chosen is likely not to be a method that will eliminate the inefficient producers. It would be very difficult to set up a formula that would apply to nearby areas and areas far from the market, the way a free price would.

This illustrates some of the problems involved on the production side when free markets are interfered with. Problems on the consumption side are just as involved and important. Consumers are prevented from having a hand in directing production according to their wishes.

Over the years, thousands of farmers have found that they could not meet the competition of more efficient farmers. In an expanding economy they have found their services useful elsewhere. We have seen efficiency on our farms increase from a point where a farm produced little more than enough for its own needs to where a farm family now feeds itself and five other families. The farmer not only feeds his family better but also shares in the production of automobiles, refrigerators, bathtubs, transportation, entertainment, education, churches, and many, many other goods and services produced by non-farmers.

This kind of progress can continue with competition and free markets. It is not inconceivable that farm efficiency could develop to a point where only one family in twenty will be required to raise the nation's food supply. Such progress cannot continue if inefficient production is encouraged.

Efficient farm producers have nothing to fear from competition. It has been estimated that one-third of the farmers produce 80% of the nation's food. Price supports tend to keep in competition, the least efficient one-third of the farmers who produce only 4% of the food.

From a purely selfish standpoint, Northeastern farmers stand to lose in another way from price supports. Such supports would be unmanageable if they took into account all of the various location factors that a free market considers. As a result, price supports tend to encourage increased production in areas distant from market; nearby producers tend to lose their economic advantage of being located at the consumer's back door. Some evidence of this loss of advantage is indicated by the fact that the acreage of potatoes in upstate New York in 1948 was only half what it was on the average from 1933 to 1942. They have been "supported" right out of the market. In contrast, potato acreage has been expanded greatly in areas more distant from market. In a slightly different way, we

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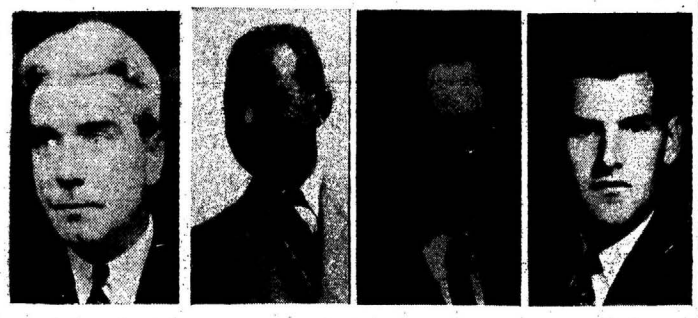
(Continued on page 16)

NSTA Notes

BOSTON SECURITIES TRADERS ASSOCIATION

The annual meeting of the Boston Securities Traders Association will be held on Thursday, Dec. 2, 1948, in the Hawthorne Room at the



John E. Sullivan, Jr. Albert G. Woglom Burton F. Whitcomb J. Russell Potter

Parker House. Cocktails will be served from 5:30 to 7:00, dinner at 7:00, with the meeting scheduled immediately after dinner.

The Nominating Committee, composed of Arthur E. Engdahl, Goldman, Sachs & Co., Chairman; Frank S. Breen, Schirmer, Atherton & Co.; Edward F. Hormel, du Pont, Homsey Co.; Carleton Needham, Merrill Lynch, Pierce, Fenner & Beane, and Sumner R. Wolley, Coffin & Burr, Inc., submits the following nominations:

President: John E. Sullivan, Jr., F. L. Putnam & Co., Inc.

Vice-President: Albert G. Woglom, A. G. Woglom & Co., Inc.

Treasurer: Burton F. Whitcomb, Blyth & Company.

Corresponding Secretary: Edward E. Lawrence, Minot, Kendall & Co., Inc.

Recording Secretary: J. Russell Potter, Arthur W. Wood Co.

Governors (two years): Frederick L. Harson, Fraser, Phelps & Co., Providence; W. Henry Lahti, Matthew Lahti & Co., Inc.; Henry E. Tabb, Jr., Townsend, Dabney & Tyson.

Securities Salesman's Corner

By JOHN DUTTON

Not everybody that reads the "Chronicle" is interested in selling securities—in fact, a good many of its readers are probably more interested in buying them. That is why it is sometimes a little difficult to write about all the ways that we stock and bond selling fellows have to figure and contrive in order to get others to buy the stuff we sell. You can't give out all the tricks of the trade in a column like this—maybe some of our long suffering customers would get too wise. But all joking aside, this is one week where we are going to take a chance and tear the lid off of something that we have wanted to write about for a long, long time.

After a few weeks like the last few we've been having since the election, nearly everybody has some pretty sore spots in his investment portfolio. In fact, for the past two and a half years it hasn't been an easy road. Stock prices are in many cases below their levels of January 1948, and in others far below 1946 highs. Many companies have had difficulties. Not all lines have been booming. Inflation has taken hold in some cases and the pipe lines have been filling in others. Some of the securities that people bought with high hopes in 1945 and 1946 have declined drastically in value.

As a result quite a few securities men have hesitated to call upon those customers who have sustained some substantial losses. Gradually they have pulled away from these accounts. Now here is one of the strangest quirks in human nature that you can find. In most cases, this natural human reaction to be afraid to go back and face the music, is just the exact opposite of what one should do in situations of this kind. There are salesmen who build up a completely false idea of the importance that their customer places on some of these things. Even in such instances where a security buyer has become disturbed over some of his purchases that he has made through a well meaning salesman, the last thing in the world that anyone should do is to avoid the issue. In most cases the best thing to do is to go back, face up to the losses (if losses they are and they cannot be salvaged by holding). Otherwise get the facts, present them and go about the job of averaging. But don't leave the pups die—take them out, get rid of them and take the tax losses. Either clean house, reinvest and start afresh—or average up. At any rate GO TO SEE YOUR CUSTOMER, talk to him and tell him how things are. In most cases you'll find that he too is a pretty reasonable human being and a regular fellow too. If not, then you will at least have done your best to correct a mistake that unfortunately was unavoidable.

And speaking about tax selling—it is now time to send out a letter to all your customers and prospects telling them that you would like to go over any tax selling problems that they might have. Invite them to call at your office, or tell you when you might call. Advise them that you can bring them up to date on the latest developments concerning the capital gains taxes for the current year. There are always new opportunities for more business that are uncovered in interviews of this kind. Ours is the sort of business where the more we can offer in service the greater our own rewards.

Economic Fallacies Of Price Supports

(Continued from page 15)

have seen U. S. cotton growers "supported" right out of the world cotton market.

Sspecial Privileges for Minority Groups

A further argument against price supports for agricultural products is in the area of special privileges for minority groups. Under a political system such as ours, there is a tendency for certain groups to seek special privileges at the expense of other groups, and if they are strong enough politically, they may be able to obtain them. Agriculture has been and still is strong politically. It is rapidly becoming a smaller and smaller minority. For the preservation of the rights of all, it would seem that agriculture would gain more in the long run by promoting the idea of no special privilege for any group.

To illustrate the point of what may happen to minority groups, we have only to observe what has been happening to wheat farmers in Canada. The Canadian Government has been marketing the farmers' wheat and has been receiving for it a price well over a dollar more than they have paid the wheat producers. By this process Canadian farmers have subsidized Canadian and British consumers and have paid what amounts to an occupational tax to their own government. This happened in a country where farming is a leading occupation.

An argument frequently used by agricultural leaders for various farm programs is that labor and other types of business have "enjoyed" advantages in the form of tariffs and other devices and therefore agriculture is entitled to its share of "protection." These are exactly the tactics used in a pressure-group economy. Two wrongs do not make a right, and in the end this process leads to a thoroughly confused situation where vast numbers of persons become willing to turn the whole sorry mess over to government as they are rapidly doing in England and have done in other nations of the world.

Summarizing briefly, price supports, like other forms of price control, cannot solve the important problem of bringing reasonable stability to our economy—of eliminating major swings in our general price level caused by inflation and deflation. In addition to their failure to reach this objective, they rob us of the most important function of free prices, the guiding of production and consumption of goods and services in accordance with the wishes of those directly concerned.

Finally, and this is most important, price controls must be accompanied by controls of production and consumption. It cannot be otherwise. Such controls lend to complete economic domination of citizens by the State.

Reichart & Co. to Be Formed Shortly

PLANDOME, N. Y.—Joseph A. Reichart and Daniel A. Baldo will shortly form Reichart & Co., Inc., to engage in an investment business. Mr. Reichart in the past was head of Reichart, De Witt & Co., Inc., of New York City.

Purpura-Townsend Formed

YUMA, ARIZ. — Theodore P. Purpura and James Townsend are forming the Purpura and Townsend Investment Co. with offices at 729 Orange Avenue to engage in a securities business.

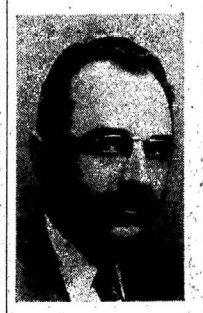
The Gold Controversy

By FERDINAND G. SMOLA

Investment Securities, Omaha, Neb.

Commenting on controversy regarding restoration of gold standard, Mr. Smola reviews altered relation of gold to wealth and concludes gold has greatly diminished significance in present-day economy. Holds its general distribution will not produce betterment of economic conditions.

The currently published twin articles (see "Chronicle" of Oct. 28, p. 7) by Dr. Spahr and Dr. Bernstein on gold coin conversion and gold standard make very interesting reading. In a sense, they contain climactic arguments in favor of or against the return of redemption of paper money for gold coin. Both articles struggle to define the merit of either alternative after a manner of scientific disclosure and to resolve a conclusive evidence in favor of one school of thought or another. While the arguments amassed before the reader are conceived with creditable purpose and clarity, the controversial nature of the function of the gold standard does not lend itself to a singular treatment, and hence no comfort accrues perhaps to either of the participants in the debate and still less to those who wish for a simple answer. I believe that the greater share of credit goes to Dr. Bernstein for pointing out that "the gold standard cannot provide a good monetary system without sound monetary policies." Dr. Bernstein denies that gold standard involves a moral issue. This contention perhaps has been the keynote of those who clamor for the return of gold coin conversion. Dr. Bernstein correctly states that the conversion in practice would be exercised in times when it could inflict the greatest injury to our monetary and our banking systems, i. e., in times of general business stress or a banking crisis. He chooses historical example to prove his point. I believe he didn't go far enough in using it. In the controversy over gold standard or gold coin, gold has been almost forgotten.



Ferdinand G. Smola

As far back as history records, the story of gold is not a pretty one. From the gilded palaces of Roman Caesars to the days of Spanish conquistadores, gold has been the reason for much strife and bloodshed. It has long been marked by a tawdry pomp and circumstance encrusted with human misery. Undeniably, in the earlier society, gold held primacy as a factor in the economic life of peoples. One can find evidence of this in the medieval era distinguished by the absence of industry and in the life of trading people, but the economic function here is directly traceable to the kind of society which then existed. One has to remember that the populace lived under conditions of serfdom with small value on human life and small price on labor. That while the kings and princes used gold to create precious art pieces by such goldsmiths as Cellini and for buying leisure time for masterpieces of Michelangelo and Raphael, the ugly intrigue and cruelty of Borgias and Medici vied for power in which the people were not included nor even thought of. Gold was the king, the power behind the throne. In the smoky kitchens of alchemists over words of necromancy, strange masses were smoldering in the perpetual attempt of man to create gold from other metals. The humble lowly serfs had little to do with and what they had needed to be used in articles of long wear and use. Some of these endured through generations of constant service and eventually may now be found in the ethnographical exhibits of various museums. I doubt very much that the new-look wardrobe of the present milady will ever find a place in museums. Against the backdrop of such economy, any contemporary term as "consumers goods" sounds like the burst of a bombshell. It is used here purposely to bring in the contrast between such economy based on gold and the present economy in which gold plays an unimportant role.

Gold and Wealth Today

The wealth of today is not the gold pieces in coffers and chests buried in secrecy, it is not the impoverished land, poorly cultivated, the primitive tools manned by people toiling for long hours for the price of meagre subsistence. The wealth of today is largely concerned with land, plants, equipment, material funds to keep industry or commerce going but more importantly, the skill, competence, experience and integrity of those identified with the effort.

Also, the goal of material advancement or success is not a hoard in gold, but the flow of goods and services from the well-managed enterprise. From the smallest to the largest industry, wealth is not represented by the material goods but by the kinetic function which gives it perpetuity and which guarantees a general high living standard to great masses of people. One might say that unless wealth can produce consumers goods over a long period of time, its existence is perilous if not impossible. The best examples of the character of wealth as we know it today are the giants of industry. One can scarcely imagine a Ford fortune being converted into a hypothetical value in gold. The truth is that such wealth no longer reflects money value in any kind of acceptable or accepted currency. Perhaps the only relation to money that great wealth retains is the need of society to collect taxes for the maintenance of government. The millions of estimated value stem from earning power it gives those identified with it, and to some extent, to those who are the owners. However, the direct benefits accruing to the owners are grossly modified by the need of the enterprise for funds to keep alive through good and bad times. In a sense, the great wealth, like the average citizen, may live in freedom from fear but hardly without a healthy respect for the competitor. It would seem, then, that the giants of industry are the nearest thing to industrial socialism in private hands and nominal ownership. Great wealth cannot be liquidated successfully; it cannot find its price in gold. It is captive as are those who own it. The distinction it enjoys as compared with public ownership is that it is operated by individuals who are not dependent for judgment or in success and failure on the discretionary power of the public. Large industry, as well as the small, owes its existence to the ability of the business to serve the general public. In relation of one to the other under conditions of free competition, the public has the power to favor success and punish failure and thus secure the maximum benefit for itself.

(Continued on page 39)

New Index for Over-the-Counter Industrials

L. E. Walker, President of the National Quotation Bureau, reveals index comprises 35 stock issues, and has been worked back as far as October 1, 1938.

The National Quotation Bureau, Incorporated, announced on Nov. 14 a new price index for over-the-counter industrial stocks. It was made available for the first time to traders attending the 15th Annual Convention of the National Association of Securities Dealers, Inc., at Dallas, Texas, which started on Monday, Nov. 15. The new index, the first of its kind, comprises 35 industrial stock issues, none of which is listed or traded on any stock exchange.

L. E. Walker

"Everyone recognizes the usefulness of the various indexes, published by newspapers and service organizations, which chart historically the performance of listed securities," L. E. Walker, President, said in commenting on the Bureau's new index.

"Over the years we have had many requests both from security houses and investors for similar information concerning the performance of over-the-counter securities in good times and in bad.

"These inquiries convinced us that research to supply an over-the-counter Security Index would not only prove interesting but useful to the entire investing public as well as the securities industry."

Mr. Walker threw the entire research facilities of the Bureau into the effort, assisted by a research statistician "of outstanding ability" and a group of students from several colleges. The latter assisted in working the index back as far as Oct. 1, 1938, giving it a 10-year span, and preparing charts and graphs for the past decade.

Highest point in the index during the past 10 years was established on June 3, 1946 at 43.00, while the lowest level was reached on May 1, 1942 at 16.54.

The 35 stocks selected for the index—all are common or capital issues—are among those with the largest market value, largest number of holders, and most substantial quotation records. In addition, they represent a wide diversity of industry.

Mr. Walker in conclusion said that he wanted to make it clear that the 35 companies were only a small proportion of the old established companies represented in the over-the-counter market. Each year, industry has continued to come to this market for new venture capital which history shows has been the great supply point of new capital for new industries as well as old.

"In our research," Mr. Walker said, "we gathered data that will answer many questions often asked about securities traded in the over-the-counter market. Paramount is the question: 'Are there good, solid, substantial stocks in the over-the-counter field?' Twelve of the 35 companies whose stocks are used in the index trace their ancestry to years prior to the Civil War."

The following table shows the 35 stocks used in the National Quotation Bureau Over-the-Counter Industrial Stock Index, the year in which the business was started, approximate market value of the stock in July 1948 and the asset value for 1947:

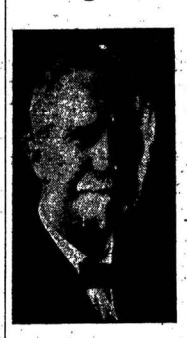
Stock	Year Established	Approximate Market Value July 1948 (000)	Approximate Asset Value Year 1947 (000)
American Hardware Corp.	1839	$13,200	$23,180
American Optical Co.	1333	23,570	50,610
Anheuser-Busch, Inc.	1851	105,750	73,470
Argo Oil Corporation	1923	21,460	11,710
The Arrow-Hart & Hegeman Elec. Co.	1891	22,000	13,140
Art Metal Construction Co.	1888	11,100	14,500
Berkshire Fine Spinning Ass'n, Inc.	1889	34,030	35,410
Philip Carey Manufacturing Co.	1888	15,620	26,900
Crowell-Collier Pub. Co.	1906	43,800	40,870
Dun & Bradstreet, Inc.	1841	19,440	28,110
Durez Plastics & Chemicals, Inc.	1921	22,500	13,990
Grinnell Corporation	1850	16,060	33,630
M. A. Hanna Company	1867	90,160	84,140
Ideal Cement Company	1908	46,180	29,290
International Cellucotton Pdts. Co.	1926	31,350	22,560
Kellogg Company	1906	60,590	32,800
Landers, Frary & Clark	1853	10,600	25,190
Long-Bell Lumber Co.	1875	38,570	50,060
Ludlow Manufacturing & Sales Co.	1848	20,110	33,780
Marlin-Rockwell Corporation	1915	19,930	15,500
Nicholson File Company	1864	21,510	17,960
Plymouth Cordage Company	1824	11,530	17,970
Potash Co. of America	1931	32,430	14,150
Remington Arms Co., Inc.	1816	32,780	51,440
Republic Natural Gas Co.	1928	59,470	18,500
The Richardson Company	1858	10,600	10,610
H. H. Robertson Company	1906	9,810	12,310
Saco-Lowell Shops	1845	11,250	22,810
The Stanley Works	1843	33,190	40,520
Talon, Inc.	1913	37,480	29,960
Time Incorporated	1922	52,400	66,870
Trico Products Corp.	1917	16,420	32,860
Veeder-Root Incorporated	1866	14,200	9,210
West Point Manufacturing Co.	1888	53,820	44,470
Weyerhaeuser Timber Co.	1900	211,500	195,140
Total		$1,274,410	$1,243,620

After Election Forecast

By ROGER W. BABSON

Mr. Babson views current pessimism on election outcome, and says big interests are convinced they will be persecuted and given a raw deal. Sees opportunity for Truman to help dividend paying stocks by giving relief from double taxation of dividends.

I am back again in New York City to get the pulse. New York City is no longer the business center of the United States. This has long ago moved to the "Magic Circle," including the states of Illinois, Iowa, Kansas, Nebraska, Texas, Oklahoma and Missouri. On the other hand, all merchants, manufacturers and bankers—wherever located — still go to New York City to buy their goods and sell their wares.



Roger Babson

Whatever the stock market may be doing when you read this column, let me tell you that New York feels bluer at this writing than it has for many years. The people here believe that the Dow-Jones Industrial Averages will gradually now decline to 165 or under. This pessimism not only applies to the stock market, but to general business, agriculture and foreign affairs.

The big interests here not only expect no special favors from the Second Truman Administration, but they are convinced that they will actually be persecuted. They claim that the Raw Deal will take the place of the New Deal and a businessman will again be abused just because has has been industrious, thrifty and successful. So far as I have been able to hear from friends throughout the country, this change in feeling for the worse is found everywhere.

Truman Opportunity

Most readers of this column little realize the powerful government "Corporations," Commissions, Boards and other Organizations which were instituted under the Roosevelt regime. In fact, these semi-official bodies combined actually have more power than Congress itself. As Mr. Roosevelt arranged that the President should have the appointing power to the membership of all these bodies, Mr. Truman now goes into office in his own right with the greatest power, opportunities and responsibilities that any Administration has ever possessed.

What About Taxes and Labor?

The Budget will need to be greater during the next few years, but it is entirely possible that adjustments can be made so that this could be accompanied by tax readjustments. For instance, it is possible that with some relief from the double taxation of dividends, more money would come into the Treasury. If such relief comes about, it could help hold up good divindend-paying stocks. There will be no reduction in the capital gains provision; but no further excess profits taxes need be necessary unless we get into war.

New York City is no place to make a forecast on the labor situation. Very few people here are willing to take a broadminded impartial view. My own feeling is that the New Truman Administration will try not to rock the boat one way or the other. It may ask for some correlation between increased wages and increased production. I know that Mr. Truman personally is interested in the "annual wage" idea, emphasizing the importance of "security" to the wageworker rather than "take home pay." However, the Taft-Hartley Act will be repealed or amended.

European Outlook Improving

Frankly, the election of last week here in the United States was much like the surprise election in England two years ago when the Labor Party there came into power. I doubt how long Mr. Marshall will continue as Secretary of State. General Marshall is a fine man, but he has never had previous experience negotiating. He has always been in a position where he could give orders and expect to have them obeyed. There will be other important cabinet changes.

The group that I worry about under the New Administration is the small businessman. With all the big pressure groups organized he will have hard sledding. His hope lies in better organization greater efficiency and harder work. He can hold his own with big business, dictatorial labor and selfish politics only by being willing to employ expert advice and cooperative buying. This especially applies to small independent merchants.

Dott With NY Office of Marine Trust Company

Andrew B. Dott has become associated with the Municipal Securities Department of the New York office of the Marine Trust Co. of Buffalo, 120 Broadway, New York City.

Mutual Funds

By HENRY HUNT

The "Wait and See" Habit

"How much money have you made by delaying the purchase of a security—waiting for it to decline to a lower price?

"How much money have you made by delaying the sale of a security—waiting for it to rise to a higher price?

"It is very tempting, when you are considering making a purchase, to put it off—to 'wait and see' if the price won't drop just a little more. And sometimes you wait until it is way past the price it was—but on the up side instead of the down.

"It is equally tempting, when you are considering making a sale, to delay just a little and see if it won't go higher. Sometimes it does. Sometimes it goes a little lower instead—and then maybe a whole lot lower.

Seriously, it might be well for you to sit down and figure out coldly and logically just how much money you have made and how much you have lost by waiting for a favorable price change. When you have totalled up all your gains and all your losses and found the net result—if you have broken even, you are to be congratulated.

"For no one can consistently guess which way the market will move next and how far it will go. And while it has its fascination—and may have a place in a speculative operation—this kind of guessing game has no place whatever in the very serious business of a long-term plan of putting your money to work.

"So—if you are on the point of employing your capital to institute not a gamble but an investment, and are inclined to delay a little—what are you really waiting for? Past experience seems to indicate that the time to employ it is now."—Quoted from "Keynotes," published by **The Keystone Company of Boston.**

Post-Election Market Outlook

"What is the probable future course of stock prices after the recent amazing and unprecedented (in our times) political upset? It was only natural that shocked disappointment caused an immediate sharp break as the panicky ones dumped shares indiscriminately. And, at least for the time being, Truman's election may have snuffed out the increasing investor-confidence apparent in the last month. It may effectively make businessmen and investors more cautious and timid.

"Nevertheless, the reasons for a good intermediate and longer-term outlook for stock prices are not importantly changed. The longer-term prospects for continued inflation are unchanged. We still believe that common stock prices will eventually reflect this trend, although the period of low visibility may stretch out for months. In other words, we do not consider that Truman's election alone will bring on a severe bear market.

"The current level of stock prices is not high historically, whether Republicans or Democrats are in the saddle. We still feel the same on this morning of Nov. 3. A 5% or higher return on best-grade stocks—especially when dividends amount to less than 40% of per-share earnings (compared with a normal 60-65%)—is an excellent one. Even a minor recession in business activity from this level should be no cause for worry. The election break may afford a fine stock-buying opportunity to those who can keep their heads.

"Gloom is wherever one wants to find it—but then, so is optimism and cheer. And we do not believe that the feeling of gloom induced by the Republican defeat will last very long. We caution investors against their tendency to use day-to-day and week-to-week events as an excuse for indecision. It is always easier not to act than to act, but negativism will not pay the kind of returns that common stocks pay today.

"Investment companies do not operate for the short-term as many individuals do, and so they are not so vitally affected by unexpected events. These managements do not buy or sell merely on the possible or actual outcome of an election. They make their investment decisions after experienced and due consideration of all the probabilities. Besides, investment companies offer the added protection of wide diversification and continuous competent supervision. It should surprise none of our readers to learn that the upset of the Republicans' apple-cart has not strengthened our conviction as to the many advantages of investment company shares."—Quoted from **Arthur Wiesenberger's** "Notes and Comments."

Accounting Practises

According to "These Things Seemed Important," issued by **Selected Investments Company of Chicago,** the "American Institute of Accountants has issued a statement opposing the use of net income figures which might mislead the public. There was a day when this would have meant the accountants opposed reports which indicated more was earned than should have been shown on a conservative basis. Without question, that still applies today. But we suspect the accountants are currently more concerned with a tendency on the part of many corporations to report earnings after deducting special reserves not recognized by the Internal Revenue Department. In numerous instances such reserves are being set up by corporate managements who fear inventory risks, or who recognize they can't replace plant and equipment at present costs out of the depreciation rates they are permitted to charge. In other words, the boys are getting too conservative to suit the accountants. Times sure change!"

D. G.'s Monthly Comment

"The common sense conclusion to be drawn from the election is that we are about where we were before it happened. The Administration which will conduct our affairs for the next four years has thoroughly aired its ideas before both a Democratic Congress (the 79th) and a Republican one (the 80th). These ideas are essentially inflationary. Hence it is reasonable to expect: (1) that the next government budget will be higher than the last; (2) that the money supply in the country will increase rather than decrease; and (3) in general that inflationary trends, including the trend toward higher wages, will continue.

"On the other hand, there is question as to whether the new Congress will go further than its predecessor in acceding to requests for price controls, allocation of raw materials and tax revision. There continue in the Congress generally, and in some key positions in Congressional committees, an important group of conservatives of both parties. It is too early to reach conclusions as to details, but future legislation would appear certain to be closed to the 'middle-of-the-road' than to the left.

"We see no reason to change our expectations that national income will be maintained at record levels, and that this will be reflected in continued high levels of business activity. Earnings and dividends should continue favorable and retention of common stock investments is fully justified."—Quoted from **Distributor's Group's** November "Investment Report."

Outlook for Aircraft Manufacturers

In the recent bulletin **Hare's Ltd.** quotes from "Barrons" as follows:

"The consensus in the aircraft industry is that, despite renegotiation, manufacturers may be allowed to keep as much as 7% to 8% of gross earnings after income taxes on the military orders on their books and on the business ahead in 1949, 1950 and thereafter. It is always possible that political considerations may tend to force this return down, but few manufacturers think it will go below 4%, at least in the next few years.

"Significant in this respect is the recent action by Douglas Aircraft Co. which doubled its dividend rate this year, from $2.50 per share paid last year to $5.00 per share. In the six months ended May 31, 1948, Douglas showed earnings of only $0.71 per share, while last year's operations showed a fiscal year deficit of $3.57.

"On the basis of the following rates of return, it is possible to estimate earnings in the first year of full production. For some companies that will be 1949, for others as late af 1950 or even 1951.

"In the tabulation below backlogs are obtained from available data, plus estimates of value of business not yet formalized by contracts, but which are in the 'letter of intent' promise stage. It is believed that these contracts are going to be made firm. The annual production is hypothetical, but an attempt has been made to weigh it in the light of known production possibilities."

Orders, Output, Probable Earnings of Plane Makers

Company	Approximate Backlog (000 omitted)	Approx. Max. Annual Output (000 omitted)	Approximate Earnings Per Common Share at 7% net	Approximate Earnings Per Common Share at 4% net
Boeing	$500,000	$200,000	$13.00	$7.40
Consolidated	200,000	90,000	5.40	3.00
Douglas	240,000	100,000	11.60	6.60
Grumman	150,000	70,000	4.90	2.80
Fairchild	85,000	40,000	0.90	0.50
Lockheed	225,000	95,000	6.30	3.50
Martin	120,000	50,000	3.00	1.70
North American	450,000	200,000	4.00	2.30
Northrop	100,000	40,000	6.20	3.50
Republic	90,000	40,000	2.85	1.60
United	400,000	200,000	4.80	2.50

Jas. R. McMaster With F. S. Moseley & Co.

CHICAGO, ILL.—James R. McMaster has become associated with the planned investment program department of F. S. Moseley & Co., 135 South La Salle Street. Mr. McMaster was formerly Secretary-Treasurer of Wilson, McMaster & Co. which is being dissolved.

Leimert-Kimball & Co. To Be New Firm Name

LOS ANGELES, CALIF.—Effective Dec. 1, L. W. Kimball will become a Vice-President in Leimert-Krieger & Co., 650 South Grand Avenue and the firm's name will be changed to Leimert-Kimball & Co. Mr. Kimball has been associated with the firm for some time.

1949 Building Construction

Thomas S. Holden of F. W. Dodge Corporation forecasts 7% less dwelling units than 1948, but some increase in public building and engineering projects.

Building and engineering volume estimates for 1949 just released by F. W. Dodge Corporation to construction industry factors indicate that moderate declines in physical volume of private residential and nonresidential building and moderate increases in public building and engineering projects are likely next year.

Thomas S. Holden

On the basis of present information available to the Dodge corporation, it appears that the number of dwelling units to be built next year will be 7% less than in 1948, bringing the total for the 48 states to approximately 884,000 from 950,000 units estimated for this year.

Other classifications of building for which declines are anticipated are: commercial buildings, 9%; manufacturing buildings, 15%; churches and other structures used for religious purposes, 19%; social and reacreational buildings, 14%.

It is expected, however, that there will be increases in educational and science buildings by 10% and in hospitals and institutional buildings by 11%.

In an analysis supporting the estimates, Thomas S. Holden President of the Dodge corporation, points out:

"According to our analys's, Election Day found the American economy at or near the peak of a postwar boom. While such inflationary aspects as vastly increased money income, shortages of many categories of goods and services, and rising prices, wages and cost of production and construction have been conspicuously present, the boom has been unique in a very important respect. It has not been accompanied by a boom psychology. There have been no significant speculative excesses in security prices, real estate or commodity inventories. This postwar boom has, therefore, not generated the forces that usually cause severe reversals. The sanity and cautious optimism of the vast majority of people have held inflationary forces in check while enormous production on farms and in factories has moved rapidly in the direction of balancing the supply of many goods and services with the enormous demand.

"Approximate market balance, with a tendency to lowered prices, has appeared principally in consumer goods lines: farm products, foods, hides and leather products, textiles and textile products. In most capital goods lines, deferred demands and backlog orders still prevail; this is reflected in the price trends of metals and metal products which continue to tend slightly upward.

"Similar mixed trends are reflected among the construction materials. Lumber has been plentiful and wholesale prices of lumber have been falling. Most other nonmetallic construction materials have been in adequate supply, with competitive pricing. Building products fabricated of metal continue in tight supply, tending upward in price, tending to limit total construction volume.

"The Democratic victory points to increased rather than decreased governmental action in economic affairs. There is likelihood of early legislation in the fields of public housing, public health, Federal aid to education, enlarged social security coverage. Federal expenditures for such purposes, added to the already high Federal budget, to increased military expenditures, to foreign economic aid and, possibly, to rearmament assistance to friendly foreign governments, would tend to create additional inflationary pressure on commodity prices and construction costs. However, actual expenditures for new social programs are not likely to be very large in the next calendar year.

"There will be battles in the 81st Congress between forces pushing for lavish expenditures and those aiming to hold the Federal budget in bounds. Consideration will undoubtedly be given to price control legislation. The election result increases the probability of further wage increases in key industries.

"On the basis of our appraisal of the climate in which the construction industry will function next year, our 1949 estimates indicate an anticipated decline in those nonresidential building classifications which are predominantly private: commercial, manufacturing, religious and social and recreational buildings. Bases of these anticipated reductions are the following facts: buying resistance is being felt in some of these lines already, equity financing has become increasingly difficult, mortgage credit has been tightened, confidence of many potential private investors has probably been shaken in some degree by the results of the national election.

"The same factors are likely to affect the volume of private residential building. The home builders responsible for record housing production in 1948 now rather generally realize the necessity of producing and offering for sale houses with lower price tags than those attached to a large proportion of the 1948 output. This will be particularly difficult of attainment if renewed inflationary forces should tend to further rises in material prices and building wage scales. A moderate slowing down of activity during part of the year would facilitate market adjustment.

"Needs for rental housing continue very great. Recent legislation may stimulate this type of activity. Even if the next Congress should authorize a government housing program involving subsidies, it may not be large enough or effective soon enough to offset probable decline in private building of single-family houses. We have estimated a moderate decline in single-family houses and apartment building equal to the 1948 rate, with the net effect of a moderate decline in total new dwelling units. Housing production, even at the reduced rate we anticipate, would go far toward ending the acute phase of the housing shortage.

"Educational buildings, hospitals and institutions, and public works and utilities projects, all seem likely to increase, in view of the status of authorized programs and appropriation commitments. Maintenance and repair work and farm building, which are not included in the estimates, are more likely to decline somewhat than to increase, we believe."

Firm Name Changed To Gaines & Co.

BIRMINGHAM, ALA. — The firm name of Gaines, Brodnax & Co., First National Building, has been changed to Gaines & Co. Walter B. Gaines is President of the company.

Private Enterprise and World Trade

By HON. CHARLES SAWYER*

Secretary of Commerce

Supporting slogan "Private Enterprise Can Do the World's Job," Secretary Sawyer reviews factors creating dollar shortage and exchange controls. Outlines what business and government can do to remedy situation, and advocates action by Americans to increase U. S. imports and to encourage foreign economic development. Says, in dealing with problem of world recovery, we must safeguard our domestic economy. Defends farm price supports and agricultural export program.

You have chosen as the central theme of your convention—"Private Enterprise Can Do the World's Job." I have a strong belief in private enterprise. I believe in its ability to maintain the capitalist system under which we live and to modify that system to meet our needs. I believe in its right to do so untrammelled by unnecessary bureaucratic restraints. In selecting your theme you have penetrated to the heart of the fundamental ideological conflict between communism and capitalism. You and I believe in capitalism. We are, however, not unaware that throughout recent years, and especially during the past three decades, there have arisen and stood before the world, strong advocates of the totalitarian theory. They have suggested that the government should do everything. Anarchists suggest that the government should do nothing. We feel that government is essential and that its functions must expand as the life of our people grows more complex. We place great power in government because we select those who govern us and reserve the right at will to change both those who do our government work and the policies under which it is done. I hope that we shall never stop discussing the proper allocation of the duties which belong to government and those which belong to business. The right of free speech about which we hear so much includes the right to discuss this matter and the right of businessmen to present their views.

Charles Sawyer

The world's job is big and it is complicated. There are some tasks which private enterprise cannot accomplish without governmental aid; there are others which, by their very nature, private enterprise cannot assume at all. Government and private enterprise each has its sphere. But they must work together. Our real task is to see that they work together for the common good.

I shall not attempt to discuss all phases of this problem of cooperation between business and government. At a later date I expect to discuss the division of functions between government and business as applied to our domestic situation. At this time I shall restrict myself to a discussion of the ways in which government and business can assume their several responsibilities in connection with the development of a sound and prosperous world trade.

Size and Difficulty of World Trade Problems

May I first point out the size and difficulty of the problem which confronts us.

Not so many years ago American businessmen could look upon international trade as a hunt for markets. It was almost that simple. When an exporter located his market and received an order the rest was easy. It made little difference whether he sold to China or to Chile. In either case he did not worry about such things as import permits, export licenses, exchange permits and quota restrictions. The term "dollar shortage" was unknown. Foreign currencies could be changed into dollars at relatively stable rates of exchange as a result of the continuous buying and selling of foreign currencies which went on in the great banking centers of the world.

The network of world trade which we knew in those simpler and happier days has been torn to tatters by a world-wide depression and two great world wars. Of these forces of destruction, the second World War was the most devastating. It changed everything. It destroyed and disrupted the production facilities of all of Europe. It placed a new emphasis on state trading and government controls. It changed the old patterns of trade and made the United States the supply center of the world. In 1938 the United States supplied 14% of all of the goods moving in world commerce. In 1947 our share had increased to 32%.

In the last three years before the outbreak of war in Europe the United States exported, on the average, $3 billion worth of goods each year, and goods imported into the United States during these same years averaged $2.5 billion. In the year 1947 we exported $15.3 billion worth of goods, nearly five times as much as we exported in 1938. At the same time we imported a total of only $5.7 billion worth of goods. Never before in any peacetime year have we seen such a huge excess of exports over imports. There was a time when this excess would have been called a "favorable" balance of trade. But export surpluses were known as favorable in the days when currencies were stable and when countries made up their deficits in international accounts by the shipments of gold. Today we have most of the world's gold and the American dollar has become in effect the international medium of exchange. With our products in demand all over the world, other countries have been forced to spend their dollars to buy our goods. The result has been that other nations have liquidated their holdings of dollar securities and other assets, and have been unable to export enough goods to us to replenish their dollar reserves. As their supply of dollars has shrunk, foreign countries have been forced to take drastic steps to prevent their own businessmen from spending their dollars for inessential goods. The result has been an unparalleled

(Continued on page 28)

*An address by Secretary Sawyer before the 35th National Foreign Trade Convention, New York City, Nov. 8, 1948.

Canadian Securities

By WILLIAM J. McKAY

The passing from the Canadian political scene of the Dominion's great Prime Minister, Mackenzie King, is not only a national loss but it also leaves a gap in the Liberal Administration that will be exceedingly difficult to fill. It is consequently of particular interest to note that, simultaneously with the formal retirement of the Liberal leader a new notable addition was made to the government ranks. On many previous occasions it had been reported that the newly appointed Dominion Minister of Justice Stuart S. Garson had been invited to join the Federal cabinet, but pressure of unfinished business in his own province of Manitoba had hitherto prevented his acceptance.

During his association with the government of Manitoba since 1936 this province has made remarkable progress, especially during the period when the new Minister of Justice directed its affairs as Prime Minister and Treasurer. Under his capable direction the Province of Manitoba made remarkable economic and financial progress. Deeply impressed by the disastrous impact on the prairie provinces of the drought and depression years of the early thirties, Mr. Garson successfully implemented a far-reaching policy of economic diversification. Today Manitoba is no longer solely dependent on favorable grain harvests, and a healthy balance is now maintained between agricultural, mineral and industrial production. In his capacity as Provincial Treasurer, Mr. Garson also achieved a notable reputation, and as a result of his efforts, the credit standing in this country of the Province of Manitoba registered a remarkable improvement. At the time of his assumption of office the province had the greatest difficulty in financing its indebtedness in this country. The new Minister of Justice can now relinquish his provincial duties with the knowledge that the credit of Manitoba now ranks with that of the leading provinces of the Dominion.

Mr. Garson's activities however have not been confined to the provincial field. He has also made his mark in national politics as the leading spokesman on behalf of the Western provinces and also as the principal advocate for the implementation of the recommendations contained in the Rowell-Sirois Commission report on Dominion-Provincial relations. The Manitoba Premier has long fought strenuously and eloquently for the general overhaul recommended in this report of the unwieldly anachronistic Canadian tax system. He has also urged the adoption of other Rowell-Sirois Commission suggestions that would go far to remedy many defects in the British North America Act, which is the basis of the Canadian constitution.

Thus the inclusion of Mr. Garson in the Dominion cabinet will ensure that the development of the Canadian West, on which the future of the Dominion so much depends, will not be neglected. In addition there is every likelihood that it will not be long before the existing deadlock created by the failure of the various conferences on Dominion-Provincial relations will be definitely broken.

During the week both the external and internal sections of the bond market remained steady but inactive. Free funds were slightly easier as a result of liquidation of the proceeds of the Nov. 15 bond redemption. Among the stocks the industrial issues followed to a lesser degree the downward course of the New York market before staging a moderate recovery. Western oils, however, still managed to make headway following the report of further Imperial Oil drilling success in the Redwater area of Alberta. A few junior golds also met with support despite a further decline of the senior issues. In general it is interesting to note that the Canadian markets during the recent sharp decline in New York displayed unusual independent resilience.

District 13 of NASD Gets Election Slate

The Nominating Committee of District No. 13 of the National Association of Securities Dealers, Inc., has presented the following slate to fill vacancies occurring as of Jan. 15, 1949:

Board of Governors: James J. Lee, Lee Higginson Corp., succeeding Herbert F. Boynton, Laird, Bissell & Meeds.

District Committee: Raymond L. Stitzer, Equitable Securities Corp., to succeed Charles L. Bergmann, R. W. Pressprich & Co.; Allen C. Du Bois, Wertheim & Co., to succeed James J. Lee; D. Frederick Barton, Eastman, Dillon & Co., to succeed George Geyer, Geyer & Co., Inc.; Stanton M. Weissenborn, Parker & Weissenborn, Newark, to succeed William C. Rommel, J. S. Rippel & Co., Newark.

Additional candidates may be nominated until Nov. 26. If no additional candidates are proposed, the candidates nominated by the Committee will be considered duly elected.

Members of the nominating committee were: Henry G. Riter 3rd, Riter & Co., Chairman; Irving D. Fish, Smith, Barney & Co.; Joseph S. Nye, Freeman & Co.; Stanley L. Roggenburg, Roggenburg & Co., and Joseph R. Mueller, Mueller & Currier, Newark.

J. P. Doehling Rejoins Gordon Graves & Co.

John P. Doehling has rejoined Gordon Graves & Co., 30 Broad Street, New York City, as manager of the municipal bond department. Mr. Doehling, who was formerly associated with Gordon Graves & Co. as municipal bond manager, has recently been with Kobbe & Co., Incorporated, in this capacity.

Economic Significance of Population Age Shifts

By J. C. CAPT*

Director, U. S. Bureau of Census

Analyzing growth and shifting of age groups in population, U. S. Census Director indicates industires making goods for older age groups will find their markets steadily growing, while those catering to young adults will find markets little changed. Cites record postwar birth rate as a factor "with implications" for business and industry in planning future operations.

The largest numerical increase in the nation's population was recorded between 1920 and 1930 after the First World War with a gain of a little over 17 millions. The increase between 1930 and 1940 was a little over half that of the preceding decade, being about 8.9 millions. Present estimates indicate that the gain in numbers during the decade ending in 1950 will be between 18 and 19 millions, a new record. The estimated total population of about 150 millions in 1950 compares with 131,669,275 persons enumerated in 1940.

J. C. Capt

The estimated population of the United States, excluding armed forces overseas on July 1 of this year, was 146,114,000, an increase since 1940 of 14,445,000 and a gain over July 1 of last year of 2,732,000. These increases are chiefly due to the span between births and deaths, immigration being only a relatively small factor since 1940. The nation's birth rate in 1947 was the highest rate ever recorded since the establishment of national registration records in 1915. The 1947 rate was 25.9 recorded births per 1,000 of the population. The death rate in 1947 was only 10.1 per 1,000 of the population. Both birth and death rates for 1947 are provisional rates announced by the National Office of Vital Statistics.

An extensive sample survey of the population of the United States made in April, 1947, by the Census Bureau has yielded some interesting information on shifts in the nation's population. This survey revealed a continuing trend from the farms to the cities and the rural nonfarm areas. While a decline of about 9½% in the farm population was indicated, the gain in the urban population was about 12½% and the gain in the rural-nonfarm population was nearly 14½%.

It is interesting also to note population shifts between various sections of the country as indicated in analyses of the April, 1947, survey. This survey showed that in the seven years which encompassed the World War II period, about 70 million persons moved from the homes in which they were living at the time of the 1940 census. Of these 70 million people, about 44 million moved from one house to another in the same county, but 13 million had changed counties within the same state and 12 million had changed their state of residence. In comparison, about 52 million still lived in the same dwelling they occupied in 1940. A large part of the shifting of the population came during the war years and another reshuffling came after the war when many millions of people moved for reasons connected with their jobs and other millions because of reasons directly or indirectly relating to housing conditions.

Since 1940, there has been a continuation of sharp population gains in the Pacific Coast States due in part to westward population migration and in part to natural increase. California as of July 1 of this year had joined New York and Pennsylvania in the select circle of states with more than 10 million population. For the West, combining the Pacific Coast and Mountain States, the estimated gain since 1940 is about 33%, while the South had the lowest percentage gain with only about 6%. The North Central States have gained about 9% and the Northeastern States about 8% according to estimates.

Because of the marked upward trend during the 1940-1950 decade, demographers may be compelled to revise their predictions that the United States population will level off by 1990 at about 164.5 million and begin a slow decline thereafter. Barring unforeseeable factors, this leveling off and decline may be postponed to the early decades of the Twenty-first Century. It will not do to try to look too far into the future. Too much can happen to upset the scheme of things.

