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Too Much Post-Election Pessimism

By JOSEPH S. LAWRENCE*

Vice-President, Empire Trust Company, New York City

Dr. Lawrence sees Russia's threat to world peace and Truman election as causing undue pessimism. Holds it is not certain people wish Wagner Act restored or high farm prices at taxpayers' expense. Concludes country is not yet ready to follow footsteps of English Labor Party.

Two major unknowns affect the future of this country. The first, in point of time and importance, is the present explosive state of our relations with Russia, a condition which may erupt in war. The second is the election of Mr. Truman, which creates an uncertainty on the domestic front, at least in business minds, almost as great as that due to Russia in the international sphere.

Jos. Stagg Lawrence

Russia has been with us since the end of the war as a threat to world peace. Realists not susceptible to the ideological hooch of soft-boiled liberalism have long

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*Abstract of speech by Dr. Lawrence before the Controllers Institute, New York City, Nov. 18, 1948.

Two Kinds of Socialism

By MELCHIOR PALYI

Asserting, in principle, present U. S. economy is socialistic, Dr. Palyi points to government controls over capital and union controls over labor, as well as other recent interferences with individual economic freedom. Cites similar and more drastic developments in Europe, where bureaucracy checks enterprise and capital accumulation is neglected. Says few Europeans doubt Russia could overrun the continent, and this threat discourages long-term productive ventures. Asserts Russia is slowly but surely winning contest between East and West, and urges more effort on part of Western Europe to increase production.

I

All over Western Europe, the conviction prevails that the United States is heading for a great depression. Of course, to the Bolshevik, Russian or otherwise, it is a matter of dogmatic certainty that capitalism falls by its own weight. To him, the alleged exploitation of the worker leads to capital over-accumulation, to under-consumption, and ultimately to the breakdown of the economic structure. That is obvious to him—beyond reasoning.

Dr. Melchior Palyi

The interesting thing is that the non-Bolshevik, the anti-Bolshevik Europe is virtually just as much convinced that we are heading for a depression. In part, this is a matter of dogma, too. It is the influence of Lord Keynes' ideas about the aging of capitalism and its inability to produce full employment for any length of time. But it is especially the experience of the last depression that bred the spurious conviction that a free-market economy, the enterprise system, naturally and necessarily runs into excessive booms and bottomless busts. The United States being a

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Election Result a Basic Set-Back For Capital

By ROBERT S. BYFIELD

In view of precipitous post-election fall of stocks, and their firm statistical foundation, Mr. Byfield looks for no drastic further decline. On the other hand, he expects no material near-term rise because of the unpredictable political developments threatening the fundamental position of the owner of property. Cites public's continuing illusion that capitalism can exist without capital formation, now increasingly obstructed as election aftermath.

Now that the smoke in the national arena has begun to clear somewhat after the explosion of Nov. 2, an appraisal of the present status of the speculative markets may perhaps be hazarded. By the time these words are in print over three weeks will have elapsed since the unexpected Democratic victory and already four observations appear to be warranted:

Robert S. Byfield

(1) The possibility of a further drastic decline in quotations for common stocks from current levels does not seem likely in the immediate future. The break was very sudden and severe even when compared with most other slumps of these nervous and troubled war and postwar years. An extreme element of surprise provided the shock, and for this reason we must go back to Pearl Harbor for a comparable situation. On Saturday, Dec. 6, 1941, the Dow-Jones Industrials closed at

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EDITORIAL

As We See It

Some Post-Campaign Problems for the Politicians

Some naive observer from another planet, or even from some other country on this globe, might easily be excused for supposing that with the political campaign over, the only problem left for the "people's choices" would be that of going to work with a will to give effect to the various and sundry pledges or mandates to which the electioneering gave rise. Some too casual observer might the more easily get some such impression as this since President Truman, the successful candidate, listed his programs, point by point over and over again, in a way which could be mistaken for very definite commitments. His was supposed to be a campaign largely devoid of platitudes, "high-level" or other, and one consequence is that there are many claims that specific promises were made to this, that and the other element in the population. More than that, there have been outgivings from the President himself, and from others closely surrounding him, to the effect that he would "keep" his campaign "promises."

Yet only a very little scrutiny reveals that all is not as simple as surface appearances might suggest. In

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Capital Formation and the Equity Market

By WINTHROP W. ALDRICH*

Chairman, Chase National Bank of New York

Prominent banker stresses need for enlarged plant and equipment, and for more active equity market. Maintains prerequisite thereto is an overhauling of our tax structure, including reduction in corporate tax rates, elimination of double taxation of corporate income and of capital gains tax, higher depreciation allowances, and abstention from the ruinous excess profits tax.

The Significance of Capital Formation

Economic progress depends largely upon the rate of capital formation. Capital formation itself is a term which covers a multitude of economic processes and has many facets of meaning. It may mean the process of accumulating savings funds. It may mean the process of utilizing such funds in new construction, in maintaining and expanding producers' durable equipment, in the enlargement of inventories, or in net foreign investment. Thus, in a monetary sense, it means the funds themselves; in a physical sense, it means new construction, the maintenance and enlargement of producers' durable equipment, additions to inventories, and the net flow of goods abroad.

W. W. Aldrich

A dynamic economy, in which inflationary pressures are held to a minimum, requires a continuous flow of savings. Savings are the monetary counterpart of physical capital formation. Savings are encouraged if an incentive price is paid for thrift and if people have confidence in the stability of the monetary unit and in the policies of government. Savings are discouraged if tax rates approach confiscatory levels, if individuals, despite the need for capital goods, insist on maintaining or increasing their levels of consumption, if governments are unstable, capricious and wasteful, if the monetary unit declines in purchasing power and if rates of interest, by reason of artificially induced credit expansion, are depressed to low levels. Under such conditions people will reduce their savings and, in the vivid terminology of the economist, begin to dissave.

The theme of my remarks this evening is that the American economy requires a larger volume of savings not only to finance new construction, new equipment and the flow of goods abroad, but also to combat inflationary pressures. The encouragement of savings is of particular importance at the moment by reason of the impending defense program, involving as it does military aid to the Western European alliance and leading as it may to renewed deficit financing on the part of the Federal Government. Should deficit financing prove unavoidable, it is highly important that our government sell its obligations to investors. Sound policy dictates that governmental deficits be financed from an increase in savings and not from an expansion of commercial bank credit.

Equity Markets Must Be Maintained

Steps must be taken not only to increase the total volume of savings, but also to channel a greater proportion into the equity markets in order to maintain a well-balanced and flexible corporate financial structure. Thus the immediate problem of the American economy is to bring about a larger volume of savings in order to finance in a non-inflationary fashion new construction, new plant and new equipment, and also to direct a larger proportion of those savings into the equity markets than has been the case since the end of the war.

The Role of the Association of Stock Exchange Firms

In channeling the savings of the country into equity securities, your Association plays a vitally important role. It is the function of the Association of Stock Exchange Firms to utilize the efficient and effective facilities of the New York Stock Exchange for the benefit of those wishing to buy and sell securities, to participate directly and indirectly in providing the necessary capital for the expansion of American industry, and to provide the investing public with accurate investment information. The meetings which your Board of Governors has held in different cities have met with an excellent response. This is evidenced not only by the cooperation of those actively participating in the securities markets but also by the widespread interest of business and civic leaders.

Stock Exchanges are an integral part of the economies of all private enterprise nations and are indispensable in channeling investible funds into marketable securities and in promoting a wider use and distribution of equity securities. They provide a broad market in which securities, particularly common stocks, can be appraised and reappraised. These appraisals and reappraisals enable investors to direct their investments into more important uses and to furnish capital to expanding industries.

The existence of stock exchanges enables those who place capital in new undertakings to effect public participation in their ventures as these become profitable concerns. It is difficult to conceive of the full and effective functioning of our economy without the efficient mechanism of the stock exchanges and the security markets.

Examples of Capital Formation

As indicated above the term "capital formation" can be used either in a monetary or physical sense. The simplest case of capital formation in a physical sense is that of farmers and householders who employ their spare time in replenishing the fertility of the soil or in repairing equipment. Their labors in this respect offset depletion and maintain existing equipment. If farmers and householders make use of their own labor, their own funds, or the funds of others to expand equipment and to effect construction, they are actively engaged in the process of new capital formation.

Governmental units, like farmers and householders, may promote the process of capital formation. This type of capital formation takes the form of roads, schools, institutions—in short, all capital goods which today are included under the term "social capital."

We are all keenly aware of the rapid expansion which has occurred in this area of capital formation.

Finally, business enterprise itself is actively engaged in maintaining, replacing and expanding plant, equipment and inventories. The funds used for these purposes are provided through internal savings or are obtained from the flotation of stock or debt financing. It is the development of machines, factories and transportation that has raised the productivity of the American worker above that of foreign workers, that has increased the flow of all types of goods, and that has made possible our present material civilization. To none is this fact more apparent than to those who are promoting the rehabilitation of Western Europe and who recognize the imperative need of improving and adding to the capital equipment of the Marshall Plan countries.

Gross and Net Capital Formation

In these various illustrations, I have tried to draw a distinction between the maintenance and replacement of capital goods on the one hand and the expansion of capital goods on the other, i.e., between gross and net capital formation.

A progressive economy is an economy which not only maintains and replaces but also adds to its stock of capital goods. To be able to add to its stock of capital goods, an economy must have a surplus of income over consumption, including the consumption of capital goods caused by depreciation, depletion and obsolescence. This surplus forms the sinews of further progress.

It has been estimated that about two-thirds of gross capital formation in this country is employed in maintaining capital goods and in offsetting depreciation and depletion, and that only about one-third is used in making net increases in the stock of capital goods. Net additions to capital goods require only a relatively small amount of national income, an average of about 10% in the prosperous decade of the 'Twen-

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*An address by Mr. Aldrich at dinner meeting of Association of Stock Exchange Firms, New York City, November 22, 1948.

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The Public Views the SEC

Some views of SEC Commissioner McDonald discussed. There is a well defined current of public opinion which favors SEC abolition. Its trial procedure loaded against respondents. Commission constantly reaching for added powers. Invades the right of privacy. Competitive bidding a burden. Securities industry hampered by restrictions on sales of equities owned by management personnel.

In the course of a recent speech before the Economic Club of Detroit, SEC Commissioner Harry A. McDonald is reported to have described the Securities and Exchange Commission as "a familiar and accepted landmark on our financial scene."

He doubted "whether there is a thinking member of the investment fraternity who today would demand repeal of these laws or modification of their fundamental features."

Since in our experience the SEC is anything but an "accepted landmark" and there exists a strong sentiment for the repeal of the Securities Exchange Act of 1934 which gave birth to the Commission, we must assume either that Commissioner McDonald is naive, or that he has wilfully closed his eyes to the facts.

Certainly innumerable communications from the "investment fraternity" which cross the editor's desk emphasize that far from an acceptance of the SEC setup, there is a strong militant opinion that the best interests of our citizenry would be served by abolishing the Commission. Were there no fear of reprisals, as strong as this current of opinion is, there would be a more potent expression of it; but, as we have repeatedly shown, the securities industry exists in the shadow of fear caused by the repressive hand of the agency which administers it.

In our opinion the Securities Exchange Act of 1934 was an emergency measure. The emergency is over and that law should therefore be erased.

Let us proceed to examine some of the adverse powers exercised by the Commission.

Of the many rights we enjoy, that of privacy is among the most highly regarded. It has been fundamental in our law. Yet, via examinations of books and records, requests for information and through questionnaires circulated by its satellite, the National Association of Securities Dealers, this right is being constantly violated by the SEC. Is this conduct calculated to make the Commission and the statute out of which it arises an "accepted landmark"?

The Commission and its partner the NASD have engaged in a series of maneuvers attempting to control prices, a concept which is completely foreign to our democratic way of life. As bad as this is, even worse is the realization that in all this jockeying, the element of net profit has never been a criterion. When the NASD promulgated the "5% spread yardstick," this was challenged as a "rule" which should have been submitted to its membership for approval or disapproval. In a hearing before the SEC, it was charged that the Commission had a hand in creating this yardstick.

Without answering this charge, the Commission held this yardstick to be a mere interpretation and not a rule; thus, if the charge be true, sitting in judgment on a creature of its own making.

Is such conduct calculated to make the Commission and the statute out of which it arises an "accepted landmark"?

We can keep piling up instance upon instance, including the abuse of its rule making power and the unlawful exercise of the legislative function, which have brought the SEC into public disesteem. Examples are legion. The Commission has constantly reached for an extension of its powers until now it is power drunk.

That brings us to disciplinary proceedings against brokers and dealers. Here the Commission plays with a marked deck and the scales of justice can hardly be said to be evenly balanced. Its resources, government sub-

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Strength and Weakness in Economic Trends

By M. S. SZYMCZAK*
Member, Board of Governors, Federal Reserve System

Prominent Federal Reserve Governor analyzes recent economic development at home and abroad, and points out, despite persistent fears of recession, postwar expansive forces are still at work for high level of industrial activity. Notes some anti-inflationary developments, but says weakness signs must be watched closely, because the economy is becoming increasingly vulnerable. Stresses factor of unfavorable international situation.

Since the end of the war we have attained the objective of high levels of employment. Nevertheless there has persisted a widespread uncertainty as to our ability to sustain these levels. Our fears stem, in part, from our experience in the 30s and from the knowledge that recurrent boom and recession have always been characteristic of our economy. Especially are we afraid that the inflation of the past few years has set in motion forces that will eventually make a downturn both inevitable and severe.

M. S. Szymczak

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

Postwar Inflation

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

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

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

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

Inflation was bred in such a war and postwar situation. Inflation means that effective demand—i. e. demand backed by purchasing power—exceeds the current supply of goods and services at prevailing prices. Prices advance in such a situation unless they are controlled and each advance generates further advances. Rising prices have resulted in rising incomes and expanding credit which have maintained a gap between effective demand and supply. This now familiar spiral of increased prices followed by increased income has been repeated again and again since the end of the war. Wholesale prices have increased about 120% since 1939, consumer prices 75%, and personal income 190%. A very large proportion of each of these increases has come after 1945.

At the end of the war, notwithstanding all the inflationary forces, we removed such wartime controls as might have been used as transition safeguards. These included controls over prices and wages, consumer credit, material allocations, and the high levels of wartime tax. In addition, the extreme gravity of the housing shortage led to easy mortgage financing. The agricultural program resulted in price support for farm products at levels which prevented large crops from having as deflationary an effect as they might otherwise have had. Desires to grant taxpayers some relief after the long years of high taxation brought tax reduction at a time when incomes were already excessively high in relation to the available supply of goods. In short, when a policy desirable for other reasons came in conflict with price stability, stability frequently was sacrificed.

Economic Importance of International Situation

Maintaining price stability would have been difficult in any event in the face of an unprecedently strong restocking and investment boom for new plant and equipment, inventories, construction, and consumers' durables and semi-durables with demand supported by large and widely-held liquid assets and high and rising incomes. Moreover, a disturbed postwar international situation has been superimposed on an already inflationary domestic one. Postwar has unfortunately not meant peace. Defense expenditures were cut drastically after the termination of hostilities, but they nevertheless remained far above prewar levels. More recently the intensification of international tension has resulted in a substantially enlarged defense program, with adoption of both a Selective Service program and plans for a 70-Group Air Force. For the fiscal year ending 1949, the expenditures for defense may run more than $1½ billion above those for the preceding year. The present program, if fully carried out, will mean a further substantial increase in the following year.

Furthermore, the war left a large part of the world desperately in need of outside aid. This was true both of our allies and of our former enemies. Our vast foreign aid programs for relief and reconstruction reflect not only humanitarian motives but also a desire for enhanced security. By the spring of 1947, our exports of merchandise had risen to a level close to that in wartime, which included lend-lease. Since then exports have declined more or less steadily, but are still at very high levels. Meanwhile imports have continued to increase. As a result of these divergent movements, the excess of exports of goods and services has declined from its peak in the first half of 1947, but is still very great, amounting to an annual rate of over $7 billion in the second quarter of 1948.

The continued excess of exports of goods and services has been financed in a variety of ways, but the most important has been aid furnished by the United States Government. This aid has taken the form of both gifts and loans. It has included credits on sales of surplus property and ships, loans made by the Export-Import Bank, the British loan, contributions to UNRRA and post UNRRA, civilian supplies for occupied countries, interim aid to France, Italy

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*An address by Gov. Szymczak before Conference of Illinois Bankers, University of Illinois, Urbana, Ill., Nov. 20, 1948.

Did the Tape Action of General Motors Forecast the Recent Market Break?

By STEPHEN J. SANFORD
Wall Street Analyst

Author of theory using General Motors as a forecasting tool for picking major tops and bottoms explains he did not interpret that security's recent frustrated movement as a selling signal, and is still long of stocks.

A good stock market system needs no apologist. It must stand or fall on its performance over a period of time, and no alibis can validate a record that is consistently incorrect.

But a good stock market system does often need interpretation. When the signal given is not decisive, when market cross-currents bring about confusion, then it sometimes is necessary to augment purely mechanical devices with sound reasoning gained through the painful crucible of extensive market experience.

What, then, may be said of a system that on this one occasion, at least, even perplexed its discoverer somewhat by leaving the whole matter of a bull or bear market hanging in the balance by the smallest margin possible—a ⅛ point move in a market leader?

Literally, that is just what happened on Oct. 23. If General Motors could sell as high as 65⅛ on that day a continuation of the bull market for at least another four months was indicated; if it failed to penetrate this previous high of 65, then the four months' period would be exhausted and a sell signal would have been given.

Rules of the Theory

Thorough readers of the "Chronicle" may recall that I described my theory at some length in the June 24 issue earlier this year. Briefly, it is that once a bull market signal has been given (as it was by the Dow Theory in May, 1948) it is necessary to be on the lookout for a sell signal, and that such a signal is given when the stock of General Motors fails to better its high in the ensuing four months.

This system has been rather uncanny in picking *major* tops and bottoms. In the matter of *intermediate* tops and bottoms, while it permits profitable operations over a period of years, it is by no means infallible and still leaves much to be desired.

In the writer's opinion this is much too soon after the 1946 peak for another major top to occur. After all, it was eight years between the 1929 and 1937 tops, and nearly nine years between those of 1937 and 1946. Thus, a false signal at this stage of an intermediate market would not be without precedent.

However, in view of the circumstances which I am about to set forth, I personally did not intepret the action of General Motors as indicating a sell signal. Consequently, I am still long stocks.

Back on June 24, General Motors established a new high for the young bull market at 65. It promptly declined, but about six weeks later, on Aug. 4, it again sold at that level. It repeated this performance the next day—Aug. 5—and again a few days later on Aug. 9.

Here was ample evidence that the stock was trying desperately hard to push into new high ground, but that this was being prevented by some unusual circumstance.

But the strangest coincidence of all was yet to come. On Oct. 23 (the 24th fell on Sunday), General Motors, for the fifth trading session of the summer and fall, again reached 65 without upside penetration!

Now this is an era of thin markets. Pools are prohibited. The activities of floor traders (the professionals) have been curtailed severely by numerous restrictions. With minimum margin requirements of 75% of purchase price, there is no margin trading worthy of the name any more. All of these factors combine to cause a paucity of bids when prices are falling, and an equal scarcity of offerings when prices are rising sharply.

It is now not unusual for a stock to fluctuate as much as a whole point on a single sale of 100 shares

My suspicions that an unusually large (for these days) block of stock was for sale at the round figure of 65 is borne out by these unofficial figures of transactions at that price on the following dates:

	Shares
June 24	100
Aug. 4	2,500
Aug. 5	1,000
Aug. 9	1,000
Oct. 23	4,600
Oct. 26	2,000
Total	11,200

I submit that it is extremely unusual for a stock selling in the mid-sixties to encounter such a sizable block for sale at any given figure now that trading is thin, as mentioned previously, and under the rigid scrutiny of the Securities and Exchange Commission.

Banging on the Roof

Thus, at the end of the four months' period, General Motors had not started a decline which would have anticipated a general market slump; instead it was banging on the roof in an attempt to go through the old high.

On Tuesday, Oct. 26, after sales of 2,000 more shares at 65, the stock was successful in penetrating this resistance point. Here, to me, was satisfactory evidence that the market action of this particular issue was not giving a sell signal, even though this confirmation was actually two days late.

The high for the year—66—was recorded on Nov. 1, and that is now the present determining date for sales on March 1 unless, of course, that figure too is subsequently exceeded.

If there are any fortunate traders who were influenced by the failure of General Motors to go through to 65⅛ on Oct. 23, and who did dispose of long stocks for this reason, no particular harm has been done, as the Dow Jones Industrial Averages on that day closed at 190.19. The post-election market break has brought securities down in price to levels where a profitable reinstatement of positions is possible.

While my earlier article on this subject did not so state, I have always used the first date on which the high was made as the determinant, and not subsequent dates on which the high was equalled but not exceeded. That shouldn't happen very often in the future, but if the market action of General Motors stock persists in posing this technical point, it may be necessary to effect a modification of the system to provide for this contingency at some later date.

But as matters stand now, March 1 is the date to remember.

The State of Trade and Industry

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

There was little if any change of significance the past week with respect to overall industrial production, which continued to reflect a high rate of output, notwithstanding a slight tapering off in volume below the previous week's level.

When compared with the like week of 1947, it was moderately higher, despite an increased number of strikes and layoffs in certain areas of the nation. Further, total employment held at a very high level, while continued claims for unemployment insurance dropped about 1%, while initial claims increased nearly 5% in the week ended Oct. 30. Payrolls, too, were generally steady and at a high level.

* * *

Recent developments in the two-weeks-old East Coast longshoremen's strike brought a rejection on Monday of this week by the spokesmen for the 45,000 strikers to a settlement formula proffered by the employers, as being "to vague" for submission to the union membership.

The rejection dimmed the hopes of Federal mediators for a quick termination of the strike that has seriously interfered with the movement of freight here at home and shipments of goods abroad in keeping with our commitments under the European Recovery Program. Since the strike the world's largest passenger ships have been immobolized.

On the same day, Representative Fred A. Hartley, co-author of the Taft-Hartley Law, made the suggestion that the President appoint a fact-finding board, as provided in the Taft-Hartley Law, if current Federal mediation failed to end the dock strike in the East.

Admitting that such Presidential action "was not successful in the West Coast maritime strike," Mr. Hartley asserted: "I want to make a complete distinction between the maritime strikes on the East and West Coasts. The West Coast strike is not a labor strike. It's a political strike by Harry Bridges against the Marshall Plan."

He further stated that should every other course fail to bring peace to the docks, the President still has one way open—to ask Congress for legislation to make labor unions subject to the Sherman and Clayton anti-trust laws "where restraint of trade by unions approaches a national calamity."

* * *

From a current release of the Association of American Railroads and based on advance reports from 82 class I roads, whose revenues represent 81.3% of total operating revenues, the Association estimated that railroad operating revenues in October, 1948, increased 9.9% above the same month in 1947. The estimate covers operating revenues only and does not take into account substantial increases in operating expenses that have taken place since October, 1947, as a result of increases in wage rates and material prices.

Estimated freight revenue in October, 1948, was greater than in October, 1947, by 10.5% and estimated passenger revenue increased 0.2%.

* * *

Business failures in October, according to Dun & Bradstreet, Inc., increased more than seasonally to 461 from the 398 of the previous month. This was slightly below the March and June peaks, but it exceeded that of any other 1948 month. It was considerably less than the 1,111 failures in October, 1940.

The liabilities involved in October failures rose considerably to $101,060,000, the highest volume on record except for that of April, 1932. One failure involving liabilities of $75,000,000 accounted principally for the rise. Excluding this failure, however, liabilities were larger than in any October since 1935.

As is usual the Agency adds, the majority, or 64% of the month's failures, were among businesses that began operations since the end of the war. About 12% of the total failures were in their first year of operation.

October failures in all industry and trade groups were more numerous than in the preceding month and a year ago.

Almost 40% of all failures occurred in the 25 largest cities; of these failures nearly one-half were centered in New York City and Los Angeles.

* * *

Although unseasonally warm, rainy weather continued in many parts of the country, retail sales volume rose fractionally during the past week. Armistice Day promotions and the start of Christmas shopping by many consumers were partly reflected in the current rise. Apparel, toys and gift items attracted considerable attention.

Total wholesale volume in the week slightly exceeded that of the preceding week and order volume approximated that of the comparable 1947 week. Reorders for many seasonal items continued in substantial volume with rather frequent bookings for spring merchandise.

Consumer buying dipped slightly in the early part of November with slackened consumer demand partially attributed to unseasonal weather in many areas. Dollar volume was estimated to be between 3 and 7% above a year ago early reports reveal. Special promotional sales stimulated the demand for holiday decorations, cards and gifts Total food volume was steady and high with orders for turkeys and roasts somewhat larger with the approach of Thanksgiving.