A look as lesser statistical distances can be taken with greater confidence. It is interesting, for instance, to trace the effect through the ensuing years of the increased birth rate and lowered death rate during the present decade.

When schools opened in the fall of 1947, there were estimated to be a little more than two and one-half million school children of the usual age to enter the first grade. This was an increase of 350,000 over 1940. In September of this year, there were 300,000 more than last year, an estimated total of about two and three-quarter millions. By September, 1953, this annual total of first-year school children will be almost a million greater than today with a 1953 total of about three and three-quarter millions. This will result from the increased number of births which occurred during the war and after. Following 1953 there is likely to be a decline. In the late 1950's and early 1960's, the number of prospective first graders may range from two and a quarter millions to a little over two and three-quarter millions. This will depend on how economic conditions and other factors influence the birth rate. The crest for youths entering junior high school, a little under three and three-quarter millions, will come in the fall of 1959. By 1962, this crest will bring about 3,700,000 into the senior high school freshman group. The story will repeat itself for college years. These fluctuations in school population mean that Federal, State and local authorities must prepare to meet needs of these various groups with adequate school buildings, qualified teachers and appropriate health programs and related community services. They have their implications too for business and industry in planning future operations.

By 1965, the number becoming 18, at which age very large numbers of young people join the labor force, will be nearly three and three-quarters millions or about one and one-half millions more than in 1947. The 18 to 44 group, the best working age in most occupations, will probably increase only slightly over its present size of about 60 millions by 1960 unless immigration changes the picture. Persons 45 to 64, the older working ages, numbered nearly 30 million at the beginning of this year and additional gains of four to five millions are considered almost certain by 1960. These facts are of vital importance to both employers and labor leaders, as well as government.

By 1966, males aged 20 to 25 and females 18 to 23, the ages at which most first marriages are made, will number about 16 millions, as compared with about 14 million today. Consider the effect these changing numbers will have on demand for housing, for household effects, for other things that young married couples buy in their first venture into setting up their own homes.

The largest rate of increase, however, will be among the older-age group. Today there are about ten and three-quarter million persons 65 and older. In the next 12 years the increase in their number will be at least three million.

The indicated greater increase over the long term in population of middle and elderly ages over the younger adults and children will have a profound effect on demand for products of industry. Those who cater to needs and tastes of young adults will find their market little changed in size, but those who give their attention to goods for older groups will find their market steadily growing.

Here are some other observations demographers have made:

The 40 million families of today will grow in number to between 43 and 47 million by 1960. The number of families will increase during the next 15 years at a higher rate than total population chiefly because increased births of the World War II period will bring increased marriages.

The sex ratio is likely to show little change from the present but, without substantial immigration, the present small excess of females may increase slightly.

The proportion of foreign-born will decline greatly unless immigration is considerably increased.

The ratio of non-whites to whites will increase slightly, but substantial immigration will contribute to maintenance of the present ratio.

What is to be done when these changes come into full effect during the next two generations? Suppose, as is predicted, we have within 30 more years a phalanx of 60 million men and women over 45 years of age. Consider, at the same time, the impact of continued technological improvement, the harnessing of atomic power, increased industrial production in all parts of the world. How will these oldsters be kept occupied if all the jobs go to the younger groups whose numbers may be enough to operate our factories, businesses and farms? Will our old-age security system carry such a load? Here is something to which social scientists and the governmental agencies must give their attention.

But the population problem is bigger than the United States alone. We still have room within our boundaries for population increases and will have for some time to come. How long we will be able to feed ourselves and much of the rest of the world as we now are doing is another matter. It is estimated that within our bounds are 1,600,000 square miles, or about one billion acres, of potential cropland. This is about one-fourth of the world's

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*Part of an address by Mr. Capt at the Cooper Union Forum, New York City, Nov. 9, 1948.

Sees Endurance Limit Reached in Cost of Govt.

F. E. Schluter, Chairman of Committee on Federal Expenditures of National Association of State Chambers of Commerce, says per capita tax bill of $420 is for first time higher than per capita food expenditure of $360. Sees danger in octopus-like spread of Federal bureaucracy.

F. E. Schluter, President of Thermoid Company, addressing the annual meeting of the Directors of State Chambers of Commerce and New Jersey state officials recently stated: "Cost of government has about reached the financial endurance of the people, taking 30 cents of every dollar income for Federal, State and local taxes."

Frederic E. Schluter

Mr. Schluter, who is Chairman of the Committee on Federal Expenditures of National Association of State Chambers of Commerce, said that "in 1947 the tax bill of $420 per capita of this country for the first time was higher than the $360 average cost for food per person."

"Nevertheless," he declared, "the high cost of food gets front page headlines," adding—"it is desperately necessary to cut Federal government expenses now, to make government more solvent in the event of war or depression."

"We don't have the fat on our bones that we had in 1941 to wage a possible war," he pointed out. "Today almost 70% of banks' resources are invested directly or indirectly in government bonds, so there is a limit as to how much more the government can borrow."

"Even the big spenders — the central government theorists who favor the welfare state," he said, "recognize the need for low Federal expenditures during full employment in order to build reserves for public works during a depression."

"Over 85% of Federal government income derives from personal and corporate taxes and excise taxes," Mr. Schluter disclosed. "If business activity declines, and we have a depression, this government income can shrink $15 billion at a time when government needs more revenues for relief and public works projects to aid employment."

"Who in our national government will have the courage then to stand up and reduce government expense in line with reduced government income?" he asked.

Decrying the cancerous growth of Federal government, Mr. Schluter stated that the most inflationary cause of increased prices in this country is taxes. "We have more inflation in government than in living costs. While the cost of living is up 80% in eight years, the cost of Federal government is up 450%."

He saw cause for alarm in the octopus-like spread of Federal bureaucracy, saying — "The vast army of Federal employees has now reached 2,150,000, and is still growing. While productive enterprise is short of workers, the Federal government continues to hire at the rate of 500 employees a day."

As specific examples of the waste in Federal government, Mr. Schluter pointed to the fact that the government buys 3.6 typewriters for every typist; maintains 22 separate agencies concerned with housing. Its present $42 billion budget is more than 5 times 1939's, 12 times 1930's, higher than last year's and shows continuing upswing.

"It is hard to believe, "he stated, "that this budget is actually more than 3,500 times the cost of the Civil War and more than the cost of World War I."

Mr. Schluter said that this dangerous and alarming peacetime growth of our Federal government encourages further dependence of the people on government and nurtures the philosophy that the "government owes us a living!"

Governor Driscoll of New Jersey, who spoke at the same meeting, praised the work of the National Governors' Council which is seeking a return of tax authority to the State in many categories.

"If you examined your local tax bill you will find they have increased less than 100% in 15 years in many communities, while the Federal bill has gone up 900%," Governor Driscoll stated. "This is the best evidence of the influence of neighborhood control."

Mr. Schluter said there is need in this country for marshalling public opinion through a "grass roots" movement of American people in an effort to cut wasteful Federal spending. He said he believed this could be achieved through a program of publicity and education.

The next two years before the Congress election will provide the opportunity for such a campaign of "public enlightenment," Mr. Schluter stated.

"We have a chance to set forth the principles," he declared, "It is our obligation and duty to do so."

"If the storm warnings are ignored but prove true in fact, there will be a rallying point to which the public can turn."

"We owe this effort to our country; we owe this effort to our heritage," he said, adding that the National Association of State Chambers is dedicated to a difficult struggle in its fight to reduce Federal expenditures and curb "big government," but that it is ready for the challenge. "True greatness emerges from struggle. Constructive leaders in the history of the world were born of crises and rose above chaos to lead the people to victory," he concluded.

Robert H. Huff Is Officer of Blair Co.

Blair & Co., Inc., 14 Wall Street, New York City, announces that Robert H. Huff has been elected a director and Vice-President. Mr. Huff, will set up and direct a bank and insurance company stock department for the corporation and will divide his time between its East Coast and West Coast offices. He formerly was President of Butler, Huff & Co. of California and senior partner of Huff, Geyer & Hecht of New York, both specialists in bank and insurance company stocks.

Funds Available for Interest Payment on Panama Bonds

The National City Bank of New York, as fiscal agent, is notifying holders of Republic of Panama 35-year 5% external secured sinking fund gold bonds, series A, due May 15, 1963, that funds have been received and are now available for distribution as an additional payment on account of the interest represented by the May 15, 1943, coupons in the amount of $4.28 for each $25 coupon and $2.14 for each $12.50 coupon. Such distribution will be made at the office of the fiscal agent, 22 William Street, New York City.

The ECA and American Agriculture

By W. I. MYERS*

Dean, College of Agriculture, Cornell University

Dean Myers, though stressing increased agricultural output in U. S. during last three years along with improved food production in Western Europe, foresees large American food exports for two years or more to meet European deficit. Holds world outlook for adequate food supplies is not bright but predicts gradual increase in production through slow but sure methods of research, education and irrigation. Looks for more poultry and meat in U. S. next Summer and Fall.

Everyone was too optimistic regarding the recovery of world food production after this war. It was assumed incorrectly that if this country could meet the emergency needs of other countries for one winter the production of food would increase quickly to prewar levels as it did after the first World War. Unfortunately, this time it didn't work out that way.

W. I. Myers

In the first place, this second World War was really a world struggle which involved the Far East as well as all of Europe and North America. In Europe more territory was involved and much greater destruction occurred, especially of factories, homes, and railroads. As a result there was great demoralization of industrial production with consequent decreases in the production of fertilizers and farm machinery that are essential in modern farm production.

The sixteen nations of Western Europe plus Western Germany were a deficit food area before the war and were the final destination of most of the world exports of food. About a third of the calories consumed in those countries were based on imports. In the five years before the war agricultural imports averaged each year about 25 million tons of grain, about 5 million tons of oil cakes, some 3 million tons of fats and oils, nearly 4 million tons of sugar, and more than 1½ million tons of meat. Of this supply of grains something like 5 million tons came from Eastern Europe, including Eastern Germany that is now within the Iron Curtain. Most of the remainder came from overseas—Canada, the Argentine, Australia and, of course, this country.

Even with favorable weather in 1946, the food production of Western Europe, especially of food grains, was only about 80% of prewar, because of the shortage of fertilizer, machinery, labor, and almost everything else. As a result of the destructive Winter of 1946-47, and the drought in the following Summer, the worst in many decades, 1947 wheat production was less than two-thirds of the prewar level and yields of other crops were reduced seriously. The result was an extremely critical world food situation—in spite of the largest wheat crop that had ever been harvested in the United States. Heavy demands were made on this country to keep Europe from starvation.

With full employment at high wages there was great danger of feeding too much of our wheat to livestock because of the demand for meat and the shortage of corn. The drought in the Summer of 1947 reduced United States production of corn nearly a billion bushels below the previous year and of other feed grains severely. At the same time the people of this country were consuming about 30 pounds more meat per person than before the war.

The livestock industry of American farms not only transforms pasture and forage into highly nutritious foods but also condenses four-fifths of our corn and other feed grains into meat, eggs and milk. Livestock also serves as a great shock absorber to minimize the unfavorable effects of short crops on our food supply. The most effective method of storing unusually large grain crops is by increasing livestock so that when unfavorable weather results in reduced crops the excess animals can be eaten to bring numbers down to the available feed supply and if necessary, release grain for direct human consumption.

Under normal conditions the natural procedure would have been to use two or three hundred million bushels of extra wheat from this bountiful 1947 crop to make up part of the deficiency of corn and thus reduce the liquidation of livestock. At that time, however, every bushel of wheat that could be spared above our direct human use was needed to make good the world deficit and to avoid severe suffering if not actual starvation in Europe.

In the United States this food crisis was met by a vigorous program of buying wheat early in the Fall of 1947 to meet human needs first. This resulted in raising the price of wheat above the price of corn to discourage the feeding of wheat to live stock. At the same time nation-wide programs were carried on to appeal to farmers to minimize wheat feeding and to consumers to economize voluntarily in the use of meat and livestock products so as to soften the impact of the reduced supply on the cost of food and on the entire domestic economy.

Effects of Feed Shortage

The first effect of this feed shortage was to increase the supply of meat for consumers because of the selling off of breeding flocks and herds to bring their numbers down to the level that could be supported with reduced feed supplies. In addition animals being fattened for market were sold more quickly because of the scarcity of corn and other feeds. As a result many consumers undoubtedly felt that the program of voluntary economy recommended by the Citizens' Food Committee was an unnecessary interference with their personal food habits.

With feed scarce and at extremely high prices United States farmers were forced to make substantial reductions in baby chicks and in pigs raised in the Spring of 1948. These meat supplies normally move to market in the Summer and Fall and the reduced amounts available have been responsible for the scarcity and high prices of meat and other

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*An address by Dean Myers before Academy of Political Science, New York City, Nov. 10, 1948.

Analyzes Postwar French Economy

Dean G. Rowland Collins, Director and Dr. Marcus Nadler, Research Director, of Institute of International Finance of New York University, point out French reconstruction progress since war's end has not been sufficient to overcome flames of inflation fanned by chronically large budget deficits and shortages of commodities. Say Marshall Plan aid has helped, but real problem is political rather than economic.

The real problem of France today is political rather than economic in character, according to a Bulletin on "The Postwar Economy of France," issued Nov. 15 by Dean G. Rowland Collins, Director, and Dr. Marcus Nadler, Research Director, of the Institute of International Finance of New York University.

Geo. Rowland Collins Dr. Marcus Nadler

Although throughout the economy, there is a serious gap between the demand for and the supply of goods, and the price-wage spiral still continues upward, signs of progress are in evidence, the Bulletin stated.

Aided by a lengthening of the working week and by the increased supply of raw materials and machinery furnished under the Marshall Plan, a number of heavy industries have increased productivity to above the prewar level, while railway freight traffic is now well beyond that level.

The better grain crop promises a more abundant food supply, thus reducing the inflationary pressure as well as the need for imported food, the Bulletin continues. Efforts are being made to balance the budget by increasing taxes and improving collection methods, reducing the number of government employees, increasing the efficiency of state enterprises, and overhauling the military establishment. If these measures should prove successful and continued progress is recorded in eliminating the worst production bottlenecks, particularly the shortage of coal and steel, a good start will have been made in removing the basic causes responsible for France's economic difficulties.

Nevertheless, the Bulletin continued, France, despite her notable recovery from the enormous devastation caused by the war, is still beset by many acute economic problems. Being deficient in fuel and raw materials, she has to rely on imports to a considerable extent to operate her industries. Although formerly an exporter of food, she has been compelled to import large quantities of foodstuffs. Because of the slowness in restoring exports, however, it has been impossible to import needed goods in adequate quantities. The European Recovery Program has greatly alleviated this situation.

"Another acute problem, and one which has contributed materially to the internal political difficulties, is the inflationary race between prices and wages, with the former consistently outrunning the latter. The scarcity of goods was aggravated by the disastrous grain crop failure in 1947 and by the withholding of commodities from markets because of the constantly declining purchasing power of the franc. This situation increased black-market operations and, despite rationing and official controls, raised the cost of living, causing repeated demands for higher wages and frequent strikes.

"The flames of inflation have been fed by the chronically large budget deficits financed largely by borrowing from the Bank of France. Important causes of the deficits have been the huge expenditures for military purposes, the losses incurred by the nationalized enterprises, and the subsidies paid to food producers and state industries in order to keep down the prices of their products and services. On the other hand, the antiquated tax system has led to widespread tax evasions, particularly among the farmers.

"The shortage of commodities and the high prices have hampered the growth of exports to pay for the enormous imports. This has created large deficits in France's international balance of payments, particularly with the dollar area. These deficits have been met by drawing on the nation's gold and foreign-exchange reserves, by liquidation of assets abroad, and by large foreign grants and credits, particularly from the United States Government. Next to the United Kingdom, France is the largest recipient of American aid under the Marshall Plan. Formerly one of the largest holders of gold, her gold reserves and foreign assets have now been badly depleted and the European Recovery Program is relied on to furnish urgently needed supplies from abroad. To stimulate exports and to encourage dishoarding of gold and repatriation of French capital, the franc was drastically devalued in 1948 and a free market in gold and in dollars, escudos, and Swiss francs was established."

In analyzing the balance of payments, the Bulletin stated that the deficit on international current accounts for the years 1946 and 1947 aggregated 433 billion francs or approximately $3,638 million.

"In both years the deficit on invisible items averaged approximately $255 million, the principal items being freight, administrative expenses, and remittances of foreign workers employed in France. Income from tourism, which before the war was a major source of foreign exchange, totaling $340 million in 1929, amounted to only $22 million in 1946 and $60 million in 1947. For 1948 the foreign-exchange earnings from tourism were officially estimated at over $150 million."

The deficit on current account in 1946 and 1947 was increased by a net reduction in foreign-capital assets of 26 billion and 12 billion francs, respectively, accounted for principally by contributions to the Bretton Woods institutions, repayment of foreign loans, and export of capital. This brought the total debits to 270 billion francs ($2,268 million) in 1946 and 201 billion ($1,688 million) in 1947. For the three years 1945-1947 they amounted to $5,512 million. In 1946 the debits were covered to the extent of a half by drawing on the gold and foreign-exchange reserves and privately owned foreign assets while the remainder was met principally with foreign loans and credits, particularly from the United States. In 1947 foreign credits and investments to the amount of $1,184 million made up 70% of the total charges and reduction of reserves and assets abroad 30%.

In 1947 about 90% of the entire deficit in the balance of payments was incurred in the dollar area. The deficit was made up largely by credits received from the United States Government and in part by the reduction in gold reserves and in private dollar assets of France in the United States. From July 1, 1945, to the end of 1947, loans and grants by the United States Government to France totaled $2,323 million. In the 15 months ending March, 1949, France will receive additional $1,300 million in interim and Marshall Plan aid.

Because of the chronic deficit in her international accounts, the gold and dollar reserves of France have shrunk rapidly in the past few years. The declines in dollar balances amounted to $223 million in 1946 and $100 million in 1947, bringing the holdings at the end of 1947 to $195 million. The loss of official gold and dollar balances together in 1946-1947 was $1,325 million, the largest sustained by any nation and constituting a loss of 64%.

The gold reserve of the Bank of France calculated at $35 per ounce decreased from $2,714,000,000 on Aug. 31, 1939, to $548,000,000 on Oct. 14, 1948, representing a loss of four-fifths of the reserve. Of this amount about $104,000,000 of gold was pledged with the Federal Reserve Bank of New York as collateral for a short-term credit. The ratio of unencumbered gold to note and deposit liabilities declined between these dates from 59.42% to 4.92%. In the same period the note circulation rose from 142 billion francs to 915 billion francs, i. e., a more than sixfold increase.

In discussing credit control, the Bulletin stated that by a recent decree banks are required to obtain prior approval of the Bank of France for extension of credit to individual borrowers if the latter's total indebtedness to banks would exceed 50 million francs. The regulations promulgated by the National Credit Council stipulate that loans should be scrutinized with a view to granting credit for essential productive purposes and refusing loans for speculative purposes and where borrowing could be avoided by liquidating excessive inventories, selling surplus assets and repatriating capital. The banks were also instructed to analyze loan applications from the standpoint of security, liquidity and profitability. The Banking Control Commission requires commercial banks to maintain a minimum ratio, at present 60%, between the total of their short-term liabilities and the amount of their liquid and realizable assets.

Paul Cleveland With Newey-Ayers Firm

CHICAGO, ILL. — Paul W. Cleveland, a veteran in investment banking in Chicago, has become associated with the Newey-Ayers Organization, 608 South Dearborn Street, counsel in corporate, financial and stockholder relations.

Mr. Cleveland, law graduate at Northwestern University, entered the investment field in La Salle Street in 1908 and continued actively in that business until 1942. In that year, he became renegotiator of war contracts for the Corps of Engineers, Great Lakes Division. Since 1946, he has engaged in private practice as financial consultant.

National City Bank Named Agt. for Copenhagen Bonds

The National City Bank of New York has been appointed successor paying agent in New York for the city of Copenhagen 4½% external loan of 1930 bonds, due Dec. 1, 1970.

With Penington, Colket

PHILADELPHIA, PA. — Penington, Colket & Co., 123 South Broad Street, members of the New York and Philadelphia Stock Exchanges, announce the association with them of John C. Martin as a registered representative.

Notes Growth in Business Failures

Cleveland Trust Company reviews data of commercial bankruptcies in last three years and reveals renewed competition, induced by end of war activities, has given upward trend to commercial insolvencies

According to the current issue of the "Business Bulletin," published by the Cleveland Trust Company, Cleveland, O., "in 1945 the number of business failures was almost the lowest on record. Since then the number has been growing, although it is still far below the prewar level. Competition has become keener, at least in those industries where deferred demand has been largely eliminated. With the return of peacetime competition a rising trend in failures is not abnormal, but is in accord with past experience after earlier wars."

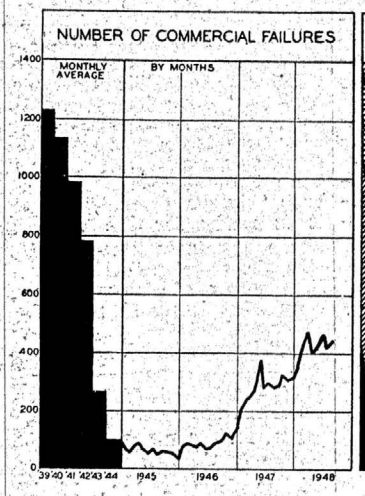
Continuing the "Business Bulletin" states: "The records on commercial failures, as compiled by Dun and Bradstreet, Inc., extend back to 1857. The most notable characteristic of this long series is the sharp decline during each major war, followed by a postwar advance. This V-shaped pattern is clearly defined during and after the Civil War, World War I, and World War II. It is noticeable to a lesser extent in the Spanish-American War.

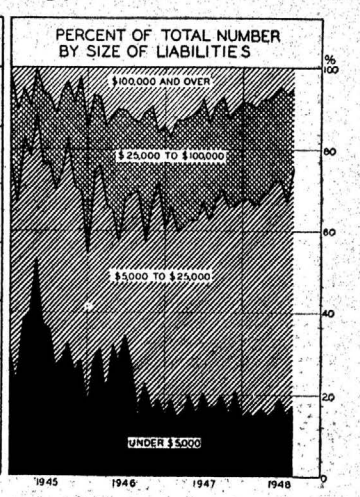
"The reason why so few businesses become bankrupt during war is simply that the war demand for goods is so great as to reduce competition to a minimum. Even the weakest firms have enough orders to keep most of them in operation. When real competition appears after war activities are ended, the curve of business insolvencies begins to turn upward.

"In the diagram at the left below, the bars represent the monthly average number of commercial failures for each year from 1939 through 1944, and the line represents the number by months beginning with 1945. The right-hand diagram shows the percentage of the total number of failures according to the size of firms, broken down into four size-groups. The data for this diagram are plotted by months commencing with December, 1944. All figures are those published monthly in Dun's Statistical Review.

"The first diagram reveals that while the number of failures has increased to around 400 or more per month, it is still less than half of the 1939-1941 average. For 1939 the monthly average was 1231. The percentage drop during World War II was the largest for any war period, for in 1945—the low year—the monthly average reached the remarkably small figure of 68. The series on failures is not strictly comparable throughout, due to changes in methods of compilation; but on the basis of the totals as recorded, one must go all the way back to 1865 before finding a year when failures were less than in 1945.

"The second diagram shows, for the smallest firms, a more favorable comparison thus far than might have been supposed. Since September, 1946, commercial enterprises with liabilities under $5,000 have accounted for less than 20% of the total number of failures, a much lower ratio than in 1945 and the first nine months of 1946. The proportion of failures in the next group, with liabilities of $5,000 to $25,000, has increased noticeably. No pronounced change has taken place in the two groups of larger firms, although when combined they have accounted for a slightly greater share of total failures in 1947 and 1948 than in the two preceding years."





IBA Convention Will Consider Current Financial and Economic Problems

CHICAGO, ILL.—The Thirty-Seventh Annual Convention of the Investment Bankers Association of America, to be held at the Hollywood Beach Hotel, Hollywood, Fla., Dec. 5 to 10, will be devoted to a consideration of the financial and economic problems of the moment, including the national defense program as well as questions directly pertinent to the investment banking industry.

In addition to the address by Julien H. Collins, Julien Collins & Co., Chicago, President of the Association, and the reports of the National IBA Committees, the following guest speakers will participate in the program:

General Robert L. Eichelberger, Commander of Allied and U. S. Occupation Forces in Japan (Assistant to General Douglas MacArthur).

Clarence B. Randall, Assistant to the President, Inland Steel Company.

Dr. Marcus Nadler, Professor of Finance, New York University.

Another interesting feature will be a panel discussion, "The Financial Press Views the Investment Banking Industry," sponsored by the New York Financial Writers Association, which will give all representatives of newspapers and magazines, as well as delegates, a chance to participate.

Following shortly after the national election, the deliberations will, according to Mr. Collins, provide an excellent opportunity for an appraisal of the economic outlook and for an interpretation of fundamental financial trends in the light of the ballot results.

W. C. Gibson Co. Now Chicago Exch. Members

CHICAGO, ILL.—W. C. Gibson & Co., 231 South La Salle Street, has been admitted to membership in the Chicago Stock Exchange.

Britain's Steel Nationalization

By PAUL EINZIG

Holding Bill to nationalize British steel industry is more drastic than originally intended, Dr. Einzig contends Labor Government is acting unconstitutionally in taking over large part of engineering industry as this was not voted upon by the electorate. Says measure does not provide for fair compensation to mill owners.

LONDON, ENG.—The long-awaited Iron and Steel Bill has now been published. It confirms forecasts that the government means to acquire all large steel firms, that the outward form of these firms would remain unaffected by their nationalization, and that all subsidiary companies controlled by the nationalized firms would come under indirect but none the less effective government control. In other words, in addition to nationalizing the iron and steel industry, the government is going to nationalize a very substantial part of the engineering industry and more or less substantial parts of various other steel-using industries. The dividing line between firms which are to come under government control and those which are allowed to remain privately-owned has been drawn rather arbitrarily. If an engineering firm owns a steel-producing firm then the latter is nationalized but not the former. If, on the other hand, it is the steel-producing firm that owns the engineering firm, then both are to be nationalized. Yet the argument for and against divorcing the engineering firm from the steel firm are exactly identical in both cases.

Dr. Paul Einzig

In itself the nationalization of the steel industry arises from the verdict of the British electorate at the general election of 1945. The Labor party clearly declared its intention to nationalize steel and, whether because of this or in spite of this, the majority of the electorate voted in favor of a Labor Government. But, while the government has undoubtedly a mandate for nationalizing steel, it is legitimate to question its right to go so far as it intends to do. The method chosen is also open to legitimate criticism.

Originally the government did not intend to go nearly so far in steel nationalization as it is now going. According to the Bill drafted by the former Minister of Supply, Mr. John Wilmot, in 1947, only firms which manufacture steel for sale were to be nationalized, those producing steel for their own requirements would remain in private hands. This would have meant that a very large section of the steel industry would have remained privately-owned, even though its continued steel production would have been subject to license. Moreover, a very large part of the engineering and other subsidiary industries which now come within the scope of the Bill would have escaped nationalization. The terms of that Bill did not satisfy the Left wing of the Labor party and Mr. Wilmot was replaced by Mr. George Strauss, under whom the Ministry of Supply produced the present Bill.

Clearly, the government is acting unconstitutionally in nationalizing a large part of the engineering industry. Under British constitutional practice a government is not supposed to adopt highly controversial measures of importance unless it is authorized to do so by the electorate. Nothing was said in the Labor party's electoral program about nationalizing engineering industry and the various other industries parts of which will come under state ownership when the present Iron and Steel Bill is adopted.

Nor is this the only respect in which the government is departing from the mandate received from the country. The Labor party's program endorsed by the electorate provides for fair compensation to owners of nationalized properties. Yet in the present Bill, as in all but one nationalization Bill, compensation is based on Stock Exchange quotations. It is a generally accepted fact that the value of the assets to be acquired under the Iron and Steel Bill is well in excess of the Stock Exchange prices of equities and bonds of the firms to be acquired. For one thing, quotations are low owing to the voluntary limitation of dividends. Nevertheless, there can be no doubt that the Bill will be passed in spite of the unfairness of the compensation clauses.

The attitude of American holders of stocks and bonds in British iron and steel companies is awaited with great interest on this side. Under the Marshall Aid pact the British Government has given an undertaking that if American property is nationalized the owners must receive fair compensation. It is considered here probable that the American interests involved will take the necessary steps to ensure that as far as they are concerned the compensation should be equal to the full value of their share of the firms concerned, and not merely the stock exchange value. It is difficult to see how the British Government could refuse demands to that effect. And if it is accepted, the discrepancy between compensation paid to British and American interests for the same stocks and bonds would make it quite plain that the former do not receive a fair price for their nationalized property.

It is in order to avoid major difficulties of this sort that the Bill excludes Ford's British branch factory from the list of firms to be nationalized, in spite of the fact that this factory produces considerably more steel than the limit of 20,000 tons a year fixed in the Bill. There are, however, other American interests in British steel firms besides Ford, and it was impossible to devise a formula under which all of them could be left out of the Bill.

While it is a matter of opinion whether the government is right or wrong in nationalizing steel, opponents of nationalization have a genuine grievance on the ground of the departure of this Bill from the mandate received by the government from the electorate. It is largely for this reason that steel nationalization is likely to play an important part in the next general election.

Joffe to Manage Purcell Co. Dept.

Edward A. Purcell & Co., 50 Broadway, New York City, members of the New York Stock Exchange, announce that Alexander E. Joffe has been appointed manager of the customers' brokers and new business department. Mr. Joffe has been with the firm since 1947.

Women Shareholders Elect Officers

The election of officers following the first annual meeting of the Federation of Women Shareholders in American Business, Inc., held in New York City, is announced.

Mrs. Wilma Soss, founder of the Federation, was elected President; Hon. Ruth Bryan Owen Rohde was elected Vice-President; Mrs. G. Roebling, Chairman of the Trenton Trust Company, was elected Treasurer; Eleanor Bayuk Green, Secretary. All were members of the Board of Trustees. Mrs. Hortense Odlum, who for 10 years was president of Bonwit Teller and Chairman of the board, was elected a trustee.

The FWSAB is a nonprofit, nonpolitical membership association. It is the official organization of a feminine movement to use their economic suffrage which is the logical outgrowth of the women's political suffrage movement in a country where women own 70% of the privately held wealth.

It was born at the 46th Annual Stockholders' Meeting of United States Steel Corporation when Mrs. Soss, a small stockholder, in a David and Goliath move called upon "Big Steel" for representation of women's ownership on the Board of Directors of a company where there are 11% more women stockholders than men. This move, coupled with the announcement of the founding of a federation of shareholders created wide attention in the national press. The London "Telegraph" called long distance as did the Toronto "Star."

This organizes for the first time a group solely of women who have an economic stake in American private enterprise. Under a charter granted in October, 1947, in New York, said to be an historic one, shareholders in American business cover stock or bondholders, bank depositors, insurance policy holders or beneficiaries, business or professional women—even consumers—all of whom are eligible in the Federation.

The Federation is financed only by women.

The purposes of the Federation are economic enlightenment for women in woman's language so as to enable women to exercise their economic franchise more intelligently and effectively—

(1) To improve the status of women;

(2) To preserve private enterprise for their children and make it more productive, particularly of human satisfactions—in our time;

(3) To work towards world peace, since economics more than politics determine peace or war;

(4) To counteract those forces whether communistic or reactionary, which undermine the welfare and security of the family.

Among the goals of the Federation are more qualified women on administrative and advisory boards and more job opportunities for women in the executive personnel with equal pay rank, authority and responsibility in companies financed by women's money.

No estimate of the size of the membership was given, but there are 6,000,000 women stockholders with voting rights in the United States.

Among those attending the first annual meeting was Mary Ritter Beard, Historian, and it was opened by Rev. Helen Fisher Congregational Minister, of Bloomingrove, N. Y.

Elected Directors

C. Comstock Clayton and Edmund Blair Hawley, President and Vice-President, respectively, of Clayton Securities Corp. have been elected directors of Jarrell-Ash Co., Boston., manufacturers and distributors of scientific instruments.

Proposes New Moves To Combat Communism

Frank T. Ryan, Bache & Co. partner, and President of World Commerce Corporation, makes suggestions for revising ECA and for including Spain in recovery program.

Frank T. Ryan, partner of Bache & Company and President of the World Commerce Corporation proposes a series of economic and political moves designed to more effectively combat communism and to strengthen the free enterprise system on a global basis.

One important step in the direction of accomplishing this, he declared, is to revise the method of administering ECA, or the Marshall Plan, which he said was going directly counter to the principles of free enterprise. There was grave danger, he added, that bureaucratic governments would be the beneficiaries of our billions instead of the industries of the nations being aided.

Frank T. Ryan

Mr. Ryan, who recently recently returned from an extensive tour of Europe, spoke before a meeting in New York of nearly 200 executives of Bache & Company, including managers of the Eastern States branch offices on Nov. 11.

Among the political moves suggested by Mr. Ryan were recommendations for "restoration of full diplomatic relations with Spain and the inclusion of Spain in the United Nations and the ECA program with an initial allocation of $300,000,000" and to "discontinue further conversations with Russia and to play down the crisis in world news, thus depriving the communists of untold advantages of free publicity."

In the economic field, he urged that ECA be "placed on a business basis" by operating it "industry-to-industry," thus wiping out the present bureaucratic handling of America's economic efforts to halt the flood of communism throughout the world.

Turning to the domestic financial outlook, Mr. Ryan asserted that "we, as brokers, look to the future with a great deal of confidence." He said that the recent election results strongly indicated the small communist and left wing support now existing in this country. "The market should have boomed on the results," he asserted, pointing out that America's greatest internal threat to security apparently has been stemmed.

The meeting of the Bache organization officials represented a new sales approach for the securities industry. It is the first of a series which will feature investors' needs and problems, the business and political outlook, legislative and fiscal prospects, and the current position of the securities markets.

Dale Carnegie, noted author and lecturer, addressed the session on the fundamental principles of selling, particularly as applied in the security field.

Edwin L. Tatro to Form Own Firm in New York

Edwin L. Tatro will shortly form Edwin L. Tatro & Co. with offices at 50 Broadway, New York City, to engage in the securities business. Mr. Tatro for the past 20 years has been with Hoit, Rose & Co.

Edwin L. Tatro

B. C. Christopher Adds

(Special to THE FINANCIAL CHRONICLE)

McCOOK, NEB.—Delbert L. Urling has joined the staff of B. C. Christopher & Co., 420½ Main Street.

McDonald & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—Virginia L. S. Sweitzer is with McDonald & Co., 1009 Baltimore Avenue.

Thomas P. Payne Opens

ELMHURST, L. I., N. Y.—Thomas P. Payne is engaging in a securities business from offices at 86-43 Fifty-fifth Avenue.

Protests Subsidization of Farmer Cooperatives

Evans Woollen, Jr., ABA President, wants end of use of government resources in aiding competitors of private banks. Denies commercial banks are subsidized by receiving government deposits.

Addressing the Annual Convention of the Nebraska Bankers Association in Omaha, Neb., on Nov. 11, Evans Woollen, Jr., President of the American Bankers Association and Chairman of the Board of Directors of the Fletcher Trust Co., Indianapolis, protested against Federal subsidies and aid given farmers' cooperative credit institutions, that operate in competition with private commercial banks. On this point, Mr. Woollen stated:

Evans Woollen, Jr.

"As one of the segments of American business with agriculture, we also find ourselves having a close relationship with government; and sometimes we are competing for business with government-sponsored agencies. The position of banking with respect to government in the agricultural field is simply this: except in times of dire emergency, it is not a proper function of government to furnish capital to any of its citizens, whether engaged in commerce, in industry, in farming, or in banking; and that when grants of capital are made by the government, they should be advanced only on the condition that payments should be made for their use pending return of the capital to the United States Treasury.

"The ABA and its member banks recognize the right of farmers or any other citizens to organize cooperative credit institutions, but holds that such institutions should be self-supporting and not dependent upon subsidies from the government. It seems to me that this is a fair business proposition. All the banks ask is that the government fulfill its role of umpire in the game of competition, and not use government resources to favor any one of the contenders. Banks expect competition. Without it, freedom would ultimately vanish. They want their competition to come from competitors who are self-supporting, who have faith in their own ability to succeed, and who stand on their own feet rather than depend on government subsidy.

"Despite this statement of position which has been publicized by the ABA and by the state bankers' associations, there has been misrepresentation about the position of banks and efforts to discredit the banks by making it appear that banks are enjoying generous subsidies from the government while objecting to others having the same benefits. This line of attack has appeared in testimony of the Farm Credit Administration spokesmen at hearings before committees of Congress. I bring this matter up here at Omaha because of the attack on banks printed in the 'Farm Credit Leader,' published in this city by the Farm Credit Administration of Omaha in its Summer issue of 1948. The Farm Credit Administration is a government agency supported by appropriations of government funds. Hence, its magazine may be said to be published at the expense of the taxpayers.

"The editor of this publication, who is the general agent of the Farm Credit Administration in Omaha, wrote as follows:

"'. . . And you will also read this testimony of commercial bankers who represent the American Bankers Association. Undoubtedly you will become disturbed over their willingness to accept government funds for the Federal Deposit Insurance Corporation and the Reconstruction Finance Corporation for their use on the very terms they would deny the farm cooperative credit organizations.

"'These hearings also bring to light the huge deposits of Federal funds in commercial banks. Over long periods of time these deposits average more than $18 billion—on which the banks pay no interest, but which they loan at a profit.'

"It is not necessary for me to say what might be said about such use of a government publication, financed with public funds. But here in this heart of the agricultural belt from which these misrepresentations have been spread, I want to state the facts so that no one will be deceived.

"Let's take the charge that the banks enjoy a government subsidy through the Federal Deposit Insurance Corporation. In contrast with the Farm Credit Administration agencies, the FDIC is not a lending agency. It is an insurance fund for the protection of depositors, maintained out of the earnings of the banks, and is not a subsidy to the banks. To get it started, Congress required the United States Treasury to supply $150 million and the Federal Reserve System, $139 million. Both of these advances have been paid off in full. Today the FDIC is an insurance fund of a billion dollars, of which almost $850 million has been supplied by the banks through regular assessments on their deposits; and the remainder represents earnings from the investment of these funds. It is difficult to understand how any one would have the courage to try to represent this as a subsidy to the banks.

"As for the Reconstruction Finance Corporation, when it was proposed earlier this year to extend the life of the corporation and provide it with $350 million permanent capital and surplus, it was the American Bankers Association that appeared before the Senate Banking and Currency Committee in Washington to insist that the RFC and all other government lending agencies should be compelled to pay the Treasury for the use of public funds, whether advanced to them as loans or invested in them as capital. It is true, of course, that the RFC made loans to banks and invested in the capital stock of banks back in the depression days; but these advances were not in the nature of a subsidy. The banks paid interest on all of them while they had them—first at the rate of 5% and later at the rate of 3% — rates which were higher than that which the Treasury had to pay for funds in the open market. Most of these advances have long since been paid off, and the RFC made an earning on them. There is certainly no subsidy here.

"To say that the U. S. Treasury maintains deposit balances averaging more than $18 billion which the banks loan at a profit, is to use obsolete figures applying to only two wartime years when the Treasury had to maintain high working balances because of its stupendous war expenditures. The figure for Midsummer 1948 was $2,200,000,000. It is anticipated that this may be drawn down in the months ahead. The War Loan Accounts of the Treasury represent most of these funds. In the main they consist of funds necessary to meet the current operating needs of the government. They were never intended to be and have not been a profit-making device for banks. On the contrary, they involve a great deal of service rendered by the banks to the Treasury in carrying out its operations, the cost of which more than offsets any possibility of a profit derived from their use by the banks. Payment of interest on these accounts is forbidden by law. The business of the U. S. Government is an enormous business. It should be remembered that such an enterprise as the government has need of working funds which exceed those of any other business.

"There is always room for two opinions on any question. While we are sure that we are right, we concede the sincerity of those who disagree, so long as they stick to the facts. By the same token, we believe the farmers will grant the fairness of our position if they are given the facts. But we do not concede the right of the Farm Credit Administration to prejudice the farmers against the banks in this way by this kind of technique."

Railroad Securities

The November issue of the Monthly Comment on Transportation Statistics released by the Bureau of Transport Economics and Statistics of the Interstate Commerce Commission carries a most interesting article showing the shifts in railroad earning power in recent years. The periods used in the comparisons are the 12 months ended with September 1940 and 1948. The tables accompanying the study show gross revenues, net operating income before Federal income taxes, and the percent of gross carried through to net operating income before Federal income taxes for all Class I carriers, the various regions and districts, and 36 major carriers individually. The individual roads are those having gross of more than $50 million in 1947 and account for about 85% of total industry operating revenues.

For Class I roads as a whole there was an increase of 123.4% in gross revenues between the 1940 and 1948 periods. Net operating income before Federal income taxes was up 86.6% and the carry-through of gross to net operating income before Federal income taxes dropped from 17.2% to 14.4%. There were wide variations in different sections of the country. The South and the West recorded substantial wider increases in gross and displayed better control over expenses.

In the Eastern District the carry-through of gross to net dropped sharply from 16.8% in the 1940 interval to 10.6% in the 1948 period. The Pocahontas Region also did poorly in a relative sense although its actual carry-through of 25.0% (down from 38.2% in the earlier period) was still better than the industry average. The Southern Region (the Southern District after eliminating the Pocahontas coal roads) slipped only slightly, from 15.0% to 14.6% and improved its standing in relation to the industry as a whole. By far the best showing was in the Western District. Gross revenues were up 149.7%, net operating income before Federal income taxes was up 186.0%, and the carry-through jumped from 14.2% to 16.3%. It was the only section to carry a greater proportion of gross through in the 1948 period than in the 1940 interval.

The records of some of the individual roads are interesting. Of the 12 roads ranking highest in 1940 in ability to carry gross through to net operating income only one carried a larger proportion through in the 1948 period. That was Nickel Plate (19.8% to 21.4%) which rose from 10th place to 5th. Only three others maintained their places among the highest third of the roads covered. Norfolk & Western was first in both periods, Chesapeake & Ohio was second in 1940 and seventh in 1948, while Texas & Pacific was 11th in the earlier period and dropped to 12th. Two eastern roads fared particularly poorly. Pennsylvania dropped from eighth to 33rd place and Baltimore & Ohio from 12th to 27th.

Four of the roads that had been in the bottom third in 1940 were still there, but with their relative positions changed, in 1948. New York, New Haven & Hartford dropped from 26th place to 35th, with only 6.7% of gross carried through in the recent period. Chicago & North Western dropped from 28th to 32nd place. On the other hand, two southern roads improved their relative positions somewhat although remaining in the lowest third. Seaboard went from 33rd position to 26th and Atlantic Coast Line from 36th to 34th. The lowest on the list in the 1948 period was New York Central with a carry-through of only 3.7%. In the 1940 interval it had ranked 23rd with a carry-through of 12.1%.

On the bright side of the picture, there were four roads that went from the bottom third in 1940 to the top third in 1948. The most outstanding improvement was that of Denver & Rio Grande Western which rose from 31st to third place. However, this was due in part to maintenance credits in the 1948 period. Wabash improved its position from 30th to eighth and Chicago, Rock Island & Pacific was up from 32nd to 11th. Texas & New Orleans (part of the Southern Pacific System) was up from 25th to 10th place. This is of minor significance, however, inasmuch as the Southern Pacific Company itself dropped from 19th to 28th place.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

Tristan E. Beplat, formerly Chief of the Money and Banking Branch, Finance Division, of General MacArthur's Military Government headquarters in Tokyo, has been appointed Far Eastern Representative of **Manufacturers Trust Company of New York.** For the present, Mr. Beplat will be located at the bank's Head Office pending establishment of Far Eastern Headquarters. Mr. Beplat, prior to his period of service in the Armed Forces, had varied experience in the domestic and foreign banking field, having been with J. W. Seligman & Co., the Bank of New York, and Manufacturers Trust Company, which bank he now rejoins. Upon discharge from the service in June 1946, he continued in a civilian capacity with General MacArthur's headquarters until July 1948, when he resigned and returned to the United States.

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John J. Keenan, Assistant Secretary of the **Irving Trust Company of New York,** died suddenly on Nov. 12. Mr. Keenan, who was 51 years of age, was an employee of the institution for 27 years.