Women's and children's apparel attracted very favorable attention, but interest in men's wear remained somewhat sluggish. Quality household furnishings continued to be heavily purchased. Requests for credit were numerous and collections were generally as prompt as a year ago.

STEEL OUTPUT SCHEDULED AT SLIGHTLY BELOW RECORD HIGH LEVEL OF WEEK ENDED NOV. 10.

The word capacity has been highly overrated, according to "The Iron Age," national metalworking weekly, and has caused the steel industry no end of trouble.

Production, says the magazine, is the real story. It has been hampered in the steel industry during the past three years by strikes, labor shortages, iron shortages, coal shortages, scrap shortages, occasional leadership shortages and what all. Slowly the industry has

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Observations . . . .

By A. WILFRED MAY

OUR WHISTLING BECOMES LOUDER— IN THE FACE OF EUROPEAN SOCIALIZATION

The whistling over the election results, in lieu of subsiding is growing louder and even more confident in tone. In the exhortatory vein, the next Democratic Speaker of the House Sam Rayburn, in Sunny Key West declares that there is no basis for anyone to be "scared" and there is no reason for a recession or depression unless it be "man-made." Said our genial Congressional leader: "With the buying power in this country at its highest, with people able to buy anything that is manufactured at a good price and at a reasonable profit to the manufacturers and growers, I don't see anything for anyone to be scared about"—a pronouncement editorially hailed with encomiums of relief and praise by at least one of the nation's foremost newspapers. Vice-President Barkley, as well as other Administration leaders have similarly been successful in allaying depression fears.

A. Wilfred May

Such pronouncements, whether "strategic" or thoroughly sincere, emanating from politicians are to be expected. But our businessman, as similarly occurred in England after the Labor Government's surprising victory in 1945, is also buoying himself up against qualms about long-term fundamentals. In some quarters this is taking the form of licking his chops over the present volume of business. For example, the President of General Motors, declarer of a $2 extra dividend, is reported as "unable to see how the results of the election will have any effect on the automobile business." **As if the volume of business were relevant to the real cause for concern!**

The Chairman of the First National Bank of Chicago (a prominent Democrat) is reported as expecting "some temporary hesitation in capital expenditures and expansion programs," but as construing this as "beneficial rather than harmful," and as concluding that "the world isn't coming to an end."

At the dedication of his company's new plant last week, a textile industry leader typically said: "there is still a shortage of housing, of steel, of automobiles and essential machinery. . . . Our population is some 19 million persons larger than it was a decade ago. Great new industrial areas are developing in the South, the Southwest and the West. Our farm lands have just harvested the greatest crops in our history, Christmas business in 1948 promises to be the biggest and best on record." **As if Christmas business or shortages were relevant to the real cause for concern! The socialization in Great Britain, Norway, and Sweden all occurred in periods of high consumer demand and active industrial activity.**

All such business diagnoses may well be valid, but they merely constitute attack on a straw-man who is being called "bogey." The real concern of some thoughtful citizens springs from our election campaign's revelation of the extent to which our citizenry rewards political subsidization.

Likewise irrelevant to the conclusions of those who are seriously concerned about our extra push down the socialist road, are the calls to jump-on-the-bandwagon contained in a banking house's large newspaper advertisements. It broaches the soothing "only campaign oratory" theme; the comforting thought that Mr. Truman doesn't really think that Wall Streeters are vilely "gluttonous" (even if his voters do); that the President knows enough not to put restrictions on business; and reiterates the Rooseveltism that "we have nothing to fear but fear itself." Incidentally this latter slogan, taken out of its context, is a most dangerous distortion of a platitude which furthers complacency about combatting any domestic or foreign danger that we may be facing at any time. People love to hear the soothing news that worry over Joe Stalin is only a fantasy resulting from a *fear psychosis.*

Wall Street Behavior Irrelevant

There is general scoffing at those who interpret the voters' decision on the political campaign as a permanent mandate for partisan-politics' dictation and wholesale planning—and dubbing of such conclusions as the fantasies of a bigotted Wall Street.

Attention is called to the stock market's recent declines which have been superciliously characterized as just another manifestation of the "manic" behavior of the Street's "scared rabbits." **As if the behavior of Wall Street were relevant to the real cause for concern!**

As a matter of fact, the payment of attention to a possibly rising stock market would be as harmful as to a falling one. Surely a most harmful furtherance of the current complacency, and of the public's deviation from the real issue, would be produced by a bull stock market (fortunately not now evident). Let us remember that the entire British socializing process since 1945 has been accompanied by a net advance in the price of British equities.

In the narrower sphere of specific poplicies and legislation there is likewise a growing amount of back-scratching reassurance that

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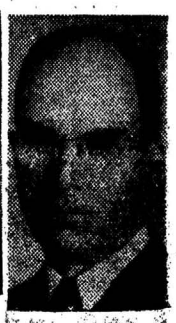
Eastman, Dillon & Co. Admits Two Partners

Eastman, Dillon & Co., 15 Broad Street, New York City, members of the New York Stock Exchange, announce the admission

H. Lawr. Bogert, Jr.



Harold H. Young

into the firm of H. Lawrence Bogert, Jr., and Harold H. Young as general partners. Mr. Young has been identified with public utility securities in the investment field since 1925. Author of many articles on public utility financing. Mr. Young is currently lecturing on that subject at the New York Institute of Finance.

Mr. Bogert was with Bankers Trust Co. from 1934 to 1942 when he entered the Army Air Forces, becoming attached to the Air Transport Command and retiring as a Major in 1946. He joined Eastman, Dillon & Co. at that time and is in the firm's syndicate department.

Admission of Mr. Bogert and Mr. Young to the firm was previously reported in the "Financial Chronicle" of Nov. 11.

With King Merritt

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Viola P. Dowd is with King Merritt & Co., Inc., Chamber of Commerce Bldg.

Financial Status and Needs of Electric Industry

By RICHARD B. McENTIRE*
Commissioner, Securities and Exchange Commission

Asserting electric utility industry must increase its capacity considerably, despite action of stock market, SEC Commissioner foresees electric power demand outrunning productive capacity. Estimates expansion of 23 million kilowatts in next four years, and points out, because of financing through debts, some utility company's capital structures are deteriorating. However, finds public appetite for utility common still considerable, though reporting ratio of common stocks to total capital decreasing in all utilities groups. Concludes industry's construction can be financed successfully only if common stocks retain "investment appeal."

You have been kind enough to ask me to appraise with you again the financial and regulatory aspects of the construction program of the electric utility industry. I am glad to have the opportunity to discuss these matters with you a second time. As you all know, the utility expansion program has been growing like Jack's beanstalk and is now twice what it was 18 months ago. The enormous physical size of the program and the tremendous volume of new money that will have to be raised to finance it create problems of new and far greater dimensions than any ever faced before. Let us try to sketch some of these problems and outline their implications.


Richard B. McEntire

When we last met in July, 1947, we had already enjoyed a year of full employment and record output. We have had 18 months more of this. Industrial production is double prewar, employment is over the 60 million mark, agricultural output is 50% greater than in 1939, the gross national product is running at $250 billion per year, private capital expenditures are at a $40 billion annual rate, telephones are being installed at a rate of over 3.5 million per year. Steel is being produced at the record rate of over 90 million tons per year, housing construction is approaching a million dwelling units per year. How long will this pace continue? Not being the seventh son of a seventh son, I don't know when it will end.

It is, of course, much too early to appraise with any degree of accuracy the effect upon the economy of the recent action of the stock market, and I shall not make any attempt to do so this morning. We certainly cannot now say that there is indicated any satisfaction of the demand for the products of industry or that industrial activity will be greatly affected—even if a definite market trend is established. In any event, it seems clear that the electric utility industry must still increase its capacity very considerably. Indeed, it appears that scheduled construction for the next two or three years may well be considered as firm.

Record of Past Three Years

Now, let us see what has been accomplished in the electric utility industry during the past three years, 1946-1948. Although 1948 is not yet over, a reasonably good guess can be made as to what the figures will show. (1) Generating capacity has increased 6 million kilowatts, or about 12%, from 50 million to 56 million; (2) kilowatt-hour output has increased from 222 billion to 280 billion, or about 30%; (3) residential consumption of electric power has increased almost 50%, from 34 billion to 50 billion; (4) the number of customers has increased from approximately 34 million to 41 million, an increase of 7 million.

This sharply increased demand has placed great strains upon our power production capacity. Indications now are that power shortages may be widespread this winter. The most skillful management will be required to steer industrial and domestic consumers over the hump without undue suffering. The latest Edison Electric Institute estimates show that reserves for the country as a whole will be down to 4% by the close of the year. Such a narrow reserve, even if realized, would mean critical shortages in many areas.

This inability of the increases in capacity to keep pace with the increases in demand reminds one of the words of the Red Queen when she said to Alice: "Here, you see, it takes all the running you can do to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that."

What are the reasons for this tremendous increase in demand for electric power?

In the domestic field the most important factor is the construction of 2 million new dwelling units in these three years and the sale of huge quantities of electrical appliances. The year 1947 alone saw the sale of 1,200 000 electric ranges, 1,100,000 water heaters, almost 4 million electric washing machines, 3½ million electric refrigerators, 17 million radios, and 450,000 home freezers, as well as vast quantities of electric clocks, waffle irons, toasters and all the myriad electrical appliances that go to make life more pleasant and the home easier to manage. Statistics on the output and sales of consumers' durables in 1948 show even higher figures and indications are that output and sales in 1949 may well be still greater.

In addition to these already developed appliances, a potential load builder of great consequence is the heat pump. This is now being tested in experimental installations in various parts of the country. It is estimated that one heat pump for the average home will consume between 12 and 15 thousand kilowatt-hours per year, or close to 10 times the present rate of domestic consumption. If the electric industry should serve 5% of the present homes, it would increase its residential load by almost 50%. The gas industry, too, is eyeing this possible source of

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*An address by Commissioner McEntire before the National Association of Railroad and Utilities Commissioners, Savannah, Ga., Nov. 17, 1948.

A Look Into Television's Future

By ROBERT SHELBY*
Director of Television Engineering, National Broadcasting Co.

Estimating television sets by end of 1949 at 2½ million, Mr. Shelby sees it changing living habits and opening up new channels for advertising. Says solution of video technical problems are not simple and centralized antenna installation has not yet solved difficulties involved in setting up individual antennas.

On next Jan. 20, when President Truman is inaugurated in Washington, more than two million people will attend the inauguration through the medium of television—more people than saw Lincoln during his entire term in the White House. During the recent election, television reached substantial audiences in 21 states having more than two-thirds of the total electoral vote. Right now, today, 40 million people are living within reach of daily television programs.


Robert Shelby

I mention these facts, merely to point out that television is not something around the corner, something for the future, but is here now—a practical working reality.

Today's television did not arrive full grown on the American scene, overnight—it is the result of years of research and long and meticulous development of each component. Millions of dollars have gone into research. As a result, the transmitters, studio equipment and the receivers in the hands of the public, are dependable, sensitive and sturdy.

Although television has been developing over a period of many years, and although there is much work ahead, we in the television industry feel that television has really come of age during 1948. Back in January of this year, the National Broadcasting Company ran a full-page advertisement in 38 newspapers in large cities throughout the country. The theme of that advertisement was simply — "1948 is Television's Year." Very frankly, when we wrote that ad, at least part of it was based on some hopes, predictions, and a few well-founded guesses. Today, just 10 months later, those hopes and predictions have more than been fully realized.

Many Problems Still to Be Solved

The advent of television on the American scene of course, brings with it many problems and questions yet to be answered. I am sure most of you here will soon be very deeply concerned with television, if you are not already, both as viewers and as Real Estate managers to whom the erection of television antennas and television receiving equipment bring with it problems that directly affect your business. In a moment, I will do my best to attempt to answer some of the questions which may be on your minds as Real Estate men, but first, as present or potential television viewers, I thought perhaps, you might be interested in a quick look at the status of television today and in a few predictions for the future.

It is much easier to talk about the past or the future of television than it is about the present. The present just doesn't stand still long enough for anyone to get a very good look at it. However, we can present to you a brief statistical picture as of Nov. 1. It won't be the sharp print we are used to in sound broadcasting, but like a baby picture in the family album, it will serve to show the approximate dimensions of the infant at an early age. The interesting thing about television is not where it has gone but the pace at which it is going.

At the present time, there are over 700,000 television sets installed throughout the country. Approximately one-half of these are in New York City, the remainder in or near 30 other large cities. By the end of '48, it is expected there will be roughly a million sets in operation and this figure will jump to two and a half million by the end of '49. At the moment, there are 41 television stations actually on the air in 21 major markets and by the end of the year, this figure should be close to 50. As far as NBC is concerned, we presently are operating a seven station East Coast Network ranging from Boston to Richmond. These stations are connected by coaxial cable or microwave relay stations which means that programs originating in New York can be seen in cities up and down the coast. We have a similar network in the midwest consisting of seven stations ranging from Buffalo to St. Louis. The present plans call for interconnecting these two networks on Jan. 12.

In terms of actual audience for television programs, it has been estimated that the average television home set usually has anywhere from four to seven viewers while in bars and public places the audience averages 25 people. This means for example, that the recent election coverage was viewed by well over two million people.

Advertising Appeal

The growing audience for television, and the terrific sales impact of the medium itself, naturally have attracted advertisers. At the moment, over 600 advertisers are using television in some form. To the American public, of course, advertising dollars insure high calibre entertainment and informational programs. As far as television receivers go, the public has a wide range to choose from. At present, 74 manufacturers are putting out 220 different models. They range from kits from which you make your own set, up to large projection sets costing over $1,000.

With the rapid development of television in the past several months, the public is now being offered a wide variety of programs. Although there is not the volume of programs in television that we have in radio, the range is almost as wide, with something for everyone including sports, feature films and film shorts, variety, drama, news, music and perhaps the most exciting aspect of television programming, on-the-spot pickups of special events. In a few moments, I would like to show you, through the medium of television recordings, just a brief sampling of some of the program types that are available to the television audience today.

There is no doubt that television is changing our living habits event to the extent where the television receiver is replacing the fireplace as the center of living room attraction. I know that those of you who are already concerned with television, are finding that it not only affects living habits but also perhaps, your methods of doing business. I

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*Talk by Mr. Shelby at meeting of Real Estate Group, National Association of Real Estate Boards, New York City, Nov. 17, 1948.

From Washington Ahead of the News

By CARLISLE BARGERON

Washington is a city of paradoxes these days. There are people, and we are talking about those in the official and semi-official circles, who are wondering how in the name of Heaven Truman won and even though their careers have been saved by his winning, they aren't sure they like it. They had rearranged their affairs, prepared to move and were uncertain of the future. Now, much to their amazement, their future, at least for four more years, is assured, and they aren't happy about it at all.

Carlisle Bargeron

You would think they would be in the mood of the employee who has expected to be fired and all of a sudden learns he isn't to be. Great rejoicing, you would assume would be the order.

Apparently, however, these folk had become resigned to their fate, like a condemned man. He has readied his soul for the change. Then there comes the word that he isn't to be hanged after all. Instead of showing elation, he is somewhat annoyed at the change in plans he has to make.

On the other hand, there are those whose future careers turned upon the coming in of Dewey. Washington being what it is, they undoubtedly had bought new furniture, given their wives the go ahead of new dresses and furs. Maybe they had had their houses painted, taken on a new maid in these days when taking on a maid is equivalent to the wife buying furs.

You'd think they would be throwing up their hands in despair at the outcome of things. Their investment would have been made and now they would have to pay it off on the instalment plan. No more downhearted people in all the world, would one expect to meet.

But there seems to be none of that feeling among them. One, instead, notes a feeling of rejoicing. In truth there is more elation on their side than among those who stand to win with Truman, by far.

It is an amazing situation, the likes of which this correspondent has never before seen in the Nation's Capitol.

To sit around among the pro-Dewey people is not to be at a wake, but at a great session of hilarious story-telling, the story of how stupid a particular fellow was, how silly he must feel today.

And it is a fact that there are personal narratives about men who emotionally jumped the Dewey bandwagon at Philadelphia that will be a subject of hilarity for years to come.

Right off the reel, your correspondent thinks of the so-called Grundy machine in Pennsylvania. Old Joe Grundy himself, of course, 80 or so. He is the head of the Pennsylvania Manufacturers' Association whose chief, if not sole concern in life, is to protect the Pennsylvania manufacturers. And to this end they have always been high tariff protectionists. Old Joe when he was in the Senate several years ago, charmed the most critical correspondents with his blunt statement that if he had his way he would build a wall around this country so that that no foreign goods could come in.

Well, it was Old Joe's machine, now operated by a younger and more virile man, Mason Owlett, that started the Dewey bandwagon at Philadelphia. That this crowd did this was quite startling to the other President-makers, because Dewey was known to be a reciprocal trade man. And undoubtedly what had to do with it was the fact that Pennsylvania has an obstreperous governor, Duff, who for weeks ahead of the Convention, had been giving interviews to the press that he controlled the Pennsylvania organization and intended to support Vandenberg. Apparently it behooved Owlett to pick a winner to put Duff in his place, Duff having accepted Owlett's and Old Joe's support to become governor and was now kicking over the traces.

In making his move, Owlett would have none of the counsel of Joe Pew, who ever since 1935 has given generously to the party from his intellect and his money, and who the many intervening years have proved, has not an axe in the world to grind.

No, Owlett wouldn't do this. Instead, he sold Old Joe Grundy on the idea that Bob Taft was a socialist. This piece of salesmanship is one of the most delightful episodes of the great Republican disadventure of 1948.

Owlett is a member of the Republican National Committee After Dewey's nomination he succeeded in putting in his man as chairman of the committee with the understanding he was to have no authority at all. Herb Brownell was to run the campaign.

The campaign had gone only about two weeks when Owlett learned Dewey was certainly not a high tariff man; when, in fact, as the newspapers reported, he kicked the Owlett-Grundy team in the face.

I think the story is both amusing and pathetic. It is a shining example of what harm selfish men can wreak. Had the counsels of an unselfish man been listened to, a man who doesn't give a particular damn whether he's with a winner or not—and I'm speaking of Joe Pew—the outcome of the campaign would have been different. That I believe.

Calvesco, Inc. Being Formed in Los Angeles

LOS ANGELES, CALIF.—Calvesco, Inc. is being formed with offices at 623 South Hope Street. Officers are Robert H. Parsons, President; R. J. Eichler, Vice-President; J. L. Ryons, Secretary; V. C. Smith, Treasurer and Assistant Secretary. Directors in addition to the officers are H. M. Bateman, B. P. Lester, Mark Davids, Donald Royce, J. E. Jardine, Jr., C. S. Hill, and Murray Ward.

John G. Perry & Co. Opening NYC Branch

John G. Perry & Co., Denver investment firm, is opening a branch office in New York City at 527 Fifth Avenue.

S. G. Cranwell Co. In NYC

S. G. Cranwell is engaging in a securities business from offices at 32 Broadway, New York City, under the firm name of S. G. Cranwell & Co.

"What Is the Over-All Picture of the SEC?"

By HARRY A. McDONALD*

Commissioner, Securities and Exchange Commission

Commissioner McDonald describes the manifold functions and activities of Securities and Exchange Commission, including its participation in the Kaiser-Frazer Corporation stock controversy as well as its handling of the Public Utility Holding Act. Asserts object of SEC is to guide financial practices of business corporations and those who deal in their securities with view to maintaining public confidence in them, and thus facilitate application of nation's savings to sustenance and growth of our economic life.

In talking to businessmen about the Securities and Exchange Commission (and this audience is a good cross-section of Detroit business life) I have found that the questions put to me are pretty much alike. They run something like this: First, just what is the SEC, and what does it do?

Harry A. McDonald

Second, how does it affect me as a director, officer or majority stockholder of a corporation?

Third, supposing our company went out to raise additional capital, what would the SEC require?

Fourth, (and the inevitable question)—by the way, what's the SEC going to do with the Kaiser-Frazer case?

And then, if we were to talk long enough, the question may be asked: "Why have you made certain public utility holding companies sell or dispose of so many of their holdings?" This, of course, brings up the Public Utility Holding Company Act, and its famous "death sentence."

I will try, in the time allotted, to discuss these questions as pointedly as I can.

I

What SEC Is and Does

I am not assuming that you know nothing of the SEC, but it is surprising to find so many business people, affected as they are by some phase of SEC activity almost daily, who have not the proper conception of its operations.

The SEC is an independent, quasi - judicial, administrative, regulatory agency, like the Interstate Commerce Commission or the Federal Power Commission. The five SEC commissioners are appointed by the President. It is a bi-partisan commission: not more than three of the commissioners can belong to the same political party. The Commission has approximately 1,100 employees, some 300 working in field offices outside Washington. Its annual budget is about $5.5 million. It has income from fees of approximately $1 million, so that the SEC costs the taxpayers net about $4.5 million a year.

The statutes administered by the Commission prescribe disclosure requirements in the sale of new security issues;—deal with the activities of stock exchanges, stock brokers and dealers;—provide supervision of the activities of investment advisors and investment companies;—fix requirements for qualifying trust indentures;—provide that the Commission perform certain advisory functions in corporate reorganizations under Chapter X;—and give the Commission rather intensive financial jurisdiction over the affairs of public utility

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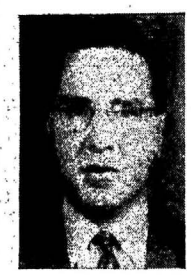
*An address by Commissioner McDonald before the Economic Club of Detroit, Detroit, Mich., Nov. 22, 1948.

Television—America's Fastest Growing Industry

By SIDNEY B. LURIE
Research Dept., Paine, Webber, Jackson & Curtis
Members of New York Stock Exchange

Mr. Lurie reviews rapid growth of television industry in last two years and predicts an output of television sets in 1948 of around 800,000, against 178,600 sets in 1947. Analyzes position of individual television stocks and importance of television in leading radio producers' business, particularly as regards earnings prospects.

Although a technical reality before Pearl Harbor, television first became a commercial reality a little over a year ago—when the FCC established definite performance standards. This was the turning point—for once the guideposts were established, manufacturers were in a position to utilize war born electronics knowledge to create a demand which now cannot be filled. Fact that a half billion dollar industry has seemingly grown overnight and overcome the growing pains encountered by every fledgling business is perhaps beside the point. More important is the fact that television's spiralling growth has created an upward momentum which is little short of sensational. For the reasons given below, we believe that television production next year may more than double this year's probable output of about 800,000 sets which compares with 178,600 sets in 1947.


Sidney B. Lurie

(1) With better than 1,000 sets a day being installed in the New York area alone, the television urge seems founded on something stronger than just the novelty of "pictures in the home". Unquestionably, the appeal of something new has sparked the boom—for the cultural and entertainment level of today's programs leaves much to be desired. Moreover, the price of owning what is still a luxury item is, and will remain, relatively high. While the answer to the longer term staying power of the boom is therefore related to a change for the better on both these counts—the significant fact remains that the public is not waiting. The most obvious explanation is the nature of the American people; after all, the cry of "get a horse" didn't stop the early automobile buyers.

(2) Just as today's television set is a far cry from those of 1939—which, incidentally, are still providing good reception—so will the 1952 set incorporate a number of improvements over the 1948 model. This is the natural evolution of a new industry which has just learned to walk, however, and therefore is not a threat to public good will. Furthermore, the changes that are in prospect are not likely to obsolete receivers now being sold. If, for example, ultra high frequency channels eventually come into use, present sets can easily be converted at low cost. Similarly, if and when color (far more costly than black and white) becomes a commercial reality many years hence, an adaptor probably could be used on today's sets. Thus, apart from the fact that the greatest room for immediate improvement lies in telecasting, the industry is not likely to lose sight of its obligation to those supporting its growth.

(3) While some 45 million people now are in areas served by television, the market for television receivers from here out is largely related to the growth of television broadcasting — both quantitatively and qualitatively. Obviously, the greater the number of stations in operation, the wider the potential set market—and by the year end some 53 million people will be in the television area. It is also true, however, that the bigger the network, the stronger its advertising potential — and this means better programs which in turn will sell more sets. Thus, it is significant to note that despite the prospect of near term losses, over 50 television stations will be in operation at the end of the year as compared with 16 at the 1947 year end. Not only will 40 cities be served at the turn of the new year against only 11 at the 1947 year end, but an inter-city network will link Boston with St. Louis. Further progress is in store for 1949 what with 85 stations being under construction now and applications for 300 more pending before the FCC (which has temporarily frozen additional new licenses).

(4) In light of the foregoing, perhaps the only factor which might prevent 1949 from being a brilliant television year is a shortage of parts—for television requires about five times as many components as radio. This year, for example, a tight supply of cathode ray tubes has been the limiting force on output—a situation in turn related to a shortage of glass blanks. But the tube manufacturers have been expanding capacity and the glass companies have largely solved their production problems. Further, most of the set makers are in a position to expand their output without extensive changes in present production facilities. The chief remaining bottleneck lies in the production of transmitting equipment.

Short of a war or major depression, nothing is in sight to stop television's growth from here out—for the point of public acceptance is being reached where a receiver will be regarded as a home necessity. The skeptics who point to price as a barrier to expanding sales are refuted by the surprisingly large percentage of sets now being sold to the low and middle income families. Similarly, while the advertising appeal of telecasting is theoretically limited by high costs in relation to other media, there is no denying the inference of the fact that over 500 advertisers soon will be sponsoring shows against only 25 in March, 1947. With all the evidence thus suggesting a favorable meshing of the interrelated factors which bear on the future, some 40 million sets may be in operation 10 years hence.

Which Stocks?

Granted that television's post dynamic phase is at hand, what is the best means of capitalizing on the future? The broadcasting stocks as such do not appear to be attractive at this time in view of the prospect for continued losses through next year. Until more extensive network facilities are in operation—and the number of sets in use has grown sharply—rates cannot be raised or available time fully utilized. Telecasting is a far more expensive operation than radio — not only from the viewpoint of getting a program on the air and in leased wire charges for network transmission, but in the sense of offering less salable time.

The set makers, however, appear to be in an excellent position to capture speculative imagination—for 1949 seems destined to be a brilliant profits year in that: (1) The benefits of mass production should result in television affording a better profit margin than radio; (2) A competitive battle for survival is not likely to develop until the latter part of 1949 or early 1950.

With some 60 different manufacturers now producing television sets, and the market soon to be widened with distribution by the two leading mail order chains, choice of issue is far from a simple matter. For one thing, in an industry possessing as much vitality as television, a reshuffling of competitive position is perhaps inevitable in the years to come. Secondly, it is even conceivable that the manufacturers not pressed with the problem of maintaining top volume position—those in a position to be the Cadillac's rather than Chevrolet's of the business—will eventually fare best. Thirdly, in some cases television's earnings potentialities may be diluted by heavy dependence on non electronic lines. The following capsule comments on the companies covered in this memorandum are illustrative of the complications introduced by any attempt to narrow the field of speculation:

ADMIRAL CORP.

Aggressively managed **Admiral Corp.** has probably made the greatest intra-industry progress in the past year—and its excellent dealer organization augurs well for 1949. Specializing in a combination radio-phonograph and/or television set which can be purchased independently, the company soon will announce a wider line of television sets. The company's Dual Temp Refrigerator (an assembly operation) and its electric ranges (also made under contract by outside sources) will account for about 29% of 1948 sales. Next year, the appliance division will have the benefit of increased steel supplies.

AVCO MANUFACTURING

Avco Manufacturing has been what might be termed "a slow starter" in television—and now is in the process of building up production to the factory potential, which can be easily enlarged. The company's Crosley division is operating under DuMont patents—and, including radio and refrigerator sales, is the source of about 50% of consolidated volume. Other manufacturing divisions produce farm equipment (about 14% of total sales), kitchen cabinets (about 18% of total sales), gas and electric ranges (about 13% of total sales), etc. Crosley Broadcasting, operators of WLW in Cincinnati and WINS in New York, is building two new television stations.

DuMONT LABORATORIES

In a sense, **DuMont Laboratories** might be considered the only company exclusively devoted to all branches of the television industry. The company does not manufacture AM or FM radios—is a leading producer of 12-in. and larger cathode ray tubes—is the third largest maker of television transmitter equipment — has a strong trade position in the set field in the East—and operates a television network. While the broadcasting division may lose over $1 million this year, the success of the recently inaugurated full day time operation should ac-

(Continued on page 34)

Dealer-Broker Investment Recommendations and Literature

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

Air Lines—Pamphlet analysing the situation—Neuberger & Berman, 160 Broadway, New York 7, N. Y.

Aircraft Industry—Analysis of prospects—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Common Stocks as Long Term Investments — Analysis — Kiser, Cohn & Shumaker, Inc., Circle Tower, Indianapolis 4, Ind.

Effects of Higher Corporation Income Taxes—Tabulation on 30 industrials, 20 railroads and 15 utilities—J. R. Williston & Co., 115 Broadway, New York 6, N. Y.

Also available is a leaflet discussion on exchange of **International Paper** for **Montgomery Ward** or **Texas Co.**

Horatio Alger Story—Analysis of **Southern Union Gas Co.**—Scherck, Richter Co., Landreth Building, St. Louis 2, Mo.

Market Comment — Leaflet — Bennett & Palmer, 165 Broadway, New York 6, N. Y.

Monetary Commission—Discussion of the Buffett Bill—Bankers Bond Co., Inc., Kentucky Home Life Building, Louisville 2, Ky.

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

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

Selected Issues to Replace Tax Loss Switches—Discussion of 46 specially selected issues—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Also available is an analysis of **Lehigh Portland Cement**, a circular of **Market Opinion**, and leaflets on **American & Foreign Power, Chicago, Indianapolis & Louisville, Cities Service, Commonwealth & Southern, Motorola, Oils, Ronson Art Metal Works, Standard Gas & Electric**, and **Texas Co.**

Television—Discussion of profit potentialities—Stanley Heller & Co., 30 Pine Street, New York 5, N. Y.

Television — Analysis — Paine, Webber, Jackson & Curtis, 25 Broad Street, New York 4, N. Y.

Television — Leaflet of current developments in the industry—Television Shares Management Co., 135 South La Salle Street, Chicago 3, Ill.

* * *

Amerex Holding Corp.—Circular—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Bethlehem Steel — Leaflet — Bache & Co., 36 Wall Street, New York 5, N. Y. Also available is a leaflet on **National Gypsum.**

Black, Sivalls & Bryson, Inc.—Study—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

Chicago Transit Authority—Circular—Harris, Hall & Co., 111 West Monroe Street, Chicago 3, Ill.

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

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

Ero Manufacturing Company—Circular—Straus & Blosser, 135 South La Salle Street, Chicago 3, Ill.

Fuller Manufacturing Company—Analysis in current issue of "Business and Financial Digest"—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

In the same issue is a discussion of **Central Paper Company, Inc.**

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

International Nickel Company of Canada — Analysis — Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Also available is a follow-up leaflet on **Allen B. du Mont Laboratories, Inc.** and on **Motorola**, a bulletin on current developments in **Railroads**, and suggestions for **Balancing an Investment Portfolio.**

Missouri Pacific Railroad Co.—Memorandum—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

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.

Parke, Davis & Company—Circular—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

Petroleum Heat & Power Co.—Circular—Rauscher, Pierce & Co., Mercantile Bank Building, Dallas 1, Tex.

Strawbridge & Clothier—Memorandum—H. M. Byllesby & Co., Stock Exchange Building, Philadelphia 2, Pa.

Also available are memoranda on **John B. Stetson** and **Warner Company.**

Time, Incorporated—Analysis—William A. Fuller & Co., 209 South La Salle Street, Chicago 4, Ill.

Utah Power & Light—Write for data attention of R. H. Burton—Edward L. Burton & Co., 160 South Main Street, Salt Lake City 1, Utah.

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

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

COMING EVENTS

In Investment Field

Dec. 2, 1948 (Boston, Mass.)
Boston Securities Traders Association annual meeting and dinner in the Hawthorne Room of the Parker House.

Dec. 3, 1948 (New York City)
Security Traders Association of New York annual meeting and election of officers.

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. 10, 1948 (Seattle, Wash.)
Bond Traders Club of Seattle Annual Christmas Party.

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.

Election Requires Portfolio Adjustments

By JOHN LEEDS KERR
President, Kerr & Company, Engineers

Mr. Kerr states while stocks remain attractive for long pull, portfolios should be carefully scrutinized for switching into favorable situations. Predicts improved earnings and dividends will support higher prices, as domestic political situation becomes clarified.

Following the surprise election of President Truman, common stocks have sold off sharply in price. Fear prevails from coast to coast and forecasts are being made that the election means the end of capitalism and the final swing down the road toward a highly socialized economy.


John Leeds Kerr

Despite President Truman's election, nothing has changed the broad forces of permanent inflation which, barring the advent of straight socialism or communism, must inevitably make stocks attractive for investment.

The current fears of the investor are higher corporate taxes and added controls on business. We believe that an increase in the straight corporate tax rate is more likely than imposition of excess profits taxes. The latter curtail business incentive and certainly the more conservative elements in the Democratic party should recognize this factor. Business will be subjected to further controls, and while corporations may continue to be harassed publicly on the subject of high profits, no administration is going to endanger deliberately a major source of tax revenue.

Portfolio Reshuffling

However, the political upset necessitates extensive reshuffling of investment portfolios. The growth of inflationary spending by the government, labor and farmers will obviously be accelerated in the immediate future. Fourth and fifth round wage increases may be easily achieved regardless of continued strikes and there will be a further decrease in purchasing power of the dollar. Sooner or later the boom will come to an end, but such an eventuality is not now in sight. Generally speaking, we believe that investors should adopt a conservative program and take advantage of the liberal yields which are currently obtainable in the quality groups.

Investment confidence has been shaken and immediate prospects for a broad upward movement in stock prices are unlikely until more is known of future legislative plans. However, investment portfolios should at this time be scrutinized carefully with the object of being represented in the most favorable industries depending upon the extent of risk assumed.

I recommend below certain industries best situated in light of current developments:

Defensive—
Electric Operating Utilities
Natural Gas Utilities
Insurance Stocks
Food Stocks
Retail Trade

Dynamic—
Steel
Building
Material Handling Equipment
Petroleum (integrated concerns)
Potash and Potash Mining
Agricultural Equipment

Speculative—
Aircraft Manufacturing
Distillers
Electronics
Paper and Pulp

Business Prospects Reappraised

In our recent optimistic report, issued when the averages were about 180, we stated that business activity would continue at a satisfactory level for several years. That the outlook is not as favorable as it appeared a few weeks ago is an understatement. However, many basic fundamentals which indicated a period of high business activity ahead are not due to strictly political factors, although President Truman's farm and labor program may be an added stimulant to business. The highlights in the outlook are as follows:

Marshall Plan—Continued and probably expanded aid to Europe—even embracing an "arms lend-lease" program.

Defense Program—Same as would have occurred under Dewey. Truman has been inclined to ask for less armament spending than his advisers. He favored a smaller air force program than Congress actually voted. However, overall expenditures for weapons are bound to be large particularly if "arms lend-lease" passes.

Inflationary Aspects — Definite. Truman is committed to a spending program designed to help labor and the farmer, the two major bodies responsible for his election. Government spending would rise particularly sharply if recession were to set in.

War—No change in our opinions. Peace talks may be more likely as Truman may negotiate more directly with Stalin. This could have the effect of alleviating war-scare psychology.

Controls — We do not believe that President Truman really wants price controls with all the problems of black markets . . . he may ask for them for political reasons and may receive standby powers. Allocation of scarce materials will probably be voted. Rent controls will be extended. Credit controls will be maintained but not tightened. Auto labor unions, for example, will not support "killing off" the instalment buyer. Controls will never eliminate taxable profits of business as they provide government taxes while corporate deficits produce nothing.

Farm Prices—To be underwritten and supported by price parity formulas. No reduction as anticipated by many in the event Dewey were elected.

Corporate Tax Outlook—A major fear of the moment concerns the status of future corporate taxes. The present budget receipts for the current fiscal year are now estimated at approximately $42,351,000,000 and include provision for Marshall Plan aid and Defense appropriations. "Newsweek Magazine" suggests that the "new budget will probably hit $44,000,000,000," and we estimate that $46,000,000,000 will be the maximum for this period.

Considering the current high level of income subject to taxation and the present tax rates, it appears to us that additional tax revenues of about 9% will more than balance the budget. Admittedly, corporations may bear the entire additional burden, but this can be done by an increase of corporate taxes to a maximum of ap-

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Let's Stop Talking and Do Something

By HENRY J. KAISER*
Chairman of Board, Kaiser-Frazer Corp.

Prominent industrialist urges nation stop talking about election and gyrating stock market, and, instead, think, plan and act to increase production. Points to production bottlenecks and materials shortages in auto and other industries as threat to our economic supremacy and urges tax changes to spur industrial output. Says needs for expansion are vast, and advocates taxpayers be permitted to charge off capital invested in new facilities in minimum of five years.

When I told Mrs. Kaiser I was going to speak in Chicago, she said, "Oh, Daddy, why don't you stop talking and do something?" There's a lot of common sense in her question. For instance: Why don't we all stop talking about the election and the gyrating stock market, and do something toward helping our nation live up to its full destiny as the greatest land on earth?


Henry J. Kaiser

This is a time for much thinking and planning—less talking and more doing. The things to be done are limitless and unending.

However, as I told Mrs. Kaiser, there is a definite reason for talking with you today and for being grateful that you invited me.

We are associates in one of the greatest industries of America today — the automobile business. Without the great service and contribution carried out by finance companies represented at this American Finance Conference, the United States would not be a Nation on wheels. Speaking personally, your organization has worked earnestly and constructively with our dealers throughout the country and backed their faith in a new automotive enterprise, making it possible for us and our dealers to demonstrate that America does operate on a system of free enterprise, where a newcomer can enter a highly competitive, strong old industry. I appreciate the opportunity to express our appreciation for your contribution to Kaiser-Frazer progress to date.

*An address by Mr. Kaiser before the Annual Convention of the American Finance Conference, Chicago, Ill., Nov. 17, 1948.

Proof We're a Nation on Wheels

No one disputes the fact that we are the Nation on wheels.

During the war we had an experience which made a tremendous impression on me. It proved to me not only that we are a Nation on wheels but that the American public has the determination to stay on wheels. On the shore of San Francisco Bay we brought together overnight more than 90,000 workers to build ships.

They had to have transportation, for some traveled as much as 100 miles to come to work. You know the problems of gas rationing and tire shortage. We thought we had the answer: We purchased a fleet of ferry boats. We brought the old elevated cars from New York City and built a special railroad to the shipyards. We put in new bus lines. Despite the efficiency of this vast transportation system, 80% of the 90,000 people still came to work in private automobiles. We had to purchase hundreds of acres of land to provide gigantic parking areas. It was necessary to arrange with various municipalities to widen and cut through great traffic arteries. The people wanted to ride in personal cars and they realized their desire in spite of the restrictions and availability of other forms of transportation.

There is a purpose in recounting this experience because I think it has a definite bearing on some problems that you and we are facing today. It demonstrates to me without question that regardless of conditions, one of the last things the people of this country will give up is personal automobile transportation. This being a fact, I am optimistic about the automobile business.

Since the American people are determined to have personal transportation, they must have wider and safer highways and streets and easier parking. On our highways today, we have congestion which is not only holding back progress but resulting in an unbelievable toll of accidents. City traffic is jammed. Parking is a nightmare. What does this mean? It means that we must build the highways, the bridges the streets and parking facilities to serve the cities. Cities are decentralizing and people are living farther away from their places of work. This means new houses, more water systems and dams to supply the water and generating units for electricity.

Now — to consider the long dreamed-about postwar cars: You know or have heard reports, by

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Bank and Insurance Stocks

By H. E. JOHNSON

This Week — Bank Stocks

At the beginning of last week Secretary Snyder announced that the Treasury in December and January will offer new one-year certificates at the current rate of 1¼%. This is the same rate as established last August when it was raised from 1⅛%.

As there had been several successive increases in the rate on certificates since the middle of 1947 when ⅞% was the going rate and as this was one of the few remaining classical powers available to the monetary authorities for combating inflation, a number of banking and financial officials had considered a further rise in this basic rate a definite possibility.

It now appears, however, that the Treasury and Federal Reserve have decided to postpone further changes in short-term interest rates until such time as the whole credit and economic situation can be reviewed as to possible future trends.

During the past few months several signs have appeared to indicate that the postwar business boom as well as the inflationary forces accompanying it are leveling out. Besides price declines in a number of farm products some weakness has been shown in cotton and wool textiles, lumber, coal, paints, some drugs and certain chemicals. In addition, as the Christmas season approaches, retail trade officials are concerned about the slowing down in sales which has occurred. Whereas, increases of 5% to 10% over 1947 had been expected for the last quarter, a definite sag has developed. While it is too early to judge the results as considerable shopping time remains, present indications point to fewer goods moving at retail.

These observations were confirmed by Federal Reserve Board in the November bulletin where it pointed out there was some basis for the view that inflationary forces are getting weaker. It was against such a background that the Federal Reserve and the Treasury considered changing the rate for the financing operation in December and January and decided to hold the 1¼% rate for the present.

What the Treasury will do in subsequent refunding operations in February, March and April will depend to a great deal upon the course of business over the next few months. Many of the inflationary forces which have been operating within the economic system are still present. Military expenditures and spending for foreign aid programs will increase in the period immediately ahead. Further wage increases are indicated for 1949. Also commercial bank loans continue to fluctuate near their record high level and at the same time certain scarce materials including metal and metal products are still under pressure for higher prices.

Thus, while it is possible that a resurgence of inflationary pressures may again necessitate a rise in the certificate rate, indications are that with the freezing of the current rate at 1¼%, a halt in the firming of short-term interest rates has taken place at least for the present. What does this mean to the banks?

First of all, the possibility of a further increase in reserve requirements would appear remote. With the monetary authorities adopting a somewhat cautious attitude toward the immediate future, further increases in reserves are not believed likely. This in turn means that banks will not be subject to a loss of earning assets because of the necessity of providing additional reserves.

Also, if the inflationary forces are subsiding, agitation by the Federal Reserve for increased powers to regulate and control bank credit may not be pressed so vigorously before the next Congress as heretofore appeared likely.

From the standpoint of earnings the continuance of the current short-term rate structure will have little effect at this time. The rate of earnings from bank operations has been improving with the increase in yields for the past year and is not yet fully adjusted to the higher returns currently available on securities and loans. As loans made at lower rates a year ago are renewed at the higher rates now prevailing and as low yielding securities are replaced with the present higher yielding ones, some further improvement in the rate of earnings should take place.

Investing Bank Funds Under Current Conditions

By R. C. EFFINGER*

Vice-President, Irving Trust Company, New York City

After laying down and discussing rules for establishing sound investment policy that should be followed by commercial banks, Mr. Effinger suggests, as related to current conditions: (1) confine investments now largely to Treasury Bills and Certificates; (2) restrict maturities to what is required or desired to increase or stabilize income; and (3) have no concern because of book losses on U. S. Government securities, if carried at amortized costs. Looks for continuing upward trend of interest rates and no let-up of government bond support.

I like the description of my assigned topic, "Investing Bank Funds Under Current Conditions," because of the qualification, "Under Current Conditions." It provides an opportunity, right at the start, to say that current conditions call for no unusual action under a sound investment policy. If a bank does not have such a policy it should adopt one, bring its investments into line with that policy as rapidly as circumstances permit, and thereafter adhere to it.

R. C. Effinger

For a commercial bank, a sound investment policy involves, in my opinion, largely adhering to the following six rules:

(1) Hold sufficient high-grade, readily marketable, short-term securities to provide funds needed from investments to meet possible declines in deposits and increases in loans and legal reserves.

(2) Hold no securities maturing in more than five years that are not of good quality and that the bank does not believe it can hold to maturity, and desires to hold to maturity for the purpose of stabilizing income; i.e., to serve as a hedge against lower interest rates.

(3) Do not compromise quality in search of income.

(4) When the outlook is for rising interest rates, be slow to extend maturities beyond what is required to produce needed income.

(5) When the outlook is for declining interest rates, act promptly to extend maturities, within the pattern that fits the needs of the bank and the desires of its management.

(6) At all times be in such a position as not to be disturbed by subsequent price movements, either up or down.

The alpha and omega, the beginning and the end, of all rules for soundly investing the funds of a commercial bank are, in my opinion, the first and the sixth rules given. I would like to discuss each of them briefly.

The First Rule

The first rule, which calls for holding sufficient high-grade readily marketable, short-term securities to provide funds needed from investments to meet possible declines in deposits and increases in loans and legal reserves, requires periodic estimates of funds that may be needed for these purposes.

It is difficult to overstate the importance of making these estimates, and of making them as accurately as possible. True, this is likely to prove more time-consuming than any other phase of portfolio management but it will be time well spent. Overestimates tend to penalize earnings through retention of more short-term, lower-yielding securities than are needed for ready availability. Underestimates will eventually lead to embarrassment, and perhaps losses as the result of forced liquidation of longer-term securities under unfavorable market conditions.

Making these estimates is time-consuming because it should be done frequently and many things have to be considered. At a minimum, consideration should be given to the bank's deposit and loan experience over a period of years, and the current outlook for changes in its deposits and loans. Pertinent factors include: the estimated flow of customers' balances and the estimated needs of customers for loans; the movement of deposits and loans of all banks, and banks in the same district as a group; gold and currency movements; Federal Reserve and Treasury policies; and the outlook for business for the country as a whole, and the area concerned in particular.

Bases of Estimates of Needed Funds

Taking as many of these factors into consideration as time, facilities, and experience make practical, estimates should be made at least each quarter of the minimum of deposits and the maximum of loans likely to be witnessed over the next two years on the assumption that the bank will be subject to a decline in its deposits and a rise in its loans. Allowance should be made for wide margins of error since it is always possible that loans may rise and deposits may decline more than anticipated.

The next step is to add the difference between the current amount of deposits and the "deposit minimum," the difference between the current amount of loans and the "loan maximum," and the amount by which it is thought legal reserves may be increased. The total represents the estimated amount of funds that may be needed to meet declines in deposits and increases in loans and legal reserves.

To determine how much may be needed from investments for these purposes, there should then be deducted free cash balances with banks, legal reserves that would be released if deposits declined to the estimated "deposit minimum" and such liquid assets as prime commercial paper, bankers acceptances and brokers call loans, if any. The remainder will equal the amount of investments in high-grade, readily marketable, short-term securities that the bank should hold.

Two Year Maturity Limit

While short-term securities may be defined as those having a maturity date within five years, in my opinion only those maturing within two years are suitable for employing funds that may be needed to meet declines in deposits and increases in loans and legal reserves. Issues maturing in more than two and less than five years should, in the main, be of the character that permits ready convertibility into shorter-term issues, in case holdings of such obligations should prove inadequate for liquidity needs.

The Sixth Rule

The sixth rule, which calls for being in such a position at all times as not to be disturbed by subsequent price movements, either up or down, is a catch-all rule and a check.

It is a catch-all rule because it calls for the doing of all those things which are sound and not specifically covered by the other rules. For example, its observance would operate to avoid the holding of an unduly large amount of any one issue involving a credit risk, or an unduly large amount of such issues in the aggregate.

It is a check because if an experienced management can say, after thoughtful consideration, that the subsequent price movements of its securities, either up or down, would not be disturbing, it is probably the best overall appraisal that investments have been made soundly for that institution. Among other things, it would mean that no unduly large amount was invested in longer-term securities where a decline in prices would prove disturbing, and that sufficient of such securities were held for income, so that a rise in prices would not cause concern because of inability to make further needed investments in such securities at relatively favorable prices.

Carrying U. S. Securities at Amortized Cost

In furtherance of this rule is the suggestion that, if it has not already done so, management reach the unqualified decision to carry United States Government securities at amortized cost.

First, the practice is approved by banking authorities. Second, it deceives no one and fairly represents the dollars that will be received upon the liquidation of these assets if held to maturity. Finally, the income from such securities is reported to stockholders exactly as it is reported to the tax authorities.

This seems to me to indicate clearly the propriety and desirability of carrying United States securities at amortized cost. The investment advantages are that it fosters the kind of unprejudiced investment action, calm judgment and mental equilibrium so essential to sound portfolio management, which could be realized, if, for example, at some time in the future, bonds might have to be written down to market by an unknown amount because of some temporary recession in prices.

Up to this point I have been dealing with questions of policy, applicable to yesterday, today and tomorrow. Now in conclusion I would like to make three suggestions specifically related to current conditions. Please note that they fall squarely within the framework of the rules given. If they did not fall within that framework, the rules given would be inadequate, for they are intended to cover investing under all conditions.

Suggestions Relating to Current Conditions

My three suggestions specifically related to current conditions are as follows:

(1) At this time, new investments for ready availability should be confined largely to Treasury Bills and Certificates of Indebtedness.

(2) At this time, maturities should not be extended beyond what is required and desired to increase or stabilize income.

(3) At this time, and at all times, in a properly run bank, no concern should be felt because of book losses in holdings of United States Government securities if such securities are carried at amortized cost.