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At a meeting of the Board of Trustees of the **East New York Savings Bank of Brooklyn, N. Y.** on Nov. 11, Alfred Muller, an Assistant Vice-President of the **Brooklyn Trust Company,** was elected a trustee, succeeding the late Charles H. Wadsworth. The East New York Savings Bank, with total assets in excess of $300,000,000, in addition to its main office at Atlantic and Pennsylvania Avenues, operates two branches in Brooklyn. It is in its 80th year of existence. Mr. Muller, who is now regional officer in charge of Brooklyn Trust Company offices in the Broadway region, first joined the staff of the old Mechanics Bank of Brooklyn in April, 1912, and continued with Brooklyn Trust Company after the merger of the Mechanics Bank in 1929. From 1936 until June, 1947, Mr. Muller was manager of the company's 26th Ward Office, at Atlantic and Georgia Avenues.

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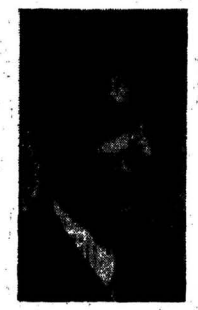
Joseph A. Erickson, of Wellesley Hills, Mass., Executive Vice-President of the **National Shawmut Bank of Boston,** has been appointed President of the **Federal Reserve Bank of Boston,** Albert M. Creighton, Chairman of the Board of Directors, announced on Nov. 9. Mr. Erickson, who is 52 years of age, was selected by the Federal Reserve Bank's board of directors to serve until Feb. 28, 1951, filling out the unexpired five-year term of Laurence F. Whittemore who resigned to accept the Presidency of the New York, New Haven & Hartford RR. The appointment will become effective when Mr. Erickson reports for duty in early December, Mr. Creighton said. Widely known throughout New England banking circles, Mr. Erickson has been associated with the National Shawmut Bank for the past 28 years. Beginning his banking career in a clerical capacity with the Shawmut Bank, he forged ahead to become Vice-President in 1928 and Executive Vice-President in 1942. He is a Harvard graduate, and attended the Harvard School of Business Administration in 1919-1920. He is a veteran of World War I where he saw service overseas as a First Lieutenant in heavy artillery. He was a member of the Reparations Division of the American Peace Commission following World War I. Mr. Erickson has served in a number of important capacities holding directorships in various industrial and banking organizations including that of the Boston Edison Company. The resignation of Mr. Wittemore as President of the Reserve Bank was noted in our issue of Oct. 14, page 1552.



Joseph A. Erickson

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Negotiations are under way in **Providence, R. I.,** for the purchase by the **Rhode Island Hospital Trust Co.** of the **National Bank of Commerce and Trust Company,** it was disclosed on Nov. 9 by Raymond H. Trott, President of the Hospital Trust Company. In making this known, the Providence "Journal" of Nov. 10 stated in part:

"The price offered, Mr. Trott said, is at the rate of $135 a share. Conclusion of the deal depends on at least two-thirds of the total outstanding stock of the National Bank of Commerce and Trust Co. of Providence being available for purchase by Dec. 10, 1948. Stockholders of the National Bank of Commerce and Trust Co. are being informed of the offer of purchase in a letter dated yesterday and signed by Henry L. Wilcox, President of that bank. If the purchase of stock goes through it will be a cash transaction, Mr. Trott said.

"The quarters of the National Bank of Commerce and Trust Co. would be operated as a branch office of the Rhode Island Hospital Trust Co. and the Rhode Island Hospital National Bank, subject to approval by Federal and State banking authorities.

"As of Sept. 29, this year, the National Bank of Commerce and Trust Co. showed deposits in excess of $22,000,000, total resources in excess of $24,000,000, and capital structure aggregating $2,050,000. Its stock has a par value of $50 per share. The bank was incorporated in 1851 as the Bank of Commerce and carried that name until 1865, when it was chartered as the National Bank of Commerce and Trust Company of Providence, was adopted Jan. 13, 1931."

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Harold M. Kenyon, Treasurer of the **Hartford - Connecticut Trust Company of Hartford, Conn.,** observed on Nov. 9 the 45th anniversary of his service with the institution—21 years of which have been in the capacity of Treasurer—it was noted in the Hartford "Courant" of Nov. 10. To quote from that paper:

"Mr. Kenyon began his banking career with the Connecticut Trust and Safe Deposit Company, one of the banks participating in the merger of the Hartford-Connecticut Trust Company in July, 1919.

"When the consolidation was effected, Mr. Kenyon was named the first Chief Clerk. He became Auditor in 1921 and organized the bank's auditing department. In 1926 he was elected Assistant Treasurer and Treasurer in 1927."

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Harold C. Alvord, President of the **Manchester Trust Company of Manchester, Conn.,** died suddenly on Nov. 11. He began his banking career at the age of 16 years in December, 1907. As a messenger in the now defunct Manchester Trust and Safe Deposit Co., said special Manchester advices to the Hartford "Courant." He became President of the Manchester Trust Co. in January, 1947, succeeding W. George Glenney, who became Chairman of the board.

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Completion of negotiations for the purchase of the assets of the **Security Bank and Trust Company** by **The Pennsylvania Company for Banking and Trusts,** both of **Philadelphia,** was announced on Nov. 11 by the two institutions. The board of directors of the Security Bank and Trust Company unanimously approved the agreement of sale on Nov. 5. The board also authorized a special meeting of shareholders on Dec. 10 to act upon the agreement. William Fulton Kurtz, President of The Pennsylvania Company, said that the transaction would be submitted to the bank's stockholders at that company's annual meeting to be held Jan. 17.

In a letter to Security's stockholders, President Charles H. Chapman said in part:

"The Security Bank and Trust Company started in business July 9, 1934. Our original stockholders paid $15.50 a share for their stock. We have received a proposal from The Pennsylvania Company for Banking and Trusts to purchase the assets of the Security Bank and Trust Company at a price that, on present indications, would result in a distribution of approximately $35 a share to our stockholders. If this plan becomes effective, a partial distribution will be made as soon as possible after Jan. 21, 1949, which is the proposed date of settlement. The terms of the agreement provide for the sale of the assets of the Security Bank and Trust Company to The Pennsylvania Company for Banking and Trusts and the assumption by The Pennsylvania Company of all our deposit liabilities."

Mr. Chapman's letter states that all of Security's officers and employees will be taken into the organization of The Pennsylvania Company. The Security Bank and Trust Company operates two offices, one at Kensington and Allegheny Avenues, and the other at Girard Avenue and Franklin Street. The Pennsylvania Company plans to give up its present Girard Avenue office and to transfer those activities to the Girard Avenue and Franklin Street office of Security. The Kensington-Allegheny office will be operated by The Pennsylvania Company as a part of its banking organization.

Mr. Kurtz stated that "we believe that the plan is advantageous from a public point of view in that it will bring the broader services and facilities of our institution to a very important retail and industrial section of Philadelphia." As of last Sept. 30, Security's deposits totaled $14,570,769 and its capital funds were listed at $868,099.79.

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The election of Lane Taylor as a director of the **National Bank of Germantown and Trust Company of Philadelphia** is announced by Glenn K. Morris, President. Mr. Taylor is Vice-President and Treasurer of W. C. Hamilton & Sons, paper manufacturers, Miquon, Pa. He also serves on the W. C. Hamilton board of directors and is a member of the advisory board of American Mutual Liability Insurance Company.

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The election of Eugene S. Williams as a director of the **Central Savings Bank of Baltimore, Md.,** was announced on Nov. 9, it is learned from the Baltimore "Sun." Mr. Williams is President of the Western Maryland Railway.

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Francis X. Swietlik, Dean of the Marquette University Law School, was named President of the **Lincoln State Bank of Milwaukee, Wis.,** by the board of directors on Nov. 8, said the Milwaukee "Journal" of Nov. 9, from which we also take the following:

"He succeeds the late Anthony Szczerbinski. Mr. Swietlik also was named to the board, as was Max Gapinski, Cashier. Mr. Gapinski was named managing head of the bank. B. A. Dziennik, a director, was elected Vice-President to succeed the late Martin J. Daly.

* * *

The capital of the **Marquette National Bank of Minneapolis, Minn.,** has been increased from $300,000 to $500,000; part of the increase ($150,000) came through a stock dividend of $150,000, while $50,000 was added to the capital as the result of the sale of new stock. The increase became effective Nov. 1.

* * *

The stockholders of the **Jackson-State National Bank** and the **Capital National Bank in Jackson, Miss.,** will act on the plans for the consolidation of the two banks under the name of the **First National Bank,** on Jan. 11, when the annual meetings of the stockholders of each bank will be held. The Jackson "Daily News" of Oct. 20 reports that when consummated this will be the largest consolidation of financial interests in the history of Jackson. It is stated that the new bank will have total resources in excess of $65,000,000. L. M. Gaddis, President of the Jackson-State National, will be Chairman of the board and J. T. Brown, President of the Capital National, will be President of the enlarged institution; the latter, said the "Daily News," will continue banking operations at each of the present locations, and there will be no interruption of service whatever as a result of the consolidation according to the joint statement issued by Messrs. Gaddis and Brown. Reference to the proposed consolidation was made in our Oct. 28 issue, page 1766.

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The **First Security Bank of Idaho, National Association at Boise, Idaho,** has increased its capital from $1,500,000 to $2,500,000 effective Nov. 1 through a stock dividend of $1,000,000, according to the Nov. 8 weekly bulletin of the Office of the Comptroller of the Currency.

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G. Harold Riedel has been appointed an Assistant Cashier at the head office in **San Francisco** of the **Anglo California National Bank,** it was announced on Nov. 8 by Allard A. Calkins, President. A native of San Francisco, Mr. Riedel has been connected with the Anglo Bank since 1920; during the past seven years he has been Assistant Auditor. In his new capacity he will supervise the head office operating departments. He is a Past-President of the Golden Gate Conference of Bank Auditors and Comptrollers.

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We are informed in advices from Osaka, Japan, that the Sumitomo Bank, Limited, has been renamed as from Oct. 1 as **"The Bank of Osaka, Limited,"** increasing its paid-up capital to Y 1,140,000,000. Ko Suzuki is President of the Bank of Osaka.

Public Utility Securities

The New Convertible Issues

Public Service Company of Colorado recently forced the conversion of its 3% debentures due 1962 (by announcing redemption) and issued a new convertible security—$6,600,000 4.40% preferred stock. In the 12 months ended July 31 the company reported net income of $5,003,370, but after giving effect to the issuance of $10,000,000 new mortgage bonds and redemption of the debenture issue, pro forma net income would be reduced to $4,925,000. After allowing for full annual dividend requirements on both preferred stocks (including the new issue) the balance earned for common would be $3,955,000. This would amount to about $3.65 a share on the 1,085,000 shares currently outstanding (on the assumption that all of the convertible bonds have been converted into common stock). If conversion of the new preferred stock should occur, the earnings picture would change again, of course.

The convertible preferred stock was offered by a syndicate headed by Blyth & Co. at 102¼, but due to general market conditions has recently been quoted over-counter around 101. The stock is convertible for about ten years (unless redeemed) into common stock at $40 a share. The common is currently selling around 35¾ and is paying dividends at the rate of $2.20, to yield about 6.2%. Based on the above pro forma share earnings the price-earnings ratio would be about 10.

The company has enjoyed a sharp gain in earnings in recent years, net income for the 12 months ended July 31 being over twice the amount for the calendar year 1944. Some further gains seem likely since the company is in the fortunate position of having an ample supply of natural gas to serve its customers.

Peoples Gas Light & Coke Co. of Chicago on Oct. 29 mailed warrants to stockholders of record Oct. 27 to subscribe for $16,400,000 3% convertible debentures due 1953, on the basis of $100 debentures at $100 flat for each four common shares held. The offering is underwritten by Halsey, Stuart & Co. of Chicago, who paid $1,000 for the privilege. The debentures will be convertible into common stock at $100 per share up to Dec. 1, 1953, at $105 in the next five years, and at $110 in the third five-year period before maturity. The bonds are callable initially at $103. The stock is currently around 91½, the rights at 15/16, and the debentures at 104.

In the 12 months ended Aug. 31, Peoples Gas reported earnings of $9.41 per share. The indicated dividend rate is $6.00 and the current yield on the stock about 6½%.

Detroit Edison is offering rights to stockholders of record November 10 to buy $46,649,500 debenture 3s due 1958 (the original interest rate of 2.80% was raised to 3%) at the rate of $100 debentures for each 15 shares held, at $100 (rights expire Dec. 1). Beginning Dec. 1, 1950 the bonds will be convertible into common stock at $20 which is about the current price. The common stock pays $1.20 to yield 6%. Earnings in the 12 months ended Sept. 30 were $1.41 a share compared with $1.50 in the previous period. The company in June asked for a rate increase of about $11,300,000, equivalent after income tax adjustment to about $1 a share on the common stock. The bonds are currently selling around 105 when issued, to yield about 2.43% (the short maturity being a price factor).

Convertible utility debentures previously issued and now outstanding include those of American Telephone & Telegraph (two issues), Public Service of Indiana, Consolidated Gas of Baltimore, Consolidated Edison, Laclede Gas, and Virginia Electric. Convertible preferred stocks have been issued by Southern California Edison (two stocks), New England Gas & Electric, General Telephone, California Electric Power, Philadelphia Electric, and Public Service E. & G.

Problems of Synthetic Fuel Industry

By FRANK A. HOWARD*
Industrial Research & Development Consultant

Mr. Howard reviews problems in connection with developing oil from shale and coal to supplement present oil resources, and recommends a two-year survey of shale and oil resources, along wtih preparation of plans for construction of plants to be undertaken by private industrial groups under contract. Says concerns already developing coal and shale processes should adapt themselves to government research projects. Warns against immediate large scale expenditure on experimental projects.

The role assigned to me in this review of the synthetic fuel situation seems to be that of a prophet. I hardly need to tell you that after the events of the last week prophecy has become a lost art. Instead of prophesying what we can look forward to, I am going to try to present to you the main problems which the synthetic fuel industry faces in the United States and ask your help in arriving at some rational plan of action to meet them.

Frank A. Howard

The first problem is that the synthesis processes based on coal and shale are too costly if carried out by the method proven and used abroad and the new processes under development here are not yet ready to freeze into plant designs. But the President and the Secretaries of Defense and Interior have taken the position that our national defense requires an immediate start on a synthetic fuel industry. The fact that the 80th Congress seemed to agree made it clear that this was in no sense a political issue. The Republican-sponsored Wolverton Bill, appropriating $350,000,000 for the founding of the new industry, failed of passage last summer only because of pressure of other legislative business.

What can be done to reconcile this governmental demand for immediate action with the engineering need for more data before plant construction begins?

Oil From Shale

In the production of oil from shale the problem seems simplest. At least two very promising new processes have given satisfactory performance in small pilot plant operation. These are the downdraft, up flow, internal combustion retort being pioneered by the Union Oil Company of California and the fluidized retort being pioneered by Standard Oil Development Company. Either of these two processes, and perhaps some others, could, if the necessity were great enough, be frozen into commercial designs at once, but the more conservative view is that larger scale pilot plant tests should first be run to give opportunity to uncover and eliminate latent troubles.

It is true that shale oil is perhaps the worst product the oil industry has ever had to handle, but it can be hydrogenated successfully by the high pressure destructive hydrogenation process and it would be possible to freeze the designs on this equipment at once.

Oil From Coal

Turning from shale to coal, we find a much more difficult problem. The destructive hydrogenation process is the most highly developed synthesis process in this field and plant designs following the German and English models could be frozen at once, but my own best guess is that gasoline production from coal by this method would need a protection or subsidy of at least 18 cents a gallon. If we had large reserves of very low ash coal at locations practical for such an industry, these costs might be reduced. The most hopeful estimates of coal hydrogenation costs seem to have been based on the use of coal as low as 2½% in ash. Certainly the weight of engineering opinion is that the destructive hydrogenation process is not a broad or economically promising foundation for an American synthetic fuel industry. On the other hand, the Fischer-Tropsche or hydrocarbon synthesis process seems very well adapted to American conditions and is the only one being actively developed with private capital. There are two steps in this process: first, the conversion of the coal into synthesis gas and, second, the production of oil from the synthesis gas. It is the first step which seems now to be the critical one and in which development is most active. First there might be mentioned the continuous powdered coal gasification pioneered in very limited experiments by Koppers in Germany and development of which is now being financed by the Bureau of Mines through the American Koppers Company; second, there is the fluidized process which is favored by the Standard Oil Development-Pittsburgh Consolidated coal group; and, third, there is the modified Lurgi process which the Hydrocarbon Synthesis Corporation regards as the one most nearly proven for commercial use with suitable non-caking coals, and which they will presumably use as a foundation in a South African coal synthesis plant which they are designing.

The processes mentioned are only those which loom up most prominently on the horizon. There are several others which are under development by these same concerns and by others as well. The parents or foster parents of each of these various processes naturally have a somewhat partial view of the status of their own child as regards its availability for immediate commercial use, but I believe that the predominant view is that no one of these coal gasification processes suitable for wide use under American conditions, has yet reached a stage of development where it should be used as a basis for any such program of governmental expenditures as is called for by the Wolverton Bill. From one to two years more development work should certainly be carried out before any attempt is made to select the most promising process or processes and freeze the designs for the first commercial plants.

But the primary urge back of the governmental pressure for an immediate synthetic industry is the military urge, and if the opinion in executive and legislative circles next January is the same as it was earlier in the year, the oil and coal industries will face a demand for immediate action of some kind directed toward a synthetic industry.

A Recommendation

I suggest, therefore, that we try to agree upon some definite program which can be initiated at once and which will move forward in an orderly way to make the maximum of real progress. As an example of such a program, I propose that we adopt a time schedule, for example two years, and within this time schedule undertake to complete the following:

First: A survey of American shale and coal resources from the point of view of their practical availability as a basis for synthetic fuel plants. I suggest that this work be done by contract under the supervision of the Army Engineers, under general instructions drafted or approved by the Military Petroleum Advisory Committee. The cost of this survey might be $3,000,000.

Second: The preparation of project plans, including designs and estimates for three shale oil plants and three coal synthesis plants. These project designs and estimates to be undertaken by private industrial groups under contract with the RFC. Each project to be based upon a unit of a minimum size of 5,000 barrels per day of oil, and to include all data essential for the expansion of the project on the same site or its duplication at other named sites up to a total of 25,000 to 30,000 barrels per day. The designs and specifications for each project to be complete enough to serve as a basis for widespread competitive bidding for construction contracts. This would not require the detailing of engineering work or of equipment of a standardized nature on which competitive bidding could be obtained promptly on general specifications. I believe the cost of these six project plans would lie in the rage of $10 to $20 million. The companies with whom these contracts for projects were made would presumably be those private concerns best able to plan and execute such projects and operate the completed plants. Each contractor would obligate himself to execute and manage his project, if requested, on a basis substantially the same as that used by the RFC in connection with the building of the synthetic rubber industry.

Third: The companies now actively developing coal and shale processes would be expected to adapt themselves to the two-year time schedule above provided for. Research and development work could be intelligently planned so that an operative design and process (even though it might not be the best one or the utimate one) would be available for inclusion within these project designs before the end of the two-year period. It is contemplated that most of the research and development work would continue as at present under private auspices without financial support from the government. This, however, does not exclude the possibility that some concerns wishing to prevent projects might make arrangements through which government-financed research and development work would be relied upon in part at least, and this would serve the very useful purpose of getting the government work also scheduled for completion up to some useful, concrete result within the time limit set. It is no criticism of industrial research and development work, whether government sponsored or privately sponsored, to say that all such work needs, at a certain stage of its progress, to be run against a time schedule.

If the program above suggested were followed it would be possible at the end of two years to place immediate contracts for the construction of anything between 5,000 barrels per day and 180,000 barrels per day of synthetic fuel from oil and shale. Furthermore, the necessary foundation would have been laid so that if military or other considerations required immediate expansion up to, let us say, one to two million barrels per day, as has been forecast in some military analyses, there would be available a complete survey of national shale and coal resources on which a master plan for the expansion could be based, and there would be availabe at least six competent organizations who could be called upon to begin at once the layout of additional projects. Complete designs and technical information would also be available from each of these six concerns for the immediate use of the indefinitely large number of industrial and engineering groups who would have to be brought into the picture to create any such capacity as one or two million barrels per day of synthetic products.

What Might Be Expected

No one can say with certainty at this moment what conditions will be two years hence. Our military authorities seem to believe that we might require very large synthetic production. On the other hand, military or economic conditions at the time might justify no governmental intervention at all or only very modest intervention or support. Whether the need is then an emergency need for a great industry, whether conditions have so changed that there seems to be no need whatever for any governmental support of such an industry, or whether we find ourselves in some intermediate position in which there is reason to support a small industry only — under any one of these three cases the adoption of some sort of a rational program, either as here suggested or as may be suggested by others, would seem much more realistic, economical and sound that an attempt to spend $350,000,000 in the immediate erection of three large synthetic plants based on shale and coal.

It is no secret that the National Securities Resources Board has prepared a long-range program which involves the cut-back of oil production in the United States by some very large figure—20% has been mentioned—in order to create an immediately available underground reserve against a military emergency. Whether this long-range plan will be found workable or acceptable in whole or in any part is still undetermined, so far as I know. If this plan were to be actually followed, however, it would seem to require that American oil supplies be supplemented not only by greatly increased imports but also be every other practical expedient. I cannot see how it would be possible to determine at all intelligently the extent to which synthetic production would be a practical expedient to supplement American supplies and to fit into any such long-range plan, unless that decision were based upon some integrated program along the general lines of the one here suggested.

As many of you will probably recognize, my thinking on this problem has been influenced by experience in the creation of a synthetic rubber industry. That problem was solved in the nick of time only because there had been a considerable period of planning and programing ahead of the actual emergency. I do not wish to press the parallel too far, but most of the principles seem to be the same. The synthetic fuel problem is more difficult, both technically and from the standpoint of its magnitude. This could only lead, however, to the conclusion that more, rather than less, advance preparation, and better planning, is necessary.

*An address by Mr. Howard before the Metropolitan Section of the American Society of Mechanical Engineers, New York City, Nov. 9, 1948.

SEC Reports Higher Corporation Working Capital

The net working capital of U. S. corporations continued to increase in the second quarter of 1948, reaching a new record level of $63.9 billion as of June 30, 1948, according to the quarterly analysis made public by the Securities and Exchange Commission. During the three months April through June, 1948 working capital increased by $1.3 billion, reflecting a rise of $500 million in current assets and a decline of $800 million in current liabilities.

Inventories showed the largest change of any item of current assets and liabilities during the second quarter of 1948, increasing by $800 million to a new level of $43.0 billion. This reflected, to a large extent, the higher prices paid for goods included in inventories. As for the other items of current assets, cash and deposits increased by $200 million, while U. S. government securities declined by $500 million. Notes and accounts receivable declined by about $100 million while other current assets increased by about the same amount.

On the side of current liabilities, notes and accounts payable showed a decline of about $200 million while Federal income tax liabilities rose by about the same amount. Other current liabilities declined by $800 million.

At the end of the second quarter of 1948 corporate holdings of cash and deposits amounted to about $22.4 billion and holdings of U. S. government securities amounted to $12.6 billion. These two liquid items made up a smaller proportion of net working capital than at the end of the preceding quarter. The ratio of cash and U. S. government securities to sales declined somewhat from the preceding quarter, approximating the pre-war relation.

As for the other items affecting the corporations' financial position there was, during the second quarter of 1948, a $3.3 billion increase in the net property account. On the other side of the balance sheet there was a $1.5 billion increase in long-term debt and equity securities. Long-term debt rose by $1.2 billion and equity securities by $300 million. The aggregate increase in working capital and the net property account was, therefore, financed by retained corporate profits for the most part.

Fred W. Fairman, Sr., Dead

The funeral service of Fred W. Fairman, Sr., 71, who died at his home, 2 Golf Lane, Winnetka, Nov. 9, will be held 11 a.m., Thursday, Nov. 11, at the Childrens Chapel of the Winnetka Congregational Church, Pine Street and Lincoln Avenue, Winnetka. Interment will be at Memorial Park.

Fred W. Fairman was founder of the well known brokerage firm of Fred W. Fairman & Co., 208 La Salle Street, Chicago, established in 1908. He had been inactive several years owing to ill health. He was a member of the Chicago Stock Exchange and the Chicago Board of Trade, Chicago Club and Indian Hill Country Club.

"Standing on Principle"

"It was our all-out fight for the progressive cause which was the chief moving force in causing the American people to reverse their fatally reactionary 1946 trend.

* * *

"They voted for the Democratic candidate for President only after we had forced him to compete with us on the peace program, on civil liberties and on the revival of an expanded New Deal with emphasis on lower prices and housing.

"We forced multitudes of Democratic candidates who had been lukewarm or antagonistic to the New Deal to reverse themselves.

* * *

"We have come out stronger, I am certain, from a long-run point of view by standing on principle instead of retreating before the Red-smear."—Henry A. Wallace.

We do not feel inclined to argue with Mr. Wallace or anyone else about the reason for the surprising success of President Truman and his party, and we have no opinion to express about the future of Mr. Wallace's political career.

But we must say that we should like to see much more "standing on principle" among our politicians and in our elections.

Economic Significance of Population Age Shifts

(Continued from page 20)

estimated potential of between six and seven million square miles, or 3.8 to 4.5 billion acres.

According to the 1945 census of agriculture, the United States acreage of arable land already in farms was over 511 million acres, or about 3.5 acres per person. Including the potential acreage, the ratio would be about seven acres per person. Comparatively, with an estimated world population of 2.3 billions and an estimated maximum of seven million square miles or 4.5 billion acres of potentially arable land, the ratio is less than two acres of potential cropland per person. Actually, just before the last war, cropland in use throughout the world was only about four million square miles or a little more than an acre per person. As population grows each acre of course must support a greater number.

As already stated, the world population figure of 2.3 billions now being used is an estimate and is not sustained by actual censuses in a large number of countries. Data on Asia are none too reliable, for instance. China has never taken a census and estimates of her population vary from under 400 million to over 500 million. There may come a day when all countries will enumerate their populations as part of a simultaneous census of the world, but this hardly will occur in our time. A step in this direction has been taken, however, with consideration of plans for a census of the population in the Western Hemisphere. To this end, the Census Bureau has for more than two years been participating in the training of statisticians from Central and South American countries in the art of census-taking as practiced in this country. Plans for a census of the Americans in 1950 are under active consideration.

Most Americans probably are not aware that the Bureau of the Census carries on many activities in addition to the 10-year population count and its other periodic censuses. However, those familiar with the purpose and scope of the Census Bureau's operations realize that hardly any important activity involving people or things can be undertaken without statistical information collected and compiled by this Bureau. This collecting of figures, compiling and subsequent publication is the Census Bureau's task. The work goes on without intermission day by day. Monthly, quarterly and annual surveys are made in many economic and social fields.

Pressure comes especially from private enterprises. Business, in scores of letters received in each day's mail, requests information about the changes wrought in the eight years since the last full-scale census of the nation. As a result, a great variety of sample surveys are carried on to furnish current facts for current use.

The Census Bureau in recent years has made important advances in development of scientific methods for making surveys on a sample basis. Until a decade ago the Bureau was engaged for the most part in the taking of complete censuses. This provided an extensive and highly useful historical record, but offered relatively little current data. Today's picture is quite different. To meet demand for up-to-date statistics, sample surveys which can be completed inexpensively and quickly are taken in a number of subject fields. Development of current work in most of these fields has been made feasible by recent advances in sampling methods and practice.

The first large-scale scientific sampling study undertaken by the Census Bureau was conducted in conjunction with the 1940 Census of Population. In the brief span which has elapsed since 1940 the Bureau has taken great strides in both development of sampling theory and practice and utilization of sampling surveys in its statistical activity. Some form of sampling is today to be found in practically every phase of the Census Bureau's work and will be applied to some parts of the 1950 census.

One of the most significant applications of the sampling method in the program of the Bureau is the current population survey. This survey is conducted monthly and, in effect, is a miniature census of population. The current population survey is designed to produce national statistics on a current, rapid-fire basis. It is based upon a national cross-section of 25,000 households in 120 different counties. The survey provides data for a monthly report covering employment and unemployment, labor force, and distribution of workers in major activities, and less frequent reports on migration, education and housing. Before World War II, it was used as a basis for policy formation in respect to unemployment problems; during the war and afterwards it has been used in connection with achieving effective manpower utilization. This survey has replaced the estimates of unemployment that were published during the depression years of the 1930's and has removed statistics on the level of employment and unemployment from the realm of uncertainty.

The entire sampling procedure used in the current population survey is an application of what is frequently referred to as "area sampling." By such a procedure a sample is drawn which reflects shifts in population as they take place, thus providing an unbiased sample of population at the time the survey is made.

Other surveys based on sampling methods provide monthly data on trends in retail and wholesale distribution. In the industrial field, monthly, quarterly and annual surveys, issued serially in 57 industry reports, cover textile mills products, apparel, chemicals, wood products, pulp and paper, primary metals, metal products and machinery and equipment.

By the use of sampling and a trained field staff, the Census Bureau is prepared to take quick but reliable national or local sample surveys to serve various continuing and changing needs of government. Timely information can thus be obtained at a fraction of the cost of a complete census. At the same time, scientific sampling methods used make it possible to insure reliable results, thus increasing the effectiveness of sample surveys as a tool in policy determination, in research, and in administration.

In addition, the Census Bureau has employed sampling methods for quality control of various routine operations involved in taking a census. A sample verification of editing, coding, card-punching and other operations is made and errors are held to a low level, thus insuring quality of the work. This is accomplished at a small fraction of the cost of a complete verification.

Because Federal census law requires absolute secrecy concerning details relating to each establishment and person, the Bureau is able to obtain basic information which neither individuals nor businesses would reveal to others undertaking to make such surveys, others not bound to secrecy by law. Information given the Census Bureau cannot be used for taxation, regulation or investigation. Facts about individuals or individual business establishments are available only to Census Bureau employees who are sworn to secrecy and are used only for statistical purposes in combination with data from other individuals or establishments so that all identities are concealed.

Periodic inventories and current operating statements are accepted practice in any successful business. As the United States has grown in size, its economic activities have become increasingly complex, and interrelationships have become harder to understand. Measuring the economic and social changes of the nation is the present-day job of the Census Bureau. What started out in 1790 as a relatively simple count of population has grown into what may well be called the world's biggest continuous statistical operation.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Prices of government securities continue to advance vigorously with expanding volume. . . . Although the market has been largely professional there are definite indications of a growing interest in the intermediate and longer Treasuries by both bank and non-bank investors. . . . In the eligible list, the partially-exempts still lead the parade, followed closely, however, by the 2¼s, 2½s and 2s. . . . The restricted obligations are staying above pegged levels, because institutional buyers seem to have changed some of their ideas about these securities. . . .

Resumption of debt retirement through the partial redemption of Treasury bills, along with the refunding of Dec. 2 and Jan. 1949 notes and certificates with one-year 1¼s, has created a demand for the higher yielding eligible issues. . . . Retention of the 1¼% rate for certificates came as a mild surprise to the market. . . . Liquidation of the taps has slowed down, with a change in trend of purchases of the eligibles also being noted. . . . The shorts are being sold in order to buy the longs. The partially-exempts are in sizable demand, with not too many of these bonds around, and Federal not yet letting out their holdings which were acquired, in some instances, at quotations slightly above current levels. . . . Despite the price advance, the longer partials are still considered attractive. . . .

OPTIMISTIC ON SUPPORT PRICES

Money market followers are taking a more constructive stand toward the government bond market despite the many uncertainties that still have to be cleared up. . . . There is less fear of support prices being changed from present levels, because it is believed that the "pegs" will be maintained either through greater control over the whole financial system or by more natural ways which would come about because of a readjustment in the business picture. . . .

The idea of increased power for the monetary authorities appears to be the more prominent reason for the improved feeling and better market action of Treasury obligations. . . . If there should be need for larger military expenditures, it is believed with them will come the authority to restrict the inflationary monetary forces. . . .

"NEW DEAL" POLICIES REMAIN

The election of Nov. 2 restored to power those that are followers of the "New Deal" and there is no reason to believe they will hesitate to regulate those segments of the economy that might interfere with the carrying out of certain policies that were advocated during the campaign. . . . It should not be lost sight of that one of the main features of the "New Deal" has been to "regulate big business." . . . Commercial banks, insurance companies, savings banks and other lending institutions would seem to fall into that classification. . . .

It is being pointed out in some quarters that greater regulation of business in general is to be expected unless there should be a continuation of the economic adjustment that has been going on for some time now. . . . Increased taxes, whether of the excess profits variety or larger surtaxes, are distinct possibilities. . . . Price ceilings and even rollbacks of prices may come into being. . . . There may also be allocations of materials and rationing of scarce goods to keep prices within set limits. . . . If these measures should be adopted to regulate business as a whole is it likely that certain very important factors in the money markets, which have contributed just a minor bit to the forces of inflation, are going to be allowed to go scott free to carry on as they have in the past? . . .

AS ALLAN SPROUL SEES IT

Mr. Allan Sproul, President of the Federal Reserve Bank of New York, in a speech recently said: "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. . . . 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 the 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." . . . **These excerpts from the remarks of the head of the "Central Bank of New York" are being given plenty of consideration and weight by some of the more shrewd followers of the money markets. . . .**

NOTES

It would be a little ironical if the United States should have to institute controls over the capital markets, after financing a very expensive war without resort to such measures. . . . The British have experience along these lines, since capital flotations over there have been rationed by the government. . . .

Because private placement of securities with life insurance companies has assumed such large proportions and since these companies are expected to expand in the administration of pension funds, it is believed in certain quarters that some type of government regulation of these concerns is largely a matter of time irrespective of what develops in the near future. . . . If conditions should change, so that no greater controls are needed over the money markets, it is felt that the growing importance of life insurance companies in the money and capital markets will result in more attention being given them by the monetary authorities.

Private Enterprise and World Trade

(Continued from page 19)

growth of all types of trade restrictions, including exchange controls, import permits, quota restrictions, preferential trading and many others.

Decline in Our Exports

The result of the dollar shortage and of drastic restrictions abroad on the use of dollars has begun to show itself during the present year in a pronounced decline in our exports. In the second quarter of 1947 the value of our exports reached an all-time peak of $4.2 billion. Since that time they have dropped steadily. In the second quarter of 1948, the value of our exports was 23% below the similar quarter of 1947. In view of the rise in prices which occurred over the year, the actual physical volume of goods had declined by approximately 28%.

That is the situation. What can business and, if necessary, government do about it?

Our exporters, of course, have not been unaware of what is going on. They, better than any other group, know that it is necessary to find ways of placing dollars in the hands of foreign buyers. The Marshall Plan, by making available to the countries of Western Europe the dollars they need for recovery, has also helped to check the decline in our exports; without it, the total value of our exports for the year 1948 would have fallen far more drastically—possibly as low as $10 billion. Even with the dollars made available by the Foreign Assistance Act of 1948, our exports in 1948 are not likely to total much more than $13 billion, as compared with $15.3 billion in 1947.

Fortunately, our imports are increasing. During the first six months of 1948 they totaled $3.5 billion. If, as we believe probable, this rate continues we shall import more than $7 billion worth of goods in this calendar year—a value more than 2½ times the average value of imports during the three years preceding the outbreak of the war in Europe. Making due allowance for the rise in prices, we find that imports during the first eight months of this year have been running at a rate 21% above what they were in the prewar years in terms of goods brought into the country. This tendency is certainly encouraging. But in view of the fact that we have almost doubled our domestic production since the prewar years, this increase in imports is relatively small. If we are to achieve eventually a balanced trade at high levels, the rate of increase in our imports must be accelerated considerably.

It is not unrealistic to look forward in the years after the termination of the Marshall Plan to merchandise exports of about $13 billion in terms of the present prices. This level can be reached without further governmental aid only as we maintain high levels of employment at home, increase our imports to $10 to $11 billion a year, and stimulate the flow of private investment abroad.

We believe that the world will want to buy at least this amount of goods from us for an indefinite period in the future, and because with our high level of national income and production we will want to buy an increased amount of goods from the world to satisfy the appetite of our industries for raw materials and the desires of our people for the consumer goods and services which can be offered from abroad.

How then can we increase our imports of goods and services and increase the investment of private American capital abroad, so that we can sustain our export trade without continuing to extend governmental loans and grants to other countries?

Imports Should Be Promoted

Private enterprise should assume a large part of the responsibility for promoting imports into the United States. Foreign producers need encouragement and help to market their goods in this country. Last year two men from the Department of Commerce made an extended trip through Europe for the purpose of finding ways to encourage imports of European products into the United States. European businessmen told them again and again that they were hesitant about attempting to compete with American mass-marketing methods. They said they were awed by the tremendous size of our markets and baffled by the wide range of consumer tastes in various sections of the country and on different income levels. Rather than risk trying to sell in America, they preferred to continue their selling in the countries where the demand for their goods was already firmly established. These problems are real, and there is no simple solution. But the problems are not insoluble, and private enterprise can do much to help.

American businessmen can help by advising producers in other countries as to the best ways to sell their goods in the United States. It is encouraging that some of our businessmen have already undertaken this work. Some of our larger exporters have assisted their foreign customers in finding markets within the United States. While the use of export selling channels in reverse is still experimental, it deserves approval as an imaginative and practical attempt to increase our volume of imports.

Private enterprise can help to promote imports by encouraging the full participation of American business in international trade fairs. The first international trade fair ever held in the Western Hemisphere was staged in Toronto last June. Present at the Toronto Fair to look at the exhibits and to do business were more than 31,000 buyers and sellers from 73 countries. The products of 32 countries were displayed by 1,455 exhibitors. Of the 31,000 buyers and sellers only 1,000 were from the United States. The Toronto Fair was so successful that it will be repeated next year. Perhaps there will be more American participation in next year's fair; and perhaps the United States will have soon an international trade fair of its own. If American businessmen sponsor and manage a trade fair in the United States, one of its purposes should be to acquaint Americans with the goods which they can import from other countries.

Encouraging Foreign Economic Development

Of all the ways in which private enterprise can help do the world's job, none is more important than the encouragement of foreign economic development. And this means investment of United States dollars in the exploration and improvement of the mines, the oil wells, the railroads and the timber resources of other nations. We have been so absorbed in the contribution of the Marshall Plan and the International Bank to the rehabilitation and development of foreign economies that we have tended as a people to forget the importance of private investment. But private capital from the United States is at work in many parts of the world—helping to develop and expand foreign production of copper, lead, zinc, tin, manganese, petroleum, and iron ore. Most Americans realize today that our natural resources are limited. Our industrial machine needs more of many products than we ourselves can supply. We are presented with the necessity and the opportunity to conserve what we have by drawing upon the resources of others; by so doing we will place more dollars in the hands of foreign buyers.

One of the world's great needs is improved transportation. Bridges must be restored and rolling stock replaced in the battleground areas. Even those countries not directly affected by the war must rehabilitate and expand their transportation systems. Governmental loans are assisting in these tasks, but private investors should examine with particular care the opportunities in foreign transportation. The world's job cannot be done properly without great improvement in the methods of moving what the world produces.

In the books of international accounts travel does not appear as an item of merchandise. But it generates considerable purchasing power for our exports. Between 1920 and 1940, foreign travel was larger than any single merchandise item on the import side of the ledger. It was twice the amount spent for coffee or rubber, two of our leading imports.

Since the war, Americans have spent increasing amounts on foreign travel. In 1946 they spent $479 million; in 1947, $597 million, excluding the fares spent on American ships and planes. In 1948 they will have spent much more. It is reasonable to assume that our citizens can spend over a billion dollars a year in foreign travel. That amount is a smaller proportion of our present national income than the amount spent on foreign travel in past years.

Private agencies must make it easy for people to travel, and educate them in its advantages and attractions. This has already been undertaken on an international scale. The membership of the International Union of Official Travel Organizations now represents more than 30 countries and includes the active participation of 20 others.

Travel should be brought within the reach of the average pocketbook. Its appeal should not be limited to the rich. The man with only a few hundred dollars to spend should not be overlooked. Other countries can provide improved bus transportation and inexpensive roadside accommodations for tourists. International travel organizations should work to remove the clutter of official red tape which now makes foreign travel inconvenient. We are pleased to note that Belgium and Italy have announced recently a withdrawal of visa requirements.

The Foreign Assistance Act provides that the Administrator of ECA shall cooperate with the Secretary of Commerce to facilitate and encourage through private and public travel, transport, and other agencies, travel of United States residents abroad.

In an effort to stimulate private travel promotion, I have established a Travel Advisory Committee to the Department of Commerce, whose membership has been taken from various segments of the travel industry. It is not our intention even to suggest that the government should shoulder this burden. Private enterprise should take the initiative and assume the responsibility. The government will furnish information and, if requested, advice—and will undertake to provide necessary coordination, but the ideas, the energies, and for the most part the financing, should come from private business.

Safeguarding Our Domestic Economy

While we deal with the problem of world recovery and the balancing of our foreign trade at a high level, we must not fail to safeguard our own domestic economy against excessive exports of goods in short supply. This involves export controls. It requires a judicious use of governmental authority in the interest of the Nation as a whole.

The main problem in administering export controls is the achievement of a reasonable balance between the needs of our domestic economy and the needs of foreign countries of scarce materials. There are those who advocate complete abolition of export control and on the other hand those who advocate embargoing all shipments of goods in short supply from this country. Neither of these extremes offers a sound solution. Export controls are needed to protect the economy from the impact of unrestrained foreign demand. It is self-evident also that the international distribution of scarce supplies made available from the United States is of considerable significance in the promotion of our foreign policy. An export embargo, of course, would provide a cure for our export surplus—and smother our foreign trade in the process.

If we left entirely to the play of ordinary business forces the flow and distribution of scarce goods abroad, our foreign aid program and our domestic situation as well would suffer acute dislocation. It is not fair to impose upon any individual the reconciling of his own business interests with those of the community as a whole. That decision should be made by an impartial governmental agency with power to enforce what it decides. For these reasons, Congress authorized for a definite period the control of exports from the United States. I am thoroughly convinced that until world conditions are more in balance export controls should be continued.

No one is more fully aware than I of the work, and frequently the annoyance, which these controls impose upon exporters. We try daily to improve our procedures, and I hope have achieved some success. I am not by any means, however, satisfied with the result, and am not only willing but eager to receive suggestions or even complaints with reference to what we are doing. The job is, of course, a large one. We are now receiving over 14,000 applications per week for export licenses, the mere handling of which, aside from questions of policy, calls for large personnel and skill and experience. Only recently have we been able to add to the personnel and, as you well know, skill and experience do not come quickly.

We still wish, however, to avail ourselves of help from private business. As a means of securing the advice of private enterprise, we have set up 40 advisory panels, each one including businessmen familiar with the trade conditions and trade practices with reference to a certain commodity or group of commodities. These groups have met with us frequently and have been extremely helpful.

The problem of administering controls is typified by bread grains. Food has been in critical shortage throughout the world for several years. The price of food has been a large factor in the high cost of living here at home. A man can postpone the purchase of his automobile; he can live in discomfort and postpone the building of a new house—but he cannot postpone meal time. He and his wife and children must eat. In every discussion of mounting prices and inflation, the critical factor is the price of food.

Farm Price Support Program

We have for several years operated a price support program for the farmer which was designed to accomplish, and has accomplished, two major objectives: to increase and stabilize the farmer's income and to provide an incentive for increased food production for our growing population. It is clear, however, that this program needs revision. It should be revised in the light of experience. Recognition should be given to the original and still important objective of aiding the farmer as well as to the need for furnishing some relief to the taxpayer and the housewife. The Aiken Bill, while not perfect, gave recognition to this need. It will not be effective, however, until Jan. 1, 1950.

Personally, I believe we should continue in large volume our exports of bread grains and fats and oils. I believe on the other hand that some restraint should be exercised in this connection. Food production throughout the world, and in particular in Western European countries, this year is high. The potato crop is adequate to meet all needs; bread grain production has been excellent. Furthermore, the time has arrived to make it plain that we have not undertaken to feed the world forever. Our tremendous shipments during recent years have sprung from the desire of America to help feed a starving world. It is now time—when the nations of the world, and in particular Western Europe, are far from starvation—that our contribution be made on the basis of reconstruction and not relief.