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*An address by Mr. Effinger before the Illinois Bankers Conference, Urbana, Ill., Nov. 20, 1948.

Making Known True Values of Stock Exchange

By ROBERT P. BOYLAN*
Chairman of Board of Governors, New York Stock Exchange

After praising work of the Association of Stock Exchange Firms in making known true values of the capital markets, Mr. Boylan sees no threat to private enterprise as result of recent elections. Says expanded private capital markets are required for large scale production and there is no likelihood of nationalization of industry in U. S. Holds securities business is on sound foundation.

I enjoy these annual dinners of the Association of Stock Exchange Firms and attach great importance to them for a number of reasons. Not only do they bring the members of the Stock Exchange community into a closer relationship, but they provide an opportunity for self-appraisal, for the taking of inventory so to speak. They also give us a form in which we have the privilege of hearing from men of importance outside the immediate ranks of the securities business. This is all very worth-while and, in my official capacity as Chairman of the Board of Governors of the Stock Exchange, I have found the contacts, the exchange of thoughts and ideas stimulating and valuable.


Robert P. Boylan

I very much appreciate the opportunity this evening of paying my respects to your retiring President, Homer Vilas, my friend. He has performed magnificiently as a good-will ambassador traveling to the far corners of this country. At great personal sacrifice, he has devoted himself tirelessly to the very important task of cultivating a better understanding among the individuals and firms that comprise the farflung Stock Exchange organization. Homer is a creditable representative of our business. He has been extremely cooperative with me and with the other officials of the Stock Exchange. His sole purpose has been to advance the best interests of the Stock Exchange and of its membership. I take this occasion to express warm and grateful thanks to him.

The Association has found a worthy successor to Homer in Harold Goodbody. I say to him what I said to Homer at the time he assumed his duties as President of this Association, that I will welcome the opportunity, at any time, to sit down with him and discuss mutual problems of our business and I pledge to him the fullest cooperation in the particular field of activity which has been marked out for him with such singular success by his predecessor.

Mr. Goodbody can be particularly useful to the New York Stock Exchange by helping to increase the solidarity of our community throughout the country and by assisting in enlarging the public understanding of the Stock Exchange and of its indispensable place in our economy. He is imbued with the zeal and the spirit of confidence which Homer has demonstrated, and he has a great opportunity to join in making the Stock Exchange better known for the true values which it represents.

True Values

And it is with respect to true values that I wish to speak to you briefly tonight. The history of the New York Stock Exchange runs closely parallel to that of the growth and development of the United States. It has always been and is today and will continue to be an indispensable servant of the free enterprise system as a way of life.

All of us know that the aspirations and the hopes of the world—that which is free and that which is struggling to be free—rest very largely upon the preservation of the American economy in its most vigorous form. America must remain strong if it is to fulfill its destiny in satisfying the deeper yearnings of our own people and in keeping the fires of freedom burning everyhere. The vitality of our economy is such that it has withstood many tests. It has survived many dangerous experiments, many unwise encroachments.

We must realize, however, that our enterprise system can be dislocated and rendered less serviceable to the American people by unwise attempts to make it over. The delicate balance of the system must be understood.

These realities are recognized, not only in Washington, but by the great majority of our people. In my opinion, the men who were elected on November 2 fully understand the attachment of the American people to the enterprise system as a way of life. They are just as eager as anyone in industry, in Wall Street or anywhere else to see the country remain prosperous. It was the presence of prosperity which very largely accounted for the election result.

Full employment at good wages is the key to prosperity. The President knows this. Those elected to Congress know it. They also know what the processes are that provide jobs and opportunities and payrolls.

Private Capital Markets

The private capital markets are an indispensable part of these processes. If the capital that is required for industrial expansion and for maintaining full employment in a rapidly growing country is not provided by private investors, through our market machinery, then the alternative is government financing. That would lead to socialization.

This country does not want socialization. The workers do not want to become employees of the government. The farmers do not want socialization. The group that favors socialization is very small indeed and we saw good evidence of that in the results of the recent election.

Those who may have been intrigued at one time by the idea of nationalization of industry can look across the seas for the object lesson which a Socialist government is providing in England. I cannot believe that any number of responsible people in this country would dare to advocate a similar experiment for the United States.

The preservation of free enterprise was not an issue in the last campaign, although some timid people seem to think that it was. We hear comment by men of little faith to the effect that we are headed toward some form of nationalization of industry. I regard

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*An address by Mr. Boylan at dinner of the Association of Stock Exchange Firms, New York City, Nov. 22, 1948.

Consequences of Heavy National Debt and Expenditures

By RAYMOND RODGERS*
Professor of Banking, New York University

Dr. Rodgers sees ahead: (1) a socially minded government with heavy social welfare expenditures; (2) a huge public debt with staggering interest burden; and (3) enormous military expenditures for armed peace or for war. Predicts continued heavy taxation for future with larger share of national income going to government along with lower profits and more business control. Says life insurance will be needed more than ever before.

It is very difficult to get an American to face reality. If possible, we shut our minds to unpleasant things; if that is impossible, we tend to dismiss them quickly on the ground that they are unimportant, or that they merely are a temporary manifestation which will pass in due time. You insurance men can testify to this national trait. Times beyond number you have seen the mental gymnastics of the average man when you asked him to do a little soul-searching regarding his responsibilities to his family in the light of the grim realities of life and death.


Raymond Rodgers

It is high time that business men overcome this tendency and realistically face the full implications of certain facts in the national economy. These facts will profoundly affect the future political and economic structure of our country. Their impact on the American way of life cannot be overemphasized. On Oct. 11, 1945, I told the Bank Management Conference of the New England Council, "The shooting side of the war is ended. But the economic side of the war is far from ended. No man in this audience will live long enough to see the effects and influences of World War II completely disappear."

Things are not what they used to be. Moreover, history is a one-way road; there is no returning to the "good old days." Children know that Humpty-Dumpty can't be put back on the wall; isn't it about time for grown-ups to know as much?

The most basic and far-reaching change in the American pattern of life is that our national government has become socially minded. Now, please don't miss the point of what I am trying to do by reading political implications into this statement and some of the statements I am going to make. The election is over; moreover, both of the major political parties are in substantial agreement on nearly all of the things I shall discuss.

Expanding Government

Regardless of the political party in power, the national government will continue to aid groups it considers economically underprivileged and those which have powerful lobbies. Labor will continue to be the fair-haired darling of the politicians and bureaucrats. The wings of labor will not be clipped; on the contrary, its economic and political power may even increase.

Public housing and government assisted housing will be expanded to include more of the low rent group.

Social security sooner or later, and in one way or another, will be expanded. I hope that we will not go as far in this field as they

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*An address by Dr. Rodgers before the Life Insurance Agency Management Association, Edgewater Beach Hotel, Chicago, Ill., Nov. 12, 1948.

Mutual Funds

By HENRY HUNT

Twenty Year "Costs" About 1% Per Annum

Mutual Funds are primarily a haven for long-term investment funds and should not be purchased for short-term holding.

Investors who are seeking a life time investment, a security that relieves them of further attention to that portion of their invested capital, should consider the many advantages of Mutual Funds.

For such individuals, investors who buy and hold Mutual Funds 20 years or longer, the combined costs—both acquisition and management—average little more than 1% a year.

For example, take a fund with an expense ratio of 0.62% a year (several funds have lower ratios) and a distribution charge of 7½%. If we amortize the distribution charge over 20 years, the cost is 0.38% a year which added to the 0.62% expense ratio gives us 1% per annum.

Considering the conveniences offered by Mutual Funds and the continuous supervision supplied by their managements, this annual cost is a very modest one—less than the commissions charged for buying and selling the average stock listed on the New York Stock Exchange.

It is only through investment companies that the average investor can obtain so many services at so little cost.

Chemicals Clothing the Nation

"The chemist is well on the way to clothing the nation. Ever since the middle 1920s the amount of synthetic textile fibres going to the consumer has just about doubled every five years.

"This year more than 1,299 million pounds of man made fibres will come from chemical kettles instead of off the backs of sheep or from the cotton fields.

"Most of this huge output, about 1,200 million pounds is rayon. This is twice as much as was made in 1943, more than four times what it was in 1938, and more than 12 times what it was in 1928, considered a boom year.

"This fantastic growth is one of the many reasons behind the steady advance of the chemical industry which makes many of the basic raw materials for rayon. The chemist who used to hide himself behind smelly products that went only to industry is now more and more putting his wares on the shelves of department stores.

"There is no particular reason to think that the end of the upswing of synthetic textiles is in sight.

"The forward march of rayon was made possible because the chemist constantly made it better and made new kinds that opened up new and unexpected markets.

"Rayon used to be weak. Strong rayon has virtually pushed cotton out of the tire cord market to the tune of over 200 million pounds yearly. Rayon staple, which means rayon cut into short fibres like cotton, is grabbing a huge share of the market for cloth for women's 'cotton' and 'wool' dresses.

"Now there are half a dozen new pioneer territories, discovered since the war, that are going to be exploited. These are new 100% synthetic fibres. The chemist does not consider rayon to be a true synthetic fibre because most types are based on wood pulp from trees, not test tubes.

"The first real synthetic fibre is du Pont's Nylon acknowledged to be far superior to rayon, although at present it is more expensive. It has great strength, wears well and is immune to shrinking when laundered. It is made from a number of synthetic chemicals derived from coal, from petroleum and from farm waste, such as corn cobs."—Quoted from **Chemical Fund's** well written new bulletin, "The Test Tube."

Record Sales for Investors Mutual

"The sales of Investors Mutual, Inc. for the election week, Nov. 1 through Nov. 6, set an all time high record. Total sales for that one week amounted to $1,109,150. This was an increase of $131,000 over its previous high week. The market action of that week did not cause increased redemptions. Redemptions for the first two weeks of November totaled only $190,000."

Gift Tax Amendments

"Inflation during the last few years has sent many Christmas presents skyrocketing in price! Trust fund shares, on the other hand, are currently selling at what might be called 'pre-inflation' prices. Since corporate earnings and dividends for 1948 generally are higher than the excellent 1947 year, the choosing of securities as Christmas presents to loved ones would appear to be a sound and attractive choice. There are tax considerations as well—

"The Revenue Act of 1948 has made fundamental changes in the gift taxes for married persons on gifts made after its enactment on April 2, 1948.

"Although there has been no change in gift tax rates, the annual exclusion of $3,000 per year and lifetime exemption of $30,000 for each donor, the burden of gift taxes has been drastically reduced.

"Briefly the gift tax amendments are:

"(1) On annual gifts made from husband to wife, or vice versa, the value of the gift is reduced by one-half ('martial deduction'), subject to the limitation that such deduction cannot exceed the amount of the gift less the applicable annual exclusion.

"The marital deduction does not apply unless the spouses were married to each other at the time of the gift.

"(2) A gift made to a third person by a married person is considered as made one-half by the husband and one-half by the wife, but only if both husband and wife consent to this treatment.

"The consent if made with respect to any gift during the calendar year applies with respect to all gifts made to third parties during the calendar year."—Quoted from "National Notes," issued by **National Securities and Research Corp.**

Outlook for Steel

The current huge demand for steel shows no signs of early abatement despite differences of opinion on the long-term trend of demand, according to an analysis entitled "Steel Famine and the Investor" in the November issue of "Perspective," issued monthly by the **Calvin Bullock** organization. During 1948 the steel industry probably will surpass the wartime peak of finished steel shipments, although not of ingot production, the study stated. The larger shipments in the face of lower ingot output would be attributable to the fact that more finished steel is being converted today from a ton of ingots—but "only because of costly conversion deals which bear witness to the severity of the steel famine," the survey said. Present boom demand is not bolstered in significant degree by shipments under the Marshall Plan, by the defense expenditure program—to be stepped up next year—nor by an inflated level of steel exports.

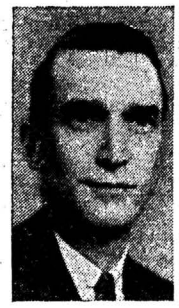
Ingot production during 1949 may be increased as much as 7% "but from now on the interests of the investor will be more closely tied to industry policy with respect to pricing and control of costs than to further gains in output," the review stated. Earnings in the postwar period "have not been impressive either when viewed in absoluete or relative terms" and particularly when allowance is made for the decreased purchasing power of the dollar. Demand conditions today "would support a more aggressive attitude in the industry toward seeking adequate profits" and such conditions are likely to prevail as long as "industry in general can be expected to operate at prosperous levels," the analysis continued. While the steel industry undoubtedly has lost none of its vulnerability to the business cycle, "the fact remains that no one knows how much steel could be sold at the peak of the current business boom if it could be produced."

NSTA Notes

NATIONAL SECURITY TRADERS ASSOCIATION ELECTS

At the annual convention of the National Security Traders Association, held in Dallas, Texas, Nov. 14-17, the following officers were elected for 1949:

Edward H. Welch



Clair S. Hall

H. Frank Burkholder

Morton A. Cayne

Harry L. Arnold

President—Edward H. Welch, Sincere & Co., Chicago.

First Vice-President—Clair S. Hall, Clair S. Hall & Company, Cincinnati.

Second Vice-President — H. Frank Burkholder, Equitable Securities Corporation, Nashville.

Secretary—Morton A. Cayne, Cunningham & Co., Cleveland.

Treasurer—Harry L. Arnold, Paine, Webber, Jackson & Curtis, New York City.

Newly elected to the executive council were Paul Yarrow, Clement, Curtis & Co., Chicago; Joseph Gannon, May & Gannon, Boston; Donald Sloan, Sloan & Wilcox, Portland, Ore., and John Latshaw, Harris, Upham & Co., Kansas City, Mo. Other members of the council are the officers, R. Victor Mosley, Stroud & Co., Inc., the retiring President, and Thomas Graham, Bankers Bond Co., Louisville, Ky.

NEW ORLEANS SECURITY TRADERS ASSOCIATION ENTERTAINS

The New Orleans Security Traders Association was host to the delegates returning from the NSTA Convention on Nov. 18 and 19. Arriving in New Orleans on Thursday, the delegates were met by the officials of the local Association. A cocktail bar had been set up in the station to complete the greeting. A tour of the French Quarter, and the River Harbor were features of the entertainment, the formal program concluding with a cocktail party and buffet supper aboard the liner "Del Norte."

FIELD DAY PRIZES AT NSTA CONVENTION

The winners at the Field Day of the NSTA Convention held at the Dallas Country Club, Monday, Nov. 18 were:

Johnny Cornell, Dallas Rupe & Son, Dallas—Low Gross, Silver Tray.

Russ Ergood, Stroud & Co., Inc., Philadelphia—Second Low Gross, Silver Tray.

Sam Phillips, Samuel K. Phillips & Co., Philadelphia—Low Net, Silver Tray.

Bob Gilbert, First National Bank, Dallas—Tied—Second Low Net, Silver Tray; with

Jack Morris, Courts & Co., Atlanta—Second Low Net, Silver Covered Dish.

Winton Jackson, First Southwest Co., Dallas—Low 9 Holes, Silver Carving Set.

Don Patterson, Boettcher & Co., Denver—High Score on 18 Holes, Silver Candelabra.

George Torrey, Kebbon, McCormick & Co., Chicago—High Score on 9 Holes, Silver Cigarette Box.

R. A. Morton, The Blue List, New York—High Score on One Hole, Silver Tray.

Vic Mosley, Stroud & Co., Inc., Philadelphia—Silver Carving Set.

Freeman Grant, Dolphin & Co., Philadelphia—Silver Dessert Dishes.

Paul Yarrow, Clement, Curtis & Co., Chicago—Silver Covered Dish.

Full coverage of the Convention will be given in the "Financial Chronicle" Dec. 2.

THE SECURITY TRADERS ASSOCIATION OF NEW YORK, INC.

The annual meeting of The Security Traders Association of New York will be held on Friday, Dec. 3, 1948 at the Produce Exchange Luncheon Club at 5 p.m., for the election of officers for 1949, and such other business as shall properly come before the meeting. The polls will open at 4.30 p.m. and will close promptly at 6 p.m. The final slate of candidates for the various offices as submitted by the Nominating Committee is as follows:

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

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

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

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

Treasurer—Wellington Hunter, Hunter & Co.

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

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

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

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

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

As usual there will be a delicious buffet supper with Free Beer and a special lecture has been planned for the evening. Reservations should be made with Arnold J. Wechsler, Ogden, Wechsler & Co., Chairman of Arrangements Committee.

BOND TRADERS CLUB OF SEATTLE

The Bond Traders Club of Seattle will hold its annual Christmas Party on Dec. 10. Admission is $10 and reservations may be made with Ken Easter, Chairman, Dean Witter & Co., 1221 Fourth Avenue, Seattle. Out of town dealers are welcome.

Scheduled for the party are cocktails from 6:00 to 7:15 p.m.; informal dinner starting 7:15 p.m.; and entertainment lasting from 8:15 p.m. until!

FLORIDA SECURITY DEALERS ASSOCIATION

At the annual meeting of the Florida Security Dealers Association, held Nov. 6, the following officers were elected for the ensuing year:

T. Nelson O'Rourke

D. Kirk Gunby

F. Boice Miller

President—T. Nelson O'Rourke, T. Nelson O'Rourke, Inc., Daytona Beach.

Vice-President—D. Kirk Gunby, A. M. Kidder & Co., DeLand.

Secretary-Treasurer — F. Boice Miller, B. J. Van Ingen & Co. Inc., Miami.

Board of Governors—The officers and Norman E. Sterling, Sterling, Courtney & Ewing, Inc., Jacksonville; Clinton T. McCreedy, Atwill & Company, Miami; Thomas S. Pierce, Clyde C. Pierce Corporation, St. Petersburg; Truman Lifsey, Emerson Cook & Co., Palm Beach, Fla.

Savings Banks Coping With Higher Operating Costs

By AUGUST IHLEFELD*

President, Savings Banks Trust Co., New York

In analyzing effect of higher operating costs on savings banks' earnings, Mr. Ihlefeld stresses importance of increasing deposits to hold down operating ratio. Sees rate of savings deposit growth falling off, so control over expenses thus becomes increasingly important. As means of effective control, recommends: (1) greater caution in expanding quarters, opening new branches or otherwise adding to expenses; (2) analyzing operations for greater economy and efficiency; and (3) seeking to have deposit limit of $7,500 raised, so as to lower bank operating ratios.

Mutual savings banks, in common with all other types of enterprise, have seen their operating costs rise. Salaries and prices paid for materials and supplies have gone up, as is inevitable in an era of inflation such as we have experienced in the past few years. This trend, which bears watching and study, is receiving the close attention of savings banks' management. I want to review with you today some of the steps that are being taken and policies proposed to meet the rising cost of doing business.

August Ihlefeld

*An address by Mr. Ihlefeld before the Savings Banks Officers' Forum Group IV, New York City, Nov. 16, 1948.

To a mutual savings bank, the ratio of expenses to deposits is far more significant than the absolute amount of its operating expenses. Therefore, the problem of meeting higher operating costs involves the study not only of the expense account but also of measures intended to expand total deposits, as well as the review of investment policies.

Fortunately, since 1939, the rate of increase in deposits was greater than the rate of increase in expenses. What has happened is clearly shown by the ratio of operating expense to deposits of the mutual savings banks of New York State. In 1939, expenses of the banks in this state were 0.853% of deposits. This ratio had fallen, thanks to the rapid increase in deposits, to 0.689% in 1945. It was 0.753% in 1946 and 0.762% in 1947. Thus, while the ratio of expenses to deposits has been moving up again from the 1945 low point, it is still materially below where it was in 1939, before the great wartime rise in both expenses and deposits began.

Deposits Increase Tapering Off

But the increase in deposits of mutual savings banks has been tapering off recently. This is far from surprising. Not only is the year-to-year gain in national income slowing down, but consumers are once again able to purchase homes, automobiles, household equipment and other durable goods fairly freely. With

(Continued on page 36)

Canadian Securities

By WILLIAM J. McKAY

Lavish attention is now being devoted to Canada's enormous virgin resources in the form of mineral wealth. There is no little doubt that this is justified as the Dominion will increasingly become the world's principal supplier of the non-ferrous and rarer metals. It is also possible that Canadian iron and oil will also eventually constitute a major source of supply for U. S. industry.

This concentration of interest, however, tends to detract from the importance of the Dominion's fundamental resources in the shape of its forests, farmlands, and fisheries. The rapid depletion of the world's timber resources outside Russia is assuming critical proportions. Canada's ability to cope with the growing demand for lumber, woodpulp, newsprint and other forestry products is therefore a matter of universal concern.

Although technological advances in agriculture have largely counteracted the effects of the operation of the Malthusian theories, nevertheless the tremendous recent growth of world population still poses a serious problem of adequate food supply. Despite pessimistic estimates of the extent of the remaining areas suitable for agricultural development, the fertile Peace River district and the rich empty valleys of northern British Columbia still afford wide scope for agricultural development. Moreover, the fertility of the black earth region of the Canadian prairies can be immeasurably increased by greater utilization of the irrigation possibilities afforded by the Dominion's great inland waterways. Contrary to popular belief also the western areas in the far northerly latitudes are capable of bearing crops during the short but hot summer season.

In the fisheries field Canada is undoubtedly in a unique position and could increase to a tremendous degree her production of this valuable food item. It is not generally realized that the Dominion possesses the most extensive and possibly the richest fishing grounds in the world. On the Atlantic coast there is a fishable area of not less than 200,000 square miles available to Canada in the North Atlantic. In addition there are 15,000 square miles of inshore waters along the Atlantic seaboard. The Canadian Pacific coastline extends over 7,000 miles and within the Canadian borders is contained over half the fresh water in the world. These inland waters moreover are abundantly supplied with commercial fish of every description.

Canada's stupendous potentialities for increased food as well as mineral production again gives emphasis to the Dominion's urgent need of a greatly increased population. There is an acute awareness of possible serious shortages of base-metals, iron, and oil, but insufficient attention has been devoted to the grave situation that would arise in the event of a series of failures of the world's harvest. At this particular stage the ability to avoid the effects of famine is a greater weapon in the hands of the Western democracies than the possession of atomic weapons or a wealth of propaganda.

During the week the steady but inactive pattern of the external and internal sections of the bond market was not disturbed. The Canadian stock markets were also dull although the Western oil and base-metal issues still were inclined to forge ahead. The golds following an earlier rally suffered a further relapse on fears of decreased production in view of power shortages as a result of the serious water situation. Further encouraging reports concerning the Leduc and Redwater oil-fields point to continued strength of the Alberta oils. The base-metal prospects also are highly favorable in view of existing shortages and further new Canadian discoveries in this field. Interest in the new zinc-lead discoveries in the Indian Mountain area, north of the Great Slave Lake was heightened by reports of drilling, activity on claims controlled by Hollinger Consolidated, Noranda Mines, and Mining Corporation.

Halsey, Stuart Group Offers Pennsy RR Ctfs.

A group headed by Halsey, Stuart & Co. Inc. won the award Nov. 23 of $7,935,000 Pennsylvania R.R. Equipment Trust, Series V, 2½% equipment trust certificates, due $529,000 annually Nov. 1, 1949-1963, inclusive, and the certificates were immediately re-offered by the group, subject to Interstate Commerce Commission authorization, at prices to yield 1.50% to 2.80%, according to maturity.

The certificates, issued under the Philadelphia Plan, are the first installment of a proposed issue of $15,900,000 trust certificates, Series V. The aggregate principal amount of these certificates will be issued to finance not more than 80% of the total cost, estimated at $19,875,000, of 12 1,500 h.p. Diesel-electric freight locomotive type "A" units; 10 1,500 h.p. Diesel-electric freight locomotive type "B" units; 101 diesel-electric switching locomotives; and 49 all-steel passenger train cars.

Only Major Deflation Will End Inflation

By JAMES R. BANCROFT*
President, American Institute of Finance

Mr. Bancroft, asserting we are now walking a tight rope and are precariously balanced, holds a major deflation must come. Says present business is maintained by extraordinary level of durable goods activity and because of present high break-even points, loss of business profits will be intensified by any serious depression. Points out as basic factor in present situation "thin dribble of risk capital," and concludes great issue is whether nation can continue on road to Socialism or return to economic freedom.

I am going to start exactly as I did a year ago—"We are in a period of major inflation. It just seems to me impossible that any period of major inflation can be corrected merely by individual readjustments. Only major deflation will do it. Therefore, the next broad change from existing conditions will be a major deflation.

James R. Bancroft

"Of course the $64 question is—when? Because its beginnings will be gradual and because of the complex international situation, it is particularly difficult to time the broad change that is inevitably ahead. That fact, however, does not in any degree mean that the eventuality should be minimized—or that reasonable prepations for it cannot and should not be made."