In some previous discussions of this matter, implications have been made that I have opposed all shipment of bread grains abroad. This is far from true. In my Fourth Quarterly Report, dated July 30, 1948, I stated that current estimates indicate that at least 400 million bushels of wheat will be available for export in 1948-49. This is certainly no small amount. The largest annual export of wheat during the five years preceding the war was 87 million bushels.

It is necessary, also, to give consideration to an important matter which has not been too carefully surveyed—the carryover of wheat. In 1941 it was 385 million bushels—in 1942, 631 million bushels—a very fortunate circumstance. I have suggested a carryover of 350 million bushels from this year's crop. If the estimated domestic disappearance is 700 million instead of the previously assumed 750 million bushels, we may have available for export 25 million bushels in excess of the figure which I mentioned previously. In connection with the matter of carryover, we must not fail to consider two important possibilities—war and a bad crop. I know of no insurance or guarantee against either.

Stabilization of World Currencies

There is, I submit, another field in which government must take the primary responsibility—the stabilization of the world's currencies. As a result of the Marshall Plan, some progress has already been made in this direction. Under an agreement reached in July of this year the ECA countries have established a financial clearing system for the promotion of trade in Europe, making it possible for the member countries to clear their balances with each other through the Bank for International Settlements. Creditor countries will receive partial settlement in dollars which may then be used to buy goods in the United States. This arrangement may cut through the web of bilateral trading agreements which have hampered the return to open, multilateral trade.

It seems clear that government must be responsible for this country's participation in the International Bank and the International Fund. These institutions enable us to work for the economic development of the world's resources and the stabilization of its currencies. In the administration of loans and grants, the government will be held, and should be held, to account by private enterprise.

Private enterprise should, by constructive comment and criticism, support the efforts of government to create a climate favorable to free enterprise throughout the world.

I agree with you that private enterprise can do the world's job. I have tried briefly to explain why I think it necessary that the government assist in, and participate in—and, at times, direct—the doing of this job. When the government does assist, or participate, or direct, businessmen should try to give it a sympathetic understanding and support, at the same time insisting that government make the doing of private business easier and not harder, assume that businessmen are intelligent and honest, that a businessman knows more about his own business than a government employee, and that so far as possible we should leave the world's job, as well as our domestic job, to the individual initiative and industry which have brought such prosperity to America.

ECA and American Agriculture

(Continued from page 21)

livestock products during recent months. As always, since farming is a biological industry, the impact of a drought or of favorable weather on feed supplies does not reach consumers until from six to twelve months after it occurred and by that time most of them had forgotten all about the cause. The effectiveness of livestock as a shock absorber is shown by the fact that although feed crop production declined 23% from 1946 to 1947, the supply of livestock products decreased only 7% from 1947 to 1948. While meat supplies for the year 1948 are about 10 pounds per capita below 1947, they are still about 20 pounds above average consumption during the years 1935 to 1939.

The third round of wage increases in this country was based on increased living costs, largely food. Unfortunately the public doesn't understand that these price increases were due to drought and to our efforts to meet the European food disaster and in spite of the continued extraordinary efforts of farm families for maximum food production. The meat shortage this year is the inevitable delayed result of our small corn crop in 1947 and of the heavy grain shipments abroad to prevent starvation.

Again in 1948, assisted by favorable weather, United States farm families have performed a miracle in the production of food and feed. The favorable outlook has been front page news even in the big city papers since early July and many consumers expected these rosy prospects to be translated immediately into increased meat supplies at lower prices. Much publicity has been given to the fact that new crop corn for December delivery was selling at or below support prices. While cash feed prices declined slowly in response to the favorable outlook they remained high during the Summer because of the scarcity of old grain and even a start on increased meat production could not be made until the new corn became available in October.

U. S. Production 130% Above Prewar Average

For the fifth year in succession total food production of the United States in 1948 will exceed 130% of average output from 1935 to 1939 while the aggregate crop of feed grains is the highest in history. These splendid harvests will stop the decline in livestock and will eventually result in increased meat supplies but this effect cannot be realized until the late Summer and Fall of 1949. An increase in hatching of baby chicks has already occurred and larger supplies of poultry can be expected within a few months. However, the first effect of these bountiful crops will be to reduce somewhat the number of hogs for market this Fall because more female pigs will be retained in order to produce a larger pig crop in the Spring of 1949. This reduction will probably be about offset by feeding to heavier weights the pigs that are marketed. With abundant feed, farmers will hold back more cattle for fattening than last year. This will reduce meat supplies this Fall but will result in increased supplies of better quality beef next Winter and Spring. The first substantial increase in meat supplies cannot occur until the Fall of 1949 when next Spring's pig crop begins to move to market.

Wheat production in Western Europe this year is the best since the war, but is still about 10 or 12% below the prewar level. This improved food production is one of the most important constructive developments since the end of the war but its effect on United States exports has been overestimated. There will be some reduction in food imports into Western Europe, and some saving of dollars on that account, but more important than this is the fact there will now be enough breadgrain so that rations can be increased above near-starvation levels so as to provide the energy for productive work. The best that could be hoped for last Winter was to keep people from starvation. It is also helpful that European countries have increased their production of food, since this will begin to correct their abnormal dependence on the United States. This country cannot hope to continue to ship abroad as much food as it did ship in 1946, 1947, and in 1948. With average weather the best that could be expected would be some two to three hundred million bushels of wheat a year. In case of a drought we might be able to ship very little or none since two-thirds of the United States wheat crop is grown in semi-arid regions which are subject to wide variations in rainfall and yield.

Food Production in Europe

Recovery in food production has been slower than expected in Europe and the rest of the world. Several years of good crops will be needed to build up livestock numbers and to restore normal grain reserves. Large food imports are expected by Western European countries even after 1951. With limited land resources and 270 million people to be fed, there will be a heavy deficit in food even after full recovery has been attained. The essential food imports are those needed for direct human consumption such as wheat, vegetable oils, sugar and such. The level of imports of feed for livestock and of meat and livestock products will depend on their industrial exports. What they can buy with their exports will affect their livestock production and, therefore, their diet. The real question in regard to the agricultural imports of Western Europe beyond the foods necessary for direct human consumption is how high a standard of living Europe will be able to earn after the end of the recovery program.

As a result of these factors a decline in United States food exports is to be expected, but it will be less abrupt than in 1920-21 if the European recovery program is continued and recovery is attained. Their increased demand for our fruit and other higher cost foods depends upon the production of exports to pay for these commodities.

The outlook for adequate food supplies for the two billion people in the world is not bright. Since the beginning of the war there has been an increase of about 10% in world population and in food demand, while world food production has not yet regained prewar levels in spite of the phenomenal output of United States farms. This has resulted in human consumption of grain formerly fed to livestock. There are no possibilities of a quick, large, sustained increase in world food production. The prospect is for a gradual increase in food production through the slow but sure methods of research, education and irrigation. Although the results of the application of science to agricultural production have been fully demonstrated, the extension of improved methods will probably be very slow because of illiteracy in much of the world. The principal hope in the next few years lies in Western Europe and North America where climate and soils are favorable and illiteracy is very low.

During the thirties there was much publicity about food surpluses and Western Europe obtained its food imports on very favorable terms. It seems probable that during the fifties the world will be faced with a continuing food problem. Malthus may again become popular. Malthus taught, you may remember, that population tends to increase faster than the food supply. Certainly that principle has been true in the last decade, and there is no reason to believe that it will not be true in the next.

The United States has more than kept pace with the rest of the world with a phenomenal increase in population from 132 million in 1940 to 145 million this year. Livestock numbers have not kept pace with population and livestock per capita is approaching an all-time low. The per capita production of livestock products has not declined as much as livestock numbers because of increased production per animal. Consumption of livestock products has not decreased as much as production because of reduced exports. More feed will be required for livestock for our growing population and also, of course, there will be a greater demand for other foods. As a result, there will be less food for export. There seems to be no danger of a so-called general overproduction of food in this country until the next depression.

Population and Food Production

For two decades prior to the recent war, United States food production did not keep pace with population. This downward trend in per capita food production was obscured by declining exports and by the long depression of the thirties. During that decade, in the face of incessant talk about surpluses and government programs to correct them, our per capita food production was lower than in any other period in the present century. Even with this low production, food prices were depressed and city consumers became accustomed to good prices that were too low to be maintained in any period of active business which would provide alternative jobs for farmers and farm workers. When employment increased, consumption rose and the so-called food surpluses disappeared quickly.

The people of the United States are the world's best market. In ordinary times they eat the food they want and the remainder, if any, is exported. Hence, as per capita food production declined, food exports decreased, food imports rose, and for 16 years prior to the recent war our annual food imports exceeded our food exports.

During World War I, United States food exports increased from 6% to 8% of production in the prewar years to 17% in 1919. About half of this increase in exports came from greater production while the other half came from reduced civilian consumption made possible by changes in eating habits.

The total food production of the United States is strikingly uniform from year to year and cannot be increased quickly in booms or decreased in depressions. This stability is due largely to the biological nature of agriculture and to the effectiveness of livestock in the evening out production of good and bad years. Beginning about 1940, United States food production started on the most rapid and sustained increase that has occurred in any country at any time in modern history. For seven consecutive years total food production has equalled or exceeded 125% of the prewar average ranging from 125 to 141% of that level. Due to this phenomenal production food supplies per capita have attained a new high even after providing for the needs of our armed forces, lend lease, and foreign relief. Never before has any nation been able to increase its food consumption during a major war.

In contrast with the years of so-called "surpluses" during the thirties, the people of the United States have been consuming about 10 to 12% more pounds of food per capita during these years of apparent shortage. In 1947 we consumed about 30 pounds more of meat per person as well as much larger quantities of poultry, eggs, milk, fruit and vegetables than before the war. This increase in per capita consumption of high quality foods has been due largely to increased purchases by families whose consumption was formerly limited by low incomes. The so-called "shortage" of food in this country in recent years has been a shortage only in relation to what consumers with greatly increased incomes were able and willing to buy.

This rapid and sustained increase in United States food production during the last decade has been due largely to favorable weather, better varieties of crops, improved methods of production, favorable prices and mechanization.

Although severe droughts were experienced in 1934 and 1936 no widespread weather catastrophe caused serious reduction in United States farm production during the following eleven years. The adverse weather which reduced the 1947 corn crop about 25% was the first reversal and has again been followed by very favorable weather in 1948. While continuation of such good fortune is to be hoped for, it is not a safe basis for making plans.

Progress in New Crops and Improved Methods

Rapid progress has been made in the last two decades in the development of better varieties of crops and improved methods of production of plants and animals by agricultural colleges and experiment stations. Although this knowledge of better practices was taken promptly to United States farmers by the Extension Service, its widespread use in production was apparently delayed because of very low prices of farm products during the thirties. Under the stimulus of favorable price relationships since 1940 there has occurred an extremely rapid and widespread use of new and improved varieties of corn and other crops, of new and more effective methods of pest control, a doubling of fertilizer use, and a rapid increase in mechanization of farms. Although the principal advantage of farm mechanization has been increased production per worker rather than per acre, the use of tractors has minimized the unfavorable effects of wet weather and thus improved yields. No way has yet been discovered, however, of eliminating the effects of inadequate moisture and the problem of drought has not been solved by mechanization.

The population of the United States increased 11% from the period 1935 to 1939 through 1947. The improvement in per capita diet including both quantity and quality amounted to 16% during the same period. Thus, this increased food supply has been used largely to feed more people better. The current per capita consumption of our present population requires about 30% more production than in the period 1935 to 1939.

By 1950 the United States will almost certainly have a population of 150 millions. To provide this number of people with the present per capita diet will take nearly all that our farms are now producing with no allowance for substantial food exports except a moderate amount of wheat. As the population continues to increase over succeeding years there must be higher production, or more imports, or less exports, or a diminishing quality of diet. The most serious threats to the maintenance of present high levels of food production are less favorable weather and lower prices of farm products.

It has been estimated that 50 million additional acres of high yielding crop land will be needed over the next 25 years if present levels of nutrition are to be maintained. About 60 million acres formerly used to grow feed for horses have already been released for food production since 1920 but farm mechanization has been largely completed and not more than 10 to 15 million acres additional can be expected. About 23 million acres have also been released from cotton production since 1930, part of which is being used for food production. Little additional acreage can be expected from this source. A very limited area can be obtained by irrigation at heavy cost. The principal way of obtaining increased food production, however, is by higher yields from the land and animals already in use. This goal is attainable if vigorous programs of agricultural research and extension are continued and if these improved practices are put promptly into use by farmers. How rapidly farmers will apply more intensive methods of production will depend largely on the relation of the prices they receive to costs. There will be plenty of food for United States consumers in any event but the proportion of meat, milk, eggs and other choice foods in the diet will largely be determined by weather and prices.

La Salle Street Women To Hear S. McMurray

La Salle Street Women will have as guest speaker at their dinner meeting on Nov. 22 at the Cordon Club, Chicago, Samuel A. McMurray, Account Executive with Merrill Lynch, Pierce, Fenner & Beane, who will discuss "The Overall Picture of Live Stock and Commodity Markets." Mr. McMurray has been identified with the meat packing industry for more than 35 years in this country and in Canada. He is a member of the Chicago Board of Trade and serves on its Provision Committee.

New York Stock Exchange Weekly Firm Changes

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

James B. Taylor & Co. will be dissolved as of Nov. 30.

Interest of the late John J. McKeon in Chas. W. Scranton & Co. ceased Nov. 10.

Fort Knox Gold Not Worthless

(Continued from page 2)

Knox served no other purpose than this it would justify itself a thousand fold. However, it is also a basic limiting factor in the expansion of credit by the Federal Reserve banks.

Professor Hart admits this when he states, "although gold is merely psychological, as such it has a great deal of economic importance. It is still one of the great symbols of stability in the economy."[10]

He discusses the fear that even Hitler had, prior to World War II, of the German people learning "how far they had come from a gold-based currency." Unquestionably the removal of the legal reserves from behind our monetary and financial structure would "shake" and even destroy public confidence as probably no other public act could do. The New Deal never dared to violate these reserves.

Since the American dollar is the standard of value of the world—since it is today the **international** unit of value—**the** international standard—critics to the contrary—any loss of confidence in the American dollar means a loss of confidence in all currencies—it means world financial chaos. Thus the function and value of the gold "buried" at Fort Knox is magnified many times beyond its importance to the American public. It logically follows that this gold is the foundation for whatever confidence there is in the currencies of the world. It measures their purchasing power, the extent of their depreciation, their strength and their weaknesses, the wisdom and the mistakes of their monetary authorities.

The world has not gotten away from gold. It is still the "arbiter of destiny." Every currency is quoted in terms of the American dollar—in terms of 13.714 grains of pure gold "buried" at Fort Knox.

In a discussion of the dollar and the pound, Professor R. G. Hawtrey admitted in the London "Times" June 11, 1948, that the pound is linked to the dollar at the fixed rate of exchange of $4.03—a link that he wishes to sever due to the fact that inflation in the United States is being transmitted to England. On the other hand it must be pointed out that if the pound were no longer stabilized in terms of the American dollar at $4.03, the pound would fall drastically in value. This would cause American exporters to raise prices accordingly, thereby making higher prices in England inevitable to an even greater degree.

Although England boasts of a managed domestic currency, her price structure depends directly upon the conversion rate of $4.03 for the pound. Thus the English economy is based on gold as a standard of value, for the American dollar is by law 13.714 grains of pure gold. This being true the gold at Fort Knox has inestimable value not only for the American people, but also for the British, and for the peoples of the noncommunistic countries of the world.

Professor Hart admits that many economists regard gold "as much more fundamental to the monetary structure" than he does. He explains his rather skeptical position on gold as being due to the strong influence of J. M. Keynes.[11]

Yet Lord Keynes conceived of gold as serving a very vital function—an international war chest or stabilization fund to be used as the basis for international financial transactions. At the World Economic Conference in 1933 he proposed a simultaneous devaluation of all currencies and a return to gold.

Under Keynes' managed currency system for Great Britain, gold was put into an equalization or stabilization fund to keep the pound stable at $4.03 in terms of the dollar. **Only in this way was it possible for Great Britain to manage the domestic pound with any success and give it any stability.** In spite of Lord Keynes' skepticism of gold he was never able to get away from it, as a standard of value and as the source of whatever confidence exists in the British economy. **Thus, the gold "buried" at Fort Knox haunts and plagues the Keynesians as it measures their shortcomings with relentless accuracy in every transaction—domestic and international.** They have never gone quite as far as the ridiculous Nazi propaganda went which was to the effect that there was no use trying to carry on international trade by gold standard rules, because the United States went off with all the marbles.

However, Mr. Bevin has suggested since V-E day that the United States should consider a redistribution of its gold buried at Fort Knox.

In discussing Mr. Bevin's suggestions, Mr. Lawrence Fertig, wrote in the New York "World-Telegram" of Sept. 15, 1947, "Mr. Bevin was wrong in saying that our gold is doing nothing. It is doing plenty, acting as a foundation for the strongest currency of any great power in the world," for, "to some extent there is an automatic safeguard against inflation in the law requiring a percentage of gold backing for the dollar."

In an address to the Academy of Political Science Nov. 7, 1946, Mr. Camille Gutt stated that the gold standard is out of date and cannot function properly.

"The gold standard was fundamentally a means of securing a common international monetary policy. With the more rigid structure of the present industrial economy, the gold standard can no longer perform this function."

This statement from this distinguished international authority ignores the fact that the dollar is **the** international monetary unit today and that the dollar is 13.714 grains of pure gold. His statement in no way subtracts from or weakens the value of the gold "buried" at Fort Knox.

A keener insight into realities was evidenced by Dr. J. van Galen, Editor of an Amsterdam paper, who wrote on April 10, 1947, "Although many believed in a dethronement of gold, it appeared during and after the Second World War that gold had lost none of its magic power and it is therefore not surprising that, after the war, a lively black market in gold developed."

Dr. W. R. Burgess stated in an address to the International Chamber of Commerce, June 6, 1947: "Gold has a human appeal and power which some of our modern economists have completely failed to understand. This extraordinary value of gold has been recognized in the statutes of the International Monetary Fund. The exile of gold in the 30's did not and will not endure."[12]

Professor W. E. Spahr has emphasized the fact that the gold at Fort Knox is not sterilized since there are claims against almost all of it. It is deposited in Fort Knox for safekeeping—primarily because it has such great value. "In its service as reserves, it exercises some influence by revealing the reserve ratios and in the maintenance of confidence in our paper and other money for reasons probably only vaguely and poorly understood by most people."[13]

Dr. A. M. Sakolski points out that the gold standard was never abandoned internationally, and gold is the basis for fixing parities of national currencies under provisions of the International Monetary Fund.[14] He takes the position, correctly in the opinion of the author, that no nation can have an independent domestic paper currency and at the same time keep it at a fixed ratio to other currencies unless it is linked to the international standard — the American dollar, which is 13.714 grains of pure gold by act of Congress.

Professor Lewis Haney stated on June 24, 1948, that Federal officials who have sought to effect a managed economy during the past 14 years "treat money as a mere unit of account, subject to manipulation by the State." In his opinion many of our ills are due to mistakes in these manipulations—mistakes that would be obvious in time to be dealt with constructively under a gold standard.

The planners do not want their mistakes made obvious. They do not want a monetary system that measures their mistakes promptly and accurately. As Halm points out, they object to gold as too "rigid" a standard.[15] It limits their ambitions and keeps the spotlight upon their manipulations. It is the public's measuring rod of their success and failures. It permits no escape. That is why critics of the gold standard wish to destroy the public's confidence in gold. Planners and Keynesian economists find it an insuperable obstacle to their plans for a managed economy—for a totalitarian state. The gold "buried" at Fort Knox has no value! It must go! We must abolish this obstinate and unwavering standard of value which shows up their shortcomings and mistakes with relentless honesty and accuracy.

Since 1933 these critics of a gold standard have forced a compromise. For, under existing legislation we are denied the full benefits of a gold standard. Gold is available only for two purposes—foreign exchange (export) and legitimate industrial and commercial uses. The Treasury maintains a rigid and strict monopoly. Title to the gold at Fort Knox is with the Treasury, although the gold certificates certify that it is a 100% reserve behind these certificates which are the property of the Federal Reserve banks, an obvious conflict of ownership. Foreigners can secure gold from the Treasury but an American citizen cannot do so except for the limited purposes stipulated above.

The author agrees with Professr Spahr that today we do not have a "gold standard currency" but instead "we have a highly restricted international gold bullion standard and a domestic currency that is irredeemable insofar as gold is concerned."[16]

Silver certificates can be redeemed in silver dolars or bullion, but the metal is greatly overvalued. With this exception, Professor Spahr points out that all of our paper money is simply promises to pay which are "redeemed" by giving in exchange other promises to pay which, likewise, are irredeemable.

It is true that our present currency "system" can and is "generating a multitude of ills." Our Federal Reserve authorities have exhibited an inability and an unwillingness to cope with these ills. They have made many mistakes that would have been impossible—or at least that would have been obvious to the American people—if we had had a true gold standard since 1933 and hence would have had to be corrected.

These mistakes are becoming obvious now after they have exacted their penalties. The present mechanism which makes it possible to monetize the debt places no practical limit on currency inflation. Artificially low interest rates have cost the American people, through a depreciation in their purchasing power, "many times the interest said to be saved." The government's pegging of its own bonds at par is a continuous inflationary factor. The illegal issuance of $660,000,000 of "national currency" by the Treasury and the Federal Reserve authorities in 1942, $358,000,000 of which are still in circulation, does not speak well for the integrity of these Federal agencies or attest to their ability to act wisely in fiscal and monetary affairs. Price support programs and the unwillingness of the Federal authorities to effect a drastic retrenchment in public spending while criticizing rising prices indicate clearly that political expediency is their master. The responsibility of the President and other Federal officials for the vicious cycle of rising wages and higher prices must be taken into account.

Inexcusable mistakes, mismanagement of our fiscal and monetary affairs, a continuous stooping to political expediency in order to conquer and remain in power, the lust for power itself, and an unwillingness to face realities by our Federal officials since 1933 must be included in any true evaluation of the economic problems that confront us.

Professor B. M. Anderson has stated that "after the Civil War, after the First World War and after the debasement of the gold dollar in 1933, free gold markets could register promptly qualitative deterioration in a country's currency. But these markets are so tied up with restrictions today that they tell a very uncertain story."[17]

The absence of free gold and foreign exchange markets means that most certainly we are not on a gold standard in this country. Indeed, Professor Anderson points out that the Federal Treasury has been reluctant to let gold leave the United States in order to strengthen the dollar when it showed "startling signs of weakness when measured against gold in various foreign markets" since V-J day.

The Richmond, Virginia, "Times-Dispatch" of June 20, 1948, thoughtfully notes that ". . . high prices are decried and economic stability is advocated by all hands, but the manipulation of currencies, which is at the bottom of all inflation, both here and abroad, is completely ignored . . . gold is the only stable, basic standard upon which international confidence can be established."

The Nashville, "Tennessee Banner," for June 23, 1948, states:

"A peculiarity of the economic times is the precedence given the thinking and theories of those abhorring gold as a currency basis. They raise their hands in horror when it is mentioned. They concur in the belief that the gold-buying program of the 'New Deal' was calculated to accomplish something, but like all concerned are unable to explain it.

"It is significant that the following of this line of reasoning, and the listening to these theorists, **have progressively worsened the monetary situation on a world scale**; and it should be significant that the eras of relative progress economically have been those in which world currency had a fixed and recognized standard. If currency is to be stabilized, it must be on such a standard. Why not? Why not gold NOW?"

In pointing out that our government is at heart a counterfeiter, Garet Garret wrote in the April, 1948, issue of "American Affairs" that the **New Deal substituted a planned money for a sound money.** "What government gained was a vast extension of power in the economic dimension, and what people gained, or thought they had gained, was immunity forever from the pain function of money. Never again should people suffer for want of money. The government could always provide enough of it. . . . So now the incomparable delusion comes to a sequel. Planned money has run its course so well and true that there is today nowhere in the world an intelligible price for anything. . . . Deeply the problem is moral. . . . Gold would make exchange sound; but although there is more gold than ever before in the world the use of it as money is forbidden."

In view of such developments here and abroad is it any wonder that planners, Keynesian economists, and New Dealers want to convince the public that the use of gold is no longer necessary—that the gold "buried" at Fort Knox has no value?

In discussing the limitations to safeguards under the present status of gold, Professor Spahr states, "Our international gold-bullion standard places some limits upon the volume of money and deposits that may be issued in this country so long as reserve ratios are respected, but these limits are not as great as they would be under a gold-coin standard, under which system the people can draw down the gold reserves of the treasury and banks."[18]

Mr. Thurman Sensing, Economist and Director of Research of an industrial agency in Nashville, Tennessee, has recently misquoted Professor Spahr as stating that the gold at Fort Knox has no value. Instead, Professor Spahr recognizes that this gold has indispensable value. It maintains the parity of our currency. What Professor Spahr—and the author—desire is to make this gold at Fort Knox even more useful by setting up a free gold market, thereby making this gold available to the American people.

If this gold did not have value it would not be necessary to guard it so closely. Nor would Mr. Bevin and others want us to share it with them. Nor would the American people have the confidence they now do have in their currency and credit structure. It is not sterilized—it is being used as the standard of value for the monetary systems of the world. What we need to do is to make it possible for this gold to render its maximum service by removing the restraints that have been placed upon it since 1933.

In an article, "The Post War Role of Gold," (1944), Dr. C. O. Hardy, Vice-President of the Federal Reserve Bank of Kansas City, has written, "The gold standard fits in badly with the current trend of thought in the direction of social control and government planning. It reflects the attitudes of people who believe that the government is best which governs least. The fact that it requires the minimum of managerial direction was a virtue in the days of its origin, but now that very characteristic has become a vice. . . . The only merit of the gold standard is that it reduces the need for credit management."

It is interesting to note that our planners are the leading critics of the gold standard. To them our "buried" gold at Fort Knox is sheer waste—a policy promulgated by "Simple Simons."

Yet the character of the opposition is usually an excellent testimonial to the merits of a policy or program!

The dissipation by the Philippine National Bank of the currency reserves deposited in New York resulted in a disastrous breakdown in the currency and financial system in the Philippine Islands in 1920.

Under Act No. 2776 passed Aug.

10 Hart, op. cit., p. 386.
11 Ibid., p. 389

12 "Monetary Notes," Vol. 7, No. 7. July, 1947.
13 Spahr, "Monetary Notes," Vol. 7, No. 8, August, 1947.

14 "Commercial and Financial Chronicle," April 10, 1947.
15 Halm, op. cit., p. 202.
16 "Monetary Notes," Vol. 8, No. 2. February, 1948.

17 "Commercial and Financial Chronicle," May 29, 1947.

18 Spahr, "Monetary Notes," Vol. 7, No. 12. December, 1947.

15, 1918, the Philippine National Bank was required to establish the Currency Reserve Fund. By the end of 1918 $39,000,000 had been deposited in the Fund and at the end of 1919 it contained $38,000,000. During 1920 these funds were transferred to Manila and utilized in the regular course of business in the making of loans and advances to various borrowers in the islands.

G. F. Luthringer has pointed out that the resulting breakdown has sometimes erroneously been attributed to the fact that the pesos which the Bank received against drafts sold on its currency reserve deposits were invested unwisely.[19] "The breakdown would have occurred even had the investments been as sound as possible from the banking point of view" since these investments resulted in paying out into circulation in the Philippines money which should have been withdrawn and held in the vaults of the Insular Treasury. "As a result the Islands were left with a badly inflated monetary and credit structure, and with a hopelessly inadequate dollar balance in the currency reserve."

The dissipation of the currency reserves was "indicative of the inefficiency and crass ignorance of the currency system." The dollar funds in New York—equivalent to gold—seemed of no value—an idle hoard. Much of the same attitude is evident in the criticisms of the gold "buried" at Fort Knox. Why bury these funds in New York? Why not put them to use in the Philippines?

There is a lesson here we cannot ignore.

The virtual failure and in some cases bankruptcy of every so-called managed currency since 1930 should furnish additional proof, if such is necesary, of the dangers that we would encounter if we should listen to the critics of our "buried" gold.

Dr. O. M. W. Sprague of Harvard University has expressed it thus. "I venture to suggest that without gold as a foundation or as a cushion, currencies cannot be controlled by the currency managers; that they will find in periods of stress that they are unable to give their currencies just the desired degree of elasticity that they think desirable from the point of view of their domestic situation."[20]

Instead of dissipating our "buried" gold as the critics would have us to do, we should maximize its utility by the restoration of gold to its proper place in our currency system whereby all forms of money are freely interchangeable at a fixed price either for gold coin or for gold bars of a weight and fineness suitable for exportation, without fees or penalties.

The author agrees with Professor Sprague when he states, "I do not observe that the acceptability of gold has in the slightest degree diminished during these recent years of disordered currencies."

And with Professor B. M. Anderson when he writes, "The world is coming back to gold because the world will not trust anything else."[21]

This being true, our "buried" gold at Fort Knox is an asset of the greatest significance.

In discussing the subject, "Our Irredeemable Paper Money," Congressman Howard H. Buffett of Nebraska stated,[22] "The American heritage of an honest money redeemable in gold was not given to this generation to squander. It was entrusted to our hands as custodians. Unless restored, we shall be recorded by history as faithless both to our ancestors and our posterity."

19 "The Gold Exchange Standard in the Philippines." (1934), p. 118.
20 "The American Gold Problem and World Trade." (1940), pamphlet.
21 "Gold, Stabilization Funds and Prices." (1937), pamphlet.
22 "Human Events," July 28, 1948. Vol. V. No. 30.

The State of Trade and Industry

(Continued from page 5)

harder to get. It may be that all along there has been a steady growth in normal steel demand, the paper adds.

The check by "The Iron Age" editors fails to find any change in the mood of steel-hungry customers in the East, the Midwest, in Detroit or at the byways and highways of the country. The flow of steel orders is wide, strong and appears never-ending.

Those who said that the Marshall Plan and other exports would continue to hold up steel demand have been only partly right. Everything has been done to see that as much steel as possible went to domestic users in this country. Exports have been less than had been expected—but home demand keeps going at top speed. Yet, with more steel being made and shipped now than ever before, gray markets flourish and conversion deals are increasing with tough competition in these deals between the oil companies and automobile firms, "The Iron Age" points out.

News from the Midwest and Southwest indicates that oil firms are far from satisfied with the amount of steel they are getting from mills, conversion or gray markets. Many of their planned projects, such as pipeline and expansion programs, are tied up in the steel procurement picture. That is why oil companies will pay the money necessary to go through the conversion route for more steel.

Six months ago it was said, according to this trade paper, that ingots would be a drug on the market, but ingots are not now a drug on any market—if they are good quality and the right sizes for big conversion jobs. Prices for ingots in the free market are strong—so strong that spot prices range from $90 to $100 or more a ton. By the same token free market plates, skelp and tube rounds for pipe in the conversion market command high prices—to which is added some fancy freight charges, the magazine concludes.

The American Iron and Steel Institute announced on Monday of this week the operating rate of steel companies having 94% of the steel-making capacity of the industry will be 99.0% of capacity for the week beginning Nov. 15, 1948, a decrease of 0.4 point, or 0.4% below the preceding week. A month ago the indicated rate was 99.1%.

This week's operating rate is equivalent to 1,784,500 tons of steel ingots and castings against 1,791,700 tons a week ago, 1,786,300 tons a month ago and 1,697,400 tons, or 97.0% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, highest prewar year.

ELECTRIC OUTPUT AGAIN ESTABLISHES NEW ALL-TIME HIGH IN WEEK ENDED NOV. 13

The amount of electrical energy distributed by the electric light and power industry for the week ended Nov. 13, was 5,570,767,000 kwh., according to the Edison Electric Institute. This was an increase of 7,253,000 kwh. above output in the preceding week, and 486,427,000 kwh., or 9.6% higher than the figure reported for the week ended Nov. 15, 1947. It was also 870,832,000 kwh. in excess of the output reported for the corresponding period two years ago.

CAR LOADINGS OFF 9.5% IN LATEST WEEK

Loadings of revenue freight for the week ended Nov. 6, 1948, which included Election Day, totaled 843,166 cars, according to the Association of American Railroads. This was a decrease of 88,584 cars or 95.5% below the preceding week this year. It also represented a decrease of 67,004 cars, or 7.4% under the corresponding week in 1947, and a drop of 70,179 cars, or 7.7% below the similar period in 1946.

AUTO OUTPUT AFFECTED BY WILDCAT STRIKE AT CHRYSLER

Production of cars and trucks in the United States and Canada dropped to 116,468 units from 118,229 (revised) units the previous week, according to "Ward's Automotive Reports."

The wildcat strike of UAW-CIO workers at Chrysler was responsible for the week's decline.

Output in the similar period a year ago was 110,663 units, and 92,990 units in the like period of 1941.

This week's output consisted of 85,751 cars and 25,152 trucks made in the United States and 3,683 cars and 1,882 trucks made in Canada.

BUSINESS FAILURES FALL SLIGHTLY

Commercial and industrial failures dipped to 96 in the week ended Nov. 11 from 104 in the preceding week, Dun & Bradstreet, Inc., reports. This slightly exceeds the 84 in the comparable week of 1947 but it was three times as large as in 1946. Casualties were one-third as numerous as in the same week of 1939.

Failures involving liabilities of $5,000 declined fractionally to 81, but were well above the 66 reported a year ago. Failures with liabilities under $5,000 dropped to 17 from 21 and compared with 18 in 1947.

Manufacturing and commercial service failures declined in the week, while other industry and trade group failures increased slightly. Both retailing and wholesaling failures were considerably above the 1947 level, but manufacturing failures were less numerous than a year ago.

In the Pacific States, Middle Atlantic States and New England the East North Central States showed a rise. Almost no change from 1947 level occurred in any of the geographic regions.

FOOD PRICE INDEX HIGHER FOLLOWING 7-WEEK DECLINE

After almost two months of steady decline, the Dun & Bradstreet wholesale food price index turned upward the past week to stand at $6.39 as of Nov. 9. This was slightly higher than the 16-month low of $6.36 recorded the previous week and compared with $6.89 on the comparable date a year ago.

Aiding in the advance were higher prices for flour, wheat, corn, rye, oats, beef, hams, butter, coffee, eggs, potatoes, rice and lambs. On the down side were lard, bellies, cocoa, peanuts and hogs.

COMMODITY PRICE INDEX GAINS SLIGHTLY AFTER RECORDING NEW YEARLY LOW IN PREVIOUS WEEK

The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., edged slightly higher the past week following the declining trend of previous weeks. The index figure for Nov. 9 stood at 270.93, comparing with 269.45 on Nov. 1, and with 291.81 on the corresponding date a year ago.

Volume of trading in leading grains was curtailed by the holiday last week and prices in both the futures and cash markets moved within fairly narrow limits.

Demand was stimulated by a bullish interpretation to last Tuesday's election results, and prices for leading grains recorded moderate net gains for the week.

Export business in wheat continued in good volume. Cash corn showed strength despite large receipts during the week. Shipping demand for the yellow cereal was steady and some sizable export shipments were reported. The domestic flour market was featured by a somewhat better demand from large users with prices tending to stiffen in parts of the list. Small buyers as a rule continued to hold aloof. PMA buying of flour for export was in good volume.

Actual coffee prices showed marked strength at the week-end, reflecting limited offerings of quality grades from primary markets and fears of a longshoremen's strike. The butter market was irregular. Under increased speculative buying, prices advanced 4½ cents per pound over the recent low point but developed a somewhat weaker tone at the close. Livestock receipts of all kinds in the holiday week fell substantially below the preceding week, with hogs showing the least decline. Despite the drop in marketings, hog prices declined more than $1 per hundredweight during the week, with lower pork prices exerting a bearish influence. Lamb prices were firmer; steers held about steady.

Cotton prices turned stronger last week with the New York spot quotation showing a net rise of 28 points for the period.

Leading factors in the upturn were the general belief that the next Congress would continue the farm price-support program at a high level and the expectation of accelerated foreign aid shipments.

The movement of cotton into the Government loan continued in substantial volume, totaling 339,551 bales during the week ended Oct. 28 as compared with 321,955 the week previous. The latest official crop report as of Nov. 1 placed the 1948 cotton crop at 15,166,000 bales, a gain of 87,000 bales over the Oct. 1 estimate. Business in carded gray cotton cloth markets showed a substantial increase in activity last week. Inquiries for certain print cloth constructions were brisk with demand for prompt delivery reported strong. Prices were firm.

Some improvement was noted in the Boston wool market during the past week. Small lots of greasy domestic combing wools, amounting to a moderate weight, were sold. There was also more activity in sales of revalued medium grade CCC wools. Foreign wool markets continued active with prices strong to higher.

RETAIL AND WHOLESALE TRADE ADVERSELY AFFECTED BY UNSEASONABLE WEATHER

Unseasonably rainy and mild weather in many parts of the country during the period ended on Wednesday of last week was reflected in a fractional dip in retail dollar volume below the level of the preceding week. Dollar volume was sustained at a level slightly above the level of the corresponding week a year ago, states Dun & Bradstreet, Inc., in its current summary of trade. While unit volume in some areas dipped below that of the comparable 1947 week, some items of seasonal merchandise were sought in increased quantities.

Consumer interest in winter apparel increased fractionally with women's broadcloth and wool coats and covert removable lining coats receiving favorable attention. Women's worsted and gabardine suits and skirts were also frequently requested. Sweaters and blouses were in increased demand. In men's apparel topcoats and overcoats continued to be most popular, and in general, men's furnishings sold well. Children's apparel volume decreased slightly and consumer demand for men's and women's shoes remained limited during the week.

Retail food volume was steady to somewhat higher than that of the previous week.

The volume of meat consumption continued to increase fractionally in many parts of the country with low-priced meat cuts and meat and butter substitutes in large demand. Fresh fruit and vegetable volume decreased slightly, while the volume of canned fruits and vegetables rose moderately. The consumer demand for poultry and dairy products increased fractionally and bakers' products continued to sell well.

Hardware and major appliance volume decreased a trifle during the week while furniture and most small electrical appliances were in increased demand.

Bedroom furniture, bedding and rugs were frequently requested. Heating equipment and automobile supplies sold well as did toys and gift items.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from 1 to 5% above that of a year ago.

Regional estimates exceeded those of a year ago by the following percentages: New England, 3 to 7; East and Middle West, 1 to 5; South, 4 to 8; Northwest and Southwest, 0 to 4; the Pacific Coast region varied from 2% below to 2% above a year ago.

As slight declines in wholesale order volume in some areas were offset by advances in others, total order volume the past week remained close to the high level of recent weeks.

It exceeded moderately the dollar volume of wholesale orders in the comparable week last year. Deliveries were slightly more prompt than in the previous week. Buyers attending many wholesale markets were almost twice as numerous as in the week preceding and exceeded the number reported in the like week a year ago by about 30%.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Nov. 6, 1948, decreased by 8% from the like period of last year. This compared with an increase of 2% recorded in the preceding week. For the four weeks ended Nov. 6, 1948, sales increased by 4% and for the year to date by 7%.

Retail trade in New York last week was set back by unseasonally warm and rainy weather notwithstanding heavy Armistice Day sales. Estimates placed department store volume at about 10% under that of a year ago.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Nov. 6, 1948, declined by 3% from the same period last year. In the preceding week an increase of 7% was registered over the similar week of 1947. For the four weeks ended Nov. 6, 1948, an advance of 8% is recorded over that of last year and for the year to date, volume increased by 5%.

Should Government Bonds Be Supported at Present Prices?

(Continued from first page)

cess of our needs. No one denies that a net addition of Federal Reserve bank holdings of government bonds builds up bank reserves and adds to the money supply. Nevertheless, for reasons which the Federal Reserve feels compelling, it continues to support the government bond market and, in particular, the long-term bonds a little above par.

While I do not want to bore you with figures, the immensity of this problem is illustrated by the fact that during the past two weeks the Federal Reserve banks have purchased almost a billion of these bonds. And since they started their support a little less than a year ago, they have bought over $11 billion worth. Recently the selling has shown no signs of declining. No one apparently has any idea when it will. And if bank reserves are increased again, you may be certain that the selling will also increase.

Conflicting Practices

There is a good deal of evidence that our banking authorities are not only showing confused thinking on this problem but that they are pursuing conflicting practices. Since mid-1947 they have wanted to restrict the expansion of bank credit and have taken various steps looking toward this end. In spite of all the talk about the necessity of qualitative restrictions of bank credit through controls such as Regulation W rather than a quantitative restriction through permitting interest rates to rise, they apparently realize at last that it is difficult if not impossible, in practice, to restrict the expansion of bank credit without letting interest rates rise. But when the interest rates rise to the extent that they endanger the present prices of government bonds, the Federal Reserve seems to feel that it has a commitment to maintain the present prices of government bonds, come what may.

The Federal Reserve's position can be summarized somewhat as follows: It would like to have bank credit expansion stopped. It apparently would not object to having interest rates on private debts increased, if necessary, for this purpose. But it is unwilling that such an increase should make the government bonds decline in value below present levels. Therefore, it is calling upon banks, insurance companies, and other holders of government bonds not to sell them to the Federal Reserve—practically the only purchaser of long-term governments at the moment—and use the proceeds to make other types of private investments. It states, and states correctly, that this practice tends to be inflationary, no matter who carries it on, whether banks, insurance companies or individuals.

Here, I wish to make it clear that I am not going to take any part in that unfortunate controversy about whether the lending policies pursued by the banks or the insurance companies are the more inflationary. That controversy confuses and misses the real point at issue. The question before us is the proper conduct of our central banks which establish the over-all credit environment within which each bank and credit institution must conduct its business. Under our free competitive system it is too much to expect the management of any one bank or insurance company to do other than manage its own institution in what it considers will be the best interests of that institution. Our duly constituted banking authorities, the Board of Governors of the Federal Reserve System, the Advisory Council and the Secretary of the Treasury, should manage our Central banks and the Federal Debt in such a way that the individual bank could not, if it wanted to, pursue a credit policy detrimental to the public interest without doing real harm to itself. That is what our banking authorities were established for. They cannot dodge their responsibility by exhorting banks and insurance companies to pursue credit policies detrimental to their own interests. I do not have much respect for the so-called "Open-Mouth" method of credit control.

How Support Policy Came About

Let us now consider how the Federal Reserve came to believe that it had a duty to support government bonds at present levels. Previous to World War II the Federal Reserve never thought that one of its legitimate activities was to maintain the price of government bonds at any fixed figure whatsoever. It actually so stated in its 1939 report. It was in order to aid in financing the war that it turned its primary attention to the support of government securities. After fixing the pattern of interest rates from ⅜ of 1% on short bills to 2½% on long-term bonds, the Federal Reserve banks themselves purchased sufficient government securities to create enough member bank reserves so that this pattern of interest rates was maintained throughout the war. In fact, during the war and in spite of the huge war loans, the problem seemed to be to keep interest rates from going down rather than up, so ample and abundant did the Federal Reserve maintain member bank reserves.

Obviously so long as member banks could sell, to the Federal Reserve, Government securities in the shape of bills yielding only ⅜ of 1% and thereby build up their reserves, there was always an incentive to do this and shift their assets into higher yielding securities, particularly the longest term bonds which the Treasury permitted them to buy. It was obvious, therefore, to any competent student of the banking system right from the start of this policy that the decision to support government securities at fixed prices would result in the Federal Reserve losing all control of the money market, because so long as the member banks had government securities, they could build up their reserves to any level they desired. Moreover, one could be reasonably certain that in our competitive unit banking system, with such free access to the funds of the Federal Reserve offered at such ridiculously low rates as ⅜ of 1%, that the banks would shift out of this low rate paper into higher interest yielding assets whenever the occasion permitted. The extent to which the long-term eligible 2½s of 1967-72 rose in price after the war showed the pressure of this force. I believe that they went up to 109.

Federal Reserve's Alternatives

When the war was over, the Federal Reserve was confronted with two alternatives—(1) Attempt to regain control of the expansion of bank credit through restricting the ease with which member banks could build up their reserves; or (2) Continue to support the interest rate curve on which the war was financed. From the outset the Federal Reserve saw that to adopt the first alternative might make it impossible to support the government bond prices at par. And I think we may assume that they understood fully that to adopt the second one meant that the Federal Reserve would have little or no control whatsoever over the expansion of bank credit. In an attempt to avoid either horn of this dilemma, the Federal Reserve made a demand for what it called qualitative restrictions on bank credit. In case the necessity arose, it did not want to be compelled to restrict bank credit quantitatively by permitting the interest rate to rise but rather it wanted to be given the power in essence to say who should get credit and who should not. It hoped to be given the power to prevent undue credit expansion by continuation of such restrictions as that provided in Regulation W, loans on stock market collateral and the establishment of special reserves in the shape of short-term government securities.

Although financing the war had increased our total money supply in the shape of bank deposits and currency in circulation by about 300%, and although the potential inflation in this huge money supply was recognized, for a time in 1945 and early in 1946 there was a general expectation in government circles of a business recession and a large volume of unemployment. Such a situation, of course, does not call for a contraction of bank credit but just the reverse, and this may be one of the reasons why little, if any, attention was paid to the problem of bank credit expansion during the year 1946. In any event, we know that during this year bank credit expanded at a phenomenal rate. In fact, it is almost unbelievable but the rate was two-thirds of the expansion that took place during an average war year. Bank reserves during 1946 were likewise so abundant there was no problem of maintaining the prices of government bonds. In fact, the long-term eligibles sold well above par. This was the period when the Treasury was actually refunding maturing bonds into short-term certificates and stubbornly refusing to raise the short-term interest rate. Rumors were actually circulated that there were those in the Treasury who wanted the long term rate to be forced down to 2 or at least 2¼% at this time.

But by mid-1947 prices were rising so rapidly that some positive steps were at last taken to restrain the expansion of money and credit. The Treasury in its program of debt retirement paid off securities held by the Federal Reserve banks and also permitted an upward adjustment of rates on short term Government securities. The rediscount rate of the Federal Reserve banks was increased. And likewise there was an increase in reserve requirements on demand deposits of the member banks in New York City and Chicago.

The Rise in Interest Rates

These steps toward restricting credit expansion plus the strong demand for investment funds to finance the expansion and equipment of business led to a rise in the interest rates on other types of securities than government bonds. The demand for capital during 1947 not only for bank loans but in the shape of stocks, bonds and mortgages was the highest in the country's history. Such a situation inevitably leads to rising interest rates. The result was that beginning late in the year, the holders of government bonds began to sell them in order to reinvest their funds in other types of assets. At the then prices there were no buyers for the bonds and the Federal Reserve made the momentous decision to stand under the market for government securities as was done during the war and to establish their values at certain peg prices. The selling, which began in volume in November, increased in December and you will recall on Christmas Eve of 1947 the "pegs" were lowered by the Federal to approximately their present levels. Since then the Federal Reserve banks have supported the government bond market at these prices until to date they have accumulated some 11 billion, 137 million dollars of United States Treasury bonds. Eight billion, seven hundred seventy-four million dollars of these at the close of October were in issues having maturities longer than five years. To date the selling of these bonds continues and the Federal is apparently accumulating them at an increasing rate. The third largest weekly increase for the year took place at the close of October when the Federal Reserve bank holdings were expanded by over one-half billion dollars.

Why Private Holders Sell

Let us now consider why these bonds are being sold by private holders and then why the Federal thinks its has to buy them at the present peg prices.

Here I want to reiterate that I am not going to get into any discussion as to whether the member banks are responsible for this situation or whether it is life insurance companies or whether it is both. I am inclined to think that it is neither — that the cause is to be found in some fundamental economic forces at work. But no matter who sells the bonds, if the Federal buys them, member bank reserves are increased and the inflation potential made that much worse.

I hazard the guess that life insurance companies as well as banks are selling some of their government bonds because they need the funds to make loans for other purposes, which loans yield them a higher rate of interest than do the government securities they sell. Let us be open, frank and truthful about the situation. I will speak primarily for a life insurance company because it is a life insurance portfolio that I manage, although I am also a member of the executive committee of a commercial bank and in a position, I believe, to understand the motives which have led bankers likewise to sell some of their government bonds.

The simple fact is that life insurance companies have sold their government bonds during the past year to get the funds in order to make mortgage loans or to buy the bonds of public utility companies, railroad or other industries that need capital to expand their plant and equipment. By and large, the life insurance companies have not sold the bonds for speculative purposes nor have they consciously and knowingly made loans to aid in speculative activities that are inflationary. I also believe that there is little reason for thinking that the banks have not followed a similar line of conduct in this connection.

The bottom cause for the inflation during the past two years as well as for the rise in interest rates is to be found in the fact that business investment has been going on at a rate in excess of total savings. To make up this gap between savings and business investment of all kinds, bank credit has been used on a large scale. The law of supply and demand is at work in this field. Equilibrium can only be restored either by increasing our savings or decreasing the demand for capital.

Danger of Current Expanding Bank Credit

Bank credit is a dangerous substitute for a scarcity of capital in a period such as this. No doubt in a period of depression when there is a large number of unemployed, when commodities are abundant and when the economy is not running at full capacity, bank credit can be substituted for savings with little danger. It tends to add to the total money supply, increases demand for goods and has a tendency, other things being equal, to step up production, increase output and not disturb prices. But when business is operating at full capacity, when there are no men unemployed, when commodities are scarce to such an extent that they are hampering productive efficiency, in such a situation to add to current savings by an expansion of bank credit only leads to inflation and rising prices. This situation has been apparent in many lines of industry during the past two years and particularly in the housing industry. An attempt was made to put more money into housing than there was building materials to build houses or laborers to erect them. This attempt has been one of the vital factors in pushing upward the prices of residential real estate.

In a free economy there is no other way to cut down an excess demand for capital except by raising its price—the interest rate. So-called qualitative controls over credit simply puts into the hands of some government board the decision as to who is to have the loanable funds and takes that decision away from the market. If the interest rate is permitted to go up, the market will decide who is to get the available capital by restricting it to those who can pay the higher price for it. Do not let anyone tell you that rising interest rates will not restrict the demand for capital. It is beside this paper to explain how dear money always has done its work in this regard but history shows it always has.

A year ago the President of your organization put on an excellent campaign to restrict so-called inflationary bank loans. Recently Secretary of the Treasury Snyder has requested the life insurance companies not to make any loans which they deem inflationary. But this is a situation that cannot be handled in the final analysis by an individual bank or by an individual life insurance company. Imagine the criticism the life insurance companies would get if we refused to make mortgage loans because we stated that we did not have any funds to make them. Recently I spoke on a program before a convention where a well known United States Senator was also on the program, and where this Senator stated in effect that if the life insurance companies did not become even more liberal than they now were in the making of residential loans, the government might have to go into this lending field itself.

What else can we do when there is a legitimate demand for private loans in excess of our current income except to sell some of our government bonds. We would be criticized much worse if we turned the loans down. **When total business investment exceeds total savings, the over-all economic situation is inflationary.** It is the function of the Federal Reserve authorities to correct such a situation through permitting interest rates to rise. They should not attempt to thwart the working of economic forces through manipulating our central banks and then call upon individual member banks and individual life insurance companies to remedy a situation that they are encouraging. Let me repeat, the over-all economic situation calls today for some reduction in the expansion of business investment so that savings and investment can again be brought into equilibrium, and to bring about that situation rising interest rates are needed. Not only rising interest rates on short term government paper but also rising interest rates on long term bonds and real estate mortgages.

The Federal Reserve authorities frankly admit that so long as they support the present pegs for government bonds they have lost control of the money market. Moreover, they honestly state, to the extent that their purchases of long term government bonds exceed the sales of their short term ones the net effect of their operation is to increase the money supply and add to the fires of inflation. Let us, therefore, turn

our attention briefly to the reasons which are advanced for maintaining the present pegs on government bonds.

Fallacy of Cost of Federal Debt Service

First and foremost is always mentioned the need to keep down the interest cost on the Federal debt. Upon examination this argument has very little validity. A Federal budget that is now running in excess of $30 billion could well stand the small increase necessary to pay a market rate of interest on its indebtedness. Moreover, it must not be forgotten that a good deal of the increased interest cost on the government debt will return to the Treasury in the shape of increased taxes. If it pays the increase to banks, you will return at least 38% of it to the government in your corporation taxes, and then after you pay out what is left in dividends to your stockholders, on the average they will pay another 38% of the dividends in their personal income taxes. Obviously, the government debt should not be managed solely to reduce its cost to the Treasury. It should be managed in such a way as to do the least harm to the whole economy and so its over-all burden, everything taken into consideration, shall be as light as possible.

Again, much is made of the fact that if the marketable long term government bonds are permitted to go below par, this will encourage individuals who own E, F and G bonds to cash them. However, it is difficult indeed to follow this line of reasoning. E, F and G bonds cannot decline in price. Their prices are fixed in the redemption values stated in the bonds. People would cash these bonds in large amounts only if they became fearful of two things. First, that the government could not pay them off when they matured or, second, and I wish to stress this second reason, because they were fearful that when the bonds matured the money they were paid in would have little value. Obviously, any attempt made to stop the upward movement in prices would cause a thinking individual to retain his savings bonds. Is it not a fact that the value of money has decreased so much since the bonds were purchased during the war that it has caused real losses to the holders of E, F and G bonds. These holders know they are going to get their money when the bonds mature but what they will worry about in a year or two if the present upward movement in prices is not stopped, is what the money will be worth in purchasing power when they eventually get it. Already, I dare say, many of you have seen during the past three years the individual who is a shrewd trader and crafty in his dealings bring in his savings bonds, convert them into cash to invest in other types of assets better able to withstand the ravages of a rising price level than the low-interest-bearing government bond. There is no reason for thinking that the average holder of a savings bond considers his bond any different from his savings account. Certainly we would not argue that we will withdraw his savings deposit merely because long term government bonds happen to decline four or five points below par.

Unpegging and Financial Restrictions

Again, you hear it stated that financial institutions might go broke if government bonds went below par. This argument, of course, is silly. The insurance companies and savings banks carry their long term bonds on amortized values as required by law and a decline of a few points would not even show up in their balance sheets. And so far as the commercial banks are concerned, I need not tell you that others own the majority of our long term government bonds. They are not in your portfolios. Of the 65 billion government bonds that the banks own, over 50 billion have maturities of less than five years.

Much has recently been made of the argument that if the pegs are permitted to go below par that this will lead to increased selling. That so long as the present holders of these bonds feel certain that they can sell them at par, they will not dispose of them but that if the price was once permitted to decline to 95 or 96 an avalanche of selling might well take place. It, of course, is impossible to answer this question for certain before it has been tried but so far as the life insurance companies are concerned, two reasons can be advanced which will clearly indicate that the price of 95 or 96 would materially dry up, if not absolutely stop, the selling by insurance companies. In the first place, the insurance companies would not desire to take the capital loss which would have to be written off immediately after the bonds were sold at these prices. Again it has been felt for a long time by many of the investment officers of the life insurance companies that there was not sufficient spread on the yield between a government bond and a corporate bond having the same maturity. But because there is a real need for life insurance companies to earn around 3% on their assets many of them have bought corporate bonds when, if a government bond had been offered to yield approximately 3%, they would not have bought the corporate bond at a yield of even 3½%. A decline in the long-term 2½% government bonds might well lead insurance companies to buy additional government bonds in addition to stopping the further sale of these securities. We know, at least, that after the first World War when Liberty Bonds declined in price, the insurance companies for a time put the largest percentage of their new funds in them rather than in high grade corporate bonds.

Why Fear a Free Bond Market?

I have read the testimony that has been given before the Senate Banking and Currency Committee and practically all the addresses that have been made by our Federal Reserve authorities on this subject, and running through all these utterances, there is basic fear of a free market rate of interest. Why this fear? Are there any reasons for thinking that this country is passing into a capital deficit nation? Was it not only a few years ago that we heard on all sides that savings were accumulating faster than there were outlets and that the need was for government deficits? Looking at capital accumulation from a fundamental point of view, that is, in the amount of additions to plant and equipment, and not merely considering savings as an increase in so-called liquid assets — money and bank deposits—and it is apparent that this nation never saved more in its whole existence than it has during the past two years.

We are probably the sole surplus capital accumulation nation in the world. With the world in its present state of upheaval, the chances of investing our savings abroad in the years ahead on a large scale are not good. A nation so situated as the United States cannot have over a long period of time high interest rates. With the growth of insurance, pension funds, social security and huge plowing back of profits into industry by our large corporations, certainly the long term growth of savings seems secure. When the flush of post war expansion is once over, which may take a year longer, the pressure of funds for business investment will relax and with it the economic forces making for higher interest rates.

Our capital markets are suffering today on the one hand from the tremendous increase in the money supply which took place during the war, and with some ups and downs has been permitted to continue to date, and on the other hand from the large demand for plant expansion to make up for the deficit in construction that took place not only during the war but during the depression of the 30s. In essence, the attempt to spend the surplus money resulted in a demand that could not be filled. This insatiable demand motivated all kinds of businesses to expand their plant and equipment. The mere fact of the expansion of plant and equipment when it is in progress in itself makes for inflation in that it generates purchasing power for consumer goods without producing such goods. The need of the hour certainly is to curtail our money supply if we want to stop the upward movement of prices.

To bring this about, the pegs on government bonds must be lowered. It is not necessary for the Federal Reserve to withdraw completely from supporting the market. It should continue to provide an orderly market for government bonds. But it is only by lowering the pegs that we can find out by the process of trial and error where the free market for government bonds really is. Or to put it another way, where the market rate of interest is that will equate the supply of savings with the demand for business investment. The Federal Reserve cannot continue to support the present "pegs" without running the risk of further inflation. Moreover, if the Federal can support the prices for government bonds at present prices, it can just as easily support them at lower prices. My guess is that we would all be cheerfully surprised in the small decline that would take place in our government bonds after the market has once had a chance to adjust itself to a withdrawal of the pegs. Let us not scare ourselves to death by conjuring up images of what possibly might come to pass.

Effects of Decreased Money Supply

When the increase in the money supply is once stopped and when its velocity stops increasing, there will be a marked drop in the demand for consumer goods. When the demand for consumer goods once begins to decline, it is not long before the demand for plant expansion likewise follows the same course. When the demand for plant expansion lets up, the demand for savings will be less and we will continue to save a good deal just the same. While we have let the present situation go too far, it is still not out of hand, far from it. With the exception of an unsatisfactory urban real estate situation, there is little evidence of debts that have as yet reached dangerous proportions. It has been years since farm mortgage indebtedness was in better condition in relation to long term average farm income. Bank loans, while they have had a phenomenal increase, on the average are well secured. Beyond a shadow of a doubt they are better than they were in the late 20s or after World War I. Consumer loans, instalment credit and inventories are no doubt high according to past standards but in relation to the volume of trade and income are not as high as before the war.

The danger is in the trends. We are going in the wrong direction. If we will put on the brakes now, while there is yet time, we may be able to stop with not too much of a jar. But the longer we follow the present inflationary road, the higher prices get, and the more indebtedness piles up, the more difficult it will be to put on the brakes when it is necessary. And some day it will be imperative to do so for it is futile to expect the inflationary movement will stop itself. Inflations in the past have never done any such thing. They tend to generate their own momentum and vicious spirals until something is done to stop them. In the past that something has always had to be dearer money.

Our Federal Reserve authorities have been trying to stop administering this unpleasant medicine far too long. The present attempt to peg government bonds so that the Treasury can have a low interest rate on the government debt and at the same time have a high enough interest rate on private debt to restrict undue credit expansion is impossible of attainment in our present free banking system. So long as there is a possibility of substituting government bonds for other forms of private investment their substitution will continue when in the minds of investors it is profitable for them to make the substitution. It seems inconceivable that any Congress would break faith with the people in such a way as to destroy the marketability of our government's bonds. How could one sell bonds in the future after such a breach of faith?

The Real Danger

There is a real danger today that this whole attempt of maintaining the present price of government bonds instead of building up the credit of the Treasury is destroying it. The way to get the lowest possible interest rate on our government debt is to make government securities as attractive as possible. There must be no doubt about their liquidity, marketability and value in the open market. Likewise, there should be little doubt about what the value of the money will be when the bonds have matured. In every possible way the government's bonds should be made the most secure investment in the world. They will then sell at the lowest possible rate of interest or what economists call the pure rate of interest. Under such conditions it is difficult to believe that a United States Government bond with a maturity of 20 years bearing an interest rate of 2½% will need Federal support for long to maintain its price near par.

In conclusion, I want to state this is no time for dogmatism in handling this problem. The management technique called for is one of experimentation and trial. What we do know for certain is that the upward movement of prices needs stopping and that our present money supply is excessive. The Federal Reserve authorities know how to handle these two problems if they want to abandon the present artificial market which they maintain for government bonds. It is very doubtful indeed in spite of all the ingenious schemes that have been recently proposed that they can stop the present dangerous trends and continue their present bond market support. They are in a position of a rider trying to ride two horses, each going in opposite directions.

No one in his right mind is arguing for a repetition of what took place in 1920-21. All of us know a good deal more about the workings of money and credit than we knew at that time. Our problem today is to stop an inflationary movement before it gets out of control. It is not in the interest of higher interest rates or lower interest rates that a freer money market is needed than we have at present. It is because that freer money market is essential to stopping inflation. It should be remembered that the Federal Reserve System was not established to maintain the prices of government bonds. Nor was it established to keep the interest rate on the government debt low. When the Federal Reserve System was established, the Federal Reserve authorities were admonished to administer it in the interests of "agriculture, commerce and industry." In other words, in the interest of all the people.

To put the argument for maintaining present peg prices on government bonds on any other plane than this is to confuse the issue. There is a danger today that in paying too much attention to one problem—bond prices—the larger problem is being neglected.

It should be crystal clear that the present situation calls for a stopping of the forces making for inflation. It is clear that the bond support program hinders the Federal Reserve authorities in doing what they admittedly would like to do in this connection. Freely admitting that there are some dangers if the bond support program in its present inflexible manner is withdrawn, these dangers are not sufficient to warrant its continuance. That the present inflationary dangers are fully comprehended by our banking authorities is fairly obvious. Recent utterances by them lead me to believe that it is not too much to hope that something will be done to correct the present inflationary tendencies before they are allowed to go much farther, even if this entails a modification of the present bond support program.

Our total money supply has been rising rapidly since last March, the increase in this period being over $3 billion. The increase in the net purchases of government bonds by the Reserve Banks has made this increase possible. Everyone admits this trend must be stopped, or we will face real disaster later.

Summary

My discussion may now be summarized, as follows:

(1) The bottom cause of our inflation is to be found in our excess money supply. The Federal Reserve government bond support program is augmenting our money supply and, therefore, making the danger of further inflation more imminent. While to date the Federal has done a good job in substituting short term government securities for the long ones which they have purchased, the question arises, how long will they be able to do so. Moreover, it must not be forgotten that by making this exchange they are carrying a much larger proportion of the government debt in short term paper, just exactly the type of paper that ought not to be carried with a debt so large as ours. The disturbing effects of our huge public debt will never be lessened until a larger proportion of it is funded and comes to rest in the portfolios of those who are willing to hold it as a permanent investment. This means that savings institutions, insurance companies and all types of financial institutions that would normally invest in long term bonds should increase their holdings of long term bonds rather than decrease them.

(2) The demand for capital to enlarge and equip our factories, public utilities and railroads, and to finance a large volume of business on the current high price level has called for sums in excess of our current savings. This has led to a rapid expansion of bank credit as a substitute for savings and is in itself a mighty force making for inflation. Criticism by government authorities of banks, life insurance companies, and other financial institutions for selling government bonds and reinvesting the proceeds therefrom in private debt is unfair. It is an attempt on their part, consciously or not, to put a burden of responsibility upon private institutions which rightfully belongs upon them. For the banks and life insurance companies to effectively cooperate so as to conduct their lending operations free from all inflationary dangers would necessarily be acting in such close collusion as to make them liable for prosecution under the Sherman Anti-Trust Act. Imagine the public outcry that would result if the life insurance companies called a meeting for the purpose of formulating a program not to make any more mortgage loans or buy any

(Continued on page 34)

Should Government Bonds Be Supported at Present Prices?

(Continued from page 33)

more public utility bonds unless their current cash income was sufficient for that purpose.

(3) Freely admitting that a drop in the pegs at which the Federal Reserve will support government bonds means delving into the unknown, nevertheless, there is little reason for thinking that if the Federal Reserve can support government bonds at par, they cannot support them likewise at a few points under par. The main reason for dropping the pegs is to feel out the market to see just where a free market is for our government bonds. My position is that that market, after a transition has once been made from the present peg market to a free market, will be at much higher levels than our fearful banking authorities would lead us to believe.

(4) In the final anlysis, the Federal Reserve bond support program is a program to keep all interest rates low, for it is impossible in an economy that is at all free to let interest rates rise on private debt and keep them low on government debt.

(5) It must not be forgotten that central banks cannot create capital; they can only substitute money and bank credit for capital. In a period of full employment such substitution inevitably leads to inflation. To attempt to permanently alter the structure of interest rates by a technique of shifting the maturity of the government debt from long bonds to shorts only changes the ratio of the rate of interest between short dated and long term paper.

(6) In conclusion, may I say that the old banking axiom that went unchallenged for a century—namely, that if an attempt was made to regulate the banking system in the interest of low interest rates, it could only be done at the risk of disturbing the price level and bringing on inflation — is just as true now as it ever has been. Today, in a period of full employment and scarce commodities, that danger is imminent. The situation is obviously fraught with danger. We are not arguing for a sudden and complete withdrawal of the bond support program. We are only arguing for its modification to such an extent as will stop the present monetary forces from feeding further the fires of inflation without bringing about severe deflation.

We believe that the Federal Reserve has plenty of powers to bring this about under existing laws and that it can be done without putting our credit institutions into a strait-jacket or by raising minimum banking reserves to such an extent as to destory a bank's earning power. We doubt, however, if it can be done if our authorities merely sit tight, buy all the long term government bonds at present levels which may be offered them, and thereby try by central banking technique to alter a fundamental capital demand-and-supply situation which at the moment is calling for higher interest rates to bring it into balance.

SEC Makes Permanent Use of Special Prospectus for Offerings to Stockholders

On July 19, 1948, the Securities and Exchange Commission published a proposed rule which would permit the use of a special form of prospectus in offerings of securities by an issuer to its existing stockholders. The Commission has now duly considered all comments and suggestions received in connection with the proposed rule and has determined that the rule should be adopted. The Commission finds that the rule is appropriate in the public interest and for the protection of investors and is necessary to carry out the provisions of the Act. The rule is adopted pursuant to the provisions of the Securities Act of 1933, particularly sections 10 and 19 (a) thereof.

The new rule provides that, in sales of securities by an issuer to its existing stockholders, a prospectus may consist of a copy of the proposed prospectus meeting the requirements of Rule 131, and a document containing such additional information that both together contain all the information required to be included in a prospectus for registered securities, provided that the document incorporates the proposed form of prospectus by reference, that both are sent to the stockholders of the issuer, and that the document is sent or given within 20 days after the copy of the proposed form of prospectus was sent or given. The rule is not applicable to sales by an underwriter or dealer.

Under Rule 131 sending or giving to any person, before a registration statement becomes effective, a copy of the proposed form of prospectus filed as a part of such registration statement would not in itself constitute an offer to sell if the proposed form of prospectus contains substantially the information required to be included in a prospectus for registered securities, or substantially that information except for the omission of information with respect to the offering price, underwriting discounts or commissions, discounts or commissions to dealers, amount of proceeds, commission rates, call prices, or other matters dependent upon the offering price. This rule also requires that the copy contain a prescribed legend and that the registration statement should not be the subject of a proceeding or an order under Sections 8 (b), 8 (d) or 8 (e) of the Act.

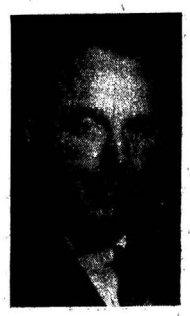
The text of the new rule is as follows:

"Rule 431—Prospectus for Sales by Issuer to Stockholders.

"In sales of securities by an issuer to its existing stockholders, a prospectus may consist of a copy of the proposed form of prospectus meeting the requirements of Rule 131 and a document containing such additional information that both together contain all the information required to be included in a prospectus for registered securities, provided that (1) the proposed form of prospectus is incorporated by reference into and made a part of the document, (2) a copy of the proposed form of prospectus was sent or given, in compliance with Rule 131, by the issuer to the stockholder to whom the document is subsequently sent or given, and (3) the document is sent or given by the issuer to the stockholder within 20 days after the date on which such stockholder was sent or given a copy of the proposed form of prospectus. However, this rule shall not apply to sales by an underwriter or dealer."

Goodbody Heads Ass'n Of Stock Exch. Firms

Harold P. Goodbody, partner, Goodbody & Co., New York City, was elected President of the Association of Stock Exchange Firms at the annual organization meeting of the Board of Governors.



Harold P. Goodbody

Russell E. Gardner, Jr., partner Reinholdt & Gardner, St. Louis; Gardner D. Stout, partner Dominick & Dominick, New York City, and Walter W. Stokes, Jr., partner Stokes, Hoyt & Co., New York City, were elected First Vice-President, Second Vice-President, and Treasurer, respectively.

Sidney L. Parry, Henry W. Putnam and R. Michael Charters were reappointed Executive Vice-President, Vice-President and Secretary, respectively.

The Board approved Mr. Goodbody's appointments of Standing Committees for the ensuing year; the Chairman of which are as follows: Banking Relations, Gardner D. Stout, Dominick & Dominick, New York.

Bond, Leonard D. Newborg, Hallgarten & Co., New York.

Business & Office Procedure, Michael W. McCarthy, Merrill Lynch, Pierce, Fenner & Beane, New York.

Commodity, Harold L. Bache, Bache & Co., New York.

Cutomers' Brokers, Maynard C. Ivison, Abbott, Proctor & Paine, New York.

Employee Relations, M. Donald Grant, Fahnestock & Co., New York.

Foreign Business, Hans A. Widenmann, Carl M. Loeb, Rhoades & Co., New York.

Investment Advisory, Thomas F. Lennon, Delafield & Delafield, New York.

Investment Banking, C. Newbold Taylor, W. H. Newbold's Son & Co., Philadelphia.

Legislation, Frank C. Trubee, Jr., Trubee, Collins & Co., Buffalo.

Public Relations, James F. Burns, Jr., Harris, Upham & Co., New York.

Regional Exchanges, Ralph W. Davis, Paul H. Davis & Co., Chicago.

Taxation, Benjamin H. Griswold, III, Alex. Brown & Sons, Baltimore.

The following were elected to membership on the Board of Governors of the Association to serve their first term: Eugene M. Geddes, Clark, Dodge & Co., New York City; Arthur R. Mejia, Davies & Mejia, San Francisco; James P. Nolan, Folger, Nolan & Co., Washington, D. C.; Walter S. Robertson, Scott & Stringfellow, Richmond; Phelps Witter, Dean Dean Witter & Co., Los Angeles.

Members of the Board reelected to serve their second terms are: Harold L. Bache, Bache & Co., New York City; F. Dewey Everett, Hornblower & Weeks, New York City; Joseph M. Scribner; Singer, Deane & Scribner, Pittsburgh; Laurence P. Smith, Bennett, Smith & Co., Detroit; Walter W. Stokes, Jr., Stokes, Hoyt & Co., New York City; Gardner D. Stout, Dominick & Dominick, New York City; C. Newbold Taylor, W. H. Newbold's Son & Co., Philadelphia.

Messrs. Amyas Ames, Kidder, Peabody & Co., New York City; Wymond Cabell, Branch, Cabell & Co., Richmond; Walter W. Cruttenden, Cruttenden & Co., Chicago; Thomas J. Hickey, Vilas & Hickey, New York City; J. Gould Remick, Stillman, Maynard & Co., New York City, were elected to serve on the 1948 Nominating Committee.

Halsey Stuart Offers Iowa Pub. Serv. Bonds

Halsey, Stuart & Co. Inc. offered publicly Nov. 17 $3,000,000 Iowa Public Service Co. first mortgage bonds 3¼% Series due Nov. 1, 1978 at 101.93% and accrued interest. The firm was awarded the bonds at competitive bidding on a bid of 101.07999.

Net proceeds, together with those from the sale of 109,866 shares of the company's common stock and from funds derived from the company's operations, will be used to provide a portion of the funds required for the construction or acquisition of permanent improvements, extensions and additions to the company's property or to reimburse its treasury in part for expenditures made for such purposes.

The general redemption prices are scaled from 104.93% to 100% while special redemption prices range from 101.93% to 100%.

Iowa Public Service Company, a public utility operating wholly within the State of Iowa, is engaged in the purchase, production, transmission, distribution and sale of electricity for light, heat and power. It serves about 212 communities and over 9,250 farms in this territory with electricity. As of July 31, 1948, it rendered electric service to about 79,857 customers and gas service to about 29,472 customers.

Mercer Hicks Co. Offers Radiant Glass Stock

Mercer Hicks & Co. announce in connection with the offering of 149,000 shares of Continental Radiant Glass Heating Corp. common stock (no par value) that distributors of the company's products have purchased a substantial block of the stock. Formal offering of the stock was made Nov. 15 at a price of $2 a share.

The company is engaged in the sale of radiant glass electric home heating sysetms. Units already delivered and firm orders now on hand have a total billing of more than $125,000. Distributors have agreed to purchase during the next 12 months a sufficient number of units to give the company a billing of more than $430,000. The heating systems are being manufactured for the company by the Atlantic Steel Castings Co. at the rate of 500 units a week and plans are under way to step this production up to 1,000 units per week.

Morgan Stanley Group Sells 100,000 Shares Peninsular Telephone

An investment banking syndicate headed by Morgan Stanley & Co. and Coggeshall & Hicks placed on the market Nov. 15 a new issue of 100,000 $25 par value $1.32 dividend preferred stock of Peninsular Telephone Co. The stock, offered at $26.40 a share, to yield 5% was oversubscribed, the underwriting managers reported.

The company will use the proceeds to finance expansion.

The new stock is subject to redemption until Nov. 15 at $27.65 a share and thereafter at $27.15 a share.

The company serves Tampa, St. Petersburg and other areas in Florida.

G. H. Walker & Co., Merrill Lynch, Pierce, Fenner & Beane; A. M. Kidder & Co., Childress & Co., and Leedy, Wheeler & Alleman, Inc., participated in the underwriting.

Temporary Stay of Administrative Juggernaut

(Continued from page 3)

what the Commission has done or intends to do is in the public interest. In some there is the additional legend in substance that the action is for the benefit of investors.

The public press getting these releases, which in content are injurious enough, sometimes embellishes them so that a respondent frequently finds his business practically destroyed before the issues have approached a hearing. That constitutes so much additional damage, for in many, if not most, instances proceedings for revocation of broker-dealer registration are based upon previous SEC examination of books and records and interviews with respondent's customers. The artfully trained and briefed SEC investigators do plenty of damage before the matter gets to the release stage. For all of this, despite the fact that a respondent is ultimately successful, there is no relief. There can be no redress, no recoupment for such extensive damage.

Whereas wide publicity was given to the charges, only a few bare lines will be carried attesting vindication.

What can be done about all this manifest injustice doing irretrievable wrong? How can the administrative juggernaut be compelled or directed to adopt a more enlightened policy?

There is of course a legislative remedy. The Congress can and should by an appropriate bill circumscribe the activities of these self-seeking publicity hunters. This could be the perfect mandate. Another method would be by adoption of an SEC rule urged upon it by the securities industry.

Each of these requires solidarity among dealers, brokers and underwriters who should achieve unanimity for the purpose in the public interest and for the benefit of investors.

It must be clear that a harried profession subsisting on fear cannot do its best for the public.

The Election and the Securities Market

(Continued from page 8)

list among the negative factors in the outlook the possibility of our now entering a deflationary phase as witnessed by rising short-term interest rates and the fairly sharp break recently in some agricultural prices. As to the latter I regard this as a favorable rather than an unfavorable development. On the one hand it will tend to remedy the existing imbalance in our economy as between agricultural and industrial prices and incomes and leave a wider margin of disposable consumer income for the purchase of products other than food. It may also serve to forestall demand for the imposition of price control. On the other hand parity price floors, which it now appears probable will be continued at prevailing levels, insure a relatively mild decline in agricultural prices, which, with bumper crops, will sustain the current extraordinary prosperity of the farmer who has never been in sounder financial position. Roughly the estimated liquid assets of farmers are today 2½ times their debt whereas before the war farm debt was about 2½ times liquid assets.

Credit Situation

The credit situation is a matter of more serious concern. The essential element of every major depression has been the forced liquidation of large speculative positions to reduce swollen bank indebtedness. In this connection we cannot ignore the recent sharp rise in business inventories and debt and the evidence of official policy to forestall further inflation through the instrument of credit control. Total inventories stood at about $52 billion in July, 1948 comparing with only a little over $26 billion as recently as December, 1945. While it is true that inventories today are generally below normal in relation to sales it is also true that a substantial decline in sales would expose many businesses to painful readjustments. *Pari passu* with this increase in inventories we have witnessed a sharp rise in private debt, corporate and personal, amounting to over $40 billion dollars between the end of 1945 and mid-1948 to a new all-time record level.

It is only fair to point out, however, that the rise in private debt is a product rather than a cause of inflation which has arisen essentially from the huge expansion of the public debt to finance the war, a condition that we shall have with us into the indefinite future. Moreover, viewing the total of private debt against the background of the present inflationary environment it should be noted that private debt when related to the level of the national income is currently sub-normal rather than excessive. At this time total private debt is about 82% of the national income as compared with the low point of about 77% in 1945, 187% in 1939, 200% in 1928, and 206% in 1921.

There has been widspread discussion recently of measures of credit control to prevent a continued spiraling of prices. Some have advocated a substantial increase in required bank reserves to limit the availabflity of credit and others have recommended the removal of government support of the bond market to permit a rising interest rate to exercise its traditional influence on credit expansion and the flow of savings. However, I believe it can be predicted with confidence that government policy will be anti-inflationary rather than deflationary. Having in mind the disastrous consequences of sudden sharp contraction of credit in 1920, 1929 and 1937, it is altogether unlikely that government officials will again use a meat axe on the delicate credit structure. Wise and equitable policy today calls for the prevention of further inflation rather than the adoption of drastic deflation which would be catastrophic. There is no doubt in my mind but what the sudden removal of all support from the government bond market or a drastic contraction of bank credit would precipitate deep depression; but on the basis of recent statements of responsible fiscal officials this seems to me altogether unlikely. What seems more likely is a further moderate increase in reserve requirements, a continued rise in short-term government and commercial paper rates followed by a further increase in the discount rate. It is also possible, but not likely in the near future, that we shall adopt a policy of flexible rather than rigid price support of long governments.

In any event I do not think we need contemplate at this time measures of credit control of such a nature as to touch off a major depression.

Possible Decline in Corporate Profits

Another negative factor in the outlook is the possibility of a considerable decline in corporate profits with only a moderate decline in production and sales as supply catches up with demand, in view of the high break-even point of industry. This, of course, is accentuated by the prospect of further increases in wages and pressure for lower prices. I believe, however, that this point of view fails to give sufficient weight to the material increase recently in labor productivity arising from the great improvements in productive equipment and processes and the further great savings that will be effected with the completion of current plant improvement programs and the abandonment of inefficient high-cost facilities. To my mind this simply points up the argument that the period ahead will be marked by intensive competition, narrower profits margins and the elimination of the marginal operator; and suggests a persistent up-grading of equity investments at this time.

This is an imposing array of negative factors — the threat of war; the advanced age and decelerated rate of the boom; and a prospective declining share of the national income accruing to the stockholder under a laboristic economy.

Common Stocks as Hedge

It may surprise you to hear that despite these gloomy forebodings I am quite prepared, for the present, and at this level of common stock prices, in full recognition of the risks assumed—to recommend the maintenance of a fully invested position in the common stock segment of the portfolio; and to suggest as an over-all policy for conservative balanced investment programs an allocation of not less than 50% to carefully selected broadly diversified investment grade common stocks. For the longer run there may be greater risk of loss in holding cash or high grade fixed income securities than in holding good common stocks. We can't avoid risk—we can only hedge and try to minimize it.

I hold this opinion for these reasons:

First, I do not yet perceive the signs of an over-all deterioration of the business situation. We have 60 million employed and a negligible number unemployed. The national income and consumer spending continue to rise and though some changes may occur in the incidence of the national income under the policies of the present administration, it appears probable that the national income will be sustained at about its current high level—more than three times that of 1939—for some time to come. People are employed and have money. This is sustaining retail trade at extraordinarily favorable levels; department store sales for the Fall to date have shown a normal seasonal increase over the Summer and have recently made the greatest gains over last year for some time. While we have recently seen some slight sag in building contracts and starts, construction activity remains near record-breaking levels. It probably will gain added impetus from expanded low cost housing projects and other public works in the coming year. The Federal Reserve Board Index of industrial production is being sustained at the high level of about 190% of the 1936-39 average. Our Index of Incoming Orders after dipping from its peak postwar level during the first half of this year, has remained on an uneven but high plateau for the past three months, suggesting a continued level of industrial activity at or about 190 in the Federal Reserve Board Index for at least the next six months.

A number of consumers goods industries are now going through a readjustment to the normal conditions of a buyer's market and I believe we shall see a continuation of this seriatim adjustment, industry by industry, over the coming year. But this suggests to me a correction rather than a recession over that period involving a moderate over-all decline in industrial production and commodity prices, the degree of which will be influenced by the wage and price policies of the administration.

I do not, however, perceive as yet the elements of a major depression; and I believe that we could have a relatively stable and healthy economy for a considerable period of time ahead. The "bust" that follows a boom proceeds from a period of buoyant optimism and excessive speculation. I certainly would not characterize the postwar period to date as one of excessive optimism or speculation. Quite the contrary. The conspicuous feature of this period has been the marked sobriety of conduct on the part of business men, bankers, investors and speculators. All through this period of extraordinarily high rate of business activity and corporate profits we have continued to worry about the "coming recession." This has been aptly called "the unhappy boom." So long as we continue to display such becoming sobriety I shall not worry about a "bust."

Inventories and Debt Not at Dangerous Levels

While the rise of inventories and private debt in the past two years suggests the need for continuing caution, these cannot be said, in the present money environment, to have reached dangerous levels. In this connection it is well to note that business borrowing has recently been rising at a decelerated rate as compared with last year; and the latest Federal Reserve figures, at the end of August, reveal that forward commitments of department stores were 13% below a year ago.

Moreover we continue to have a large backlog of demand for consumer durable goods. Unfilled orders for automobiles show no diminution and we still have a long way to go to catch up with deferred needs for adequate housing. The major heavy industries continue to struggle with shortages to meet the huge volume of unfilled orders; and the steel industry is under continuing social pressure to expand its capacity to relieve an acute bottleneck. It might be added parenthetically here that the steel industry must be permitted to preserve its equity earning power if it is to be able to finance soundly these expansion requirements.

While industrial plant expansion has been in record-breaking volume over the past three years, we have not yet made up the ravages of the depression of the 30's and the war of the 40's; and there is actually still today less capital per worker than there was 20 years ago.

National Defense Requirements

Superimposed on this as yet unsatisfied demand for what we may call "civilian goods" are the huge requirements of our national defense, including our own expenditures for armament, probable lend-lease supplies for Western Europe, and the heavy export of capital goods under the ECA. While a boom based on such expenditures might be said to lean on a frail reed and while we might wish that our production could be devoted to more socially constructive ends, we cannot ignore the importance of defense activities as a prop of the economy over the next year at least, as they are likely to absorb in the aggregate as much as 10% of our gross national production.

Another factor of significance in the favorable outlook for equities is their sober market appraisal in the current inflationary environment. I am not one of those who regard inflation as necessarily bullish for common stocks; but it is of the utmost significance to note that among all the major elements in our economy today common stocks alone do not reflect the degree of inflation that has taken place since the outbreak of the war. The money supply is now about three times the prewar volume. Wholesale commodity prices are about 125% above the prewar level and factory wages are 116% higher. In contrast, common stock prices as measured by the Dow Jones Industrial Average are currently only about 16% above the average level of 1936-39, a period of subnormal industrial activity and the rising threat of war.

As an example of how common stocks have behaved under the pressure of inflation despite the uncongenial atmosphere of a labor government, it should be instructive to observe the course of ordinary share prices in Great Britain. Certainly, socialism there has proceeded much farther than we have the right to contemplate here at this time. Austerity rather than prosperity has been their national keynote. The threat of war touches them more closely than it does us.

And yet, incredible as it might seem, we find that the Financial Times Index of British Ordinary Share Prices (Adjusted) is today (Nov. 8) 49% above the level of Dec. 31, 1938, as compared with a rise of only 12% for the Dow Jones industrials; and during the life of the labor government from July, 1945, to date, this Index of Ordinary Shares has actually risen 7%.

Even granting that a period of economic correction accompanied by lower corporate earnings might be further squeezed as a result of wage, tax and price policies of the present administration, it should not be overlooked that the present extraordinarily sober capitalization of earnings already makes liberal allowance for this prospect.

The Dow Jones Industrials are currently selling at about 8½ times this year's probable earnings—a conspicuous example of the sobriety of investment sentiment. Under normal conditions, and especially in the present cheap money environment, the Dow Jones Industrials should be worth 15 or 16 times and may therefore be said to be discounting a decline of as much as 40 to 50% in the present rate of earnings.

Moreover, how "abnormal" are current "abnormal" corporate earnings? We get a false impression if we compare current absolute figures with those of prewar. This does not take into account the ensuing decline in the value of the dollar nor the great increase which has taken place in invested equity—that is, common stock book values—through the reinvestment of a major share of corporate earnings in plant and equipment and working capital during this period. As against a rise of about 16% in the Dow Jones Industrials since the prewar period I estimate that the average increase in the book value of these stocks has been over 60%. Indeed, this index is not fully representative. In many cases common stock book values through investment of retained earnings have increased 200 to 300% in this period. If, then, we relate earnings to invested capital we shall find that they are not unduly inflated. In its current issue, the National City Bank of New York points out that corporate profits in 1948 are at a rate equivalent to 9.1% of the national income which is less than the rate in 1929. A decline of one-third would bring the proportion of corporate net profits down to the 1943 level as related to the National Income. It is well to bear in mind that in 1943 corporate net profits were held down by price controls, renegotiations of contracts and excess profits taxes.

Good Yields of Common Stocks

And, finally, it is well to remember that in holding common stock today you are well paid while you wait. Common stock yields from conservative dividend payouts are extraordinarily liberal, particularly as related to the yields of high grade bonds. Moody's 200 representative common stocks, which are for the most part of a conservative character, are currently providing a yield of about 6% and the ratio of this yield to the yield of its AAA corporate bonds, is more than 2-to-1. Over the past 20 years there have been only two short periods, namely, the spring of 1940 and the spring of 1942, when this ratio has been higher than at present; and the average relationship during this period has been less than 1½-to-1. The present high ratio of common stock yields to high grade bond yields reflects a low state of investment confidence and furnishes further evidence of the prevailing sobriety.

The investment process is one of weighing probabilities and striking a balance — reaching a reasoned conclusion as to policy. My own reasoned conclusion based on the foregoing premises is that the investor is justified in maintaining a fully invested position in the common stock segment of his portfolio; and that this segment in a balanced investment program should be not less than 50% of the whole at this time. Selection continues in my opinion to be more important than timing; and selection should have due regard for the characteristics of each industry as related to what is essentially a war environment and a laboristic economy.

Tellier & Co. Offers Regent Oil Stock

Tellier & Co., New York, is making an offering of 1,200,000 shares of common stock, par value 1 cent, of Regent Oil Corp. at 25c per share. The shares are offered as a speculation.

There are no options, warrants or free stock to underwriter, promoters or directors.

The company owns an oil lease which is less than one-half mile away from two producing oil wells.

With the experience of Berkley C. Deardorf, the President of the corporation and independent oil operator, and the other officers and directors, it is believed that this company should be successful.

As We See It

(Continued from first page)

from what has been said to him that he will not be made to suffer in any way from this drive to reduce the cost of living, which is in very substantial part dominated by products made directly from what the farmer has to sell. Over and over again the farmer has been assured that "price supports" will protect him from the workings of natural economic forces—and he has had several concrete illustrations of the workings of this scheme, some of which, if not all of which, appear to many non-farming citizens to be but little short of a national scandal. Meanwhile, Washington officials have apparently started the old refrain, "pity the poor wage earner," again with the rather probable result that the movement toward another "round" of wage increases will be strengthened whether or not it was the intention of the officials in question that such should be the case.

Inconsistencies

One would suppose that the inconsistencies in these preachments or promises are so obvious as to need little comment. Quite possibly some of them are. Others may not be. At least so many superficially plausible excuses and confusing "explanations" daily come forth that a baffled and uncertain state of mind among the rank and file is hardly surprising. A review and restatement of some of the vital elements in this current price situation can, therefore, hardly be amiss. Such a survey, if it accomplishes nothing more, should definitely tend to put the unwary on guard against vague and glowing promises of fruitful results from a return to the more extensive controls of wartime or the early months immediately following the end of the fighting.