In other words I continue to hold that this "prospertity"— already far advanced for a notably long period and resting on the unstable foundation of widespread inflationary policies—has created so much ill health in our economy that a corrective readjustment of substantial proportion is not only due, but overdue.

I also said that, while demand for capital goods should remain large, the concentrated intensity of demand of 1947 should subside in 1948 and that the inflationary spree of the Fall of 1947 should culminate during the next 12 months into a price and production recession of considerable proportion.

In that I was wrong! If I had confined myself to that area of the economy in which the most marked inflation was then occurring — agriculture — I would have been right. In the early months of 1948 we started on a definite readjustment from the postwar inflation, led by agricultural prices. What terminated it? Obviously, the institution of the rearmament program in the Spring of this year, which called for increased government spending of between $3 billion and $5 billion annually, on top of that already earmarked for European recovery.

In other words, through the development of a program of further government spending before consumer demand for capital goods had been completely satisfied, we have been able to maintain the economy at peak levels.

Walking a Tight Rope

In my opinion, however, it is folly to believe that such a program, under peace, can be continued indefinitely.

We are now walking a tight rope. Any further material expansion for military preparedness will necessitate placing the country on a war footing. Such a development would obviously be unfavorable to business profits. As a matter of fact, it would probably require controls and regimentation to a much greater degree than in 1942 to 1946 and hence could well be inimical to general business operation.

On the other hand, if a further considerable stepping up of so-called war expenditures does not eventuate—and personally I doubt if it will—in my opinion continuation of present expenditures for relief and rearmament will be more than offset in 1949 by a decline in total business and consumer expenditures for capital goods. If correct, the effects will, of course, be to depress production, prices and earnings.

As I see the situation then, three years after the end of the war and under the inflation that has subsequently taken place, at the 1948 year-end, we are precariously balanced. Further intensification of demand, which can only come from government expenditures, will drive us on to a war footing which can be anything but favorable to general business. If we are not driven in that direction, then the normal readjustment from a postwar inflation, already deferred for obvious reasons, should set in 1949.

Inflation requires a constant injection of the same stuff in order to keep going. When new inflationary elements stop coming into the picture, even though old inflationary elements have not been removed, a slump is imminent.

Deflation Must Come

Moreover it should be remembered that a period of inflation can only be cured and followed by a period of deflation—all history verifies that conclusion—that the longer the corrective readjustment is delayed, the more severe it is likely to be. That is the really important consideration. It would have been much better if the readjustment had begun this year. The earlier it develops now the less prolonged and less severe will be the ensuing hardship.

That we can avoid it entirely, that by some magic of government we can establish the current blown up situation as normal, just seems to me impossible.

Again you may ask, as I said a year ago, what can and should a business man do? I repeat, there are many things that we can do and should do to aid not only the general situation but ourselves as well. Inventories should be kept as low as possible, plant expansion, except when it can result in a quick increase in output, should be postponed. Credit should be extended only on a conservative basis. Further wage increases should be resisted and every effort made to lower prices. Saving, rather than spending, should be the keynote of our activities.

I cannot see that such suggestions made a year ago would have been at all costly. Even with business sustained at peak levels I repeat them now. Such attitudes and such procedures should not only be valuable to the economy as a whole but will in my opinion, in the long run save us considerable individual losses.

Extraordinary Level of Durable Goods Activity

I do not believe the extraordinary level which durable goods activity in this country has reached is fully appreciated. According to the Department of Commerce in 1947 total business equipment expenditures, plus construction, plus consumers' expenditures in durable goods amounted to about $50 billion against $15 billion in 1939. That rate has been further increased in 1948. It should be around 15% greater, in other words close to four times the 1939 level.

Now with that figure in the back of our heads, let us consider briefly some of the implications of the recent election. Let us bear in mind that the full consequences of the election will make themselves felt only gradually. As a matter of fact it is possible that over the next few months anticipation of controls, of increased taxation and higher labor costs might lead to some further stocking up on the part of business.

However, it is in this capital goods field that the long range plans of industry and individuals are reflected. Gradually, not immediately, the uncertainties and changed views of the long-term future, engendered by increasing government interference in business operation of one kind or another, will reduce the present extraordinarily high level of capital goods expenditures.

Capital outlays are the most important business cycle element. Changes in demand in that field can come more quickly and dynamically than in any other. Reduction in activity in this segment of the economy, therefore, now operating at close to four times its 1939 basis, would be marked in its general business effects.

What about the prospects that increased expenditures for rearmament or foreign relief would take up the slack of reduction in private capital outlays? Unfortunately I cannot answer that question categorically. Only Russia can do that.

In that regard, however, this thought should be injected. It is not necessarily a one-way street. There is no certainty that the foreign situation will be such as to call for substantially increased armament expenditures. The situation might well develop in an opposite direction. While we cannot reach a definite conclusion, that possibility is not to be thrown aside.

What one can and should say is that, on top of a logical cyclical peak for capital expenditures in 1948, has now been imposed the prospect that increasing domestic uncertainties will before 1949 has run its course bring about a sharper than normal cyclical contraction unless we have once again a considerable increase in armament expenditures, which, in its implications, would be far from favorable.

The Thin Dribble of Risk Capital

There is a basic factor in the present situation that is highly disturbing from a long range standpoint. That is the thin dribble of risk capital that has been available in this period of unusually high business activity. As a result, corporations in general have been contracting altogether too much debt and using up their liquid resources developed during the war period altogether too fast.

While it might be going too far to say that our long range standard of living depends solely on the productive capital we possess,

(Continued on page 37)

*An address by Mr. Bancroft before the Executives Club of the Boston Chamber of Commerce, Boston, Mass. Nov. 18, 1948.

Airlines Are Reaching Profit Basis

By RALPH S. DAMON*
President of American Air Lines

Asserting financial difficulties of airlines were caused by economic conditions that had reduced travel volume, leading airline executive points to recent success in cutting costs and increasing efficiency as ground for confidence industry will continue sound and become profitable. Says, barring depression, airlines will continue to get greater proportion of travel, and air freight service will continue to grow, so that, as a whole, airline industry will get out of red in near future.

If you are wondering what's happened in air transportation—and I assume you are or you wouldn't be here—you are asking the same questions that we in the business continually ask ourselves and one another. I don't pretend to know all the answers to your questions. Nobody does. But we have made intensive studies of the determinable factors that influence air transportation, in a day-in day-out effort to analyze our business. And I think that from the vast assortment of facts and figures we can arrive at a pretty good picture of what is wrong with the industry.

Ralph S. Damon

And let's not forget that there is another picture, too. And that is the picture of what is right with the airlines. We can see many improvements in our dependability of operation, in our equipment, and in the advance of techniques and management efficiency. I shall deal with these matters as well as with those others, so that we can get a rounded picture of the air transport industry today.

Three years ago our planes were full and the problem we were most concerned with was finding enough aircraft to take care of the demand for seats. The industry ordered many new planes. By 1948 many orders for fleets of aircraft had been cancelled.

In 1945 we pictured an increase of traffic that would permit us to lower fares and require less pay from the government for carrying the mail. Instead we have seen fares go up 33⅓%—from an average of 4½ cents per mile to about 6 cents per mile. Mail pay has had to be adjusted upward. Indeed retroactive payments from the government have saved some airlines from imminent bankrupty. The volume of air travel increased only slightly in 1947 over 1946, and this year it will show a reduction.

If anybody had disturbed our optimistic picture of the future three years ago by telling us we were about to enter a cold war, we'd have considered him crazy. If some prophet had predicted that three of the four postwar transport plane types would be withdrawn from service for periods up to four months because of accidents, it would have been ridiculous. Yet, now, three years later, we are sadly enlightened by experience. These things have happened. Plus inflation. Plus a dollar shortage abroad. And they have had their effect in blunting the sharp edge of optimism with which we viewed our future three years ago.

Hacking Away at Costs

To cope with changing conditions management has had to hack away at costs, cutting them in every direction as much as possible and simultaneously building up efficiency to keep the airlines operating with maximum effectiveness and minimum cost. The most telling index of our success in this respect is in the breakeven load factor—that percentage of space available in our aircraft that must be occupied to pay expenses. It has gone down and the trend is still downward. In American Airlines, the breakeven load factor remained in the mid-fifties through 1943. But after that, due to higher costs, the breakeven load factor zoomed. It was 60% in 1944, 70% in 1945 and a heart-breaking 82% in 1946. As a result of a concentrated economy drive and other factors, we knocked that figure down to the low 60's by July of last year.

Then came our voluntary withdrawal of the DC-6s in November. Their loss was almost a crippling blow. Our breakeven load factor went as high as 93% in December. But by March the DC-6s were coming back into service. In June we started the first passenger schedules with out twin-engine Convairs. Traffic picked up. Month by month the breakeven load factor came down. In September it stood at 55.4% lower than the average for the good year of 1940.

As I told you last year, four-engine airplanes have been the salvation of the industry. In the case of American and a few other airlines, postwar twin-engine planes have had the same effect. That is, the new aircraft gave us greater capacity than the DC-3s without a relatively greater increase in operating expense. The DC-4s that we started to operate in 1946 enabled us to recoup some of the losses we sustained on the DC-3s. But now that we have our entire order of 50 DC-6s and half our order of 75 Convairs, we not only look forward to a complete 300-mile-an-hour fleet by early 1949 but we have a fleet on which it is possible to make money — if we can maintain loads above the breakeven load factor. And that figure will—I sincerely hope—be in the low 50's by next July. These factors help to explain why we have shown profits in the second and third quarters of this year on top of a heavy loss during the first-quarter, when the DC-6s were not available to us.

Outlays for New Equipment

The airlines have been criticized from some quarters for expending large capital outlays for new equipment. Here is an example of why we considered it wise to purchase a postwar fleet: while the seat mile cost of operating DC-3s had risen to 5.5¢ in the period June-August, the seat mile operating cost of DC-6s was 2.8¢, and of Convairs 3.7¢. The DC-4 figure was up to 5.2¢, which reflects the increased cost of operating long-range planes on short flights. In truth the purchase of DC-4s to supplement the DC-3 fleet, and the subsequent replacement of the entire passenger fleet with postwar planes, is likely to be our salvation.

Air Cargo

What about air cargo? We celebrated the fourth anniversary of commercial all-cargo service last month, and almost at the same time made the announcement that Airfreight had hit another new

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*An address by Mr. Damon at the meeting of Society of Security Analysts, New York City, Nov. 22, 1948.

We Need a Setback to Wake Us Up!

By A. W. ZELOMEK*
Economist, International Statistical Bureau, Inc., and Fairchild Publications

Contending no real economic progress has been made since war and high business level has been maintained by inflation, Mr. Zelomek points out condition cannot be remedied by piecemeal adjustment but a severe shock might do it. Sees need of increasing industrial efficiency and looks for reduced capital expenditures in coming year. Sees sign of returning buyers' market in lower used car prices.

It is a pleasure to be here. There certainly is enough to talk about. Things have been happening during the last two or three weeks, a little more rapidly than I like to see them happen. Naturally, since the elections, we have been on the outlook for any surprising developments. And we are beginning to see some.

A. W. Zelomek

Your Chairman suggested a number of points, all of them important and all of them interesting. I feel personally that our economy has reached a rather critical point and I want to talk about that in some detail.

But first, I merely want to state that there has apparently been a marked drop in new orders in many of the basic metal-processing industries, which has become extreme within the last two or three weeks. In many cases, these companies are cutting out overtime and laying off a part of their work force.

Gentlemen, such a development betrays a growing weakness in what has been the strongest segment of our economy. If it spreads, and if it gains a little momentum, we will find ourselves in the midst of our first postwar business readjustment.

That is a bald statement of what I regard as the most significant recent development. Now, let me fill in some of the background and the details.

Personal Viewpoint

Each of us, I expect, has some personal belief that influences his thinking. It is only fair for me to tell you right now that I personally believe we need some sort of a setback to wake us up. I see a big difference between real economic progress and price inflation.

What we have had since the war ended is a great deal of inflation and very little real progress.

Labor has received wage increases, not because it produced more, but because the cost of living was going up.

Manufacturers received bigger profits, not because they were producing more efficiently, but because demand held up.

This is inflation pure and simple. It is not economic progress and it has not created a sound foundation. Prices have gone up, but living standards have gone down. It is a one-way street that has to end sometime and the sooner it ends the better.

Now comes the important question. Can we have a piecemeal readjustment from a condition of inflation to a condition of real progress? Many observers believe that one industry at a time will go through its readjustment; that no single one of these little readjustments will cause much shock to the economy as a whole; that we will wake up some fine day to find ourselves stabilized at a sound level of production and prices without having experienced any rude shock.

I hope very much that it works out this way. Maybe it will. But I don't believe it is safe for the businessman to bet on it.

I see situations every day that worry me. My retail friends, in discussing a certain item, will say they simply cannot maintain unit volume at current prices. My manufacturing friends point to the same item and tell me that present costs simply will not let them produce at a lower price.

Mind you, I am not referring now to such items as automobiles, where the demand still exceeds the supply. I am referring to such items as textiles and apparel, where there have already been excesses and where there has been a considerable degree of so-called readjustments.

The point that I am making is that this readjustment has not yet been completed because it has not created a condition where buyers will come in and cover with confidence in the price structure and in the future outlook for unit volume. Until this happens, not a one of these piecemeal readjustments can be regarded as being complete.

Efficiency Must Go Up

Where does the answer lie?

In my opinion we will not be on safe ground until output per manhour begins to go up. Until that time any advance in wages and salaries will either be offset by price increases, which is not favorable to unit volume; or by reduced profit margins, which is positively unfavorable to employment.

Unfortunately, human nature being what it is, I don't believe output per manhour will start up vigorously until labor has to put out to hold its job and management has to work hard to make its profit.

I don't know whether you fully realize what this one little factor — output per manhour — could mean to you as buyers and sellers during the next two or three years. Here is what would happen if general efficiency would show the same increase as it did between 1919 and 1922:

Without any change in wage rates, and with no decline in raw materials, prices of finished products could decline by 10% to 15%, *without any reduction in profits.*

Or in terms of workloads, today's work force—which is working a 40-hour week—would only need a 30-hour week to turn out today's production.

Let us say again—*I do not believe in the piecemeal readjustment school of thought.* It is too good to be true.

I do not expect a price deflation like we had in 1920-21. And I do not expect a great depression like we had in 1929-33. But I do believe we will have to have some mild but universal jolt that will bring us all to our economic senses. I hope it doesn't hurt any of us very much, but I hope it hurts us enough to stimulate us, so that we will break out of the vicious circle we are caught up in now.

Inflation vs. Deflation

While I do not expect any sort of a collapse in general business or prices, I also do not believe that the dangers of further price inflation are very great. In fact, I think the inflation, if not completely over, is just about finished.

Le me make it clear that I am talking purely and simply about commodity price inflation. I do not mean to imply that some items may not show further price advances. I merely want to point out the difference between the earlier postwar periods, when practically everything was advancing simply because the supply of money was great, and the present time, when purchasing agents in all industries are being exceedingly cautious and selective.

When the war ended, and for some time afterward, there was a big supply of money and a small supply of commodities. Nothing on earth could have prevented prices from going up.

Now there is still a big supply of money, but there is also, with very few exceptions a big supply of commodities. No longer does the individual buyer have to go out and bid actively just to secure

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*An address by Mr. Zelomek at 15th Annual Convention of Automobile Dealers Association of West Virginia, White Sulphur Springs, Nov. 23, 1948.

Securities Salesman's Corner

By JOHN DUTTON

Last week I had a visit from an old friend who has been successfully selling securities for many years. I asked him how he was doing. "Not bad," said he, "Not bad at all." "Now that the excitement of the past few weeks has begun to die down we can get back to work." Then he went on to give me his idea of the opportunity that exists RIGHT NOW for any salesman who goes out and tries to HELP PEOPLE.

"There never has been a time when people were more befuddled," he said. "Almost everybody has securities that have shrunk in value. The outlook for certain industries has changed. The political outlook is confused. Everybody is on the sidelines because they HAVE PROBLEMS WHICH THEY DO NOT FEEL THAT THEY CAN SOLVE. They may not know this but they would really welcome someone who would come to them with an honest offer of service and of assistance in putting their investment portfolio in good shape."

He went on, "I'd even make a bet that any salesman who knew his business could take one or two days a week and canvas the office buildings in this neighborhood and he would be surprised at the business he could do if he offered SERVICE. I don't mean pick out the big offices, but just go into the smaller ones, introduce himself and ask if his prospect had any investment problems, any securities about which he was concerned; whether he would like to have a complete and unbiased statistical review of those securities, or if he might wish to make some sales, or possible changes and reinvestments, if such were advisable. He should not use any high pressure —in fact he wouldn't have to do so. It would be my guess that if he followed up these calls by an occasional telephone call—also put those likely prospects on his firm's mailing list, and used ordinary common sense in rendering service and developing these accounts, that it wouldn't be long before he would have more business than he could imagine was available."

I don't know if his idea would work but I have a hunch that he was right about his approach at any rate. Cold canvass is the hard way to develop business. Yet, in a congested district such as exists in a large metropolitan center where a man could work offices, the law of averages might make it possible for him to be successful in this type of campaign.

But the main point I like that he made, was the fact he stressed the SERVICE APPROACH. Instead of looking upon today's unsettled political and economic uncertainties as deterrents to his efforts he considers them an opportunity. Because TIMES ARE UNSETTLED AND INVESTORS ARE UNCERTAIN he has a better chance than ever to find them receptive to his suggestions of SERVICE. Instead of going out and trying to sell a specific security he is going out and saying, "What are YOUR problems, maybe we can help you solve them. We have helped others, we are doing this sort of thing day in and day out. If you have some securities that you would like to check up on, or about which you are concerned, let us start there. Let us try and improve the situation."

One thing our friend did tell us when I asked him if he had tried the office building routine. He said that he had not but that he had made quite a number of calls upon new people who had answered some of his firm's advertising during the past two weeks and that in practically every instance they were most receptive. He used the "what can we do to help you?" approach; he obtained many lists of holdings for analysis and he is confident that 1949 is going to be one of his best years. This is a true story about a man who has been selling securities for almost 25 years and he has made a good living doing it. I think he has the right idea, don't you?

P. S.—He also told us of his approach when obtaining lists of holdings for anlysis, which we will pass on to you next week. It is an excellent method of presenting a sound investment plan to an investor.

Exchanges Considering Merger

Philadelphia and Baltimore Stock Exchanges have been studying details of a fusion, and substantial area of agreement is reported to have been reached.

According to a joint announcement of William K. Barclay, Jr., President of the Philadelphia Stock Exchange, and J. Dorsey Brown, President of the Baltimore Stock Exchange, "a substantial area of agreement has been reached" regarding a proposed merger of the two organizations.

Studies have been going on for the past few months and are being continued by committees of both exchanges, the announcement said. Full details of operation and fusion of the two have not yet been worked out.

The Philadelphia Stock Exchange, with 200 members, has 75 issues fully listed and 381 unlisted securities in which trading is conducted.

The Baltimore Stock Exchange has only 35 members, and 41 listed issues, as well as a considerable number of unlisted issues. Many of the latter are also traded in on the Philadelphia Exchange.

What's Ahead in Television?

By JAMES D. SHOUSE*

President and Chairman of the Board, Crosley Broadcasting Corp.

Reviewing recent rapid growth of television, prominent broadcasting executive predicts it will continue to expand on a geometric scale and within five years will serve from 20 to 30 million families and may absorb radio as field of entertainment and instruction. Sees television having repercussions on social, economic and educational life more profound than automobile, and urges fresh evaluation of its regulation and control. Says television will aid democracy.

What's ahead in television? That I submit and fully realize is quite a title for a talk. It covers a lot of ground, and please believe me when I say that I do not consider my forecast to be authoritative in any sense of the word. At the present stage of the art, in its present stage of development, I doubt seriously whether any living person dare assert that his views on "what's ahead in television" could represent more than a series of purely personal opinions and personal objectives.

James D. Shouse

I am afraid there are no good prophets in this field. However, I understand that one of your members who published a small paper down in Virginia decided to put out an almanac as a side venture because he had been tremendously impressed with the great ability and countywide reputation of an old colored gentleman in this field.

This old man was known all over the county for his weather prophecies. They met night after night with a calendar in front of them and, beginning with Jan. 1, he forecast the weather each day for the following year. His prophecies seemed reasonable until they got to Aug. 26, at which time, after grave and solemn deliberation, the old man said "sleet and snow." Your man objected strenuously to such an obviously impossible forecast, but the old gentleman stuck to his guns and finally, under pressure, justified his position by saying, "I know it probably won't snow or sleet in Virginia on Aug. 26, but you will have to admit that if by any chance it does, I will be the damnest prophet this country ever heard of."

I might say, additionally, that my comments are not based upon the analysis of any carefully stratified samples nor upon the deductions from any of the public opinion poll organizations. They are my own, and if by chance what I do tell you comes true, I hope to arrange a good partnership setup with the old colored man from Virginia.

We have got to think of television today in entirely different terms, as far as its growth pattern is concerned, from the early days of sound broadcasting. Sound broadcasting grew, in the early twenties and down to Secretary of Commerce Hoover's conference in 1928, with practically no regulation whatever by the Federal government. As a result there were no standards set up to protect the early broadcasters as far as types of transmission and types of receivers were concerned. Sound broadcasting, until the Hoover conference, was chaotic in both the fields of transmission and of receiving sets.

There is no corollary, then, in the early growth patterns of the second media. The mistakes and the chaos that characterized early sound broadcasting served as warnings, and the Federal Communications Commission has taken almost every conceivable precautionary measure to protect the public from buying or being sold expensive receiving equipment that might become quickly obsolete.

Equally, the Commission has made every attempt to protect the investors in television stations to the same extent — namely, that the standards for black and white television will remain as they were set several years ago. The terrific capital expenditure involved in the erection and operation of a television station will additionally not be subject to technical obsolescence through minor improvements or changes within a reasonable period of time. So the television we have today, both from the standpoint of receivers and from the standpoint of the picture being transmitted, is substantially the same television that we will have five years from now.

I do not want to bore you, and I promise not to do so unduly, with a lot of statistics. There is, however, a certain statistical background which I feel you must have, because in order to understand what the future may hold it is necessary to know the basis upon which that future must be projected.

Extent of Television

There are today 42 television stations on the air with regular programs, in 22 cities. There are today in the hands of the public in the area served by these 42 stations 873,000 receivers which represent an investment on the part of the public of $392,850,000. In addition to the 42 stations presently operating, there are outstanding 82 construction permits. These stations are in various stages of completion and, in addition to these, there are 309 applications for stations presently before the Commission.

This past Monday, Mr. Max Balcum of the Sylvania Tube Company, the incumbent President of the Radio Manufacturers' Association, predicted before the Boston Town Meeting that next year's receiver output will be two million sets as against approximately eight hundred thousand for this year of 1948, and it is feared that this increase will not be nearly in proportion to the demand which is pyramiding to a degree practically without precedent in the history of American industry. The public will spend for these two million sets, $900,000,000.

If there is interest on the part of business, broadcasters, newspapers, movies and the public now in television, and believe me there is, what we now have is the very dimmest possible picture of the impact which television will have on our whole business economy, on those of us presently engaged in broadcasting, on you as newspaper people, on the motion picture field, on our way of life as a people.

Geometrical Progression

I have heard, and I think it is a very apt statement although I cannot vouch for its authenticity as I am not a mathematician, that television must be thought of as growing in a geometric as distinguished from an arithmetic grade of progression.

For example, my company operates presently a television station in Cincinnati, which, for the time being, is a one-station market. It has taken us a quarter of a million dollars in operating expense and a year's time to get receiver sales up to about 10 thousand in our market. But experience in other cities has demonstrated that as soon as the second station goes on the air, we can expect that receiver sales and interest in television will not double but will quadruple. That, I think, has been the experience here in Chicago and I have no doubt that the pattern may be expected generally throughout the country.

I think there is a good psychological reason for this. The American people have been accustomed throughout the history of our country to exercising their fundamental prerogative of making a free choice. They inherently resent the inability to exercise this prerogative. They will not become really enthusiastic in any city about television until this choice is provided them.

I sometimes think that being the kind of people we are, we would much prefer the choice of two bad television program services than one good one. Perhaps this is simply another manifestation of the degree to which our people are imbued with the basic concepts of free enterprise.

Television is not a new way of doing something which has been done before, and unless we recognize that television involves an additional increment which has never existed before—the picture and sound of an event simultaneously with its occurrence—you as newspaper people and I as a broadcaster and a great many other people may be lulled into a false sense of security.

I have read many articles and I have read many statements that say in substance that nothing we now have will be affected.

I think that is untrue.

Repercussion More Profound Than That of Autos

I think that television is going to affect in one way or another practically everything we now have. Its repercussions within three or four or five years will have a more profound effect upon the social, economic and educational life of the United States than the automobile did within the first 20 years of its arrival upon the national scene as a completed instrument of transportation.

Radio broadcasting did not put the newspapers out of business nor did they put the moving picture companies out of business—but after the automobile had been here 20 years there were very few livery stables.

The television impact on the distribution of goods and services may well revolutionize our entire distribution system—and the distribution of goods and services is the biggest business of the country today. Many leading economists hold that a great many of the stresses and strains to be found in our present capitalistic system grow out of maladjustments in the costs of distribution, inequities in rewards to the real producers of goods, and overly high costs to the real consumers. We may find in television a means almost at hand, certainly within the foreseeable future, of

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*An address by Mr. Shouse at 10th Annual Fall Meeting of National Editorial Association, Chicago, Ill., Nov. 21, 1948.

British Export and Import Prices

By PAUL EINZIG

Ascribing British trade deficit largely to fact import prices have risen more than export prices, Dr. Einzig points out difficulty is not likely to be remedied, due to continued higher costs of raw materials and foodstuffs Britain is required to import. Does not look for higher prices of manufactured products exported.

LONDON, ENG.—Although the gap between British exports and imports has become materially reduced during the last few months it is still abnormally wide. While some experts advocate an accentuation of the export drive and/or a further curtailment of imports as a means for closing the gap, there are others who believe that in due course the gap will contract without any deliberate effort to that end, as a result of the disappearance of the present disproportion between the prices of British exports and imports. Beyond doubt the trade deficit is largely due to the fact that since 1939 the prices of the latter have risen much more than those of the former. In other words, the general level of raw material prices has risen more than the general level of manufacture prices.

Dr. Paul Einzig

There is a widespread belief that sooner or later this will correct itself, and that the terms of trade will return to their prewar level. This belief is based on the general conception that a return to normal conditions means a return to prewar conditions. Yet it is by no means wise to assume that the prewar ratio between raw material and manufacture prices was normal. Indeed it was grossly distorted as a result of the heavy fall in raw material prices during the early '30s. It was thanks to that fall that Britain was able to eliminate her trade deficit after 1931, and was even able to accumulate by 1939 the largest gold reserve she ever held. Wishful thinkers are now inclined to expect a repetition of history. They hope that as a result of a change in the ratio between raw material and manufacture prices to the advantage of the latter the need for further exertions and austerity in the interest of closing the gap will become obviated.

It is of course very difficult to foresee the trend of price levels and of the various groups of prices that compose the general level. But on the basis of the known factors it seems unlikely that the experience of the early '30s would repeat itself. Indeed the chances are that the ratio between raw material and manufacture prices will change, if anything, further to the advantage of the former.

It is true, there are several factors pointing toward the probability of a fall in raw material prices. The supply position has improved materially, and, in the absence of major disturbances, is likely to improve further. On the other hand, the demand has also risen, and is likely to rise further. American stockpiling purchases (the example of which is likely to be followed by other governments) will go a long way toward relieving the world market of surpluses which would otherwise depress prices. In any case, owing to the more equal distribution of incomes normal consumers' demand is likely to remain higher than before the war. There is no likelihood, therefore, of a recurrence of the overproduction crisis of the '30s, and raw material prices are likely to remain reasonably steady.

When we examine the position regarding manufacture prices the outlook is less clear. With the progress of recovery in Western Europe manufacture supplies have increased, and in the absence of large-scale industrial unrest they are likely to rise further. In addition a number of formerly agricultural countries have become industrialized since the war, and the scarcity of supplies of imported manufactures, together with the high prices, has helped the new industries to consolidate themselves. Technical progress and more efficient organization will also go some way towards maintaining the increase of supplies. Above all, the disappearance of unemployment on prewar scale tends to secure a high output.

On the demand side, the more equal distribution of incomes helps, but not to the same extent as in the case of foodstuffs. During the immediate post-war period inflated war-time purchasing power, together with the decline of commercial and household supplies of manufactures resulted in a heavy demand. A large proportion of this abnormal demand has now been satisfied, and most of the large pent-up purchasing power (as distinct from current earnings) has been used up. The increased current purchasing power is more likely to be used for primary necessities, mainly foodstuffs. It seems, therefore, probable that a further increase in supplies will be accompanied by a decline of prices. There are of course several unknown factors in the situation. Rearmament on a really large scale would tend to reduce civilian supplies of manufactures. Widespread industrial troubles would tend to produce the same effect. On the basis of the known factors it seems probable, however, that we shall not witness a return to the prewar ratio between the prices of manufactures and of raw materials.

This means that Britain will have to work out her salvation by continuing her export drive and keeping down her imports to the utmost limits of possibility. In face of the development of a buyers' market an increase of exports will be very difficult, and further economies in imports would mean a decline in the standard of living. The only solution is an increase of the industrial output, which might enable Britain to increase her exports and reduce her imports. It is in this direction that the government is now concentrating its efforts. The trades unions are sought to be persuaded to abandon their restrictive regulations which were adopted at the time of large-scale unemployment, and which have become quite superfluous during a period of full employment. Should this, together with the effort to increase industrial efficiency in cooperation with the United States industrial experts, succeed, Britain might be able to balance her trade even in the absence of a readjustment of her terms of trade to pre-war level.

Claybaugh Branch in New Haven

NEW HAVEN, CONN.—Blair F. Claybaugh & Co. have opened a branch office at 265 Church Street under the management of Chancey W. Hulse.

Germany Today

By HON. WILLIAM H. DRAPER, JR.*

Under Secretary of the Army

Mr. Draper, in discussing problems relating to Germany's economic and political reconstruction, recounts his experiences in that devastated country in service of War Department. Describes extent of war destruction in Germany and Allied attempts at rehabilitation. Tells story of Russian opposition to Allied policies for Germany's recovery and the operation of Berlin Air Lift. Says Western Germany is recovering and this gives hope for better conditions in Western Europe.

After these many years away from the banking business, I am much honored to be here today as the guest of the Bond Club, and very happy to see so many of my old friends again. My last contact with the investment fraternity was in May, 1940, at the Investment Bankers Convention at White Sulphur Springs. The Second World War was on in Europe. The first few months of the so-called "phoney war" had given way to full-scale German aggression, in total disregard of treaties, and without even the formality of declarations of war. Norway had fallen in April. All-out invasion of Holland, Belgium, Luxemburg and France was taking place before our very eyes. Western Europe was crumbling under Hitler's heel, and America was darkly pondering whether it might soon become involved.

Wm. H. Draper, Jr

A few days later I was ordered to Washington to serve as a Reserve Officer with the General Staff for six months. The six months have now stretched to eight and a half years. My assignments have been interesting and varied, and have given me the greatest respect and admiration for our regular Army and its leadership. I served first with General Hershey in developing Selective Service which made possible the building up of our peacetime army of little more than a hundred thousand men to a well trained and powerful eight million man army — one of the miracles of our American democracy. For two years I was privileged to command an Infantry Regiment in the 33rd Division, a National Guard Division from Illinois. Then, in the Army Service Forces under General Somervell, I struggled with problems of contract termination, and contract settlement. Even in the midst of war, more than a billion dollars of procurement contracts a month were being terminated as rapid improvements were made in equipment and weapons under the stress of global war. But the most absorbing and challenging years of my entire life were spent in Germany dealing with an economy devastated and destroyed by war to a decree unparalleled in modern history

In the winter of 1944 the "Battle of the Bulge" broke loose. Hitler's army made one last desperate thrust to stave off defeat. Our air strength was blinded and grounded by fog and the German panzer divisions split our front and threatened our line of communications. But finally the blow was stopped. The last German reserves had been used up, and victory was in sight.

The impending surrender would soon replace the problems of war with the problems of peace. We would have to occupy and rule the defeated Germany, destroy her remaining military might, and sooner or later would have to build a new and democratic nation from the shattered remains of Nazi Germany. Not the least of the difficulties that lay ahead involved our dealings with our wartime Allies—the British, who had held the line alone for a year after Dunkirk and who had so lavishly poured out their manpower and their treasure — the French, who had been crushed and defeated and occupied, and only just liberated from German bondage—and the Russians, who had fought desperately at the gates of Leningrad and Moscow, under the very doom of defeat, only to turn the tide of battle and to struggle back a thousand miles over a far-flung front to capture Berlin itself. These were our Allies — Anglo-Saxons, Latins and Slavs—with whom we must finish off the enemy and then concert the peace.

General Lucius D. Clay was picked to head American Military Government. He had directed the industrial mobilization that had produced the greatest aggregation of weapons of war ever conceived. Later, with Justice Byrnes, in the Office of War Mobilization, he had guided the wartime economy of America. He was picked to take over for the United States the government of Germany, with its shattered cities, its broken-down political and economic structure, and with its hopeless and defeated millions.

History will record the wisdom of those who made the choice. I believe I speak for all of the many thousands — soldiers and civilians alike—who have served under General Clay, and for those many other Americans who have seen Berlin and its problems during the past three years, when I say that America can take great pride in the leadership, the foresight, the patience and the statesmanship displayed by our Military Governor in Germany.

War's Destruction in Germany

To understand our problem in Germany today one must picture the unparalleled destruction and distress that Hitler's attempt to dominate the world had brought upon his country. I was in Rheims in May, 1945, when the unconditional surrender was signed there in the little red schoolhouse that was General Eisenhower's Headquarters. Within a few days the many millions in Hitler's armies were prisoners of war. Germany's cities were almost completely destroyed, and their populations huddled miserably in the ruins. The great railway and passenger bridges had all been bombed or mined, and rail, river and truck transportation was at a standstill. Only military traffic moved. Millions of refugees on foot—foreign slave labor leaving and German expellees returning — clogged every road. All government was gone—local, state and national. Industry had either been bombed out of existence or had shut down for lack of raw materials. Even the mining of coal had practically ceased. On the farms only women and childern and old men could gather the crops, and there was no transport to move them. Mass starvation seemed imminent. The population itself was numb with despair and defeat. But the crisis passed. The will to survive won out. The crops were harvested. The Allied armies and their truck trains helped to move them. Six hundred thousand tons of wheat had been stored behind the lines as a battle reserve to prevent civilian starvation and disorder, and helped to save the day.

So in July, 1945, we and the British took over our sectors of Berlin and under our responsibilities as occupying powers began to feed the population. The Allied Control Council was formed with high hopes that real peace soon would follow. The four allies—Great Britain, Russia, France and the United States — would soon demobilize the German war machine, settle the reparations to be paid, purge the Nazis from places of power in government and industry, reconstruct a democratic German government and decide the terms of peace.

As the American member of the Economic Directorate, I invited my three colleagues, General Shabolin, the Russian; Sir Percy Mills, the Britisher; and Monsieur Sergent, of the French Finance Ministry, to spend a weekend at the Riviera to get better acquainted. Another Russian General, General Zorin, in charge of reparations, was in the party. Flying from Berlin to Nice, General Zorin taught us all, through the interpreters, to play Russian "21" —a wonderful game, I assure you. When we started we all had our pockets stuffed with German marks; long before we got to Nice General Zorin had all of Rene Sergent's marks, all of mine, and soon had Sir Percy Mills cleaned out as well. From then on, General Zorin was the capitalist and we were the communists! The trip was a great success. We came back the best of friends. All wanted a real solution. We went to work with a will. For nearly a year we of the Economic Directorate and all the other elements of the Allied Control Council thought we were making real progress, and that in Germany—where the West and the East were meeting—we would clear the way for world peace.

The German army, air force and navy were demobilized; war plants were destroyed; reparations and the new level of industry for Germany were agreed on a four-Power basis. Demilitarization, denazification and deindustrialization proceeded apace. The destructive phases of the occupation were fairly well agreed and fairly well carried out.

Russian Opposition

But when we proposed the equally necessary constructive steps for the development of a self-supporting Germany, which could have some hope for a tolerable standard of living, which could establish and maintain a democratic German government and could develop once again a self-respecting nation—that would take its proper place in a peaceful world — we encountered bitter Russian opposition.

In July, 1945, Premier Stalin, and the three other heads of states, had signed the Potsdam Protocol, an agreement which recognized the economic unity of Germany, which proposed an export-import plan for Germany as a whole, and which limited reparations to those industrial plants and equipment not needed to maintain the German economy.

As I have said, Germany faced actual starvation for many months. Much of the Eastern area, Pomerania and East Prussia — Germany's granary — had been

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*An address by under Secretary Draper before the Bond Club of New York, New York City, Nov. 22, 1948.

Honeymoon Over in Retailing

By J. T. MEEK*

Executive Secretary, Illinois Federation of Retail Associations

Commenting on smug attitude of retailers, Mr. Meek warns their profits during several years have been due to inflation, and now, with higher operating expenses and threatened reduced sales, the honeymoon is already over. Foresees period of most rigorous competition and points out job of keeping nearly two million merchants alive is already here.

We've developed into a pretty smug lot of retailers. We have become so conscious of our increased volume that we fail to realize that the honeymoon is already over! Here and there you hear of merchants whose volume is up 150% over prewar. There are those who have operating profits, before taxes, of as much as eight times that of 1939. The time has come, if the bride is about ready to throw her own cooking on the table for the first time, for us to determine just what it was that made life so happy for us during the past seven years.

Joseph T. Meek

Perhaps it was war shortages, an economy geared to war with all the currently pleasing dollars and cents reactions. Maybe it was more consumer activity. It doesn't take a real salesman to sell people with over $200 billion in spendable income, a desire to keep up with the Joneses, a most understandable newly acquired yen for fine steaks and more money in the offing. A sellers' market, easy credit . . . these things, more than our native ability, have given us seven years of delightful honeymooning.

In this cold grey dawn of reality, let's be frank enough to admit that our betterment came not from better merchandise or from lowered dollar expenses! Let's take a careful look at our dollar costs per transaction; our payrolls; let's delve into our administrative expenses; our selling expenses; some of these actualities which we can find after we wash off the nifty paint job of the honeymooning days.

Let's admit that the savior of our profit has been the inflation of prices. That the big "morning after" question is "What happens when these prices fall?"

Retailers Not Convinced of Serious Situations

It isn't a popular discussion. Retailers are not easy to convince of the seriousness of their situations. They like the idea that they are pretty good in their own right and the no-one-can-do-a-better-job-than-I angle is certainly as prevalent in retailing as anywhere else—maybe more so.

We are lacking in objectivity—if we want to start on our shortcomings. We are too alone. We won't listen to others. We need someone from the outside to rudely jar us. Maybe our lawyers should be consulted—give us another viewpoint. Certainly our bankers, seeing them, having them understand us now rather than later! An accountant is a good man to know — maybe he can check our judgment, our performance, after these long, golden happy years retailwise.

Maybe we ought to realize that retailing in even a very small store must have breadth and depth of understanding. Too often in the smaller stores the boss is a specialist. Let him like selling—and to heck with the inventory. Let him be an inventory hound and maybe the selling suffers. Or, he may be a bear on credits . . . a keen student of financing. All these to the detriment of selling. Or he may be simply great on personnel—but what good is personnel if the goods aren't there, or are there in too great a quantity. The well-rounded merchant is the one who will live in the near future. If he cannot "well round" himself then he should get in contact with others in his community to give him those viewpoints.

Maybe we keep the figures in our heads, and there only. Maybe we get the invoices, put them on a nail, take them off when we pay them—and that's all. Maybe we hate figures—and thus ignore them. But smart people learned long ago that it is hard to make and keep money until you know what you are doing. More of us, though, have lost our perspective. The need of retail inventory systems, of unit control, of sound planning, these have been forgotten in favor of the sell on "feel" and not on "fact" basis. We have a group of small stores in the latest N.R.D.G.A. figures which show a 64% increase in closing inventory in 1947 while the typical store in that class had an increase of only 8%. Where will the 64% be headed for? What are they going to do with the McKinley campaign hats and baggy bloomers of another day?

Do we have uniform accounting? Can we compare ourselves with others in our class if we do not even adopt the simplest forms of control? Can we talk our problems over with our bankers, accountants, even the government if we have no common basis for discussion, present only a babel of "foreign tongues" for them?

How can we find where we stand if we don't, ourselves, know? Some of the stores in the under one million class have reported expenses of 39.3% for the six months ending July 31, 1948. The typical figure was 31.4%. Where were you? Certainly you have less to fear from rising expenses than your big competitor—if you control them. And you should.

Get Your Own House in Order

The weaker we are the more we are open to "external" management. External management is government aid fostered by our own inabilities. We are promised success without risk because we are Voters—not merchants. We are told we can get financing, as voters — even though we cannot as merchants. The best aid for us in the months to come will be internal—it will come from within. It will come in better management and operating efficiency. It will come when we get cocky—realize the importance of nearly 2,000,000 smaller firms; quit worrying so about other competition and get our own house in order and cease being unrealistic about the adequacy of funds. Maybe the time has come for us to put some money not alone into liquidity but into improvement of management — to make use of the sources that can aid us. We can help. The Department of Commerce can help. The University of Illinois can help—so can all worthwhile trade associations IF the recipient wants to be helped!

Knowing such a thing as your break-even point should not be too complex. But how many know it? How many have divided fixed costs by gross margins, then subtracted variable costs, excluding merchandise costs. That's about the picture—but how many of us care to find it out.

Knowing these things you are not in a bad spot. You have advantages big stores do not have. You know your expense problem—or should—and can control it, beginning with yourself. You know the needs of your customers, hundreds instead of thousands. You know the intimate lives of many of them. You know their buying pattern. Do you use this knowledge? Or do you go hand-to-mouth without thought of balance and end up with stale stock and high markdowns? Do you plan purchases from past performances, from business history, or just from hunch? What about your working capital? Your liquidity? Your inventory? What story does it tell? Do outsiders see eye-to-eye with you on your position; do your figures (if you have them) permit you to know your own procedure? It would be interesting to find out.

More Rigorous Competition

In the final analysis, this honeymoon period will be followed — very shortly—by the most rigorous competition in the world. Whether it will break you or not will depend upon just what productivity you get from that expense dollar. You won't live by trimming to starvation gait. That's not the solution. That's depression talk. But getting productive dollars is not — it's common sense. Your selling, your employee selling, your stock, your needs, your duties . . . these things make up the ingredients of that expense dollar. If you haven't the right answers here then your expense dollar just goes down the sewer.

Meeting External Pressures

All these plans are internal in variety. There are external pressures which can only be answered by your closeness to politics and legislators. Fixed expenses in the coming year have a direct relationship to what happens in Congress and at Springfield. No matter how much a political leader can swear he is desirous of aiding you, the final proof of his affections rests on the fixed expenses he places you under by the enactment of legislation. A continuation of the war-time excise taxes places a heavy premium on selling, it adds to your selling expense and it presents a definite increase in price with which your sales force must contend.

There is no reason for me to impress upon your mind the importance of taxes. Personally, I believe there is little likelihood of the Congress reducing the corporate taxes in 1949—they may even be increased. The European program, the cost of armament, the assuredly and continued large number of payrollers, expansion of social programs, all these things cost money!

Payroll taxes represent real fixed expenses. The retention of experience rating in our Illinois laws, providing for a reduction of rate under the unemployment compensation laws to a minimum of 0.5% has meant millions of dollars to Illinois employers, and much more stability and sound personnel relations for employees. A disturbance of the rating provisions, a tampering with the qualifications procedure — these things have a direct effect on your expense column.

Minimum wages have a similar effect. A fixed minimum for smaller stores, such as that provided for under the Illinois law (and now being tested in the Illinois courts) means a great deal to you. A minimum of even as seemingly little as 55 cents an hour for female and part-time minor employees can mean life or death when the honeymoon is over—life or death for thousands of retailers who cannot pay that minimum.

This matter of the last-in-first-out method of treating inventory in relation to taxes will be very prominent in 1949. Under this procedure, approved by court decisions, certain stores have, since 1941, been using this method of inventory valuation of taxable income. These have been big stores. Now efforts are to be made to make this procedure retroactive for the smaller stores. Established at the right time, in a rising market, LIFO can level out peaks and valleys of profits and conserve working capital in periods most needed. Thus, Congress may be asked to make the system available—and retroactive—to all stores on the retail inventory method. If the request is made it will be a gigantic struggle for about $2 billion will be involved! If Congress ever approves such proposals—if they are made . . . two things are certain: LIFO will have to be explained in terms of one syllable words so that the average layman, secretary and legislator can understand the whole issue—and the procedure will have to be helpful to the tens of thousands of smaller merchants who alone can provide the numerical strength to make legislators sit up and take notice.

The treatment retailing gets from Congress and Springfield, as far as legislation is concerned which affects fixed expenses, will be directly in relation to the retailers' support of progressive legislators, to their own constructive interest in legislative matters, and to the worthiness of their proposals and positions in relation to what is best for all their customers, and not just one or two pressure bloc segments!

The job of keeping nearly two million merchants alive when the honeymoon is over is one that belongs to all of us, including the merchants themselves. Retailers owe an obligation to their communities, and their communities make up the real Republic. It is reported that more retail failures will be experienced next January than in any year since the war. This is proof conclusive that the breaking point is past for many. But it ought to be our job to prevent as many of these failures as possible. They disrupt. They are costly to the entire fabric of business, not alone in upset local markets, in bankruptcies, in unemployment, in wasted capital, but in destroying a good of hard earned public relations. To fight off a distress sale, a bankruptcy procedure, is the goal of all intelligent men of the craft.

Coming Year of Contrasts

Nineteen hundred and forty-nine promsies to be a year of contrasts. Here merchants will make a great deal of money (before taxes) as the goods they sell remain comparatively short in supply, as the competitive axe still stands upraised though poised for the sickening thud. These merchants will be hard pressed as they try to merchandise goods in big supply, in a softer market, where perhaps their sources of supply are still sufficiently confused to try to be creating a buyers' market when the sellers' market is here.

At the end of 1949 there won't be so many merchants. What there are should be a bit leaner, a lot tougher, a lot more expense minded (expense-minded from the productive and not the starvation standpoint). Their shelves should be a lot cleaner. They should be buying less—and more often. Frankly, they should be thinking that the wisest course is to let someone else hold the bag if the bubble is intent on bursting.

And burst it will one of these days. It may be a mild pop—or it may be a real bang. Whichever way the gun shoots, the merchant who recognizes that competition and shortages and the decline in prices can and will come—in fact, are here in many instances—will weather the storm.

We hope you weather it. No matter how small you are, you should. Just because you are small is no sign you should fail. Smallness is not dumbness. Smallness can be, in stress, better than big business. There is less vulnerability, more ability to control one's destinies, a closer relationship to consumer wants, a more working relationship with expenses, a greater opportunity to send one's own selling ability into the breach.

All these attributes can never come, however, if small retailers develop an inferiority complex to the point that they make use of no aids that are offered them or if they develop an ego which refuses to admit that there is any judgment, any experience in this old world better than their own!

In which category do you fit? Your answer will determine much of your enjoyment or lack of enjoyment of the honeymoon-less days when Madame Business loses her glamour and, on occasion, begins to look very much like a weather beaten old hag!

*Address by Mr. Meek before a retailers' clinic sponsored by the Illinois Federation of Retail Associations and the University of Illinois, Urbana, Ill., Nov. 10, 1948.

Clyde Moore Sec. of Investors Syndicate

MINNEAPOLIS, MINN.—Clyde J. Moore has just been made Secretary of Investors Syndicate, according to an announcement by E. E. Crabb, President. Moore was elected a Vice-President of the firm in 1946. Joining the company in Houston, Texas, during 1937, Moore was first a salesman with the company and later that year was made Agency Manager of Dallas. In 1943 he was made Divisional Manager for Iowa and Nebraska. He came to the Home Office in 1943 as a Regional Manager and in 1945 was made Assistant General Sales Manager.

Investors Syndicate, a national distributor of investment securities, has offices in 145 principal cities of the United States.

Creek & Fresch With Van Ingen in Chicago

CHICAGO, ILL.—B. J. Van Ingen & Co. Inc., announce that Arthur Tresch and Robert L. Creek have become associated with the firm in its Chicago office, 135 South La Salle Street.

Mr. Creek was formerly with Ronson-Davidson Company. Mr. Tresch was with Smith, Barney & Co.

Van Alstyne, Noel to Admit

Van Alstyne, Noel & Co., 52 Wall Street, New York City, members of the New York Stock Exchange, will admit Mortimer W. Loewi, member of the Exchange, to partnership on Dec. 1. Mr. Loewi has been active as an individual stock broker.