First of all, let it be positively asserted that hopes of price reductions out of current profits are largely a snare and a delusion. Earnings are substantial as a rule, and in some instances extraordinarily large. The magnitude of these profits is, however, in large measure a result of the enormous volume of business being done. Profit margins on sales, even when at record levels, are not sufficient even if surrendered in their entirety to reduce the cost to consumers in anything like the measure that many politicians and day-dreamers would have the public believe. A reduction in price at the expense of profit would, moreover, tend to increase the proportion of current income expended for consumers' goods at the expense of those outlays which make greater production possible tomorrow.

Profits and the Farmer

But it is a fact, of course, that profits are not uniform throughout the economy, industry to industry, or even from one enterprise to another in the same industry. Reductions in prices made at the expense of profits might leave the more efficient plants running at capacity, but oblige others to curtail or even to suspend production. Here a reduction in the supply of goods might well be, probably would be, accompanied by a corresponding decline in the ability of consumers to absorb them. Certainly, not much would be gained in this way. It will be at once recognized that conditions imposed by an attempt to control prices in this way tend to create or induce states of affairs which render such control all but humanly impossible of attainment.

The farmer, of course, is regarded by most politicians and many day-dreamers as something other than or more than a mere businessman. No one of these would wish to reduce or limit in any way the profits of the agriculturist. On the contrary, the current idea appears to be to guarantee high prices to the farmer regardless of what has been promised the ultimate consumer of his products. In such cases, naturally, it is only out of the profits of the processors, transporters, and distributors of farm products and the goods made from them that the glib promisers of a millennium can find a reduction in the cost of living for the housewife. It is to be hoped that the housewife generally is not intelligent enough or sufficiently well acquainted with the facts to understand, or to realize, that taxes are also a part of the cost of existence in this country, and that her taxes, or the taxes of her husband (or, more likely, both), are the greater by the amount of subsidy paid the agricultural producer in an effort to conceal or to disguise his "take" from the consumer of his products.

Sheer Nonsense

A continuance of high farm prices—or their equivalent in supplemental subsidies to farmers — is now quite generally defended amid crocodile tears about a "starving world" which must be nourished for years to come, indeed in perpetuity, far better apparently than ever before. Not a few of those who felt the need of the farm vote during the campaign shuddered, or affected to shudder, at the mere thought of any diminution of the output of food in this country at any time in the foreseeable future. Now, in all this there is, of course, a large element of sheer nonsense. There is no reason whatever to doubt that the time is coming when successive crops of the size of the past few years will pile up surpluses of precisely the kind that plagued agriculture and all the others who were obliged to bail the farmer out during the earlier days of the New Deal. Indeed, but for the fact that we have been giving large amounts of a number of these products away to the remainder of the world, the process would definitely and unmistakably be under way at this moment.

The fact that millions, yes, even hundreds of millions, of people on this globe do not enjoy a diet which we, in our wealth and our own feeling of superiority, believe necessary for full health and vigor, has almost nothing to do with the wisdom of stimulating the farmers of the United States by purely artificial means to produce to the limit. What the world may need and what the world is willing or able to buy from our farmers may and almost certainly will be two quite different things.

One Way Out

There are, naturally, many other aspects of this price situation which must be fully considered if we are to avoid needlessly injuring ourselves. We shall, however, confine ourselves at the moment to one more observation. That is that there appears to be one and only one process by which prices, as a practical matter, can be held in check or reduced without inflicting painful injuries upon the economy. That is by substantial increases in the quantity of goods produced for each dollar expended in their creation. Doubtless management will as time passes find means of increasing "productivity," by various means at its disposal. Major improvement will, we suspect, await a greater willingness on the part of labor either to work longer hours or to cooperate more fully in enlarging output per man hour.

Now that politics are adjourned, more or less, for a time, it is earnestly to be hoped there will be no delay in coming to a realization of this fact.

Three Peas in a Pod: Prices, Profits and Productivity In Petroleum

(Continued from page 13)

and demand for goods and services. This adjustment is made (in other words, prices are determined) in the market place through the free and competitive bidding of many buyers and many sellers. Short-run market prices result from the interplay of supply and demand factors, regardless of the cost of producing a given commodity or of the profits which may result from selling it. A too little-appreciated fact is that customers, through the pressure of their demand, determine prices in a competitive economy.

Of course, in the long-run—say, over a period of several years — if the market price for a commodity has not been sufficiently high to cover costs of production and to yield a return on investment for all producers, the less efficient firms producing that commodity will be forced out of business or they will abandon production of that particular commodity. As a result, fewer units will be produced, the market price will rise because of insufficient supply, and profit margins will be restored.

On the other hand, when market price for a commodity is high enough to yield an exceptionally good profit, existing firms start expanding, and, perhaps new firms are started. The supply is thus increased. Competition thereupon grows sharper and prices fall when the supply reaches a point slightly in excess of the demand at the existing price level. This results from the competition of sellers in disposing of their production.

Effect of Increased Money Supply

Such are the traditional operations of the laws of supply and demand in our competitive enterprise economy. Nor is the effect of these laws nullified by the inflation that has been at work in this country for several years. Simply stated, inflation is the increase in the supply, or quantity, of money. We have today, including both money in circulation and in deposits in commercial and savings banks, two and one-half times as much money as in 1939. This sharply increased supply of money is a direct consequence of loose monetary policies and Federal Government deficit financing aggravated by huge war spending.

Since 1939, as a result of record-breaking industrial achievement, the production of goods has increased 78%. This increase in the physical output of our factories and shops, coupled with that of our mines and farms, has, no doubt, helped to make the manifestations of inflation less acute than they otherwise would have been.

The inevitable result has been a greatly increased demand for most commodities that could not be met by supplies, with sharply increasing prices bid up by those with the money to do so. While increased production is helpful, only a correction of the unsound monetary policies of the past and an end to deficit financing by the government can stop this inflation.

And that, too, gentlemen, is a story that needs to be told far and wide. Business and industry cannot hope to achieve public understanding and acceptance of their current operations as long as people generally mistake the manifestations and results of inflation for its cause. The cause of this inflation is precisely the injection of increased quantities of money into circulation by a process which has been but one step short of an outright printing press operation.

Everything else — round after round of increased prices and increased wages and credit expansion—are but consequences of the increase in the quantity of money that resulted from the monetizing of government debt. Thus the prewar value of the American dollar has been cut approximately in one-half. When that fact is understood generally, we shall be on our way to solving our chief difficulties. Let us not receive ourselves: we shall not get on solid ground until that fact is fully recognized by our people and government has the courage to stop increasing the money supply.

Cites Competition in Oil

Turning now to the oil business, we witness an outstanding example of competitive enterprise and the specific application of these fundamental economic laws which we have just reviewed in their general operation.

In our industry events of the last three years demonstrate beyond all possibility of dispute that prices, profits and productivity are interdependent. I have likened them to "three peas in a pod"—and so they are. Like the peas in a pod, each is separate in itself; but each also is joined to the other. Factors affecting any one of them, influence the others. The pod, of course, is our competitive enterprise system.

Much has been said about oil's sharply increased profits. Not enough has been said about the tremendous job that oil men and women have done in stepping up production to meet the postwar demand.

It is superficial and meaningless to say that 1947 oil industry dollar profits were approximately 60% greater than in 1946 and that this year's net earnings are running at substantially higher levels.

Such dollar earnings are the greatest in the history of the oil industry. But whether it is evidence of a healthy economic situation remains to be seen in view of the attendant circumstances. For to be properly appraised, these earnings must be related not only to the general economic situation, but also to the general oil supply-demand picture, to the volume of sales, to prices, to the purchasing power of the dollar and finally but most importantly, to the obligations (involving replacement and expansion problems) resting on the industry to supply the oil needs of the consuming public. Only as this is done can current oil profits be made meaningful and significant.

Increased sales volume, requiring, for the most part, capacity operations and increased prices have contributed to the oil industry's profit picture. It should be emphasized that both, in large part, grow out of the inflation created by increased supplies of money and price disparity caused by government controls.

The elements of the increased demand for petroleum products needs no demonstration before this gathering. However, factors underlying the price increase need to be repeated because they are too often forgotten.

Foremost is the fact that wartime price controls for all practical purposes froze oil prices. You know the refusal of O.P.A. to permit any increase in the price of crude oil, despite rising costs resulting from inflation. Product prices were permitted only to rise slightly. For instance, whereas in the 1941-45 period, coal prices were permitted to rise approximately 27%, prices for petroleum

and its products were allowed to advance only 12%.

Importantly, the disparity thus created was responsible in part for the postwar rush to install oil burners and to convert to oil industrial plants burning coal.

When O.P.A. controls ended, petroleum and its products were selling at wholesale for one-third less than their 1926 average prices, but all commodities making up the index were selling on an average of 13% above the 1926 base. In the face of this situation and the intensive postwar demand, oil prices began to rise in 1946 and the corrective adjustments which were so badly needed have since been taking place.

Rise in Oil Prices

Since 1946 the general level of crude oil prices has been raised five times (one authorized by O.P.A.) for a total of $1.40. None of these increases (except that granted by O.P.A.) directly resulted from the fact that someone merely thought a price rise would be a good idea and then acted. In each instance there was a very real and aggressive demand pressure by someone needing oil that forced the price up. In each instance it reflected a tight industry-wide supply-demand situation. If that were not true, the increased price would not have held.

The situation leading up to these price increases was one of demand gradually overwhelming supply. The obvious public desire was for larger supplies of oil products, which, of course, required increasing supplies of crude oil. Both proved economic concept and the history of oil production indicated that this requirement could not be achieved by a stationary price, irrespective of whether such action came as a result of governmental edict or industry predilection.

Historically the trend of well drilling follows the pattern of crude prices, as I shall subsequently demonstrate. New oil discoveries as well as increased production are dependent on well drilling. Thus, even though demand dictated the price increases, it was believed that they would prove to be incentives for stimulating increased production.

This precisely has happened. Since the first 1947 price increase, March a year ago, domestic oil production has increased from a daily average of 4,784,000 barrels to a new high of 5,604,000 for the week ending October 30 this year, the latest figure available. This latter figure was 820,000 barrels of daily average production over March, 1947—an increase of 17%. Preliminary to that production was the fact that well drilling last year was 13% greater than 1946 and this year it is estimated the additional wells completed will show an even larger increase.

Actually the oil industry has become a leader of industrial expansion. The Federal Reserve Board reports that since 1941 crude oil production has increased 46%. But in that period iron and steel output increased only 11%; lumber and its products 17%; automobiles 31%; bituminous coal 22%, and all manufacturing production but 19%.

Obviously, therefore, increased prices have had the effect of increasing supplies of oil and this is what the consuming public has desired. But has the public, as a few critics have suggested, been forced to pay "through the nose" to get these increased supplies? The answer is to be found in a frank comparison of oil prices with prices for other commodities and the general price pattern of the nation.

Altogether since the war's end, generally posted crude oil prices have advanced $1.40 a barrel, or, on the basis of East Texas crude, 112%. Actually this represents the increase in crude oil prices since 1941 because the O.P.A. froze crude oil prices at the level of the end of that year.

Admittedly this increase constitutes a sharp rise in price but actually it is less than the depreciation of the purchasing power of the dollar which has taken place as evidenced by greater price increases for many other commodities. For instance, in the period 1941 to this fall wholesale raw material prices on an average increased 116.2% and the average increase of wholesale prices for farm products increased 130%.

Increase in crude oil prices have been reflected only in part in increased prices to consumers for gasoline, heating oils and other petroleum products. At service stations across the nation motorists today are paying an average of only 35% more, including tax, for gasoline than they did in 1941. Meanwhile the Government's Consumers' Price Index (covering such things as clothing, groceries and furniture) in the same period rose 66%.

Wholesale and retail prices of kerosine, furnace oils and heavy fuel oil have risen more precipitously than have gasoline prices. Demand for these heating oils had sharply risen, outrunning their supply. As previously pointed out, however, demand in excess of supply is the factor responsible for price increases.

We all recall that prior to recent postwar price readjustments, fuel oils in varying degree sold at prices less than their value for conversion into gasoline. Efficient refinery operations, under such circumstances, generally require that the maximum amount technically possible of a barrel of crude oil should be processed into gasoline as long as there is a market for such gasoline. Recent increases in fuel oil prices have eliminated this disparity and therefore have provided incentives for refiners to produce these products. Likewise these increases have closed the gap between oil and coal prices created by O.P.A. action.

Oil and Other Fuel Prices

Certainly oil as yet has not commenced to price itself out of customers, as coal has been doing for years. Although the rate of increased demand for furnace oils this year, as estimated, is not as great as it was last year, the increment is higher than normal.

Even to keep up with a normal annual increase in demand, taking into account the increases in demand for motor fuels, the oil industry not only has been required to keep up its existing facilities but to pursue an expansion program far greater than any undertaken in the past. Therein is the crux of the industry's problems.

The replacement of existing plant and the expansion of facilities must be made at costs which today are greater than twice prewar construction and equipment costs. This constitutes a serious problem for all industry, but it is extermely serious for petroleum where capital investment per employee and per dollar of annual sales is substantially greater than in other industries, as illustrated by comparison with steel, rubber and automobiles.

Further, while current depreciation allowances recognized by the Bureau of Internal Revenue are sufficient to recover the original cost of plant construction, they are grossly inadequate to provide for its replacement at today's prices. Failure of industry to replace and keep modern and efficient its existing facilities means retrenchment, less production, fewer jobs and a consequent inability to meet customer demand.

In order to keep existing plant and equipment up to present standards and to expand facilities to meet the increased demands for petroleum products the industry in the last two years has made capital expenditures averaging $2 billion annually. Such expenditures are at a rate twice the average for the war period and approximately three times the average for the five years immediately preceding the war.

Profits Finance Expansion

Were it not for the fact that petroleum industry profits have been rising, the source of funds for the replacement and expansion reflected by this huge capital expenditure would create a critical problem. But the forces of demand, which have resulted in higher prices and a need for increased facilities, at the same time have generated greater dollar net earnings available for use for replacement and expansion of plant to fulfill that demand.

Owners of the oil industry — the stockholders—to whom profits rightfully belong, have permitted their companies to reinvest a major portion of their profit-money to provide facilities for meeting the demand and thus, in time, lowering prices, and the ratio of profits to the sales dollar.

Joseph E. Pogue and Frederick G. Coqueron of the Chase National Bank in their Thirty Company Study computed that last year stockholders of these companies took only slightly more than one-third of the profits, leaving virtually two-thirds for reinvestment in their respective enterprises.

Consequently, the cost of replacements in excess of depreciation allowances and of plant expansion is provided for by the stockholders through foregoing a dividend return that rightfully belongs to them. In other words the stockholders are willing to reinvest a large portion of a company's earnings in the hope of future profits through increased volume and to safeguard their original investment through maintaining the dynamic structure of the enterprise.

While capital funds may be secured in various ways, capital itself cannot be created except through savings, that is, expending less than is produced or earned. It is a fundamental concept that corporate enterprise to survive in the long-run must create, as a result of its operations, the capital necessary to effect its reproduction. Therefore, the higher the degree of internal creation of capital, the sounder the industry is generally and the greater its stabilizing influence on the entire economy. Traditionally the oil industry has generated most of the capital needed for its expansion over the years.

Outside Capital Lacking

Entirely aside from the historic practice of the industry, current rates of taxation and credit restrictions place limitations on the availability of outside financing.

But irrespective of whether funds come from within or from outside the industry, a level of profits commensurate with the capital funds needed to meet demand is essential to obtain them. Loans must be repaid, and additional stock issues require additional earnings in order to maintain the value of the securities.

If the level of profits is not commensurate with the need to meet demand, then the expansion essential to meet that demand cannot take place. As long as the forces of supply and demand, operating in a free market place, are left unrestricted (except by the free choice of consumers), the industry can generate the means of meeting the demand of these consumers.

But this is not possible should artificial controls be imposed on the free market. Should the Federal Government sharply increase taxation of corporate profits, radically reducing their net income, the means for expanding the oil industry would be hobbled and to the extent that this takes place, needed expansion would have to be deferred or abandoned. The result would be a continued tight supply-demand situation. Prices would go higher unless controlled by government.

Imposition of governmental price controls, however, would most certainly limit or reduce the output of high cost or marginal producers. In fact, it would, by destroying incentives, adversely affect all production. The mere threat of such action last winter caused deferment of many drilling programs, until the danger had passed.

Meanwhile, unless steps are taken toward limiting the national credit and money supply, demand for oil would remain as great and pressing as now. In the end the government would be forced to ration oil products, which in volume would grow less and less. The result would be that everyone concerned would be hurt, particularly the consumer.

Oil Profits Not Excessive

As a matter of fact, oil industry profits in 1946 and 1947, were not out of line with prewar net earnings when reduced to a per cent of the sales dollar. This is illustrated by the net earnings per dollar of sales of the Pogue-Coqueron Study of Thirty Companies from 1934 to last year. Peak earning years were 1937 with 11.9 cents; 1947 with 11.6 cents; and 1941 with 10.9 cents. Earnings statements this year indicate a somewhat higher ratio of return for 1948 but the specific data will not be available until the year ends. Of course, none can say how long such a ratio will be sustained.

And now, in conclusion, to those who would challenge our operations, let us make crystal clear these points:

(1) An excess supply of money, resulting from loose monetary policies, is responsible for spiraling demand for most commodities and consequent inflationary prices.

(2) This general economic condition is the basic cause for an unprecedented postwar demand for petroleum products, although increased population, desirability of products and price disparities also have been factors.

(3) Per capita consumption of oil products in the United States since 1941 has increased about 34%, thus raising living standards.

(4) This demand, outrunning the supply of petroleum products, has resulted in crude oil prices more than doubling since 1941, although product prices to consumers have not risen nearly as much.

(5) Despite sharp increases, crude oil prices have lagged behind prices for other raw materials and retail petroleum products prices taken together, have lagged behind the Consumers' Price Index.

(6) Increased prices for crude oil have greatly stimulated exploration and drilling, have stepped up supplies from secondary recovery sources and have increased over-all production to peak levels.

(7) The petroleum industry thus has been a leader of industrial expansion, having increased output subtsantially more than other major industries since 1941.

(8) Increased prices and capacity sales volume together have more than doubled oil industry dollar profits since the end of the war, but last year only one-third of these profits was paid to stockholders.

(9) Profits reinvested in the oil industry have made possible a $4,000,000,000 capital expenditures program for 1947-48—a rate twice that of the war years and almost three times that of the prewar period. Without such profits this would not have been possible.

(10) This program provides for the replacement of existing plants constructed and developed prior to the war at costs about one-half of what they are today, thus making it possible for the industry to maintain output.

(11) Included also in this program is an expansion of facilities for increasing supplies needed to meet demand and to set in motion forces that make for increased competition and lower prices.

(12) With this utilization of profits, the oil industry can and is satisfying the desire of the American people for oil products and a better standard of living.

This, I submit, is competitive enterprise in action. When told to the American people it will appeal to them for they believe in it as a system superior to all others.

Today we face the danger of having imposed on us a collectivist economy in the form of measures disguised as mere remedies for current and temporary ills. Beguiling voices are calling the American people to turn their backs on a free, competitive market place and put their faith in government controls that can lead only to the police state. If we yield to these siren voices, they shall lead us to the destruction of that individual opportunity and freedom of choice which is the foundation of our national well-being.

Let us, with all our hearts and strength, with facts and truth, before it is too late, point out to the American people that a competitive, progressive petroleum industry, operating in a free market place, will best serve their welfare by providing to the consuming public and to the Armed Services adequate supplies of petroleum products, at reasonable prices now and in the years ahead.

Halsey Stuart Group Wins Northwestern Bell Tel. Debentures—Issue Oversubscribed

Halsey, Stuart & Co. Inc. and associated underwriters offered publicly Nov. 17, $60,000,000 Northwestern Bell Telephone Co. 31-year 3¼% debentures due Nov. 15, 1979 at 101.375% and accrued interest. The group was awarded the debentures at competitive sale on its bid of 100.68999. The issue was heavily oversubscribed.

Net proceeds will be applied by the company toward the payment of approximately $71,000,000 of outstanding advances from the American Telephone and Telegraph Co., its parent. These advances were obtained in conformity with an established practice of the company of borrowing from the parent, as need therefor arises, for general corporate purposes, including extensions, additions and improvements to its telephone plant.

The new debentures will be redeemable at prices ranging from 104.375% to 100%, according to maturity.

The company serves Iowa, Minnesota, Nebraska, North Dakota and South Dakota. On Aug. 31, 1948, it had 1,386,938 telephones in service, of which approximately 44% were in Minneapolis, St. Paul, Omaha, Des Moines and Duluth, approximately 28% being in Minneapolis and St. Paul.

With Herrick, Waddell Co.

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—George L. Sperry has been added to the staff of Herrick, Waddell & Reed, Inc., 1012 Baltimore Avenue.

With Herrick Waddell Firm

(Special to THE FINANCIAL CHRONICLE)

HASTINGS, NEB.—Mary A. Davis is now connected with Herrick, Waddell & Reed, Inc., 55 Liberty Street, New York City.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Undiscounted fears point to possibly more down before any sustained up market. Daily trading in such markets can be profitable. But it requires constant tape watching.

Last week I haw-hawed at the pollsters. This week I'm looking for a hole to hide in. Like the political seers, I too can find a batch of excuses to explain away my mistakes. Unfortunately I can't fool myself with any hastily patched up excuses, so I won't try to fool you.

* * *

The only out I have is the fact that all buys had stops. Yet the fact that practically all the stops were broken is a bitter pill to swallow. I knew, for example, that it is practically impossible to gauge a public selling or a buying surge. I have said that here time and again. Panic and the form it will take is something I can't advise about. I do know that when such a condition is likely I prefer to stand aside and let it run its course.

* * *

Long ago I learned that when opinion is unanimous in the market, the chances are that a change in the trend is in the making. When everybody thought Dewey was a cinch, it should have been a warning to me. It wasn't. I bring this up because the optimism of the pre-election days has now changed to pessimism. By the same sort of reasoning, it is now quite likely that a bottom is currently in the process of formation.

* * *

But while a bottom may well be forming now it doesn't mean that bearishness will decrease for at least the next few weeks anyway. Markets seldom act the same way twice. Ordinarily news is discounted ahead of the market. But sometimes it isn't discounted enough; sometimes it is overdiscounted. Fear of the new Truman Administration is now in the process of formation. Some of these fears may be overexaggerated. But whether they are or not, the fact remains that they are present and only time can allay them.

* * *

On a day-to-day basis I would be tempted to favor the buying side despite the violent breaks of last week, and despite the fact that most of the stops were broken. By the same token, however, I would be ready to run if, after a bad intra-day break, the tide didn't turn. Arguing with the tape is always a fruitless pastime.

* * *

As of this writing Briggs Manufacturing is the only stock left in the list. All the rest broke through their critical points. Having done that it is likely that some sort of a rally will be seen; one that will carry some issues up maybe three-four points. But I don't think any rally now will engender any enthusiasm. A rally followed by a dull downward trend is the more plausible market to expect until maybe the first of the year, or after President Truman delivers his message to the new Congress.

* * *

I think new opportunities will be seen in the near future. But unless you are in a position to jump fast I'd let them alone.

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.]

COMING EVENTS

In Investment Field

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

Nov. 18, 1948 (New York City)
Put & Call Brokers & Dealers Association testimonial dinner at Hotel New Yorker.

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. 2, 1948 (Boston, Mass.)
Boston Securities Traders Association annual meeting and dinner in the Hawthorne Room of the Parker House.

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.

Dec. 14, 1948 (New York, N. Y.)
Investment Association of New York Annual Meeting at the Lunch Club, 63 Wall Street, beginning 3:45 p.m.

Coming Tax Legislation

(Continued from page 10)

(2) **Sec. 102 (Unreasonable Accumulation of Profits):** Undue pressure recently was brought to bear on corporations to distribute profits. The situation has been changed. In Tax Court proceedings arising under Sec. 102, the Code provides that the burden of disproving the justification of the Commissioner's assertion of the additional surtax "penalty" is on the taxpayer (petitioner). This is an unnecessarily harsh burden. It has been suggested that, if the taxpayer makes available to the Commissioner, at the administrative level, the facts on which it relies, the Commissioner should have the burden of justifying his assessment. The proposal should be given a fair trial, although in practice the difference may prove merely psychic.

(3) **Double Tax on Liquidation:** If a corporation sells its assets and then liquidates, the corporation is subject to tax on its profit and the stockholders on theirs; if the corporation first liquidates and the stockholders then sell the assets distributed to them, they alone are subject to tax. In some situations, there is doubt as to the sequence of events. It has been proposed that, if a corporation sells its assets and dissolves within a year, neither corporate gain nor loss should be recognized, but the stockholders alone should account for gain or loss. The proposal is practical and meritorious, although the interval between sale and liquidation might be shortened without unfairness.

(4) **Small Businesses:** It is impossible to avoid artificial tax differentiation between commercial and industrial corporations on the one hand, and smaller partnerships and sole proprietorships on the other. It has been suggested that if the latter two could optionally be taxed as corporations, the inequity would disappear. The solution is not quite so simple. The new Congress will undoubtedly attack the problem. How successfully remains to be seen.

Among repeatedly urged pleas for revision which appear to have no chance of early adoption are the following:

(1) **Accelerated Depreciation:** It has been urged that taxpayers, especially small businesses, be permitted to deduct depreciation at so-called accelerated rates. Aside from the immediate tax benefit claimed by proponents, it has been argued that more rapid tax exhaustion would encourage earlier replacements, redounding to the taxpayer's good because his productive facilities would be kept new and modern and, at the same time, the heavy goods industry, essential for military defense, would be kept in operation.

(2) **Consolidated Returns:** The 2% additional tax for the privilege for filing consolidated returns has been under attack for a long while. The tax has no equitable justification. In fact, consolidated returns should be mandatory. But there appears no likelihood that the tax will be abolished, not least of all because the Treasury estimates that about $95,000,000 of revenue is involved currently.

(3) **Inter-Company Dividends:** Fifteen per cent of inter-company dividends are taxable. Corporations subject to the 38% rate therefore pay a tax of 5.7% on such income. The tax has been attacked as unjustifiable double taxation. The Treasury estimates the current yield as $160,000,000. The tax appears destined to remain for some time. If both the consolidated return and the inter-company dividends tax were to be abolished simultaneously, because of over-lapping the annual loss has been estimated by the Treasury as $206,000,000.

(4) **Multiple Taxation of Corporate Income:** Possibly more criticism has been leveled at the "double taxation of dividends" than against any single feature of the law. To tax a corporation on its earnings and stockholders on receipt of a distribution of all or part of the remainder appears to many critics as unconscionable. Various remedies have been suggested. The problem is much more complicated than some assume. Nevertheless, an equitable solution should be found, and soon.

LIFO Inventorying: The final item sought in the crystal ball deals with LIFO. Will the Treasury permit retroactive adoption? Refunds for outlawed years appear clearly to be beyond the Commissioner's power to grant. Remedial legislation would be required. But how about taxpayers who adopted LIFO and then abandoned it because of adverse and mistaken Treasury action? They could have protected themselves by filing of refund claims, but if they failed to do so, the Commissioner is without authority to grant equitable relief. And how about filing amended returns by those who elect LIFO initially now, for years which are still open? Without research I venture the curbstone opinion that the Commissioner, with the approval of the Secretary of the Treasury, could amend his regulations so as to permit such filing, but would taxpayers elect to go on LIFO in 1945, the earliest fiscal year for which refund can still be lawfully claimed within the three-year statute of limitations? I doubt it.

All of you know that the ideal time to elect LIFO is at the lowest point in the price scale. Theoretically, when prices have completed a full cycle, the aggregate profits are alike under LIFO and FIFO, if inventory quantities at beginning and end of the cycle are approximately the same; LIFO tends to "spread" profits by shifting them from high-price periods to low-price periods. If tax rates remained unchanged, total taxes for the complete cycle would be the same under LIFO and FIFO.

Looking backwards, it is now seen that 1941 was a good year—but not the best—to go on LIFO. Normally, election of LIFO involves a leap in the dark. Many retailers are understandingly eager to secure permission to elect LIFO retroactively to 1941. Tax refunds would result. Retailers believe that when prices fall below the LIFO level their then "repayment-tax" on then non-existent current profits will be at rates lower than those which prevailed in the years when taxes were deferred. Further, they look upon the deferred tax at worst as borrowing without interest. Most guessers guess that the optimistic view as to lower rates during tax repayment years is well-founded. Would it not be wise for controllers and treasurers of stores which report on LIFO to give serious thought to the question whether some provision is desirable or necessary because of such prospective tax repayments? Is it realistic to assume that repayment hardship will be avoided by future special legislation?

Oh, yes, I started to try to find a final answer in the crystal ball: Will all retailers be permitted to elect LIFO now retroactively to 1941? Of course, the Revenue Bureau's interpretation of the law was wrong. The Tax Court has so held in the *Hutzler Bros.* case. Many patriotic taxpayers, who wished to elect LIFO, refrained from doing so, because they consistently cooperated with the Government and did not wish to contest Treasury action, especially during the war period. Shall they suffer the penalty of their patriotic cooperation? I believe the Treasury cannot remedy the wrong; I do not believe that the courts can. Congress alone has the power to do so. Will it? Not without tremendous pressure. Such pressure will be especially needed if the national budget is badly in disbalance. Look into the ball yourselves!

Outlook for Hotels in 1949

(Continued from page 7)

demand for hotel accommodations fluctuates with the seasons and with the days of the week. Some cities enjoy good business for only three or four days when the commercial travel is at its height whereas in other cities the week-end business is favorable due to vacation and pleasure-seeking travel. In the major cities, convention business is a vital factor in supporting the larger hotels.

The decline of room occupancy from the wartime peaks has been principally in the vacation and pleasure type of travel and the elimination of business from military personnel. The commercial travel and the convention business has held up extremely well. It is, therefore, my opinion that the immediate outlook for 1949 in room occupancy would indicate that room business will continue at about the 1948 levels in the high 80's.

Room Rate Rise Lower Than General Price Trend

Hotel room rates present a mixed picture which is difficult to interpret. During the depression years, the rate structures of hotels practically collapsed with rooms being sold for whatever they would bring with fantastic discounts being given to attract business on a weekly, monthly or longer term of occupancy. This residential class of business does not normally belong in the transient hotels but many hotels found themselves caught by rent control with these bargain rates frozen until rent controls were lifted in early 1947. In some cities, where local rent control continues, hotels are still struggling against the injustices of perpetuating below cost rentals and have received only inadequate rate adjustments.

Since decontrol of hotel rooms in 1947, rates have risen only moderately. Taking 1941 as a basis, it is my estimate that actual room rates have been raised about 40 to 50%. When it is realized that operating costs have more than doubled, it must be recognized that hotel room rates have not yet been properly adjusted to general price levels. This situation is mainly attributable to the reliance of hotel operators on a continuance of high volume business and the fact that they have been very cautious about increasing room rates. In my opinion, the public has never been fully educated to nor does it recognize the true comparative worth of hotel accommodations. Hotel room rates are a small part of the necessary travel expense but unfortunately, the average person will complain about paying $1 more for a hotel room yet will squander many times that amount in lavish expenditures for entertainment and gratuities.

It is therefore to be expected that hotel room rates must be adjusted further to meet higher operating costs and to establish room rates on a sound basis to provide a reasonable profit return at a more normal level of occupancy.

Restaurant Business Vital to Hotel Profits

Aside from the importance of the rooms business, it must be recognized that the success of the operation of each hotel will be

measured by its ability to realize the full income potentialities from all of its available facilities, such as restaurants, bars, stores and other space. The restaurant business comprising the sale of food and beverages is an integral part of each hotel operation and when successfully operated is a source of considerable income which will add greatly to the investment value of the hotel property. At the same time, the restaurant division of the hotel business presents many difficult operating problems under present day conditions.

Prior to the war period, it was the general experience that the volume of food and beverage sales ran slightly under the volume of room sales but during the war and postwar boom, food and beverage sales became greater than room sales. It was therefore natural that when the peak of the wartime boom passed and the free spending for food, liquor and entertainment receded, hotel restaurant sales would be expected to show a greater decline than room sales. However, the dollar volume of food sales has held up because of menu price increases resulting from the advance in food cost prices, although there has been a decline in the actual number of meals served. On the other hand, the sale of beverages, which is the most profitable part of the hotel restaurant operation, reflects a decline of about 12% from the peak reached in 1946.

The falling off of restaurant business, particularly beverage sales, is most noticeable in the luxury type dining rooms, the dine and dance rooms and bars. These were the rooms which were particularly patronized by the casual customer in the free-spending era. Undoubtedly, the high cabaret tax, which adds 20% to every check where dance music and entertainment are furnished, has had a deterring effect on this type of business. As a result many hotels are curtailing or closing these rooms and concentrating on other types of restaurant service.

High Food Prices Difficult Problem

The rise in food cost prices presents a very difficult problem in hotel restaurant operation. The necessary advances in menu prices have reached the point of public price resistance. Hotel operators have been forced to give serious consideration to methods to offset high food and labor costs, such as, better planning of menus, elimination of unnecessay items, improved efficiency in preparation and service, and greater mechanization of equipment.

The outlook for the food and beverage business of hotels is difficult to forecast as so much depends upon the trend of food cost prices and the psychological spending attitude of the public. If conditions continue as at present, the volume of food and beverage business will probably continue to taper off somewhat. But, should there be a resumption of the inflationary boom stimulated by governmental defense expenditures, higher wages and the spending of profits otherwise subject to the proposed excess profits tax, hotels may derive some benefit as far as volume of business is concerned.

Operating Cost Increases Heavy Burden

The hotel business has experienced a tremendous increase in operating costs. Hotel wage rates have doubled since 1941 and the costs of other supplies and materials used by hotels have increased from 100 to 300%. These heavy cost increases have been offset up to now by the large volume of business and the moderate increases in room rentals and food and liquor prices. As is the case with many other industries, the hotel business has a high break-even point. However, it must be borne in mind that the break-even point is a theoretical one which varies with each hotel and changes with conditions. The break-even point can be lowered by an advance in rates and prices in excess of cost increases or by reductions in operating costs and fixed charges. On the other hand, the break-even point will be raised if costs advance faster than revenues or if there is a falling off of more profitable sources of income.

Many of the leading hotel operators are conducting detailed studies to gain greater efficiency and eliminate waste of labor and materials. These studies result in the elimination of unnecessary services, improved physical layouts, increase in productivity of employees through better work methods and rescheduling of positions and working hours, improvement of facilities through more modern equipment and increased mechanization where possible.

Hotel Properties Improved and Modernized

Immediately following the termination of the war, hotels entered on a program of modernization and rehabilitation of their properties and equipment. Estimates for 9,000 hotels of 50 rooms or more indicate that almost two billion dollars has been spent or will shortly be spent on this modernization program. Many hotels have been making substantial expenditures for air conditioning, radios and television, studio type rooms and to convert unproductive space into stores, dining rooms, bars and other-income producing facilities. In addition, each year hotels spend considerable sums for regular repairs and maintenance. The result of this is that hotels, by and large, are in excellent physical condition.

There has been very little construction of new hotels since 1930 with the exception of certain resort sections as in Florida and California and the exceptional growth and development of the motel business. Motels must be considered a distinct part of the hotel business. They may be said to be hotels on a horizontal rather than a vertical plane. Motels and motor courts have certain advantages in the low cost of land and construction, elimination of many operating costs for elevators, heating, heavy equipment, etc., accessibility to the motor traveling public, convenience to guests in handling of baggage and parking of motor cars. Their growth has been most pronounced in the so-called Sun Belt area of the South, particularly in Florida, Texas, Arizona and California where they enjoy all year round business due to favorable climatic conditions. In some of these areas there is evidence of over building and no doubt this new type of hotel business will go through a difficult "growing pain" period. They are not a particular threat to the established hotels in the larger cities but in the smaller cities, many hotel operators have already entered or are considering entering this new field. It is considered that the hotel of the future for the smaller towns and cities will be what has been described as a "Motor Hotel" which is a combination of the best features of the old fashioned inn with the modern motel.

Perhaps the greatest deterrent to a resumption of hotel construction has been the prohibitive investment required due to high construction costs. It is estimated that even non-fireproof two-story construction will now cost up to $7,000 per room, which is comparable with what the modern city hotel cost before 1941. Estimates for modern city hotel construction are now running over $15,000 per room. The fixed charges on such an investment make it extremely difficult to be successful as a pure hotel operation. Allowing for real estate taxes, interest on a 50% mortgage at 4½%, depreciation on building and equipment, income taxes at the corporate rate of 38% and a 10% return on the 50% equity, the fixed charges will run to 16% of the investment. Using standard hotel operating figures, this indicates that at an occupancy of about 75%, it would require an average rate per occupied room of about $12 per day. To offset these high fixed charges, there is developing a trend of thinking toward utilization of the valuable lower floor levels for other more income productive uses, such as department stores and office buildings. The new Terrace Plaza in Cincinnati, which has seven floors devoted to store use and then 350 rooms above, is a forerunner of this new approach.

Hotel Profits Not Excessive

There is a mistaken impression in the minds of the public generally that the hotel business has been rolling in wealth. This impression has been gained no doubt, from the publicity given to those occasions such as, outstanding sporting events, national conventions, etc., when rooms have not been readily available. This viewpoint does not take into consideration the many days of the year when there are vacancies. Evidence of this is that even at the wartime peak, hotels reached only 93% occupancy.

What is the actual profit picture of the hotel business? Based on an overall estimate of property value averaging about $5,500 per hotel room, our studies show that the percentage of profit return before interest on fixed indebtedness and income taxes have averaged 9.3% over the five years from 1943 to 1947 inclusive. Allowing for interest on a conservative 50% mortgage at 4½% and income taxes at the current corporate rate of 38%, (although taxes were higher during the war years), the average return on the remaining equity for this five year period would approximate 9%. Certainly considering the investment risk which should be recognized in the hotel business, a profit return of 9% on investment equity is not excessive.

On the same basis of calculation, the profit return for 1947 was about the average for the five year period, namely, 9%, and the indications are that the results for 1948 will be slightly lower. Barring adverse business conditions or drastic operating cost increases, the outlook for 1949 indicates hotel profits will continue about at this level.

Hotels Financial Position Healthiest in History

The greater part of the profits of the hotel business during the war and postwar boom periods from 1942 to date have been plowed back into the business in the form of expenditures for the improvement and modernization of the properties, for reduction in fixed indebtedness, and building up of working capital. Many hotels were financed by mortgage bonds which subsequently were reorganized on an income basis so that the earnings in excess of stated interest rates went into a sinking fund for the retirement of bonds. Through this device, these once heavy bond issues have been greatly reduced and in many cases have been refinanced by institutional mortgages. An encouraging sign of the renewed financial health of the hotel business is the return to the hotel field of the institutional type of mortgage financing. As a matter of fact, many institutions which retained control of hotel properties through foreclosed mortgages eventually worked them out without loss and realized a return in excess of other types of investments.

It may safely be said that the hotel business has been dehydrated of the water from the overfinancing of the 1920 decade. There is now a substantial amount of equity money in the hotel business and with the moderate fixed charges on conservative institutional mortgages and the income safety feature of the old reorganized bond issues, the hotel business is in the healthiest financial condition of its history.

The Gold Controversy

(Continued from page 16)

Whether or not this contemplation is an accurate account of economic substance and fact, I believe it permissible in light of a charge that private enterprise favors an unfettered, irresponsible conduct carried on from the days of laissez-faire. Economics and social changes are not always brought about by force of a revolution—some evolve from a set of factors operating without the consent and knowledge of those affected by them.

Little Relationship Between Gold and Present Economy

It is hard to see where gold has any relation to the present-day economy. Even the most ardent defenders of the gold standard admit that sound currency backed by a sound monetary policy is what is needed and that nothing better may be required. Gold itself cannot generate either. In the modern society, it is purely a traditional symbol elevated to importance by the thought of the times when sound currency and a sound monetary policy were either unknown or poorly operative, and when banking did not enjoy either controls or its present-day efficiency.

All these conditions of present-day wealth are fairly well known and understood by the proponents of socialism. Marxists stress labor as the true basis for, and creator of, all wealth. Yet the onus of the opprobium still rests heavy upon the private enterprise after it has become more or less obvious that capital in the present society is not the hoard in gold. The attack on millionaires, on "Wall Street," is replete with examples of bitterness and criticism as in the day when gold was wealth or no wealth but gold. I believe it unfair to the man in the street to encourage him in the thought that the modern capitalism is the present and plural incarnation of Midas.

This confusion harasses, perhaps those who clamor for free gold coinage. In view of the fact that gold is not wealth in our modern society, it is difficult to understand how its general distribution can produce any betterment of economic conditions. It is surely true that resting as number 79 in the atomic scale, flanked by platinum on one side and mercury on the other, it is an uninteresting metal in the days of atomic energy. The modern alchemist will search up and down the atomic scale with better hope in most any other metal. The fact that gold yields no isotopes of morality and honesty, that it radiates no general well-being, should be of more interest to the sociologist, but it certainly should not be neglected by the economist turned sociologist as it would appear the case in the gold standard debate.

Michigan Brevities

(Continued from page 12)

ing through the sale of additional common stock.

* * *

Michigan Bakeries, Inc., Grand Rapids, on Oct. 18 filed a registration statement with the Securities and Exchange Commission covering 67,500 shares of 5½% cumulative convertible preferred stock ($20 par) and 67,000 shares of common stock ($1 par), to be underwritten by S. R. Livingstone & Co. and First of Michigan Corporation, both of Detroit. The net proceeds would be used to redeem the 5,968 shares of outstanding $1 non-cumulative prior preference stock at $20 per share and the $4,425 shares of $7 cumulative preferred stock at $100 per share, and the remainder to pay for expansion, etc. Michigan Bakeries on Oct. 25 paid a 50% stock dividend to common stockholders of record Oct. 15, 1948.

* * *

The directors of Gerity-Michigan Corp., Adrian, on Oct. 29 declared a quarterly dividend of 10 cents per share on the capital stock, payable Nov. 30 to holders of record Nov. 15, 1948. This action conformed to a policy adopted by the board on Sept. 28 when the directors agreed to decide dividend actions in the month following the close of the quarter, rather than in the last month of the quarter as previously. Dividends in 1948 will total 60 cents per share, as against 65 cents in 1947. The previous quarterly payment was 10 cents, paid on July 30.

* * *

Stockholders of C. M. Hall Lamp Co., Detroit, have subscribed for 46,077 shares of the 53,770 shares offered them on Aug. 31, by Roy W. Johnson, President, announced on Oct. 16. The directors, he stated, have decided against issance of the unsubscribed shares. The stockholders had the right to subscribe on or before Oct. 1, 1948 for one additional share at $5 per share for each five shares held.

* * *

The directors of Clark Equipment Co., Buchanan, on Nov. 5 declared a 10% stock dividend and the usual quarterly cash dividend of 50 cents per share on the common stock, both payable Dec. 15 to holders of record Nov. 29. No script certificates will be issued. Fractions will be paid in cash based on the closing sale price of, if there are no transactions, the last recorded bid price on the New York Stock Exchange Nov. 29, 1948.

* * *

Eaton Manufacturing Co., whose stock is listed upon the Detroit, New York and Cleveland Stock Exchanges, plans shortly to split each of its existing outstanding 896,260 $4 par value shares into two shares with a par value of $2 each. It is anticipated that the split up, if authorized by the stockholders on Nov. 22 will be completed in December.

* * *

Chrysler Corp., Detroit, for the nine months ended Sept. 30, 1948 reported consolidated net earnings, after charges and taxes, of $59,887,601, or $6.88 per common share, compared with $47,873,089, or $5.50 per common share, for the corresponding period last year. Net current assets at Sept. 30, amounted to $393,696,048, against current liabilities of $159,376,786. Cash and short-term marketable securities totaled $211,251,283.

Incentives—The Foundation of Our Economy

(Continued from page 4)

dynamic British capitalism. It is apparently doing the same thing to textbook socialism.

Incentive, on the other hand, has proved itself in at least one European country. What has happened in Belgium is one of the most instructive economic stories of our time.