On Dec. 4, Clare M. Torrey and Harral Straat Tenney, Jr., will retire from the firm. Mr. Tenney's membership in the New York Stock Exchange will be transferred to Richard C. Noel.

Israel Corp. Formed

The Israel Corporation of America has been formed with offices at 501 Fifth Avenue, New York City, to engage in a securities business.

The Wool Industry and the American Economy

By HON. JOSEPH C. O'MAHONEY*
United States Senator from Wyoming

Senator O'Mahoney, in tracing development of wool growing in U. S., says modern world also needs pioneers, and modern industrial problem is to keep markets expanding to keep pace with constantly growing capacity to produce. Denies government has punitive attitude toward business.

The wool industry looks to the future—and like every other industry, perhaps more than most, it realizes that it is looking into a new world, a world of new achievements and new values. The habits and traditions of the past no longer suffice. We must form new habits and establish new traditions appropriate to the modern world, rather than to the world of Abraham who, in his time, was a wool man of great repute but whose methods of business could scarcely be regarded as a model for the 20th century.


Sen. J. C. O'Mahoney

The auspices under which we gather today in themselves give assurance that the wool man of 1948 is ready to accommodate himself to the revolutionary changes that have taken place in our time. We are the guests of the American Wool Council, of the International Wool Secretariat and of the Textile Research Institute. We have come to appraise a research program in which government and industry are to cooperate in a scientific project for the benefit of all segments of the wool industry. The wool grower and the processor meet on common ground and national boundaries are not regarded as an obstacle to research. The three sponsors of this luncheon recognize, therefore, that wool is a world problem and that all who are engaged in the production or processing of it have at least some identical interest.

In looking to the future, our first task should be to determine how it will differ from the past. This is not quite so easy as it sounds for men have always found it extremely difficult to shake off old habits of thought and to recognize the meanings of social and economic changes only long after they have taken place.

This continent, for example, was settled by pioneers who were seeking a new field of opportunity in which they would be free from the social, economic and political restrictions of the old world. They found their opportunity and their freedom in new land beyond the frontier. In our time, there are no new lands to which the seeker for opportunity may repair. The modern frontier is to be found in the realms of science and of industrial organization.

Need of Pioneers of Modern World

We may be confident that the courageous pioneer of the modern world who is willing to venture across this new frontier with the same spirit of opportunity for all which characterized his predecessors will himself find an equally large reward, particularly when he comprehends the fact that in crossing the frontier of the future, he leaves the world of scarcity for one of plenty. This is a distinction between the past and the future which it is impossible to perceive through the eyes of tradition.

Science is constantly opening new doors of opportunity but every effort that is made to restrict access to these doors to a particular class or group, a particular industry, or a particular race, operates only to restrict rather than to expand the benefits of progress.

When man had to depend upon the slow processes of nature for the raw materials they desired or upon the similarly slow progress of handicraft for their finished products, wealth and security could be most easily gained by those who, through force or guile, could gain control over the sources of supply and the avenues of distribution while excluding all others, save at a price.

This was the system that held the masses in subjection, and made it an object of the classes to gain control of the government so that they could impose the rule of law which they deemed most suitable to the maintenance of their preferred position.

Science Has Changed the World

Science has changed this whole picture and has done it so quickly in our time that we have been slow to understand the change. Science has brought all parts of the globe within talking distance, to say nothing of traveling distance. Sources of raw materials and markets are all far more readily accessible than ever before and the slow processes of nature and handicraft have been completely revolutionized by the discoveries and inventions of modern scientists. The rate of industrial productivity has been so multiplied within the past two generations that there is no comparison. *It is a commonplace to assert that the ordinary citizen in America enjoys luxuries which were denied to the royal families in the age of exploration and colonial settlement. Indeed, no European palace was ever equipped with the facilities for comfortable living that can be found in an ordinary modern American housing project.*

The profits of the future will be earned by the industrial statesmen who really comprehend the fact that the modern industrial problem is to keep markets expanding to keep pace with a constantly growing capacity to produce.

All this is illustrated in the wool industry. The current market in the United States for commodities made of wool is greater by far than anybody dreamed possible before the war. It is so great that not only is the domestic wool clip far from adequate, but the supply of wool from other wool producing areas is insufficient when the needs of the rest of the world are taken into consideration.

Wool Still World's Premier Fiber

Great as has been the progress achieved in the production of synthetic fibers, wool still remains the fiber best equipped to furnish protection for the chilly body as well as style for the discriminating taste. And we turn to science and research to find the ways and means by which coarse wool may be made to do the job of fine wool.

My point is that the wool industries, in initiating, with the cooperation of Government, this new research project, is accommodating itself to the new conditions which have resulted from the development of a greater market than the wool industry has ever before enjoyed. It will not be enough, however, to provide the new supply which we may expect to develop from a better utilization of raw wool. It will be necessary also first to make sure that the market is not curtailed through the adoption of short-sighted and restricted policies affecting the production of natural wool, and second, by short-sighted or restricted policies in the distribution of the same product.

If it be true, as it most certainly is, that the American market faces a short supply of fine wool, it is neither necessary nor wise, in the development of world trade objectives, to adopt policies that would hamper the production of raw wool in the United States. The broad public interest both here and abroad demands the stimulation of production. We would be working at cross-purposes if we were to follow a policy designedly inimical to the production of domestic wool while at the same time seeking, by scientific means, to discover greater utility for the output we have.

In a like manner, trade policies conceivably intended to hold prices of the finished product at higher levels than justified, to restrict products in order to maintain prices, or to suppress competition, would in themselves be hostile to the prime requirements of modern industry, mainly, the expansion of the market. Conspiracies in restraint of trade, otherwise known as practices in violation of the anti-trust laws, are a hangover from the Age of Scarcity, and have no place in the Age of Plenty.

Workers Entitled to Adequate Share of Products

The consumer in the modern world must be given an equal place in every industry with the producer and the processor. Likewise, the industrial statesman of the future will recognize the fact that the worker is also the consumer and that the worker is entitled to a completely adequate share of the nation's products.

The consumer of the product of the wool industry is the worker in every other industry. Likewise, the worker in the wool industry helps to provide the market for every other commodity produced by modern industry. *The managers of any industry who strive to hold down the compensation of the worker or to treat labor as though it were a commodity are working against the interests of all industries* because by the degree in which such a manager succeeds in reducing the purchasing power of the workers in his industry, he is circumscribing the market for every other industry and indeed for his own.

This brings us to a consideration of the function of government in relation to industry. The election is past and we can afford, therefore, to forget political arguments and to look at facts as they are.

No One in Government Has Punitive Attitude Toward Business

I know of nobody in responsible position in Government, or who is likely to be in responsible position in Government, who desires that the Federal authority shall be expanded to take over any activities that can be better performed by the people themselves. I know of nobody in responsible position in Government who desires to assume a punitive attitude toward business. The function of Government is to facilitate the processes of trade and commerce, to maintain an economy in which opportunity is free and to establish a rule of social responsibility which will encourage production and distribution while at the same time discouraging exploitation of the consumer or restraint of the competitor.

In other words, the function of government in the American tradition is to maintain the rule of order and social responsibility which will keep the door of opportunity open and which at the same time will provide those benefits for all of the people which in a world of economic organization they cannot provide for themselves.

One of the outstanding factors by which the present is differentiated from the past is the fact that modern commerce and industry are no longer conducted by individuals in their individual capacity. To be sure, agriculture is still the enterprise of individuals. But we know wool growers, for example, operate as individuals but the tools of modern industry are so complex and so expensive that they are no longer the property of individuals. They are owned rather by organizations—some small, some large. The small ones operate in local areas, the large ones operate throughout the world. And it is constantly becoming more and more difficult for the small ones to continue to live successfully in the shadow of the great.

So, as industry looks to the future, it must concern itself not only with the problems of production for an Age of Plenty, with the problems of protecting the consumer against short-sighted, restricted policies, but also with the problem of developing the standards of responsibility and power for the industrial and commercial organizations which are so necessary in the modern world. Industry must turn its face to the future with the realization of the fact that there is no trade or commerce save that which is based upon the production and sale of the things that people as individuals desire to purchase. The production and distribution of the things that individuals consume constitute the source of all business. The wise businessman, therefore, will support those government functions which are designed to facilitate the employment of people, the production of the things that they need and the maintenance of the purchase power by which they can acquire.

*An address by Sen. O'Mahoney at a luncheon given by the American Wool Council, International Wool Secretariat and the Textile Research Institute, New York City, Nov. 17, 1948.

Spahr Lists Defects of Our Monetary System

At Rotary meeting in Grand Rapids, Mich., Executive Vice-President of the Economists' National Committee on Monetary Policy cites 17 unfavorable conditions because of absence of gold-coin standard.

Seventeen unfavorable conditions resulting from failure of United States to go on a gold-coin system were revealed from questions Dr. Walter E. Spahr, Executive Vice-President, Economists' National Committee on Monetary Policy of New York, on Nov. 18 put before the Rotary meeting in Grand Rapids, Michigan.


Walter E. Spahr

Dr. Spahr asked those in the audience: "Do you realize:

"(1) That all money in the United States is irredeemable in so far as gold is concerned?

"(2) That the promises to pay, or the statements as to security underlying, or both, printed on our paper money are all misleading except in the case of silver certificates?

"(3) That our Treasury and Federal Reserve banks are authorized to issue promises to pay which they do not redeem except in other irredeemable money, silver certificates excepted?

"(4) That our Treasury and Federal Reserve banks are required to hold reserves yet are, at the same time, not permitted to pay them out to the people of the United States?

"(5) That these reserves can be paid out to central banks of foreign countries?

"(6) That the only asset cash which Reserve banks can pay out domestically is not lawful money for reserves in Federal Reserve banks although it is treated by our government as 'good enough for the people of the United States'?

"(7) That if the United States were on a gold-coin standard the Federal Reserve banks would have 88 times more asset cash to pay out than they now have?

"(8) That when the people of the United States were deprived of a gold-coin standard and money they lost control over their public purse because they cannot demand redemption in the internationally acceptable medium—gold—of the promises to pay issued by the Treasury and Reserve banks?

"(9) That because our people cannot demand redemption in gold of these promises to pay there has been a much greater issuance of 'promises' to pay than otherwise would have been possible and that as a consequence the purchasing power of the people's dollar has declined sharply?

"(10) That the value of people's savings, income from bonds, annuities, and insurance policies has declined sharply in a relatively short space of time?

"(11) That a return by the United States to a gold-coin system should put a brake on further depreciation in the value of our money and at the same time encourage saving, investment, and production?

"(12) That if private enterprise could obtain and use gold in foreign trade, foreign trade and investments should expand and foreign countries should then be able to stabilize their currencies in terms of gold and increase their production?

"(13) That people in general confuse the convenience of paper money as a medium of exchange with the other functions performed by gold—as a means of storing up value, as a standard of deferred payments, as a reserve against paper money and bank deposits, as a means of settling an adverse balance of payments—and that, as a result, they have failed to understand that they have lost control over public spending and are inviting further depreciation in the purchasing power of their dollar?

"(14) That paper money is a product of the printing press and that gold represents stored labor and will buy other people's goods and services anywhere, anytime?

"(15) That gold and silver exist as money because irredeemable paper money is a dangerous and unreliable instrument?

"(16) That an irredeemable paper money and governmentally-managed economy go hand in hand?

"(17) That the United States has more than an ample supply of gold to permit a return to a redeemable money?

"These conditions," Dr. Spahr concluded, "can be corrected by the establishment of a gold-coin system on the basis of $35 per ounce fine."

The Why and Wherefore of Consumer Credit

By ELMER E. SCHMUS*
Vice-President and Cashier, First National Bank of Chicago

Chicago banker reviews developments in consumer credit since outbreak of war and points out its expansion has been less in degree than expansion of bank credit. Says installment credit in relation to consumer goods purchases is much under scale of prewar period and reinstatement of Regulation W has had little effect and was not required. Urges rates for installment credit and services be adequate and sees high level of national income sustained as long as large defense expenditures continue and we fully utilize our industrial and labor capacity.

There are two types of individuals who buy on the deferred payment plan—those who do not possess the cash to pay in full, and those who do have the funds but feel they may lack the ability to exercise sufficient self-denial to reaccumulate the cash. This does not mean that these individuals are essentially poor credit risks or that installment selling is, therefore, inherently undesirable. In some cases, perhaps, time payment buyers, as well as those who buy for cash, spend a portion of their income for articles of no lasting benefit, for pleasure, or for services which may add little to the nation's welfare.


Elmer E. Schmus

There are, of course, cases where the purchaser so over-buys that he keeps himself impoverished, but the conclusion that such cases are frequent is disproved by the fact that more than 90% of installment sales are paid in accordance with the contract. In almost every case the time payment purchaser acquires an article of use, and even of necessity, that he may not otherwise have possessed; and where the extension of credit achieves such a worthy objective, installment selling is a force for economic good.

What is the situation in consumer debt today in relation to the prewar peak at the end of 1941? The Federal Reserve Bulletin of September, 1948 reports total consumer credit outstandings of $14,189 million at July 31, 1948 compared with $9,895 million at Dec. 31, 1941 or an increase of 43⅓%. In a breakdown by major part of outstandings at July 31, 1948 in comparison with outstandings at Dec. 31, 1941, we find that installment sales and loan credits of $7,328 million represented an increase of 23¾%; single payment credits of $2,712 million represented an increase of 69⅓%; charge accounts of $3,202 million represented an increase of 81½%; and service credits of $947 million represented an increase of 55¼%. It is rather interesting and probably significant that the credits showing the greatest percentage increase in outstandings in the period from Dec. 31, 1941 to July 31, 1948 do not now come within the provisions of Regulation W, while the major portion of installment sales and loan credits, which reflect an increase of only 23¾%, are subject to the Regulation.

The total credit outstandings reflect a substantial increase as evidenced in the figures quoted, but, even so, the percentage of credit business to total retail sales is well below the prewar average. In 1940 and 1941 credit sales amounted to 36% of retail sales and in both these years the percentage of charge account sales was 23% while installment sales were 13% of retail sales. At the end of 1947 charge account sales were 19% of retail sales while installment sales amounted to 7% or a total of 26% compared with 36% of retail sales in 1941. These figures indicate there is still a good margin of increase available in both charge account and installment sales business before the prewar ratios are exceeded.

A breakdown of the $7,328 million of installment credit estimated by the Federal Reserve Board as outstanding on July 31, 1948 reflects rather interesting percentages of increases or decreases in the various types of credits as compared with outstandings of Dec. 31, 1941. Installment credit, as you know, consists of installment sales credits and installment loan credits. The former at July 31, 1948 amounted to $3,477 million while installment loan credits amounted to $3,851 million, or 47½% and 52½%, respectively.

Of the $3,477 million of installment sales credits outstanding at July 31, 1948, $1,691 million or 48⅝% represented automobile sales while $1,786 million or 51⅜% represented installment sales of department stores and mail order houses, furniture stores, appliance stores, jewelry stores and all other retail stores. It is interesting, in view of the recent reinstatement of Regulation W, that automobile sales outstandings at July 31, 1948 show a decline of approximately 13% compared with outstandings at Dec. 31, 1941, and other installment sales credits show a decline of ⅞ of 1% in the same period. The percentage increases or decreases in other than automobile installment outstandings as of July 31, 1948 compared with Dec. 31, 1941 reveal some interesting trends. Outstandings of department stores and mail order houses increased 57%. These outstandings quite obviously are not all for durable goods and undoubtedly rising prices have encouraged greater consumer purchases of non-durable goods on an installment basis. The outstandings of furniture stores declined 12% while those of household appliance stores decreased 77%. Jewelry store outstandings increased 30% while the reports of all other types of retail stores reflect a decrease of slightly over 1% in outstandings.

Installment loan credits with outstandings of $3,851 million as of July 31, 1948 reflect an increase of 77% compared with outstandings at Dec. 31, 1941. Here again we find interesting comparisons as each of the installment loan agencies shows increased outstandings as of July 31, 1948 compared with outstandings as of Dec. 31, 1941, while only two of the installment sales credit agencies report increased outstandings during the same period. The loan credits of commercial banks at July 31, 1948 amounted to $1,669 million or 43⅓% of the total installment loan credits and reflect an increase of $885 million or nearly 113%. Unfortunately, at the time these figures were prepared the banks did not report their installment credit business as clearly as you and the loan companies have always done, so that these figures represent in part a confusion between installment sales credits and installment loan credits. Included in the figures of bank installment loan credits are advances which by any customary measure of comparison are actually installment sales credits. I believe it will be found also that in the report of installment loans some banks may include their small single payment loans and business loans made to individuals and business enterprises and these are improperly reported as consumer credit loans.

The outstandings of personal loan companies at July 31, 1948 amounted to $770 million or 20% of the total installment loan credits and reflected an increase of $239 million or 45% compared with outstandings at Dec. 31, 1941. Here again in considering the increase in total consumer credit the question arises whether the increases reported in outstandings of the personal loan companies represent additions to the volume of consumer credit. We are aware that a substantial percentage of personal loan company advances are made for the purpose of consolidating debts of the individuals. In other words, any advance made by a personal loan company which is used to pay off previously contracted debt is not an increase of consumer credit. Such an amount does not increase volume but merely substitutes one type of consumer credit for another.

Of the remaining types of installment loan agencies, we find that the outstandings of industrial banks and industrial loan companies increased 45% in the period from Dec. 31, 1941 to July 31, 1948, while credit unions and modernization and miscellaneous outstandings increased 30% and 93⅓%, respectively. It seems apparent that some inaccuracies occur in reporting the total outstandings of the various types of consumer credit agencies, but even accepting the total of $14,189 million in total consumer credit outstanding as of July 31, 1948, this amount is still considerably below prewar normal on the basis of its relationship to personal disposable income. In 1929 total consumer credit amounted to about 9¼% of disposable personal income and by the end of 1933 had declined to 8⅝%. At the close of 1939 consumer credit amounted to 11⅓% of disposable personal income and at Dec. 31, 1941 amounted to 10¾%. The total consumer credit at July 31, 1948, as previously reported, stood at $14,189 million or only 7½% of the estimated disposable income of individuals for 1948 of $187,300 million.

Causes of Consumer Credit Expansion

The sizable expansion of consumer credit since the war has, of course, been due in a large measure to the greater production of consumer durable goods and to the return of the prewar pattern of buying these goods on an installment basis. There are other factors as well, such as the high cost of living, which have made it necessary for many families to depend more heavily than heretofore on consumer credit. The liquid assets of persons earning up to $3,000 a year, the group most dependent on consumer credit, on the average amount to relatively little per family. Further factors will be found in prices of durable goods, which are substantially higher than prewar levels, and in the increase in population, recent reports showing a total population for the country as of July 1, 1948 of 146,114,000, an increase of nearly 14½ million persons, or a gain of 11%, over the census of 1940.

We have heard a number of predictions that consumer credit might reach outstandings of between $16 billion, and even as high as $30 billion. The former figure might well be reached as installment sales of durable goods, especially of automobiles, move up to a level approximating that of prewar years. The estimate of $30 billion of consumer credit seems to me exaggerated. Assuming total consumer credit outstandings at July 31, 1948 represented the same relationship to disposable personal income as it averaged during prewar years, outstandings would now amount to about $19 billion or better than $4,750,000,000 greater than present outstandings.

It is not at all certain that we have the productive capacity to turn out the goods and services which would require this amount of consumer credit, nor is it at all certain we could finance that much consumer credit even if we could produce the goods. Many consumer credit agencies are already close to their borrowing capacity and since capital markets have not been too receptive in recent months to new financing it might be difficult to raise additional funds to sustain such a substantial increase in volume.

At the meeting last year a Special Committee of your Conference recommended minimum down payments, maximum advances and maximum length for the contracts you purchased. These terms were reasonable and sound and to the best interests of both the consumer and the credit agency, and were also in keeping with general economic conditions. As a substantial lender to the finance industry, the bank with which I am associated was, of course, interested in the finance company acceptance of the recommended terms. It is gratifying to report that our records indicate not only ready acceptance of the suggested terms but also that finance companies generally snugged up their operations as volume increased by imposing more rigid terms, particularly on the less desirable used car paper.

Reinstatement of Regulation W

For the present you have no problems concerning the terms of your paper purchases and I shall not dwell too long on Regulation W as you already are familiar with its operations. With the reinstatement of Regulation W it seems highly desirable that this Conference again devote considerable time to a study of this phase of your business since regulation can be far-reaching in its effect. The sales finance industry operated from the beginning to the inception of Regulation W with almost no regulated pressure other than the very simple but effective one of competition. The few regulative measures that were applied to the installment field had other objectives than influencing the quantity or quality of credit extended or outstanding during different phases of business cycles. The excellent record of the industry—prewar and following the elimination of Regulation W— is conclusive evidence that the regulation of the credits may in a full peacetime economy is not desirable and is unnecessary. Some authorities may believe the regulation of consumer credit should be placed on a permanent basis, which suggests the possibility of broad relaxations in terms during periods of adverse business conditions. This might be most undesirable, for major economic adjustments required during a period of adverse conditions might give no such assurance on credits you make as you had during a period of good business conditions with high employment and greater income in both industry and agriculture.

The reinstatement of Regulation W, with the resultant reimposition of maximum terms and minimum down payments, should not result in a relaxation of the amount of information you furnish your banks regarding your operations. As you know, your Association some time ago approved a standard form of questionnaire and I urge the submission of this questionnaire each six months, together with semiannual audited figures, to banks which extend lines of credit to you. I feel rather strongly that banks which have been helpful in the building your industry should be given this consideration.

The Rates on Installment Credit

Last year in my address before you I drew your attention to reports of extremely low rates quoted on both installment sales and installment loan credits. These reports gave cause for considerable concern because the charges reported were not sufficient by any sound measuring stick to cover the cost of operation, loss and deferred income reserves, and a reasonable margin of profit. The financing of installment sales has always been a high cost operation, and excessive dealer reserves have contributed directly to this condition. In the year's period your rate charts have been revised considerably and charges now made to the consumer indicate a satisfactory return which will provide for cost of operation, good loss and deferred income reserves, and a reasonble profit.

The rates you charge your clients are obviously ties in with the general money market so the course of bank interest rates should at this time be of particular importance to credit agencies. As you already know, the Treasury has been engaged in a program of debt retirement out of surplus cash and the withdrawal of war loan deposits from the banks. In the process bankers disposed of ⅜ of 1% 90-day bills and ⅞ of 1% certificates of indebtedness in order to meet the calls made on their war loan deposits. The buying support on the 90-day bills was withdrawn about a year ago, which has resulted in these bills being quoted currently to yield about 1%. In September last year the Treasury announced an issue of 1-year 1% certificates of indebtedness in exchange for an issue of ⅞% certificates, which matured Oct. 1, 1947. The Treasury only recently offered 1-year 1¼% certificates dated Oct. 1, 1948 in exchange for the 1% certificates issued Oct. 1, 1947.

With the increased yield on short-term governments, the low rates heretofore quoted on commercial paper and brokers loans against government securities were no longer attractive to the banks. This resulted in a rather general increase in rates from 1½% to 1¾% of these types of loans. Increasing demands on commercial bank funds created considerable pressure on interest rates and with the increase in the Federal Reserve Bank rediscount rate to 1¼% in January, 1948 and only recently to 1½% bank prime or base rates increased from 1¾% in January, 1948 to the present 2%.

The Comptroller of the Currency announced in September that loans and discounts at the end of June, 1948 were $22,300 million after deducting reserve of nearly $200 million for possible future losses. The net loans were more than $480 million or 2% over the amount reported as of April 12 of this year and nearly $3,500 million or 18% over the amount reported as of June 30, 1947. Commercial and industrial loans of $10,900 million were up 21% in the year, loans on real estate of $5,200 million were up 24%, and consumer loans to individuals of $3,500 million were up 32%. The percentage

*An address by Mr. Schmus at the Fifteenth Annual Convention of the American Finance Conference, Chicago, Ill., Nov. 17, 1948.

of loans and discounts to total assets of the national banks on June 30, 1948 was 26.13ths in comparison with 22½% on June 30, 1947. There is evidence of a growing demand for working capital funds which the commercial banks in their normal function will supply. Since capital markets have not been too receptive to new financing in recent months, a portion of fixed capital needs may be met by short-term commercial bank borrowings to be refunded later through capital financing. These demands most likely will cause the banks to examine more closely the balances maintained by borrowing accounts, probably resulting in more exacting balance requirements in order to help meet the increased demand for funds and may result in an earlier further increase in short-term commercial bank rates than we can now foresee.

Economic and Political Developments

In even the most superficial review of domestic business conditions one must consider the influence of economic and political developments in the world at large, for we live in an age when the actions of peoples everywhere exert an increasingly important influence on our own economy.