To recover from the war, the Belgian Government used standard methods of free enterprise and incentive which are—or at least used to be—familiar to every American. It encouraged investment and production by allowing a reasonable profit. Instead of piling up unworkable laws to restrain the black market, and using valuable manpower to enforce them, it ignored the black market except for the basic food ration. With its first postwar credits, it bought consumer goods instead of capital goods in order to give its people something to work for, something to buy with their wages.

Any capitalist here could have predicted the results; but apparently they have come as a tremendous surprise and discovery to much of the world. Belgium's 13 leading industries operated in 1947 at an average volume 7% above 1938. Under private management, the people are investing millions in personal savings to modernize their steel mills. The country is exporting three times as much as before the war—exports which come properly from an excess of production and not out of miserably inadequate rations of her people. Her trade is almost in balance despite heavy imports of machinery and equipment.

Living conditions in Belgium are almost as good as our own. The store shelves are full. There is virtually no black market. The currency is the third hardest in Europe. The communist vote is small.

That, gentlemen, is what incentives can do when they are properly employed.

Our own country, of course, has no special dispensation from rules which are universally applicable. We have cut our incentives dangerously thin by inflation and an unwise tax system. The continued success and stability of our system demands those incentives. It is both the opportunity and the responsibility of business statesmanship today to restore incentives where they have been taken away, to maintain them where they now operate, and to expand them wherever practicable. Incentive must operate for all of the four overlapping groups of the American people.

One group is the customer. To him, American capitalism has given the incentives of new and better products, new and better services. It has done this over the years at progressively lower prices; and, under proper conditions, will continue to do so in the future. As nowhere else, our consumer has been educated to expect—and get—what he wants, when and where he wants it. The customer in our system is boss. We take that for granted; and yet it is one of the keystones of our economy.

Incentives for Workers

A second group is the employee. Through American capitalism he has earned unparalleled benefits. His standard of living has doubled every 40 years over the past 100. His real wages are 11 times higher than they were 100 years ago, in the year when Karl Marx declared that by the very law of things the worker must become poorer and poorer. Though he comprises less than 6% of the world's labor force, the American industrial worker is turning out more than one-third of the world's product and helps to make up one-third of its total market.

It is our responsibility to maintain and improve worker incentive. The worker needs, first, the security of a steady economy under which he receives steady work and wages. He should have also the other incentives of the system—reward for extra accomplishment; recognition and promotion; information on the meaning of his job and its interdependent relationship to every other part of the enterprise.

To these incentives can be added a share in ownership and profits. Westinghouse has just carried out a program in this direction. This fall, we offered our employees a preferential option on Westinghouse common stock. More than 17,000 of our people, or about 16%, signed up to buy nearly 300,000 shares. This gives them a vested interest in the success of their company at the same time that it gives Westinghouse sound working capital.

If I seem to put major stress on the material rewards of our system, please believe that it is not because I fail to see the importance of incentives to man's mind and spirit as well as to his pocketbook. Material and spiritual incentives cannot, in the long day-to-day routine of working and living, be entirely separated—nor should they be. Like you, I have seen how human nature responds to spiritual incentives. Like you, too, I realize that all the other freedoms must be based on economic freedom.

Incentives for Managers

The third group for whom incentives must be provided are the managers. To quote the board chairman of the General Motors Corporation, "It may well be said that the important difference, between one business and another operating in the same general field, is the people who manage the business."

You know that business today is suffering from a shortage of good management men. Like any other worker, the manager—and than includes all supervisory personnel—needs the incentives of recognition, promotion, and pay in proportion to his performance. Of perhaps paramount importance—to the employing corporation and its stockholders as much as to managers themselves — is expanded opportunity for management personnel to obtain a share in ownership. Management's acquisiton of a substantial stake in the enterprise for which it is responsible can be so productive of good to the national economy that the Federal Government would be acting in the public interest if it were to tax gains made through preferential stock purchases on a capital basis rather than as income. Continuance of the existing provision, on top of high income tax rates, is bound to perpetuate the undesirable condition in which management lacks the vital incentive and the accompanying sense of responsibility which are inherent in ownership.

Further, in order to give the manager adequate incentive, we should place a fixed reasonable limitation on the share of a man's earnings which the government may take in income taxes. This limitation should be fixed at 50%, since any man deserves at least half of the results of his efforts. Taxation beyond that point seriously weakens individual initiative, and in the long run will produce less tax revenue rather than more. I agree with Mr. Stassen, who said last spring, "A government which takes more than 50% of a man's income in time of peace is killing the future of its average citizen and weakening the long-range strength of its economic system."

Incentives for Stockholders

The fourth group for whom incentives must be provided is the stockholder. This country has grown on the basis of private money pouring into private industry. That situation no longer exists. Capital expansion since the war—the greatest expansion in our peacetime history—has been financed almost entirely out of industry's own funds and by borrowing. Both of these reservoirs are running low, and we must look to venture capital to prime the pump. But when, in the flourishing year 1947, investment in common stocks supplied only 2% of capital expenditures, we realize that a major roadblock stands between the need for equity capital and the willingness of our citizens to provide it. Venture capital will not go to work for today's starvation wages—by which I mean the meager net cash return to the owner of common stock after corporate and individual taxes are paid.

A 50% limitation on personal income tax will in some measure relieve the dearth of venture capital. But the fairest method of raising the stockholder's wages is to eliminate the double taxation of dividends by removing the tax on the stockholder.

This would provide incentive for common stock ownership, and result in increased investment, reduced debt and fixed charges, enlarged and modernized production facilities, and ultimately in lower costs and prices. The benefits to the stockholder would be shared by those millions whose living standards would be raised, and for whom jobs would be created and preserved.

I respect the opinions of other schools of thought on this matter of double taxation. Some take the position that the second tax on dividends would be of no practical consequence if a 50% limitation on income tax were put into effect. I cannot agree. The main issue is how to raise badly needed venture capital, how to induce individual Americans to add to their present stake or to make their first investment in their country's future. While much investment capital comes from the wealthy, a great deal comes also from those with smaller incomes. With adequate incentive, many in these lower income brackets might become investors, or larger investors than they now are.

Now the proper inducement to such people is not to limit income taxes to 50%. None of them now pays so high a tax. The way to make investors of them is to remove the second tax on dividends. These are the people who are most severely affected by double taxation, even where it is imposed at only a 20% or 25% rate.

In advancing these two tax proposals, I recognize the realities of the federal budget. As long as we are threatened with Soviet aggression, and must finance our own rearmament and underwrite the economy of western Europe the federal budget will not fall below its present level. Naturally I believe in a balanced budget and in consistent reduction of the national debt. And I believe equally that if tax rates must be high, it is better that they be high when national income is at its peak.

Taxation and Law of Diminishing Returns

We should remember, nevertheless, that there is an obvious but too-often forgotten law at work on our economy—the law of diminishing returns. There is a strong likelihood that these two improvements in our tax structure would result in greater government revenues, because of the new enterprises created and the taxes which they would pay.

In my opinion, then, this is the primary responsibility of business—to keep our system healthy by maintaining its incentives for customer, employee, manager and stockholder. May I, in addition, very briefly mention three other duties which I believe are a related part of that picture?

Government Planning

First, we must recognize that the government planning bug is a hardy creature which we shall always have with us. There will always be individuals who believe that they and a few others like them can figure it all out better than the generality of the population can. There is something about the atmosphere of Washington, apparently, which works mysterious changes in people. Each of you probably has seen normal level-headed businessmen move to Washington and straightway become government planners.

No matter how well-intentioned, and no matter what their politics they operate on the basis of their own experience alone, plus the experience of a few advisors. They lack all the rich experience of a million staff men who are the owners, managers and technicians. What we want, therefore, is not a plan or even a few plans. We want millions of individual plans. These plans come out of the heads of men who are on the scene, who know what the public is asking for, whose livelihoods depend on their being right. That is the meaning and the strength of free enterprise.

Secondly, the businessman who really believes in free enterprise should solve his own problems and refrain from asking the government to solve them for him. The businessman is held responsible for the results of his business actions; he had best retain as much control over those actions as the government will allow. When a businessman runs to Washington for advice and help, he gets them—and something more. If he gets, for instance, a public law or an executive order, he sets up a chain of events by which he ends, businesswise, with his neck in a noose. The voluntary program he asked for begins to become compulsory. The government decides who shall give and who shall get, and how much of it, and what it shall be used for. And the program which began as an emergency measure continues long after the need which evoked it has disappeared.

Finally, each of us has no obligation to explain patiently and effectively the facts of economic life—what makes the American system work. If, for example, you agree with me on the two points of tax reform I have made tonight, I hope you will explain and advocate them to all within your sphere of influence—business associates, stockholders, customers, employees and any labor organization which represent them, your Congressmen and Senators; and the President and his advisers.

Time Ripe for Remedying Capitalisms Defects

The time is ripe, as never before, for successfully explaining the American capitalist system and for remedying the conditions which are hampering it. Both on the record and in the realm of promise, that system is infinitely superior to any that has preceded it and to any which is now trying to match its results.

American capitalism has proved itself over the past decade with incomparable and indisputable triumph. It has overcome a series of fantastically difficult challenges. The world admits this, however grudgingly; the prestige of American capitalism has never been so high. The United States is everywhere envied for the wealth it has created under capitalism.

Abroad, we have just defeated the war machines of three powerful enemies, and have emerged with our economy basically sound, our civil liberties intact. What is more important, we have defeated the political systems, and to some degree the political ideas, they represented. In German Nazism, many of our people saw a state whose cruel efficiency, singleness of purpose and dynamic strength threatened to overwhelm our muddling democracy. When we drove to the heart of that country, we found a system which was cruel, but which was not wise, single in purpose, nor efficient. We found corruption, indecision and a lack of elementary good sense which was almost unbelievable. We found that the stern, determined Nazi leaders were at best weak men or clowns, and at worst sadists and criminals.

At home, we have survived a decade of depression and the resultant trend toward statism. The cynics of that era have been discredited. Those who insisted that capitalism was dead have found a most lively corpse on their hands. Those who insisted that expansion under our "mature economy" had ended, and that opportunity within it was gone, have been proved wrong. They have been proved wrong both in their doubt of the system and in their theories on replacing it with another.

The dictators who rule Soviet Russia are quite sure they know who owns the future. I strongly suspect that one day the world will discover that there is a rivalry and indecision among these leaders, an inefficiency and corruption, comparable to what we found in Germany in 1945. Nevertheless, the 14 men in the Kremlin believe that the future belongs to international communism.

We believe in this country and in this room that the future does not belong to communism. We know that the great advancing experiment of our time is not communism, or fascism or socialism, but liberal democracy under a regulated but not controlled capitalist economy.

Our capitalist democracy is committed to a foreign program that has no parallel in history. We have taken on the colossal job of enabling Europe to survive. We propose to give the world economic leadership and to bring it safely to solid ground. Our capitalist economy is now being called upon to supply a substantial part of what is needed for rebuilding a major part of the noncapitalist world. We have set out to defend free enterprise against strong and persistent attack. The stakes of this contest are no less—the issues no more complicated—than the survival of the institutions of freedom.

Can American capitalism and capitalists live up to the obligation and promise of the perilous tasks to which they have been committed?

It is by no means a foregone conclusion that we can. I am convinced, however, that there is one condition we must meet if we are to reach the goals we have set for ourselves.

We must give our system a decent chance. We must keep our incentives and permit the system to operate as it was meant to operate. If we do that, there is nothing within economic reason that the system will not do for us.

To protect and cherish the economic machine known as capitalist democracy—"the most powerful instrument ever devised by man for creating wealth within the moral and political framework of liberty under law"*—is the first responsibility of economic statesmanship today.

*"Fortune" editorial, Feb. 9, 1948.

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)	Nov. 21	99.0	99.4	99.1	97.0
Equivalent to—					
Steel ingots and castings (net tons)	Nov. 21	1,784,500	1,791,700	1,786,300	1,697,400
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Nov. 6	‡5,626,700	5,604,100	5,534,800	5,239,550
Crude runs to stills—daily average (bbls.)	Nov. 6	¶5,600,000	5,626,000	5,551,000	5,189,000
Gasoline output (bbls.)	Nov. 6	17,213,000	17,569,000	17,045,000	16,270,000
Kerosene output (bbls.)	Nov. 6	2,387,000	2,109,000	2,415,000	2,089,000
Gas oil and distillate fuel oil output (bbls.)	Nov. 6	7,549,000	7,679,000	7,234,000	6,256,000
Residual fuel oil output (bbls.)	Nov. 6	8,902,000	8,853,000	8,798,000	8,650,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Nov. 6	91,377,000	91,925,000	91,411,000	82,007,000
Kerosene (bbls.) at	Nov. 6	26,740,000	26,565,000	27,061,000	22,593,000
Gas oil and distillate fuel oil (bbls.) at	Nov. 6	83,150,000	81,593,000	77,879,000	63,358,000
Residual fuel oil (bbls.) at	Nov. 6	81,947,000	*81,195,000	78,166,000	57,172,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Nov. 6	843,166	931,750	891,811	910,170
Revenue freight rec'd from connections (number of cars)	Nov. 6	700,182	738,232	722,639	731,110
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Nov. 11	$137,751,000	$109,319,000	$170,174,000	$159,327,000
Private construction	Nov. 11	63,561,000	52,328,000	87,937,000	73,741,000
Public construction	Nov. 11	74,190,000	56,991,000	82,237,000	85,586,000
State and municipal	Nov. 11	51,724,000	44,573,000	58,628,000	64,537,000
Federal	Nov. 11	22,466,000	12,418,000	23,609,000	21,049,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Nov. 6	10,240,000	*12,300,000	11,850,000	12,894,000
Pennsylvania anthracite (tons)	Nov. 6	863,000	1,015,000	1,188,000	1,189,000
Beehive coke (tons)	Nov. 6	137,900	*153,400	150,600	147,200
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Nov. 6	320	319	336	347
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Nov. 13	5,570,767	5,563,514	5,482,030	5,084,340
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Nov. 11	96	104	94	84
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Nov. 9	3.75628c	*3.75628c	3.75628c	3.19541c
Pig iron (per gross ton)	Nov. 9	$46.82	$46.82	$46.82	$37.06
Scrap steel (per gross ton)	Nov. 9	$43.00	$43.16	$43.16	$41.50
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Nov. 10	23.200c	23.200c	23.200c	21.200c
Export refinery at	Nov. 10	23.425c	23.425c	23.425c	21.425c
Straits tin (New York) at	Nov. 10	103.000c	103.000c	103.000c	80.000c
Lead (New York) at	Nov. 10	21.500c	21.500c	19.500c	15.000c
Lead (St. Louis) at	Nov. 10	21.300c	21.300c	19.300c	14.800c
Zinc (East St. Louis) at	Nov. 10	15.500c	15.500c	15.000c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Nov. 16	100.96	100.71	100.69	102.03
Average corporate	Nov. 16	110.88	110.70	111.25	112.93
Aaa	Nov. 16	116.41	115.82	116.41	118.00
Aa	Nov. 16	114.66	114.08	114.27	116.22
A	Nov. 16	109.79	109.79	110.52	113.12
Baa	Nov. 16	103.47	103.47	104.31	105.17
Railroad Group	Nov. 16	106.39	106.21	106.74	107.80
Public Utilities Group	Nov. 16	111.44	111.25	112.00	114.66
Industrials Group	Nov. 16	115.04	114.85	115.24	116.41
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Nov. 16	2.43	2.45	2.45	2.37
Average corporate	Nov. 16	3.12	3.13	3.10	3.01
Aaa	Nov. 16	2.83	2.86	2.83	2.75
Aa	Nov. 16	2.92	2.95	2.94	2.84
A	Nov. 16	3.18	3.18	3.14	3.00
Baa	Nov. 16	3.54	3.54	3.49	3.44
Railroad Group	Nov. 16	3.37	3.38	3.35	3.29
Public Utilities Group	Nov. 16	3.09	3.10	3.06	2.92
Industrials Group	Nov. 16	2.90	2.91	2.89	2.83
MOODY'S COMMODITY INDEX	Nov. 16	398.8	400.3	405.1	448.3
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	Nov. 13	235.2	234.5	236.5	229.5
Fats and oils	Nov. 13	212.0	214.0	210.1	260.7
Farm products	Nov. 13	251.8	*255.7	259.4	259.0
Cotton	Nov. 13	297.1	296.3	297.1	313.3
Grains	Nov. 13	208.7	*206.5	214.9	300.3
Livestock	Nov. 13	261.9	269.1	272.2	245.2
Fuels	Nov. 13	244.1	244.1	244.1	198.2
Miscellaneous commodities	Nov. 13	171.6	170.5	169.0	175.4
Textiles	Nov. 13	193.9	193.7	194.3	218.6
Metals	Nov. 13	189.5	189.5	188.1	159.5
Building materials	Nov. 13	229.0	230.5	233.6	235.3
Chemicals and drugs	Nov. 13	152.2	156.6	156.6	157.1
Fertilizer materials	Nov. 13	142.5	142.4	142.3	134.5
Fertilizers	Nov. 13	150.1	*150.1	*150.1	140.6
Farm machinery	Nov. 13	151.3	151.3	146.0	128.3
All groups combined	Nov. 13	220.8	*221.6	223.2	214.3
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Nov. 6	244,488	199,563	214,291	222,903
Production (tons)	Nov. 6	189,639	193,819	192,340	185,873
Percentage of activity	Nov. 6	95	96	96	102
Unfilled orders (tons) at	Nov. 6	419,248	365,928	395,953	467,636
OIL, PAINT AND DRUG REPORTER PRICE INDEX — 1926-36 AVERAGE=100	Nov. 12	144.4	144.2	144.0	148.8
WHOLESALE PRICES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Nov. 6	162.7	163.8	164.6	157.9
Farm products	Nov. 6	178.9	180.7	181.5	186.1
Foods	Nov. 6	171.6	174.8	178.0	176.3
Hides and leather products	Nov. 6	185.7	187.4	187.8	198.7
Textile products	Nov. 6	145.7	145.7	146.9	142.9
Fuel and lighting materials	Nov. 6	138.0	138.0	138.3	118.4
Metal and metal products	Nov. 6	173.0	172.7	171.9	151.3
Building materials	Nov. 6	203.6	203.5	202.7	185.2
Chemicals and allied products	Nov. 6	135.0	134.3	133.5	129.1
Housefurnishings goods	Nov. 6	149.3	149.2	148.5	133.4
Miscellaneous commodities	Nov. 6	118.5	119.0	118.4	117.9
Special groups—					
Raw materials	Nov. 6	175.1	176.2	176.7	175.2
Semi-manufactured articles	Nov. 6	158.7	158.2	158.3	155.2
Manufactured products	Nov. 6	158.1	159.4	160.5	151.0
All comodities other than farm products	Nov. 6	159.0	160.0	160.8	151.6
All commodities other than farm products and foods	Nov. 6	153.4	153.4	153.3	141.3

*Revised figure. ‡Strike in California continues. ¶Includes 404,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
BANK DEBITS — BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—			
Month of October (in thousands)	$107,141,000	$104,729,000	$105,290,000
BUSINESS INVENTORIES, DEPT. OF COMMERCE—Month of August (millions of $):			
Manufacturing	$30,434	$30,218	$27,051
Wholesale	8,223	8,044	7,068
Retail	13,985	13,493	11,815
Total	$52,642	$51,760	$45,934
COMMERCIAL PAPER OUTSTANDING—FEDERAL RESERVE BANK OF NEW YORK—			
As of October 29 (in millions)	$285,000	$305,000	$283,000
COTTON ACREAGE AND PRODUCTION U. S. DEPT. OF AGRICULTURE—As of Nov. 1			
Acreage	23,323,000	23,323,000	21,148,000
Production 500-lb. gross bales	15,166,000	15,079,000	11,857,000
COTTON GINNING (DEPT. OF COMMERCE):			
Running bales (exclusive of linters) prior to Nov. 1	10,432,934	------	8,368,643
CROP PRODUCTION — CROP REPORTING BOARD U. S. DEPARTMENT OF AGRICULTURE—Estimate as of Nov. 1 (in thousands):			
Corn, all (bushel)	3,649,510	3,567,955	2,400,952
Wheat, all (bushel)	1,283,770	1,283,770	1,364,919
Winter (bushel)	981,415	981,415	1,067,970
All spring (bushel)	302,355	302,355	296,949
Durum (bushel)	45,938	45,938	43,983
Other spring (bushel)	256,417	256,417	252,966
Oats, (bushel)	1,492,957	1,492,957	1,215,970
Barley (bushel)	317,240	317,240	279,182
Rye (bushel)	26,664	26,664	25,977
Buckwheat (bushel)	6,384	6,308	7,334
Flaxseed (bushel)	49,975	49,975	39,763
Rice (bushel)	80,137	78,766	79,345
Sorghums for grain (bushel)	128,442	127,654	95,609
Cotton, (500 lb. bale)	15,166	------	11,857
Hay, all (ton)	99,094	99,094	102,500
Hay, wild (ton)	12,916	12,916	13,306
Hay, alfalfa (ton)	33,765	33,765	33,475
Hay, clover and timothy (ton)	29,503	29,503	32,569
Hay, Lespedeza (ton)	6,933	6,933	6,768
Beans, dry edible (100 lb. bag)	19,789	19,258	17,164
Peas, dry field (bag)	3,536	3,536	6,513
Soybeans for beans (bushel)	210,475	205,820	181,362
Cowpeas for peas (bushel)	------	------	------
Peanuts (lb.)	2,288,075	2,293,985	2,187,985
Potatoes (bushel)	431,401	418,355	384,407
Sweetpotatoes (bushel)	52,409	52,665	57,178
Tobacco, (lb.)	1,871,844	1,820,032	2,107,763
Sorgo Sirup, (gal.)	8,393	------	9,885
Sugarcane for sugar and seed (ton)	6,191	6,191	5,437
Sugarcane Sirup (gal.)	17,985	------	20,270
Sugar beets (ton)	9,942	10,016	12,504
Broomcorn (ton)	29	28	33
Hops (lb.)	50,125	50,125	50,098
Pasture (pct.)	------	------	------
Apples, commercial crop (bushel)	90,288	96,319	113,041
Peaches (bushel)	67,467	67,467	82,603
Pears (bushel)	26,190	26,358	35,312
Grapes (ton)	2,935	2,956	3,072
Cherries (12 States) (ton)	201	201	173
Apricots (3 States) (ton)	250	250	198
Cranberries (5 States) (bbl.)	922	899	790
Pecans (lb.)	162,722	169,684	118,639
FACTORY EARNINGS AND HOURS—WEEKLY AVERAGE ESTIMATE — U. S. DEPT. OF LABOR — Month of September:			
Earnings—			
All manufacturing	$54.06	*$54.12	$50.45
Durable goods	57.92	*58.34	54.05
Nondurable goods	50.13	*49.80	46.77
Hours—			
All manufacturing	39.7	*40.1	40.4
Durable goods	40.0	40.7	40.6
Nondurable goods	39.4	*39.5	40.1
Hourly earnings—			
All manufacturing	$1.363	*$1.349	$1.249
Durable goods	1.449	*1.432	1.331
Nondurable goods	1.274	*1.262	1.165
NEW YORK STOCK EXCHANGE— As of October 30 (000's omitted):			
Member firms carrying margin accounts—			
Total of customers' net debit balances	$579,535	*$570,876	$606,489
Credit extended to customers	44,639	46,755	78,693
Cash on hand and in banks in U. S.	325,657	341,195	383,207
Total of customers' free credit balances	539,563	550,298	615,504
Market value of listed shares	72,185,619	68,614,412	68,883,690
Market value of listed bonds	130,944,936	131,127,665	138,336,333
Stock price index, 12-31-24=100	78.8%	75.0%	78.7%
Member borrowings on U. S. Govt. issues	$50,841	$72,406	$110,338
Member borrowings on other collateral	252,386	*233,238	221,106
PRICES RECEIVED BY FARMERS — INDEX NUMBER — U. S. DEPT. OF AGRICULTURE August, 1909-July, 1914=100—As of Oct. 15:			
Unadjusted—			
All farm products	277	290	289
Crops	227	231	261
Food grain	226	223	302
Feed grain and hay	192	223	284
Feed grain	204	248	327
Tobacco	418	406	357
Cotton	251	250	247
Fruit	174	185	166
Truck crops	176	150	238
Oil-bearing crops	270	282	344
Livestock and products	323	343	313
Meat animals	373	408	360
Dairy products	289	302	283
Poultry and eggs	260	253	251
Seasonally adjusted—			
Fruit	182	187	174
Truck crops	229	220	314
Dairy products	276	298	270
Poultry and eggs	236	242	227
REAL ESTATE FINANCING IN NON-FARM AREAS OF U. S. — HOME LOAN BANK BOARD—Month of Aug. (000's omitted):			
Savings and Loan Associations	$319,534	$322,524	$315,305
Insurance companies	84,479	83,710	70,277
Banks and Trust Companies	222,673	221,489	250,612
Mutual Savings Banks	73,550	73,074	51,378
Individuals	184,270	186,794	165,781
Miscellaneous lending institutions	139,817	130,806	135,093
Total	$1,024,323	$1,018,397	$988,446
UNITED STATES EXPORTS AND IMPORTS—BUREAU OF CENSUS—Month of Sept.: (000's omitted):			
Exports	$926,500	$988,200	$1,185,000
Imports	558,200	598,400	473,128

Business Outlook—Recession or Boom?

(Continued from first page)

then to seek to determine what difference, if any, the election has made.

II

At the time of the election the postwar boom had been running for three years. During this period industrial production had increased 17%, personal incomes about 28%, expenditures for goods about 25%, wholesale prices about 58%. Three years is longer than most periods of expansion have lasted—longer than any of the four periods of expansion between 1918 and 1929. Hence many people believe that a recession is overdue. A year ago 75 out of 100 economists polled by the F. W. Dodge Corporation predicted that a recession would begin in 1948—the most usual guess was in February or March. Last spring 75 economists polled by Montgomery Ward and Company reached a consensus that recession would start this fall. Let me set forth the best possible case for expecting an early recession as it appeared before the election, and then let me indicate why, as conditions were before the election, this case was not convincing.

The case for an early recession even before the election had several parts. One part was that the boom is levelling off. There are increasing signs that this is happening. It is indicated by comparing changes during the third year of the boom with those during the second year. It is true that, in the third year of boom, government purchases of goods and services increased whereas, in the year before, they decreased and that the increase in gross private investment in the third year of the boom was much greater than in the second—about 25% between the third-quarter of 1947 and the third-quarter of 1948 in comparison with only 12.6% between the third-quarter of 1946 and the third-quarter of 1947. Consumer expenditures, hourly earnings and prices, however, are all leveling off. For example, during the second year of boom, consumer expenditures increased 12.4%, during the third year, 8.1%; during the second year of the boom hourly earnings of factory workers increased 10.9%, during the third year, 9.1%; during the second year of the boom wholesale prices increased 18.2%, during the third year, 4.3%; during the second year of the boom the consumers' price index increased 12.3%, during the third year, 6.3%. The wholesale price level today is just about where it was in January, nearly 11 months ago.

A second part of the case for expecting an early recession was that the economy during the last year has become considerably more vulnerable to unfavorable developments. This is a result of the rapid rise in business spending. Expenditures by business on plant, equipment, and inventories rose from 12.3% of all expenditures for goods in the third-quarter of 1947 to 15.0% in the third-quarter of 1948, and are now as large relative to all kinds of spending as in 1929. Business spending is the kind which is most sensitive to both favorable and unfavorable influences.

A third part of the case for expecting an early recession was that the record-breaking crops of this year in the United States and greater farm output in Europe are bringing about a drop in the price of new agricultural products. In fact, after nine years of a more or less steady rise, the drop in the prices of most farm products is likely to be regarded as a forerunner of a fall in all prices.

With the boom obviously leveling off and with weakness developing in an important part of the price structure, are not many business concerns bound to make some reductions in their expenditures on plant, equipment, and inventory? That would seem to be merely conservative business practice, especially since business spending has risen by 25% during the last year and is now quite high in relation to consumer spending. A drop in the rate of business expenditures would mean some unemployment, this would produce a drop in consumer incomes and spending and hence would cause more unemployment which, in turn, would produce a further drop in spending. By the time the downward spiral had halted, the country would be in the midst of at least a moderate recession. Since the conditions needed to produce a recession are now in existence, is not a recession likely to start at any moment?

III

This reasoning may seem plausible, but it fails to consider a number of important facts—facts which indicate that there will not be an early recession. The fact that the boom is leveling off does not in itself indicate an early recession. Indeed, it may indicate the contrary, because it is evidence of the absence of speculative buying and commitments made on thin margins which are likely to cause trouble if the outlook for business becomes unfavorable. As matters stood before the election, there were two principal reasons for not expecting an early depression. One was that no large drop from the present high rate of business spending was in prospect. The other was that a moderate drop in business spending, if it occurred, was almost certain to be offset by a rise in spending by consumers, local and state governments, and the Federal Government.

No immediate drop in the present high rate of business spending was in sight because enterprises are planning to spend more on plant and equipment during the second half of 1948 than during the first half. They are assisted in increasing their expenditures by the rise in the output of steel, which will be several million tons larger this year than last. Lack of steel has long limited the amounts which enterprises could spend on equipment and construction. Even before the election some drop from the present high rate of business spending seemed likely in early 1949. It did not appear probable, however, that the drop in business spending would be large because present business spending does not in the main represent an attempt to anticipate a growth in demand. On the contrary, it is an attempt to catch up—to replace obsolete equipment which could not be replaced during the long depression of the thirties or during the war and to adjust the size of plants to the great increase in the labor force and in the population of the country which has occured since 1929. During most of the last nineteen years expenditures on plant and equipment have been abnormally low—in some years not large enough to offset depreciation. In the meantime the labor force of the country has grown by 12 million and the population by over 20 million. As a result, there is now even less capital per worker in American industry than 20 years ago. In addition, many plants are far too small to meet economically the current demand for their product. The present "catching-up" type of business spending is far less sensitive to unfavorable developments than the speculative spending which often occurs in booms and which is intended to anticipate a rise in prices or a growth in markets.

If some drop in business spending occurs, it will be quickly offset by larger outlays by consumers, state and local governments, and the Federal Government. At least that was the prospect before the election. Some articles, such as shoes, tires, shirts, and radios, have become so abundant during the last few months that prices have dropped and a mild kind of buyers' market has developed. This does not mean, however, that consumers are spending all of the money which they are able and willing to spend. As a matter of fact, they are spending money less rapidly today than before the war. In 1939, personal holdings of bank deposits and cash were about $35.5 billion and expenditures for consumer goods of all kinds were $67.5 billion. In other words, expenditures for consumer goods in the course of the year were 1.90 times personal holdings of bank deposits and cash. Today personal holdings of bank deposits and of cash are about $102.8 billion, but consumer expenditures are only running at the rate of $175 billion a year—or 1.70 times personal holdings of bank deposits and cash.

The year 1939, it is important to remember, was not a year in which spending was stimulated by buoyant optimism. The country had not completely emerged from the depression and there were over 9 million unemployed. The international outlook was lowering—it was the year between Munich and the outbreak of the Second World War. Surely, today, when accumulated needs for goods are far greater than in 1939 and when unemployment is much less, one would expect consumers to spend money faster than they were doing in 1939. The fact that they are not spending money as fast as they did before the war is a strong indication that they would be willing to spend more if the output of industry were larger. Hence, a drop in business spending, by making possible a larger output of automobiles, durable household goods, and other items, would lead to larger consumer outlays. This happened between the first quarter and the second quarter of 1948. During that time the annual rate of business spending dropped from $38.5 billion to $37.2 billion, but this was more than offset by a rise in the annual rate of spending for consumer goods from $172.0 billion to $175.1 billion.

A drop in business spending would also be promptly offset, at least in part, by larger outlays of cities, counties, states, and other local governments. The needs of local and state governments are very large, much larger than is generally realized. Many of these are accumulated needs, the result of failure to make normal expenditures on local public works and facilities during the war. Others are the result of recent changes, such as the wartime increase in population, the rise in standards of medical care, the postwar growth in the number of cars and trucks, and the great geographical shifts in population which seem to have been accelerated by the war. The large number of children born during the war are beginning to enter schools and will require considerable additions to schools. Likewise, the great increase in the number of cars and particularly the rapid increase in trucks is causing the country's road system rapidly to become obsolete. About 50% more freight is being transported by truck today than in 1941. It is clear that for many parts of the country the old 18-foot, two-lane, cement highway is inadequate. All of these problems have been aggravated in some parts of the country by the great shifts in population. Each of the three Pacific states has grown in population by more than 40% since 1940.

Expenditures to meet the needs of state and local governments have been held down by shortages of materials and labor and in some cases by the fact that plans had not been completed or financing arranged. Spending by state and local governments is now running about 19% larger than last year and is steadily growing. It will rise still higher if a drop in business spending releases men and materials. Incidentally, there will be considerable increase in expenditures by the states within the next year as a result of bonus payments to veterans.

Finally, a drop in business spending would be offset in considerable measure by an increase in Federal spending. Expenditures of the Federal government reached a postwar low (on a seasonally adjusted basis) in the last quarter of 1947.

They have been rising ever since, and are now about 14% above a year ago. President Truman recently estimated that actual cash outlays of the Federal government during the present fiscal year of 1948-49 will be about $4 billion larger than last year—an advance of about 10.3%. This estimate assumes an increase of only about $1.9 billion, or 18.2%, in expenditures on national defense and very moderate aid to agriculture. Relations with Russia are steadily getting worse—they are worse this fall than they were a year ago and they were worse then that they were in 1946. There is little prospect that they will improve at an early date. Russia is determined to destroy the economic and political institutions of this country and of the countries of western Europe, and there is no likelihood that she will soon abandon this aim. Thus far the United States has moved very slowly in building up its defenses. In fact with an election just ahead, the government refused to ask the people to face the unpleasant fact that the country is not in reality at peace. After the election, expenditures on the country's defenses must be expected to rise substantially. President Truman recently suggested that expenditures on defense and stockpiling in the fiscal year 1949-1950 be held to $15 billion. Unless relations between this country and Russia greatly improve, this figure will undoubtedly be exceeded. In addition, the United States will make a considerable contribution to the rearmament of western Europe.

IV

What difference does the unexpected result of the election make in this analysis of the business outlook? It introduces three principal changes: (1) the fourth round of wage increases will be pushed somewhat more vigorously; (2) government expenditures will be larger; (3) taxes will be higher;and (4) taxes will fall more largely upon business.

(1) The success of unions in the election will encourage them to make somewhat stiffer wage demands than they would press if the community were less friendly to unions. The difference, however, will not be great. There is some question as to whether a fourth round of wage increases will be inflationary or deflationary, that is whether it will induce a sufficient increase in spending and in prices to prevent a rise in unemployment. In view of the fact that most consumers are not yet spending money at a normal rate, I believe that most concerns will be able to pass on most or all of any wage increases in the form of higher prices without reducing employment. Hence the fourth round will be inflationary rather than deflationary. There is an important qualification to this statement which I shall mention presently. Furthermore, if the fourth round were by any chance very large, it might push prices so high than unemployment would be created. Consumer spending at the moment is not greatly below the normal rate.

(2) The Democratic victory means larger government spending that would have occurred under a Republican administration. Cash expenditures of about $45 billion have been estimated for the fiscal year 1949-50. This amount includes about $1.5 billion lend-lease military aid to Europe and about a billion for support of farm prices. It would probably have been necessary under a Republican administration. President Truman has promised a large public housing program, "the most ambitious irrigation development in all our history," extension of rural electrification and the soil conservation program, full development of the St. Lawrence Seaway, Federal aid to education, sickness insurance and medical benefits, and a 50% increase in old age benefits. Some of these increased expenditures may not get into the cash budget for 1949-50 but a substantial part of most of them will. Consequently the cash budget for 1949-50 is likely to be at least $47 billion and to be running well above that rate by the end of the fiscal year.

(3) The Democratic victory means that the government must have larger cash receipts from the community. At the present level of production of goods and private spending an attempt by the government to spend more would simply force up prices. Hence if the government spends more, it must force someone else to spend less. Some increase in cash receipts by the government will be obtained from higher payroll taxes in connection with the liberalization and extension of social security plans. The yield of present taxes is rising as incomes increase. Given good business, the yield should be in the neighborhood of $46 billion a year. Consequently the cash budget for 1949-50 could probably be balanced by new taxes yielding about a billion a year.

It is not enough merely to balance the cash budget. At present levels of employment, the cash budget should show a surplus. Otherwise the public debt will be growing in the midst of boom. In order to make most of the expenditures which President Truman had promised and to balance the administrative budget, new taxes yielding about $3 billion a year will be required. Congress may insist that many expenditures be postponed but the Democratic Congress can scarcely avoid beginning promtply to fulfill at least a large part of the party's promises. Hence fairly large increases in taxes will be necessary.

(4) The increased taxes will fall largely or entirely on business — probably upon corporate profits. Mr. Truman's previous tax proposals indicate that he will ask for higher corporation taxes in some form and members of Congress are likely to prefer to tax voters indirectly through taxing corporations rather than directly through higher income taxes or excise taxes.

How will the prospect of higher government expenditures and stiffer corporation taxes affect the short-run business outlook? One possibility is that major tax uncertainties, which are likely to persist until late spring or early summer, will cause many concerns promptly to make deep ruts in their capital expenditures in order to be in a position to meet large increases in their tax liabilities. Consequently the drop in business spending which seemed likely within the next nine months even before the election may come

sooner and be much larger than would otherwise have been the case. It might be so large that it could not be immediately offset by larger government or consumer spending. Far more likely is the possibility that the President's program will convince businessmen that materials and labor are about to become scarcer and more expensive. Hence managers will seek to cover the needs of their concerns for more plant and equipment before the President's program makes goods scarcer and prices higher. They will borrow of necessary in order to buy now. Thus the prospect of larger government spending, of higher taxes (and of a fairly substantial fourth roud of wage increases) will temporarily stimulate business spending. When higher taxes eventually force a drop in business spending this drop will be offset by a rise in government spending. Consequently I conclude that the result of the election diminishes the chance that a drop in business spending will produce an early recession.

V

In conclusion let me refer briefly to one or two long-run matters. The economic meaning of the election is that the American people intend to make far greater demands upon industry than many people in the community, including most business executives, have expected. Not only do they expect industry to produce enough to pay high and steadily rising real wages to all of its employees, but they also expect it to produce enough to make possible a large defense establishment, aid on an unprecedented scale to Europe and Asia, large public works, and a large social welfare program. The people of the country do not seem to be much interested in whether industry is productive enough to meet all of these demands and still provide real income in substantial amounts for the owners of business—though it is plain that the great demands of the community cannot be met unless industry is also sufficiently productive to give its owners a good return.

American industry can probably meet the tremendous demands which are going to be made on it provided it plans to do so over the next few years to make substantial increases in its capacity—that is provided business executives do not assume that the demands of the community for goods is going to be much smaller than it turns out to be. Ever since the Great Depression of the thirties, businessmen have worried unduly about the demand for goods. They have been encouraged to set their sights too low by advocates of public spending who have urged public spending as a necessary supplement to an alleged chronically deficient private demand. The notion that private demand has been chronically deficient is not substantiated by evidence—by the course of prices during the last hundred years, by the almost constant willingness of people to spend more than their incomes in order to get the goods they desire, or by the huge scale on which the United States has imported labor from abroad.

Without giving up their old kinds of demand for goods, however, the American people are developing enormous new kinds of demand—a far greater demand for public works than ever before, a demand for widespread and generous social services, a demand for a large defense establishment, and a demand for goods to implement the most ambitious internationalist foreign policy which any nation has pursued. Unfortunately the new demands will not wait until industry has had time to make large further increases and improvements in plant and equipment—however urgently these may be needed. Hence industry must resort to such devices as capital-saving inventions and to more rapid technological progress.

American industry, I am confident, has the know-how to meet the tremendous demands which are about to be made on it. My doubts relate to the kind of market analysis which business leaders are likely to make. Will these men see the tremendous increase that is occurring in the demand for goods and will they make proper plans to increase the capacity of industry to meet these demands? That is the paramount question which the political trends of this generation present to American business.

Economic Signs of Our Times

(Continued from page 6)

budget of $35 to $40 billion, or more.

"It follows as the night the day" that taxes will be heavy in the years ahead. In fact, if some settlement of the international political difficulties cannot be arranged, the tax burden promises to be an almost unbearable one. In such event, rigid economy in the non-military phases of Federal expenditures and in state and local spending will be necessary, if we are, in an economic sense, not to bleed to death. But, may I emphasize, war or no war, taxes inevitably will be several times their pre-war levels.

Our swollen money supply was not reduced on Nov. 2. The $95 billion of deposits in our commercial banks and pocket money in the hands of our people that we had at the end of the Japanese War in 1945 has increased 16% to a total of nearly $110 billion. As a practical matter, the election can have little effect on this huge supply of purchasing power. Neither party is willing to risk the political danger of a serious effort to reduce purchasing power. No real politician will take the responsibility for causing "bad business," and, of course, that is what deflation means. So I anticipate no serious efforts by the government to end inflation!

On the contrary, a minimum Federal budget of $35 to $40 billion, which according to our analysis cannot be avoided, will require a continuation of high level business activity to secure the necessary tax revenues. Compare these budgetary needs of some $40 billion with the total national income of $39.6 billion in 1936 and you will understand why the economic machine will not be permitted to slow up very much if the government can possibly prevent it. And, remember, the Treasury, with its debt management powers and with the cooperation of the Federal Reserve System with its monetary and credit powers, can bring tremendous pressure to bear to prevent any serious business reaction. I am convinced that they will not hesitate to exercise those powers when the need arises. Furthermore, if additional powers are needed to stem a serious deflationary tide, the Congress will undoubtedly give them such powers.

Please do not jump to conclusions on what I have just said. Don't get ahead of me. I am not saying that the business cycle has been repealed. It is too deeply rooted in human nature to be eliminated. I am saying that we can expect quicker and more effective government intervention on the downswing of the business cycle than in the past. So long as the Federal government has a budget of $40 billion or thereabouts, and so long as it continues to control interest rates and farm product prices, it will be in a position to stem any serious break in economic activity. Naturally, this observation refers to general business activity. Even though the general level is kept up, some lines may suffer a severe drop in activity, with failures, unemployment, and the other accompaniments of "hard times." Even today, with business activity at such an extremely high level that the gross national product is at the unprecedented rate of approximately $250 billion a year, there are lines of business which are having difficulty in keeping "above water." In fact, failures are beginning to increase despite the stratospheric level of business activity.

Business Readjustment Inevitable

Although business is at a very high level, we know that a business readjustment is inevitable. We don't know when the readjustment will set in, and we don't know how severe it will be, but we do know that it is on its way. I, personally, feel that a readjustment is more than a year overdue. That is, it is my opinion, that if we had not had worldwide crop failures in 1947 and food shipments for European relief despite our own short crops, the readjustment would have long since been under way. Also, in the last six months, it became painfully clear that we must start re-arming to counter Russia's imperialistic expansion plans, and these expenditures have further delayed the inevitable readjustment. In fact, it now seems probable that if military expenditures are sharply increased and deficit financing is again utilized on a consequential scale by the government, the readjustment will be postponed until those inflationary pressures subside.

On the other hand, if we can hold military expenditures to a maximum of say $15 billion as was promised by President Truman, and can avoid extraordinary new expenditures, such as billions to support farm product prices, I think a business readjustment is in the making.

There are many distinct signs that "time is running out" on the boom.

A bumper crop, 13% greater than last year and 8% greater than the previous all-time peak yield of 1946, has brought the agricultural boom to an end. Some agricultural commodity prices have already dropped to the government support level and others are on their way. Lower food prices will remove an important inflationary pressure which has been a particularly serious one because of its effect on wage demands.

The inventory replacement boom must be getting close to its end, as we have now accumulated total inventories of some $53 billion, which would seem to be more than adequate. Manufacturers inventories alone exceed $30 billion which is indeed something to think about under present conditions!

Capital Goods Boom

The capital goods boom is increasing its tempo. Surveys indicate that American business will spend $18,630,000,000 this year (1948), which is $2,400,000,000 more than last year. It must not be overlooked, however, that the industrial capital goods boom flows from the strong demand for goods for inventory replacement as well as for consumption purposes. Once inventory accumulation stops or consumer demand falls off, capital goods expenditures will be quickly curtailed. In other words, it is a derivative boom and the moment the supports weaken, industry will drastically revise all plans for expansion.

Well, how goes the consumer goods boom? The American people are consuming at the rate of $175 billion a year. Their disposable personal income is currently at the rate of $187 billion a year; and, while there can be wide difference of opinion as to the exact amount, their liquid assets certainly exceed $100 billion. If the economic principle that human wants are insatiable still holds true, will not these high levels of purchasing power prevent a reaction? Let us look around for some facts on which to base our answer.

Glance at the advertisements in any newspaper and you will see that the "heat is on." Some of the advertising claims are becoming shrill and exaggerated. Sales pressure of all sorts is being applied. Contests, bonuses, dollar sales, one cent sales, and all kinds of sales razzle-dazzle are being widely used; yet sales are falling off in many lines as supply overtakes demand. Here are some examples from the news columns of the newspapers:

Several types of stores in New York City report that electric refrigerator sales in October were 20% behind their summer peak. Another news item says that national sales of vacuum sweepers this September were 15.5% less than in September, 1947. Nonautomatic washing machines are reported as clogging the warehouses. The accountants for the furniture industry announce that although shipments exceeded 1947, factory orders were down "somewhat" in September and that some manufacturers "cite facts which indicate that they are scraping the bottom of the unfilled order barrel and that conditions are getting pretty 'tough'." Here's another news item in the same paper which is so characteristic of developments at this stage of the business cycle that I quote it: "The ——— Mills here yesterday began a week's shutdown. President ——— said cotton yarn sales recently had been below production, with accumulating inventories. **He added that management would use the shutdown to speed up installation of new equipment.**" (No comment is needed as to the effect of such actions on future supply!)

Viewing consumer demand in more general terms, cotton textile production began to overtake demand last spring and has now reached the point where lay-offs and short work weeks are necessary in some areas. Old-fashioned price cutting has started in men's clothing, one chain recently going so far an to cut retail prices by 20%. Even housing has passed its peak. Furs, nylons, perfumes and most luxury goods have been on a high competitive basis for more than a year.

Although dollar figures for retail sales are at levels above those of last year, that is almost entirely due to higher prices. In most cases, physical volume is lower. To put it bluntly, soft spots are beginning to appear in practically all consumer goods lines with, of course, the big exception of automobiles.

1949 Prospects

Barring war, which I do not expect, and barring a large increase in government spending, which is entirely possible, supply and demand should be in such balance that most lines will be competitive by 1949. The return of competition will be welcomed by all good business men. Once more, the ability and effort of the individual business man will be the determining factors in his profits. Allocations, gray markets, and "chiseling" will no longer set ceilings for him. But, of course, he will have to go to work. And it has been so long since we have had any real competition, that many business men have forgotten what it is like. When they once more encounter it, you will hear a great deal of wailing, but don't let it get you down.

So that you will not get too discouraged with the competition you are going to face in 1949, let me tell you what happened in just one line in 1920 when competition and the business cycle were both really going strong. In January, 1920, a speaker at the National Retail Clothiers Association Convention (and I quote) "confidently predicted that spring clothes would increase 25 to 40%." At the time he seemed to have a sound basis for his views. Labor had just received another 15% increase; and materials were at record levels, cotton, in particular, having reached 45 cents a pound. Production costs were very high. Yet, before the end of the year, Chicago jobbers were selling men's clothing at 10 to 50% less than the wholesale price. Wholesalers, also, were offering discounts of as much as 50%. The big blow, however, came in November, when the Federal Courts ordered forced sale of the merchandise inventories of 19 Rochester clothing manufacturers, who had filed petitions in bankruptcy.

But why look back? We are not going to have a repetition of 1920. As I showed you earlier, that is out of the question. But we will have increasing competition and increasing failures in 1949. Despite the fact that business volume will be two or three times the pre-war level, those who try to use the same methods they did during the easy money—goods shortage days will not last long.

As I said in the beginning, we are in a new business world. You have your choice of being a pioneer or a has-been! As for me, I am going to see to it that 1949 is a great year.

John J. Farrell Is Forming Own Company

John J. Farrell is forming Farrell Securities Co. with offices at

John J. Farrell

115 Broadway, New York City. Mr. Farrell was previously with the New York office of Coburn & Middlebrook.

E. K. and F. K. Easter Join Dean Witter

SEATTLE, WASH.—Edward K. Easter and F. Kenneth Easter have become associated with Dean Witter & Co., 1221 Fourth Avenue. Both were formerly officers of F. K. Easter & Co., which has been dissolved.

Business Man's Bookshelf

Economics of Strip Coal Mining—Herman D. Graham—Bureau of Economic and Business Research, University of Illinois, Urbana, Illinois—paper.

Price Problems: An Accounting Report—Franzy Eakin—Economic Accounting, Inc., Decatur, Illinois—paper——$1.00.

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. **Proceeds**—For construction. Expected about Dec. 7.

American Bemberg Corp. (12/13)
Oct. 19 filed (by Attorney General of the United States) 6,175 shares of class B 4½% cumulative preferred (par $100), 91,851 shares of class C common (no par) and 34,033 shares of class D common (no par). **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. **Bids**—Bids for the purchase of the stock will be received at the Department of Justice, Office of Alien Property, 120 Broadway, New York, up to 3.30 p.m. (EST) Dec. 13.

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. Indefinite.

American Telephone & Telegraph Co. (12/7)
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 corporate purposes. Expected Dec. 7.

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.

● **Big Horn-Powder River Corp., Denver, Colo.**
Nov. 9 (letter of notification) 75,000 shares of common stock ($1 par). **Price**—$2 per share. No underwriting. For exploration, development and production of oil properties.

Bradshaw Mining Co., Tonopah, Nev.
Oct. 8 (letter of notification) 1,500,000 shares (5c par) common stock. **Price**—20 cents per share. **Underwriter**—Batkin & Co., New York. To repair and renovate mine of company and to exercise option to purchase processing mill and move and erect such mill on the company's property and for working capital.

● **Briggs Filtration Co., Bethesda, Md.**
Nov. 8 (letter of notification) stock warrants for 813,440 shares of new common stock. **Price**—25 cents per share exercisable before Nov. 30, 1953. No underwriting. For working capital.

● **Canada Dry Bottling Co. of Cincinnati, Inc.**
Nov. 12 (letter of notification) 850 shares of common stock (no par). **Price**—$100 per share. No underwriting. To purchase bottles, wooden cases and vending machines.

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. Temporarily postponed.

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. (11/18)
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. **Bids**—Bids for purchase of unsubscribed shares will be received at company's office, Room 2158, 20 N. Wacker Drive, Chicago, up to 11 a.m. (CST) Nov. 18.

● **Champion Mines Co., Denver, Colo.**
Nov. 12 (letter of notification) 2,000,000 shares (1¢ par) capital stock. **Price**—2½ cents per share. No underwriting. For mining operations.

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.

Cobalt Mines Corp., Newark, N. J.
July 26 (letter of notification) 290,000 shares of common stock. **Price**—$1 per share. **Underwriter**—Charles W. Warshoff & Co., Newark, N. J. To meet obligations.

Coleraine Asbestos Co. Ltd., Montreal, Canada
Aug. 16 filed 200,000 shares of capital stock. **Price**—50 cents per share in Canadian Currency. **Underwriter**—P. E. Frechette. **Proceeds**—For drilling operations.

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 Consumers 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.

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.

● **Decorators Supply International, Inc., Pasadena, Calif.**
Nov. 12 (letter of notification) 75,000 shares of common stock. **Price**—$1 per share. No underwriting. For the purchase of capital equipment, inventory and raw materials and to establish a certain factory and shop.

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 were issued Nov. 15 and will expire Dec. 1. Subscription price is par (flat). **Proceeds**—To retire bank loans and to meet construction costs.

● **Dominquez Oil Fields Co., Los Angeles, Calif.**
Nov. 8 (letter of notification) 500 shares of capital stock (no par). **Price**—$27.25 per share. **Underwriter**—Blyth & Co., Inc., will act as broker. Proceeds to selling stockholders.

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.

● **Dustex Corp., Buffalo, N. Y.**
Nov. 12 (letter of notification) 1,500 shares of 6% cumulative preference stock (par $25) (convertible into two shares common stock prior to Jan. 1, 1959) and 1,500 shares of common stock (no par). **Price**—$30 per unit, consisting of one share of each. **Underwriting**—None. To pay off notes payable and increase working capital.

Ekco Products Co., Chicago, Ill.
Oct. 25 (letter of notification) 6,000 shares ($2.50 par) common stock. **Price**—$12.50 per share. No underwriter. For additional working capital.

Ex-Cell-O Corp., Detroit, Mich.
Oct. 15 filed 27,000 shares of common stock (par $3). The corporation plans to exchange the 27,000 shares for 1,500 shares of $10 par common stock of the Robbins Engineering Co. Ex-Cell-O plans to operate the Robbins Engineering Co. as a wholly-owned, consolidated subsidiary.

Family Finance Corp.
Sept. 2 filed 25,000 shares 4½% cumulative preference stock, series A (par $50) (convertible to and including Aug. 1, 1956) and 97,580 shares ($1 par) common stock to be reserved for conversion of the preferred stock. **Underwriter**—E. H. Rollins & Son, Inc. **Proceeds**—To reduce outstanding bank loans and commercial paper. Temporarily postponed.

Ferro Enamel Corp., Cleveland, Ohio
Sept. 17 filed 79,080 common shares ($1 par). **Offering**—To be offered for subscription by stockholders in ratio of one additional shares for each four shares held. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—Company and subsidiaries will use the funds for general corporate purposes. Offering postponed.

● **First Discount Corp., South Bend, Ind.**
Nov. 9 (letter of notification) 985 shares of $50 cumulative 5% preferred stock and 3,015 shares of $50 cumulative 5% preferred stock being substituted for the outstanding no par common stock of the corporation. **Underwriter**—Albert McGann Securities Co., Inc., South Bend, Ind. To purchase instalment contracts, make loans to dealers and individuals and to partially retire outstanding loans.

Florida Power Corp. (12/1)
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. Expected Dec. 1.

NEW ISSUE CALENDAR

November 18, 1948

Central & South West Corp., 11 a.m.(CST) **Common**

November 22, 1948

Public Service Electric & Gas Co., Noon (EST) ---------- **Debentures**
Transcontinental Gas Pipe Line Corp. **Notes & Com.**

November 23, 1948

Chesapeake & Ohio Ry. ---------- **Bonds**
Pennsylvania RR., Noon (EST) ---------- **Equip. Tr. Ctfs.**
San Jose Water Works ---------- **Common**

November 29, 1948

Northern Natural Gas Co. ---------- **Debentures**

November 30, 1948

Bangor & Aroostook RR., Noon ---------- **Equip. Tr. Ctfs.**
Dayton Power & Light Co. ---------- **Bonds**
Georgia Power Co. ---------- **Bonds**

December 1, 1948

Florida Power Corp. ---------- **Bonds**

December 2, 1948

Peoples Gas Light & Coke Co. ---------- **Debentures**

December 6, 1948

Potomac Edison Co. ---------- **Bonds & Pref.**

December 7, 1948

Alabama Power Co. ---------- **Bonds**
American Telephone & Telegraph Co. ---------- **Debentures**
Oklahoma Gas & Electric Co. ---------- **Bonds**
Rochester Telephone Co. ---------- **Debentures**

December 13, 1948

American Bemberg Corp., 3:30 p.m. (EST) ---------- **Stocks**
New Bedford Gas & Edison Light Co. ---------- **Bonds**
North Amer. Rayon Corp., 3:30 p.m. (EST) ---------- **Stocks**

December 15, 1948

Comas Cigarette & Machine Co. ---------- **Stock**

● **Forbes & Wallace, Inc., Springfield, Mass.**
Nov. 10 (letter of notification) 10,000 shares of class "B" common (no par). **Price**—$16 per share. **Underwriters**—Tifft Brothers and F. S. Moseley & Co. For additional working capital.

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. (11/30)
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.

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.

● **Greenwood Furniture, Inc., Seattle, Wash.**
Nov. 10 (letter of notification) 450 shares of preferred stock, and 4,500 shares of class "A" common. **Price**—$10 per share for each class. No underwriting. To finance increasing accounts receivable and for inventory.

Griesedieck Western Brewery Co.
Oct. 28 filed 50,000 shares of 5% cumulative convertible preferred shares ($30 par). **Underwriter** — Edward D. Jones & Co. **Proceeds**—Mostly to prepay a portion of the long term bank loan to Hyde Park Breweries, Inc., with which company will merge, and to finance expansion.

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 were given the right to subscribe in ratio of one new share for each 20 shares held. Rights expire Dec. 15. **Underwriting**—None. Working capital.

● **Hammond Lumber Co., San Francisco, Calif.**
Nov. 12 (letter of notification) 7,000 shares ($20 par) stock. To be sold to employees at $42.50 per share. No underwriting. For 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.

● **Hercules Steel Products Corp., Galion, Ohio**
Nov. 8 (letter of notification) 3,000 shares (10¢ par) common stock. **Underwriter**—Van Alstyne, Noel & Co. **Proceeds**—To selling stockholders.

Heyden Chemical Corp., New York, N. Y.
June 29 filed 59,579 shares of cumulative convertible preferred stock (no par) to be offered common stockholders in the ratio of one share of preferred for each 20 shares of common stock held. **Price**—By amendment. **Underwriter**—A. G. Becker & Co. will acquire the unsubscribed shares. **Proceeds**—To be used in part for improvement and expansion of manufacturing facilities. Offering postponed.

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.

● **Idaho Consolidated Mines, Inc., Seattle, Wash.**
Nov. 9 (letter of notification) 25,000 shares of common stock. **Price**—$1 per share. No underwriting. For exploration, development and equipment.

Idaho-Montana Pulp & Paper Co., Polson, Mont.
May 17 filed 100,000 shares of 4% cumulative preferred stock ($100 par) and 500,000 shares ($10 par) common stock. **Underwriter** — Tom G. Taylor & Co., Missoula, Mont. **Price**—$300 per unit, consisting of two shares of preferred and 10 shares of common stock. **Proceeds**—To erect and operate a bleached sulphate pulp mill with a 200-ton per day capacity.

● **Intermountain Fire Insurance Co., Helena, Montana**
Nov. 4 (letter of notification) 658 shares of capital stock. **Price**—$150 per share. No underwriting. To operate a fire insurance company.

● **Intermountain Indemnity Insurance Co., Helena, Mont.**
Nov. 4 (letter of notification) 658 shares of capital stock. **Price**—$150 per share. No underwriting. To operate a casualty and indemnity insurance company.

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.

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. **Underwriter**—The First Trust Co. of Lincoln and other dealers. **Price**—$12.50 per share. **Proceeds**—For construction.

● **Kimball Mines, Inc., Spokane, Wash.**
Nov. 8 (letter of notification) 500 ore production 10% certificates to be sold at $100 each and 125,000 shares of the fully paid and nonassessable capital stock which a stockholder has donated to special account so that 250 shares can be given to each 10% certificate holder. No underwriting. To purchase property, and construct and operate mine plant and buildings.

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.

● **Loomis-Sayles Second Fund, Inc., Boston, Massachusetts**
Nov. 12 filed 25,000 shares of capital stock (par $10). **Offering** — Shares are being offered by officers of the company at net asset value, to make available to investors a "well diversified investment medium having the benefit of constant supervision. . ." Price, market.

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.

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.

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.

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 Gas & Edison Light Co. (12/13)
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 notes held by First National Bank of Boston and to repay company's plant replacement fund from which funds were borrowed for construction. Expected Dec. 13.

North American Rayon Corp. (12/13)
Oct. 19 filed (by Attorney General of United States) 177,398 shares of common stock (no par) class C, and 88,853 shares of common stock (no par) 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. **Bids**—Bids for the purchase of the stock will be received at the Department of Justice, Office of Alien Property, 120 Broadway, New York, up to 3:30 p.m. (EST), Dec. 13.

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.

Old North State Insurance Co.
June 24 filed 100,000 shares of capital stock (par $5). **Price**—$15 per share. **Underwriter**—First Securities Corp., Durham, N. C. **Offering**—26,667 shares will be initially offered on a "when, as and if issued" basis; 13,333 shares will be purchased by underwriter for public or private offerings; and the remaining 40,000 shares will be publicly offered on a "best efforts basis" on completion of the subscription of the first 40,000 shares and the company's receipt of a license to do business in North Carolina. **Proceeds**—For general business purposes.

Oklahoma Gas & Electric Co. (12/7)
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.; Harriman Ripley & Co. **Proceeds**—To repay notes and finance construction. Expected Dec. 1.

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.

● **Panhandle Eastern Pipe Line Co.**
Nov. 12 filed $30,000,000 25-year sinking fund debentures. **Underwriters** — Kidder, Peabody & Co.; Merrill Lynch, Pierce, Fenner & Beane; Halsey, Stuart & Co., Inc. **Proceeds** — To prepay $17,800,000 outstanding promissory notes and 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.

Potomac Edison Co. (12/6)
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. Expected Dec. 6.

● **Priestley Mining & Milling Co., Inc., Seattle, Washington**
Nov. 12 (letter of notification) 100,000 shares of common stock (par $1). Price, par. No underwriting. For working capital.

Public Service Electric & Gas Co.
June 11 filed 200,000 shares ($100 par) cumulative preferred stock. **Proceeds**—For property additions and improvements. **Underwriting**—The company rejected bids submitted Aug. 4. The SEC on Aug. 23 exempted the

(Continued on page 46)

(Continued from page 45)

proposed sale from the competitive bidding rule. Sale on agency basis being discussed.

Public Service Electric & Gas Co. (11/22)
Oct. 18 filed $50,000,000 of debenture bonds, due 1963. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc., The First Boston Corp., Morgan Stanley & Co., Kuhn, Loeb & Co. and Lehman Brothers (jointly). **Proceeds**—To retire $30,000,000 bank loans and for construction expenses. **Bids**—Bids for purchase of debentures will be received at company's office, 80 Park Place, Newark, N. J., up to noon (EST) Nov. 22.

● **Reserve Oil & Gas Co., San Francisco, Calif.**
Nov. 10 (letter of notification) 10,000 shares ($1 par) capital stock. **Price**—$5 per share. No underwriting. To buy materials, to acquire additional oil and gas leases and to add to 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.

San Jose (Calif.) Water Works (11/23)
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. 23.

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.

● **South Fork Mining & Leasing Co., Inc., Spokane, Wash.**
Nov. 12 (letter of notification) 1,349,200 shares of nonassessable common stock. 145,200 shares of nonassessable treasury stock and 20,000 shares of nonassessable reclaimed stock, to be sold at 12½ cents per unit. No underwriting. To purchase one-quarter interest in a complete bucket line dredging outfit and incidental equipment for testing and operating placed claims.

Southern Indiana Gas & Electric Co.
Oct. 20 filed 600,000 shares (no par) common stock owned by the Commonwealth & Southern Corp. and 75,000 additional shares of stock for the benefit of the company. **Underwriter** — Smith, Barney & Co. Price, by amendment. **Proceeds**—Commonwealth will use its proceeds to reduce indebtedness and Southern Indiana will use its proceeds for property additions and betterments. Offering deferred.

Southern Oil Corp., Jackson, Miss.
Oct. 8 filed 1,500,000 shares of common stock (par 1c) of which 1,350,000 shares will be sold by company and 150,000 shares by W. G. Nelson Exploration Co. **Underwriter**—J. J. Le Done Co., New York. **Proceeds**—For working capital and general corporate purposes.

Southwestern Associated Telephone Co.
Aug. 24 filed 22,000 shares of $2.60 cumulative (no par) preferred stock. **Underwriters** — Paine, Webber, Jackson & Curtis; Stone & Webster Securities Corp.; Rauscher, Pierce & Co. Price by amendment. **Proceeds**—To pay, in part, bank loans used for construction purposes. Indefinite.

● **Southwestern Investment Co., Amarillo, Texas**
Nov. 12 filed 33,880 shares (no par) common stock. **Underwriters**—Schneider, Bernet & Hickman; G. H. Walker & Co.; Dewar, Robertson & Pancoast; Underwood, Neuhaus & Co. **Proceeds** — To increase working capital. **Price**—$16.75 per share.

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.

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.

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 3⅜% 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.

Unexcelled Chemical Corp., New York
Nov. 8 (letter of notification) 52,095 shares of capital stock (par $5). Price, par. **Underwriting**—None. 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.

● **Western Light & Telephone Co., Inc., Kansas City, Kan.**
Nov. 10 filed $2,500,000 first mortgage 30-year bonds, series "C," and 47,206 shares ($25 par) common stock. **Offering**—The stock will be offered to stockholders on the basis of one additional share for each five shares held. **Underwriters**—Harris, Hall & Company (Inc.) and The First Trust Co. of Lincoln, Neb. **Proceeds**—To pay a current bank loan and to finance part of construction costs.

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 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.

Prospective Offerings

● **American Bus Lines, Inc.**
Nov 5 stockholders approved a plan to merge this company into its principal subsidiary, Burlington Transportation Co., and change name of latter to American Buslines Corp. The plan provides for sale of $1,500,000 sinking fund debentures and the issuance of 100,000 shares of new preferred stock. The debentures would be placed privately and about 45,817 preferred shares would be issued upon conversion of present preferred of American Buslines and 54,183 preferred would be sold to underwriters, probably Hayden, Stone & Co.

Bangor & Aroostook RR. (11/30)
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. 30, 1948. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler, Harriman Ripley & Co. and Lehman Brothers (jointly); Harris, Hall & Co. (Inc.).

● **Chemical Research Corp.**
Nov. 12 stockholders authorized changes in capital structure for new proposed financing. The authorized capital was increased to 2,000,000 shares from 800,000 shares and par value changed to 50 cents from $1. Stockholders also approved the creation of an issue of $300,000 of 6% debentures.

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 will be returnable Nov. 23. Int. 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.

● **Comas Cigarette Machine Co., Inc. (12/15)**
The Attorney General of the United States invites bids for the purchase of all or any part of 250 shares of the common stock (par $50) (said shares constituting 5% of the total issued and outstanding capital stock) of the company. All bids must be presented at the Office of Alien Property, Department of Justice, 120 Broadway, New York 5, N. Y., on or before noon Dec. 15 (EST).

● **Mississippi Power & Light Co.**
Nov. 11 reported company sale at an early date of $7,500,000 bonds. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & 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.

● **Transcontinental & Western Air, Inc.**
Nov. 12 directors authorized the officers to explore the possibility of offering shares of its common stock to its stockholders on a pro-rata basis. The offering is expected to cover between 400,000 and 500,000 shares at $10 per share.

● **Worcester (Mass.) Gas Light Co.**
Nov. 10 Massachusetts Department of Public Utilities authorized company to issue $2,150,000 20-year mortgage bonds, to be sold at competitive sale. Proceeds would be used to refund $1,000,000 bonds, retire $1,000,000 bank loans and the balance to replace funds borrowed for company's extension program.

● **Yale & Towne Mfg. Co.**
Dec. 13 stockholders will vote on increasing authorized capital stock from 486,656 to 686,656 shares. Under the plan, the directors would be authorized to issue such additional shares as they may consider advisable.

Our Reporter's Report

All things considered, Northwestern Bell Telephone Co.'s big new financing this week proved the most successful of a number of more or less similar undertakings in recent months.

It must be viewed as reflecting the wisdom of company officials in recognizing the change in investment conditions and revising their original ideas as to maturity in the wake of the "backing up" which developed in connection with several recent Bell System issues.

Operating companies in the System have been shooting more or less consistently at a maturity of 40 to 45 years, frequently the longer, and bankers it appeared had been a bit ambitious in going after such offerings.

Soon after the Pacific Telephone & Telegraph Co.'s 3⅛s ran into hard-sledding, with institutional buyers holding aloof on the initial offering, Northwestern's officials who had been prepared to make theirs a 45-year maturity moved to revamp their ideas and came up with a maturity of 31 years.

At the same time bankers, in this instance, appeared considerably more realistic in their ideas of price and there was no "cover" of more than a point between opposing bids as in the case of the Michigan Bell issue. On the contrary, a matter of only about $3 per $1,000 bond separated the bids this time.

The successful group paid the company a price of 100.68999 for the $60,000,000 issue, specifying a 3¼% coupon. The runners-up bid 100.3899 for the same interest rate.

Accordingly, the syndicate which took the issue down was able to reoffer publicly at a price of 101⅜ to return the buyer a yield of around 3.18%.

The debentures were snapped up almost immediately even though there was no indication of activity on the part of the so-called "big-five" New York insurance companies.

In fact, the new issue rose quickly to a premium of almost a full point over the offering price, indicating either that some dealers had gone "short" against their positions to some extent or that institutional portfolio men may have "guessed" this one wrong.

The head of the distributing department of one of the large underwriting firms had a visitor from the Middle West late last week, another investment banker.

The visitor expressed amazement at the pall which he seemed to find hanging over the financial community and went on to declare that he thought Wall Street was making a mistake in letting the election results get it down.

He said the investors in his territory, and that embraces several middle western states, have money and are looking for opportunities and that they were not particularly concerned, from what he could see, about the political angle.

His advice to underwriters here was to get down to business and recognize that there is a new money class in the nation, the farmer, the workers, who are making money and looking for the opportunity to invest it.

The middle western banker's point of view appeared to find support in the manner in which American Light & Traction Co.'s block of 192,734 shares of Detroit Edison common stock moved out to buyers.

Bankers paid the company $19.546 a share and priced the stock at 20⅛ for reoffering, meeting a demand which soaked up the entire block within a matter of minutes.

The week produced a number of interesting situations, among them another of those infrequent situations where an issue brings out almost identical bids.

This was virtually the case in the instance of Iowa Public Service Co.'s offering of $3,000,000 of new first mortgage bonds.

The winning group bid 101.07999 for a 3¼% coupon and it was that fifth digit after the decimal which captured the issue as the next nearest bid turned out to be 101.0799.

This left a differential of only $2.70 all told between the two top bidders for the bonds. There were, of course, several other bids running down to a low of 100.1997.

Observations

(Continued from page 5)

he is well aware of them. In fact, one cannot be quite sure that he is not intentionally, if somewhat deviously, demolishing some of the systems, via *reductio ad absurdum*, by merely describing them. This, for example, seems true of his factual citations of the use of the solar system and some of the particularly fancy charting techniques.

Sun-Spots and Self-Contradictions

Another example of unwitting debunking of the "systems" is an evidently uncritical linking of cyclical changes in nature, sun-spots, etc., to the stock market, which he says "is not too hard to accept" (p. 144). Similarly Mr. Drew's friendliness toward the concept of stock market rhythms is based on an analogy with emotional rhythms which is fallacious. Thus his statement (on page 145): "emotional rhythm in individuals has been a subject of medical psychiatric study and the persistence of such rhythms appears beyond dispute," on which premise he bases conclusions about mass psychology of the market place, is actually completely antithetical to the currently recognized basic principle of psychiatric method.

In his over-all treatment of the field Mr. Drew quite typically makes the important omission of failing to point out the various contradictions between various of the individual systems which he discusses. Some of these have been pointed out in detail in previous of this writer's columns. Other self-contradictions that seem to be inherent in Mr. Drew's own descriptions include: fundamental inconsistencies between different formula plans, such as between the Burlingame system which embodies buying on the way up as well as on the way down, as contrasted with the general formula technique of bucking the trend; between many methods' principle of following (as Dow), and others' of opposing, indicated trend; between following the crowd and bucketting it on the theory that the majority are habitually wrong (as in "the theory of contrary opinion"); and all kinds of contradictions about the significance of the behavior of small traders and of the "cat-and-dog" issues.

Also there are many contradictions in basic method through the piling on of so-called refinements, such as the taking into account of business indexes by formula plans, which is cited by Mr. Drew; and the addendum of external factors; or just plain personal intuition, by Dow Theorists and Ratio-ists when their established principles encounter rough going.

Another omission annoying to this column, which can be no surprise to our readers, is the neglect to point out that this entire sphere of activity—irrespective of its worth—has nothing to do with investment.

On the other hand, the reader does derive the very significant implication from the depiction of these doubtful methods for achieving market success which are popularly pursued now, of the desperate situation in which the present-day investor as well as speculator finds himself.

Needed: A Program for Strengthening Our Economy

(Continued from first page)

truth: That economic accomplishment and human happiness is determined by the extent that men are permitted to exercise their initiative, their imagination and their industry in the atmosphere of a free society. How is this to be accomplished in the face of insistent group demands which serve to hamstring the business enterprise system—even to ignore the effects of economic law?

Our economic burdens are great. Inherent extravagance and inefficiency of government, increasing demand for expanded social services; the burden of a great debt. And if we are to attempt to avoid war, we must develop and maintain at all times what will be accepted by the world at large as a predominance of military power, expressed always in terms of the technology of tomorrow. This is a burden such as our country has never before had to accept in times of peace. The cost must be reflected in taxation, already at the point of confiscation and already discouraging incentive—the motivating power of a free society, and prejudicing capital information—the yardstick of economic progress.

Today we enjoy the benefits of full employment. Production is at the highest level in our history. Living standards are rising. The economy is supported at the moment by the shortages of war, by large capital investments, by foreign relief and by a developing rearmament program; in the aggregate taxing our productive capacity to the limit. This high level of industrial activity seems assured for the short-term position. But we must not fail to recognize that in part these supporting forces are synthetic in origin and non-recurring in character. And, in themselves they breed danger to our future.

It is difficult to believe that sustained high employment with rising living standards can evolve basically from the economic consequences of a great and destructive war. What, therefore, is to be our program for strengthening the fundamentals of our economy in terms of sustained high employment, and for advancing living standards in the face of the handicaps and the hazards that beset us?

There are many factors in this problem. We are concerned tonight with three. First, the managers of the American enterprise system. These managers are called upon to exercise economic statesmanship as never before. They can no longer limit their horizon to the narrow area of the production of goods and services. They must consider the impact of industrial policy on the welfare of the people as a whole. They must achieve a more fundamental understanding of economic law. They must forcibly present in terms of concrete policy, what is needed to stimulate progress and promote stability.

Next, come our universities and our great research institutions. They must accept a far greater responsibility than ever before to create and maintain a stockpile of fundamental knowledge through pure research. And it is in the expansion of fundamental knowledge upon which all human progress in the final analysis must depend.

Third, comes government, which in the determination of national economic policy creates the climate of opportunity, thus importantly influencing the vitality of the economy. Government must move more effectively to release the dynamic force that is always ready to impel a free society forward to greater levels of accomplishment. Have our people the economic understanding to do this, or even permit it to be done through their political representatives?

And superimposed on these and all other factors is the need for educational effort at the grass roots level so that the economic facts by which we live and enjoy our liberties may be brought home to the consciousness of all our people. It is an appalling fact that here and elsewhere free people are using their political powers to destroy little by little the greatest human asset—freedom—in the belief that it will result in more progress and security.

DIVIDEND NOTICES

LOEW'S INCORPORATED

"THEATRES EVERYWHERE"

November 17th, 1948

THE Board of Directors has declared a quarterly dividend of 37½c per share on the outstanding Common Stock of the Company, payable on December 31st, 1948, to stockholders of record at the close of business on December 10th, 1948. Checks will be mailed.

CHARLES C. MOSKOWITZ,
Vice President & Treasurer

INTERNATIONAL SALT COMPANY

DIVIDEND NO. 138

A dividend of ONE DOLLAR AND TWENTY-FIVE CENTS a share has been declared on the capital stock of this Company, payable December 22, 1948, to stockholders of record at the close of business on December 7, 1948. The stock transfer books of the Company will not be closed.

HERVEY J. OSBORN, *Secretary*

Newmont Mining Corporation

Dividend No. 81

On November 16, 1948, Newmont Mining Corporation declared a year-end dividend in the amount of fifty cents (50c) per share in cash, and one-twenty-fifth (1/25th) of a share of the capital stock of Hudson Bay Mining and Smelting Co., Limited, upon each share of Newmont Mining Corporation stock issued and outstanding on November 26, 1948, payable December 15, 1948, to stockholders of record at the close of business November 26, 1948. No fractional shares of Hudson Bay Mining and Smelting Co., Limited stock will be issued. Fractional shares will be settled in cash at prices prevailing on the record date.

GUS MRKVICKA, *Treasurer.*

New York, N. Y.
November 16, 1948.

REEVES BROTHERS, INC.

DIVIDEND NOTICE

A quarterly dividend of 25c per share and an extra dividend of 25c per share have been declared, payable January 1, 1949, to stockholders of record at the close of business December 3, 1948. The transfer books of the Company will not be closed.

J. E. REEVES, *Treasurer*

November 15, 1948

John Nuveen Dead

John Nuveen, senior partner in John Nuveen & Co., Chicago, died Nov. 14 at the age of 84. Mr. Nuveen had been active in his business until a few weeks ago and had undergone an abdominal operation on Nov. 2.

Julien Collins Co. Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Josephus R. Corbus has been added to the staff of Julien Collins & Co., 105 South La Salle Street, members of the Chicago Stock Exchange.

DIVIDEND NOTICES

Johns-Manville Corporation

DIVIDEND

The Board of Directors declared a year-end dividend of 95c per share on the Common Stock payable December 10, 1948, to holders of record November 29, 1948.

ROGER HACKNEY, *Treasurer*

The Board of Directors of

PITTSBURGH CONSOLIDATION COAL COMPANY

at a meeting held today, declared a quarterly dividend of 75 cents per share on the Common Stock of the Company, payable on December 11, 1948, to shareholders of record at the close of business on November 26, 1948. Checks will be mailed.

CHARLES E. BEACHLEY,
Secretary-Treasurer

November 15, 1948

BRIGGS & STRATTON CORPORATION

87th DIVIDEND

The Board of Directors has declared a quarterly dividend of twenty-five cents (25c) per share and an extra dividend of one dollar and ten cents ($1.10) per share, less 2.89 per cent Wisconsin privilege dividend tax, on the capital stock (without par value) of the Corporation, payable December 15, 1948, to stockholders of record November 29, 1948.

L. G. REGNER, Secretary

November 16, 1948

CANADA DRY

DIVIDEND NOTICE

The Board of Directors of Canada Dry Ginger Ale, Incorporated, at a meeting thereof held on October 26, 1948 declared the regular quarterly dividend of $1.0625 per share on the $4.25 Cumulative Preferred Stock and a dividend of $0.15 per share on the Common Stock; both payable January 1, 1949 to stockholders of record at the close of business on December 8, 1948. Transfer books will not be closed. Checks will be mailed.

WM. J. WILLIAMS,
V. Pres. & Secretary

William H. Gregory Dead

William H. Gregory, President of Gregory & Son, Inc., New York City, died at his home at the age of 72.

DIVIDEND NOTICES

Magma Copper Company

Dividend No. 105

On November 17, 1948, a dividend of Twenty-five Cents (25c) per share was declared on the Capital Stock of MAGMA COPPER COMPANY, payable December 15, 1948, to stockholders of record at the close of business November 26, 1948.

H. E. DODGE, *Treasurer.*

The United Corporation

$3 Cumulative Preference Stock

The Board of Directors of The United Corporation has declared the regular quarterly dividend of 75¢ per share upon the outstanding $3 Cumulative Preference Stock, payable January 1, 1949 to the holders of record at the close of business December 22, 1948.

THOMAS H. STACY,
Secretary.

November 17, 1948
Wilmington, Delaware

UNITED FRUIT COMPANY

DIVIDEND NO. 198

A dividend of fifty cents per share on the capital stock of this Company has been declared payable January 14, 1949 to stockholders of record December 9, 1948.

EMERY N. LEONARD
Treasurer

AMERICAN WOOLEN COMPANY

INCORPORATED

"THE GREATEST NAME IN WOOLENS"

AT the meeting of the Board of Directors of American Woolen Company, held today, the following dividends were declared:

A regular quarterly dividend of $1.00 per share on the $4 Cumulative Convertible Prior Preference Stock payable December 15, 1948 to stockholders of record December 1, 1948.

A regular quarterly dividend of $1.75 per share on the 7% Cumulative Preferred Stock payable January 14, 1949 to stockholders of record December 31, 1948.

A quarterly dividend of $1.50 per share on the Common Stock payable December 15, 1948 to stockholders of record December 1, 1948.

Transfer books will not be closed.

Dividend checks will be mailed by the Guaranty Trust Company of New York.

F. S. CONNETT,
Treasurer.

November 17, 1948

AMERICAN CYANAMID COMPANY

Preferred Dividend

The Board of Directors of American Cyanamid Company on November 16, 1948, declared a quarterly dividend of eighty-seven and one-half cents (87½¢) per share on the outstanding shares of the Company's 3½% Cumulative Preferred Stock, Series A, payable January 3, 1949, to the holders of such stock of record at the close of business December 1, 1948.

Common Dividends

The Board of Directors of American Cyanamid Company on November 16, 1948, declared

1. A quarterly dividend of thirty-seven and one-half cents (37½¢) per share on the outstanding shares of the Common Stock of the Company, payable January 3, 1949, to the holders of such stock of record at the close of business December 1, 1948;

and

2. A special dividend of fifty cents (50¢) per share on the outstanding shares of the Common Stock of the Company, payable January 3, 1949, to the holders of such stock of record at the close of business December 1, 1948.

W. P. STURTEVANT, *Secretary.*

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—Federal Reserve leadership and Federal Reserve thinking, barring unexpected Presidential intervention, is likely to continue "as is" into President Truman's new term.

The present composition of the Board is expected to remain unchanged. In particular Marriner S. Eccles, despite the affront which he suffered from President Truman last Winter, probably will hang on. So will Chairman Thomas B. McCabe, who was made a member of the Board and designated Chairman after Mr. Eccles was demoted.

Only Presidential intervention—in the form of asking for a resignation or two—could change this. Not even Presidential intervention could guarantee a change. Members of the Board hold fixed terms and are not required to submit resignations like members of the Cabinet, both with a new term or a change in occupancy of the White House. Ever since the court upheld the tenure of a member of the Federal Trade Commission also holding a fixed term, after President Roosevelt tried to fire him, it has been established that a President cannot legally fire any one on an independent commission holding a fixed term of office.

So even if Mr. Truman called for a resignation or two — and there is no suggestion as yet from any responsible quarter that he has anything of this sort in mind —he could get such a resignation only if his victim were willing. The first Federal Reserve Board term, that of Ernest G. Draper, does not expire by law until Feb. 1, 1950.

* * *

Until recently it had been anticipated that Gov. Eccles would resign some time after the election. Mr. Eccles was displeased with his demotion. When his four-year term as Chairman came up for renewal, the President refused to designate Mr. Eccles to continue to head the Board. The designation of Chairman is made by the President, but this designation does not affect the Board member's term as a Governor of the Federal Reserve system.

At the same time, however, Mr. Truman promised to name Mr. Eccles as Vice-Chairman. When by April this designation had not been made, Eccles with some heat released the White House from this promise.

The White House demoted Eccles because of the aggressiveness of the latter's advocacy of the Board's secondary reserve proposal current at that time. Under this proposal the Board would have been empowered to require banks to keep on hand an additional special or secondary reserve equivalent to 25% of demand and 10% of time deposits. This reserve could have been in the form of cash, cash items, or short-term governments, and not merely in the conventional form of cash deposits with FR banks.

Although credit restriction headed the list of the general anti-inflation controls asked by Mr. Truman last Winter, the White House rejected the secondary reserve proposal out of the fear it would be so drastic as to endanger a depression.

* * *

Now that the Reserve Board composition seems likely to remain unchanged, there is a prospect for harmony within the Board. In some other government quarters, there was also hope that the replacement of Eccles by McCabe would lead to a greater concert of policy between the Treasury and the Federal Reserve Board. Instead, those quarters have been to some degree disappointed. Gov. Eccles still appears to be the dominant figure in the economic and fiscal thinking of the Board. He is rated as one of the most positive of top officials to appear in this capital city in many years.

Even Chairman McCabe appears frequently to reflect the same conclusions on monetary matters as the man he succeeded. Often enough Mr. McCabe also appears to come to the same conclusions by the same processes of reasoning as Gov. Eccles, and there is developing some kinship in language as well.

Chairman McCabe, however, with a less-abrupt manner and a lifetime salesman's way of getting next to people, is developing a special facility for getting across the Reserve Board's policies. Gov. McCabe travels a great deal and has hundreds of person-to-person talks with bankers and financial leaders throughout the country.

So the situation of Eccles, the formulator of policy, and McCabe, its capable salesman, makes for harmony within the Board.

* * *

On the other hand, while Mr. McCabe rather than Mr. Eccles is the Board's spokesman in discussions with the Treasury, the Board will still be following the same approach as in the past. The Board's pitch will still be directed at credit restriction and higher short-term interest rates, policies which, if supported by the Treasury, will be followed with less enthusiasm.

* * *

Senator Capehart's subcommittee on price absorption has brought to life one of those rare things—an issue which scares every one. The parade of witnesses and prospective witnesses before the Capehart subcommittee has disclosed a wide fear that the alleged abolition of basing point pricing systems by the Supreme Court decision in the cement case, has got every one from the walking delegates to small town business men afraid that in due course of time their factories will shut down and move close to sources of industrial raw materials.

There is a prairie fire aspect to this hysteria. The fear of what might happen to people's jobs and people's businesses creates all the vague apprehensions that American industry used to have for over a century over the prospect of a general tariff reduction.

So widespread is the fear over the ending of delivered pricing systems, that even Senator Brien McMahan of Connecticut, who will take over the subcommittee when the Democrats organize the Senate next year, and the prospective Chairman, Ed Johnson of Colorado, of the entire Interstate Commerce Committee, are reported leaning favorably toward the plea of those who want "to do something about it."

Just how legislation can be framed so as to legalize freight absorption without at the same time opening up the whole issue to demagogues, remains to be seen. Already Rep. Wright Patman of Texas, one of the loudest spokesmen for "small business," has termed the whole Capehart hearing a "sly" way of trying to break up the anti-trust laws and promote monopoly. Of course if the President interpreted a change in the laws to legalize freight absorption, the danger of successful attack from the demagogues would diminish.

On the other hand, the Supreme Court, well in advance of Congressional action, may by decision circumscribe the effects of its cement case decision, or make clear that its effects are not to be what those who fear the end of delivered price systems think they are.

* * *

For future reference the name of the new "labor magna carta" repealing "the iniquitous Taft-Hartley law," will be the "Lesinski-Thomas act." It will bear the name of the prospective Chairman of the House and Senate Labor Committees, Rep. John Lesinski of Michigan and Senator Elbert Thomas of Utah.

There now appears to be little doubt that the desires of the Administration are for complete, formal repeal of the Taft-Hartley law and the substitution of some of the provisions of that law, modified somewhat to suit the unions, under the name of the "Lesinski - Thomas" law. Some of the provisions stricken out, like the closed shop, will be of considerable importance to industry-labor relationships.

There is a great deal of speculation here as to the future of the Republican opposition in the 81st Congress. This speculation centers on the question of whether the minority will be able to consolidate as a party and present a solid front to the Administration.

Of course the Republican minority will never be able to stop those proposals which the majority seriously wants. However, the minority, by firmly sticking to a viewpoint, may often modify legislation in important respects and offer a clear, distinct alternative to the Truman program.

On the other hand, if the Republicans vote as individuals and not as party members, their party will have no alternative to offer when coming up for election in 1950.

At the moment there is little hope that in either the House or Senate a leadership will emerge which will command the respect of the party following. In the Senate the "liberal" element among Republicans is so strong as to offer no hope for anything like party discipline on any but a couple of issues.

In the House the leadership is stronger or was stronger because the left-wing sentiment was less virulent among the Representative. How frightened the rank and file may have become of standing up to the unions and to spending, remains to be seen.

The 30-day Treasury savings bond campaign which began Armistice Day is probably only a forerunner of similar, short, quick drives to be undertaken by the Treasury from time to time. The idea will be periodic drives to keep the sales of E bonds going. A similar 30-day drive is scheduled tentatively for next Spring.

* * *

The Hoover Commission has decided to "open up" and spread the word as to what it is thinking of proposing in the way of saving money by cutting down and reorganizing the government. Just before the election the Commission finally reversed its stand of telling nothing before it makes its official report to Congress around Jan. 10. The Commission decided that its proposals would likely be buried unless they were kept before the public. Hence a high-grade publicity man was loaned to the Commission by a big company.

The first announced recommendations were trivial and in themselves lead to little hope that the Commission will propose the deep cuts in Federal activities which have been expected. The Commission, however, counsels patience, that later reports will come closer to being real economy proposals.

While the Commission has reversed its policy of secrecy, the reversal comes a little late, however. There is scarcely two months before the report is to be made public. After that all the groups which have a vested interest in the continuance of government bureaus and government spending will have their inning—and it will be a long one.

BUSINESS BUZZ

"No, no! Pembroke! that's not quite how we do it!"