Early in January of this year the reports and estimates of agricultural experts indicated that the outlook for the world food situation was considerably improved. A bumper wheat harvest in the Southern Hemisphere, an Oriental rice crop that was larger than anticipated, and a wheat surplus in the United States which resulted from lower-than-expected wheat feeding to animals, swelled the then current stocks. In addition, the new crop outlook in Europe and the United States was good and current reports on the harvest appear to substantiate the estimates of last January.

Secondly, the dollar balances and exchange reserves of the nations of the world were shrinking. In the two years following the end of World War II most of the countries were on buying missions in the United States, in a frantic effort to reconstruct their war-torn economies and to feed their people. Some, like Belgium, at considerable efforts, made great initial progress; others did not fare so well. With few exceptions, however, the nations of the world, at the beginning of 1948, had one common characteristic—their dollar balances and gold and exchange reserves were greatly reduced. One after another, shortages of hard currencies forced them to regiment their economies further in an effort to husband their dwindling balances. In almost every instance this included limiting imports to the most essential items. Conversely, this meant that exports from the United States would be curtailed.

Prices had continued to rise during this period and as of Jan. 16 the Bureau of Labor Statistics Index of Wholesale Prices, which had risen for 11 consecutive weeks, was at 164.4 (1926=100), within 2% of the high reached in 1920. Feed and grain prices had also risen to high levels. The combined operation of these factors, namely, the prospects for good grain crops in the United States and Europe, the probability of a decline in United States exports, and the high level of prices apparently all contributed to bring about a decline in the commodity markets in late January and early February of this year.

The magnitude of the decline in prices is evidenced by the following comparison of average prices for January and February, 1948: corn dropped from about $2.58 a bushel to $2.15; oats from $1.40 to $1.27; and wheat from $3.15 to $2.60. Hogs dropped from an average price of $26.71 per 100 pounds in January to $22.25 in February; steers from $29.16 to $26.43. These declines were reflected in the retail price of food, for the United States Department of Labor Index of Retail Food Prices dropped from 209.7 in January to 204.7 in February, and to 202.3 in March (1935-1939=100).

There was some feeling at the time, as you remember, that this break was heralding at least a mild liquidation and general readjustment of prices throughout the economy, and business and industry were cautious. The bearish attitude did not persist, however, and prices began to come back. Even more significant is the fact that the break was to some extent confined to commodities and farm prices. Slackening in other areas of the economy was somewhat less evident.

Whether this bearish tendency would have persisted and been manifest throughout the economy but for the operations of other influences, it is difficult to say. However, at the time, developments in our foreign affairs, particularly our relations with Russia, were such that Congress passed the Economic Cooperation Act, better known as the Marshall Plant, providing, as you know, for possible expenditures of $15 billion to $20 billion by the United States for foreign aid, over a period of four years. In addition, Congress appropriated additional sums totaling $13 billion for defense and research for the current fiscal year. Some estimates place defense expenditures for the fiscal year ending June 30, 1950, at $17.2 billion and for the fiscal year 1951 at $19 billion, which may mean a Federal budget for 1951 of $50 billion. While it is not clear even now just how much will be disbursed for armaments, materials and pay for troops and how much will be spent on scientific research, the knowledge that such expenditures would be made had sufficient actual and psychological effect to contribute to the further stimulation of business and helped to dissipate the cautious attitude that seemed to be settling on the economy earlier this year. The Marshall Plan and the anticipated defense expenditures were material factors in retarding and apparently reversing the downward trend evident in the first quarter of this year.

Business expansion has been further promoted by other influences, such as the third round of wages granted in one industry after another; government expenditures on a high level; and lower income taxes which leave the consumer a larger percentage of his income for expenditures. Corporate profits, after reaching record highs in 1947, appear to be higher this year in many lines, but not in all. Consumer credit as of July 31, 1948, stood at $14.189 billion. In a word, the break in prices that occurred last spring was essentially canceled by the rises that have occurred since.

One moderating factor on the economic horizon is the bumper grain crop this past summer and fall in the United States and Europe. While there is a softening of demand in some lines at present prices, and while the channels of supply in some lines are filled, there is every probability that national income for the year will exceed 1947. There is need for reasonable restraint and for the maintenance of a good rate of saving so our economy may be properly balanced and stable. The recent hardening of interest rates may be a helpful factor in that direction. It is especially important that productive equipment and labor should be utilized in the most efficient manner and thus turn out the largest possible volume of goods at the lowest cost per unit. As a result, prices may be held down and standards of living may be maintained and increased.

It is imperative also, under present circumstances, that care be used to extend credit for sound productive purposes. Those of us who extend credit have the responsibility of seeing that it is extended to those enterprises that are able to use it efficiently and economically in the production of goods.

Summary

In summary, the high level of the national income, augmented by the expenditures under the European Recovery Program and our defense program, has sustained demand at relatively high levels and has resulted in full utilization of our industrial and labor capacity. No one can determine what economic conditions will be over the next 12 months without having the answers at least to the following important questions: first, how large will our expenditures be under the European Recovery Program and how long will these expenditures continue in the future; second, how large will our defense expenditures be over the next three years and what will be the type and character of these expenditures. The answers to these questions will be major factors in determining the direction our economy may take in the months ahead.

Lehman, Lazard Freres Underwrite Common of Central & South West

Holders of Central and South West Corp. common stock are being offered the right to subscribe to 659,606 shares of additional common stock at $10.25 per share at the rate of one share for each 10 shares held of record at the close of business on Nov. 18, 1948. The subscription offer will expire at 3 p.m. (EST) on Dec. 3, 1948.

The offering, which became operative when the registration statement filed with the Securities and Exchange Commission became effective, is being underwritten by a group headed by Lehman Brothers and Lazard Freres & Co. The group, awarded the underwriting privilege at competitive bidding, will purchase any unsubscribed shares. Prior to expiration of the offer, the underwriters may offer and sell common stock, either subject or not subject to prior subscription by holders of subscription warrants, through exercise of warrants or otherwise, on a when-issued basis.

Net proceeds from the sale will be applied by the company to the purchase of additional common stock of two of its subsidiaries, Central Power and Light and Southwestern Gas and Electric Co. for the purpose of assisting them in financing their construction programs.

The company is a public utility holding company and does not own or operate any physical properties. It owns all the outstanding shares of common stock of four principal public utility operating companies engaged mainly in rendering electric utility service. These subsidiaries are Central Power and Light Co., owning and operating electric and ice properties in South Texas; Public Service of Oklahoma, electric and water in Oklahoma; Southwestern Gas and Electric Co., electric in northeastern Texas, northwestern Louisiana and western Arkansas; and West Texas Utilities Co., electric, ice and water in West Texas.

The subsidiaries furnish electric utility service to approximately 521,650 customers in 743 communities and adjacent rural areas.

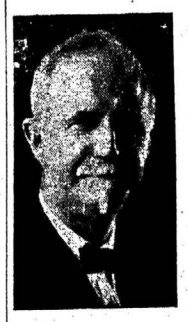
Sydney Roth Joins Staff Of E. W. & R. C. Miller

PHILADELPHIA, PA.—Sydney Roth has become associated with E. W. & R. C. Miller & Co., 123 South Broad Street, members of the Philadelphia Stock Exchange. Mr. Roth was formerly head of Roth and Co.

The Election and Labor

Recounting effect of organized labor's drive in Truman's election, Mr. Babson says labor's political power is one of two most potent forces in our economy and predicts that next great business panic will be due to over-reaching of labor and collapse of present union leadership.

The recent election returns packed a walloping lesson for every wage worker and every employer. The pollsters have had their say. Political flags remain at half-mast. Post-mortems are even at this late date being performed. Generally, we have been told that three factors in particular cost Mr. Dewey the election: (1) the 80th Congress; (2) the rural drift from Dewey to Truman, and (3) the quiet but all-out drive by organized labor to oust Republican Congressmen. These last two forces are indeed potent in our national economy and must be more carefully reckoned with in our 1948-52 structure of living.



Roger Babson

Perhaps the time has come for me to make a prediction or two myself! Let the chips fall where they will. I should like to remind you that the panic of 1873 was due to over-reaching by the railroad barons of that day; the panic of 1893 to the over-extension of western land loans; the panic of 1913 to the over-expansion of industrial traffic; and the panic of 1933 to the collapse of our banking system following the stock market break of 1929. I predict that the next panic will be due to the over-reaching of labor and a collapse of the present union leadership.

Cooperation Is Needed

Another prolonged depression might bring us face to face with ideological experimentation in this country. It becomes increasingly apparent that Management must take the lead in showing Labor the rational path out of their confused jungle of thinking. I believe a more enlightened Management leadership can prove not only to our own wage-earning classes but to the world that the free enterprise system offers the greatest opportunity for individual initiative, the highest standard of living, and the greatest security.

The workers' basic wants are recognition and security. Labor has believed, correctly or incorrectly, that Management has seriously threatened the attainment of these goals. Labor has shown that it will fight to preserve the organizations working for them. To assure Labor-Management cooperation, we must try to understand why Labor and Management think and act as they do. Quite simply we can say that differences in men's thinking arise because they live in different economic and social worlds. The beginning of cooperation is the recognition of these differences and an honest attempt to overcome them.

Labor-Management Goals the Same

Unless you receive your orders from Moscow, you will agree that the long-range goals of Labor and Management should be as follows: (1) Continuous steady employment; (2) good working conditions; (3) full wages based upon productivity; (4) ample profits for the business to insure good wages, to attract venture capital, and thereby expand the business; and (5) freedom for any wage worker making good to become a capitalist, but with assurance that any employer who does not will drop back into the wage-earning group. These goals, however, will be achieved only when Labor and Management understand the other's job and work together.

It is increasingly apparent that union leaders and management alike expect the other fellow to follow a course which they themselves cannot take and survive. Management says that we shall have peace when unions do not infringe upon its sacred rights. The unions say that we shall have peace when Labor is not made secondary to Management.

A Warning

I predict that if Labor and Management do not do a thorough job of understanding one another during the next few years, we shall not only have a depression, but we shall have such regimentation of Labor and Management that there will no longer be either free unions or free enterprise.

So?

"There are some people in the United States who seem to enjoy being scared. With the buying power of this country at its highest, and the people apparently able to buy everything that is being manufactured or grown at a reasonable profit to the manufacturers and growers, I don't see anything anyone's got to be scared about.

"Nobody can say that the country is not in a prosperous and healthy condition. If a major depression or recession should come, which I do not expect, it will not be justified by our economic situation but will be man-made."—Sam Rayburn.

Mr. Rayburn, soon to be Speaker Rayburn again, is evidently permitting himself to be befuddled by superficial appearance, as a great many others have done before him. When "prosperity" reigns "depression" usually appears to be impossible—at least to the unwary.

But we must say that Mr. Rayburn's optimism has at least as much to recommend it as the philosophy of most of the modern school of "boom and bust."

Simplifying Problems of Trust Investments

By WILLIAM H. SHUPERT*
Studley, Shupert & Co., Investment Counsel

Calling attention to tendency to give trustees liberal or full discretion on investments regardless of legal restrictions, investment counselor points out this development places more responsibility and leads to more problems for trust officers. Advocates a "working list" of portfolio securities be kept by banks acting as trustees, and that it be reviewed and amended at regular intervals. Urges simplification of forms for handling individual trust accounts.

In general the corporate trustee accepts the most responsibility, is subject to the most criticism, and is paid the least. He always acts under the most unfavorable conditions. When money rates are low, he is short on income; when they are high, principal shrinks. A good performance is taken for granted, mistakes magnified, and he is the one respectable excuse for a family's strained financial circumstances, contrary reasons notwithstanding. In spite of this, one of Boston's prominent private trustees remarked recently that there was a definite trend toward the corporate trustee and significantly added that he was pleased to see it.

Even more perceptible is the tendency to give liberal or full discretion on investments regardless of legal restrictions. An increasing use of corporate securities, including common stocks, seems inevitable, so the forecast is more responsibility and more problems. This sounds discouraging but never was optimism more warranted. A new spirit is developing slowly but surely among institutional trustees and these new problems will be turned into new opportunities. The new feeling is best expressed by this recent statement of a trust officer: "We are tired of being kicked around by the public and some of our own associates; we are going to fight back, take only the blame we deserve and insist on not being held responsible for ancient history in which we had no part." It can be added that tradition will serve, but will no longer govern, and you will see a more aggressive spirit than ever. In no field is Ben Franklin's admonition more applicable — hang together or you will hang separately — incompetency in any trust department hurts the reputation and business of all. Cooperation is essential.

This and previous conventions are an important part of an organized effort to improve banking by mutual assistance. My assignment is to discuss what is being done successfully to simplify the selection and administration of corporate securities and to present some suggestions for your consideration. If I had been able to produce the man Jay Knox really wanted, I would not have been stuck with this job nor you with me.

There is room for differences of opinion on many points but there is no ground for saying that a bank will ever solve this problem without a resolute decision to limit its use of corporate securities to a relatively small number. The size and choice will vary but many of the largest trust companies are working toward a limit that would have seemed impossible some years ago. The goal is obvious. The way to reach it easily and within the bounds of justifiable expense is not so clear. Enough progress has already been made to prove it can be done. Most banks limit their field of activity in real estate mortgages to territory they can appraise accurately and watch constantly. The same principle should apply to securities.

Firm policy in regard to this matter should be established as a first step and made an important issue. It should have the enthusiastic support of every bank official and made a matter of record. A carefully prepared statement of the reasons for limiting the number of issues to be used in trust investments should be available for reference and written so that reasonable people will understand why the responsibilities of a fiduciary cannot be fulfilled otherwise. Probate Judges, with whom I discussed this subject, agreed that action taken in accordance with this sound practice should be approved in any court, especially if it was consistently followed.

Obstacles in Restricting Portfolios

In places where there has been a conscientious effort to restrict the portfolio, the following are some of the principal obstacles encountered:

(1) Lack of sincere confidence in the soundness of the policy to stand up against other factors.

(2) New trusts containing items of quality not on the bank's restricted list.

(3) Counter ideas of co-trustees and beneficiaries.

(4) Special requirements of wills for the retention of certain securities.

Few of these difficulties could impede progress if every member of the institution believed in and supported the policy, and if its advantages to everyone were clearly explained.

New trusts can usually be made to conform to this program more easily at the start than later, or by piecemeal steps. Co-trustees will often cooperate if the bank's side is properly presented, but it is admitted they present a real problem. An agreement on overall policy, including the issue of restricting the choice of securities is helpful. In appropriate instances the co-trustees may be supplied with copies of the working list, and of course it is desirable to have an exchange of correspondence on the subject. Beneficiaries can be impressed by the advantage of the closer supervision this affords—and good will can accrue from a little salesmanship on this subject. If given an opportunity to advise on the draft of the will, reference should be made to the advantages of the "working-list" idea and it should be urged that no provision preclude adherence to it.

Do not discount the need for a specific list of securities to implement this policy. We prefer to think of such a list as a "working" or "selected" list rather than as an approved list, partly because the natural meaning of the latter term implies a static attitude of mind much too final to be realistic under conditions which are thoroughly dynamic, but mostly because it encourages overliteral acceptance of the list itself as a solution of the investment problem which underlies it. For practical usage, the factors of selectivity and timing are unavoidably superimposed upon the factor of quality in any efficient investment procedure not only in connection with the purchase of securities but likewise with respect to their retention and/or elimination—this observation having especial application to common stocks.

The "Working List"

The "working list" should contain corporation bonds, preferred shares, and common stocks, which are believed to possess the requisite investment merit to qualify them for use in your Trust Department. Your own familiarity with New Jersey laws will enable you to earmark the bonds and preferreds which are legal so that the list will serve for restricted as well as unrestricted accounts. While it is right and proper that the securities included in any such list should bear a quality designation, as a convenient means of classifying them on that score, it is equally important that practical day-to-day use of them should give the most careful consideration to the investment objective underlying their selection for any given trust account and, of course, to the relative attractiveness of different types and grades of securities as revealed by their current returns.

The greater the number of securities included in such a list, the more unwieldly it becomes for practical use. Choice underlying railroad and utility bonds should be omitted if they are outstanding in such small amounts as to be rarely available (witness Edison Electric Illuminating bonds as underlying Consolidated Edison obligations), and you may likewise omit other choice underlying issues of the same companies already included in your list because they would obviously qualify for your consideration. It is well to avoid prominent and regularly available high-grade bonds when the current purchase involves a prohibitive call risk, and also certain junior railroad obligations whose quality is acceptable but whose price seems to be in a selling, rather than a buying range. The selectivity thus exercised among bonds applies to preferred shares with the net result that the individual bonds and preferreds appear in the list after a careful screening process, which enhances their collective value as a working list.

The following comments on our own list at this time might be of interest.

Public Utility Bonds

This section does not include any issues graded below 2 which is the symbol we use to characterize bonds which we consider "Good" as distinct from the next higher grade 1—"Excellent," or the next lower Grade—"Fair." The omission of all utility bonds below Grade 2 reflects our conviction that such lower grade issues, as a class, are still currently overpriced by comparison with the prices of Grade 1 and 2 obligations—a condition doubtless reflecting the present era of low interest rates wherein the attendant difficulty of obtaining income satisfactory by past standards has resulted in a narrowing of yield differentials all out of proportion to differences in the credit standing of the different grades of bonds involved. Under such conditions, it seems to us that Grade 1 and 2 issues are vastly to be preferred over those of lower grades; and even as between Grade 1 and 2 obligations, we ourselves prefer the former.

Railroad Bonds

In contrast to the public utility section our selections of railroad bonds include several which we classify as Grade (II)—we use the parenthesis to indicate the lower level of a given grade—and Grade III. Without exception, these lower grade issues involve short to intermediate (rather than long) maturities which we believe will be paid when due and which, while they cannot always be counted upon to maintain a high degree of price stability, are nevertheless relatively attractive as to income. Under such conditions, it appears to us that the credit position of these particular issues is really stronger than is indicated by the quality rating which, sometimes for technical reasons we feel compelled to assign to them —hence we have no hesitation in using them, in which connection their better-than-average return is relatively attractive.

Industrial Bonds

The comparatively small number of industrial bonds included in our list is limited entirely to Grade I and II obligations, which reflects our strong preference in this investment field for bonds of well-known companies whose earning power is firmly established. Among such Grade 2 issues we have deliberately omitted a considerable number of bonds of investment calibre because more acceptable substitutes for them appear among Grade 1 issues. We suggest your keeping in mind that our Grade II rating on industrial bonds (or for that matter, upon any other type of bonds) in no sense damns them with faint praise on the score of quality.

Preferred Shares

Among investment media, preferred shares might properly be described as a "hybrid" type, having neither the mortgage security naturally associated with bonds nor the dynamic aspect of common stocks, thus occupying a middle-of-the-road investment position. *In theory*, they provide the investor with a more liberal fixed return than that obtainable from bonds as compensation for the lesser degree of security involved; or, if their use be contrasted with common stocks, they provide the investor with a preferential and fixed claim upon both assets and dividends — claims which compensate for limited participation in a highly successful enterprise while at the same time affording measurable protection in the event of mediocre success or downright failure. In practice, it is necessary to distinguish carefully between those relatively few issues which are "preferred" in the true sense of the word and that vast number which are preferred in name only. The former group (especially the "aristocrats" among them), have a good deal in common with high-grade long-term bonds both with respect to their investment strength and their behavior in the market; while the latter group have little if anything to commend them by comparison with the best of common stocks—indeed, the often-heard "street" comment that medium to low-grade preferreds have an unlimited capacity to decline without compensatory opportunity on increase, is very close to the truth.

The specific preferred issues in our list reflect careful selection of issues which are preferred in fact as well as in the name. There is a very proper place for such issues in many Trust portfolios, especially where there is a very real need for income. In such instances, it is our practice with our own individual clients to use such high-grade preferred to supplement the bond section of their holdings, a good illustration of which would be a 60-10-30 apportionment among bonds, preferred shares, and common stocks in an account for which a maxium holding of common stocks up to about 30% is appropriate.

Common Stocks

Among common stocks, our selections have allowed for acceptable quality on the one hand and diversification by industry on the other; but the presence in our list of a common stock *does not necessarily indicate approval* of its purchase and/or retention *at current prices* because the dynamic nature of common stocks effectively precludes blanket approval applicable to such a list. Whereas such fixed-income securities as highest grade bonds and preferred shares have relative price stability quite directly associated with the interest rate, common stocks have no fixed-income aspect and react suddenly pricewise to an endless variety of events unpredictable both as to time and effect. The administration of the common stock section of our list confronts us constantly with a serious problem of timing and this part has to be handled on a more current basis. This difficulty should not be over-magnified because we mark the stocks which appeal to us, for one reason or another, more than others according to their respective industries and current prices.

The working list should have a formal over-all review at regular intervals, say quarterly, and it might be well to include a brief summary of the committee's views on the current economic scene.

Institutions with competent security analysis departments have no problem with the formation or supervision of the list. The investment officers and analysts have a better opportunity to discharge their duties and it broadens rather than limits the scope of their activities. They are relieved of much boresome detail and released from answering many questions without an opportunity for sufficient study. The list is not static; it must be altered to meet changing economic conditions — but never allowed to expand beyond the minimum requirements.

Small trust departments, where the maintenance of a security analysis department is impractical, if not impossible, are in a different position and most of them are alert to this problem today. Certainly the solution is much simpler if it is understood how few corporate securities they need know about and use to discharge their obligations fully. Assuming this premise is accepted, the need for outside assistance is very limited and can be supplied economically. Sometimes arrangements can be made to secure sufficient help from a correspondent bank. Many of the past objections to this are overcome if the smaller banks has a clear understanding of its needs and limits its request to very specific factual data on a relatively few items. There are numerous independent investment advisory organizations available to serve banks in this capacity. It is my opinion that here lies the most fertile ground for some constructive co-operative action on the part of small trust departments. Their needs are limited and almost identical. Unconscionable duplication of effort with all the expense involved could be eliminated.

Let it be emphasized that this is not a suggestion for more centralization of power, but an opportunity for the small bank to be independent in the trust field and equipped to serve every legitimate trust need in the community. Men of sound judgment can pass on the relative merits of securities when the right data in the right form is available to them, and they can take their rightful place in investment committee decisions. It seems appropriate to suggest that this possibility be thoroughly explored and that consideration be given to the appointment of a special committee to study the feasibility of joint action. The use of existing facilities should be investigated for reasons of economy, and in this connection I shall take the

*An address by Mr. Shupert at 20th Mid-Year Trust and Banking Conference of New Jersey Bankers Association, Asbury Park, N. J., Nov. 17, 1948.

liberty to mention a possibility I deem worthy of consideration.

College Research Bureaus

The research being done in many of our colleges today is of inestimable value to industry and agriculture, and the same opportunities exist in the field of finance, although it does not appear to be used to any extent as yet. New Jersey is particularly fortunate in having two universities, Princeton and Rutgers, with internationally famous departments of economics. The Graduate School of Banking, held at Rutgers each summer, has made a valuable contribution to banks. The Department of Economics is headed by Dr. E. E. Agger, a former Bank Commissioner of your State, who helped organize the Graduate School of Banking and is now an Associate Director of it. The Bureau of Economic and Business Research at Rutgers, started in 1927, is now in full swing again after having been discontinued during the war. It is logical to suppose that any committee from banks in this State would receive a sympathetic hearing from Dr. Agger—and it is not improbable that use of the regular graduate facilities at Rutgers could be made to the mutual advantage of the school and the small trust departments. This source of future analysts and trust officers could be enlarged and improved by such practical contact.

Let us assume that banks, large and small, are either already equipped with or can get the necessary information to adopt the "working list" plan as conceived and now consider some aspects of its actual use.

Obviously all new investments in corporate securities should be made from the list. Institutions, where little more than this has been done so far, have found the number of items in their portfolio remain static, if not decrease. Probably more surprising has been the reduction in detail work and the general increased knowledge of each security. Those responsible for periodical appraisals bless the convenience of finding quotations easily in the daily press on the selected list items. Members of the Trust Committee, specialists in other fields of investment such as real estate mortgages, have shown a greater interest in securities—and I know of more than one instance where they have brought in news clippings on the companies being consistently used in the bank. Complete files should be kept on each security and these will grow to be exceedingly valuable. A final word on the "working list." This practice does not contemplate any restriction on the choice of securities by any bank, including those which might work with a co-operative source of statistical information. There will always be enough companies in common so that the total number selected by a large group of banks would not defeat the plan.

At this point I fear what is intended to be simplification seems to be more complication—like the efficiency engineer who made regimented chaos where only confusion existed before—but I would like to make one or two suggestions of a general nature before closing.

Forms for Individual Accounts

The form in which data, on individual accounts, is presented to the committee is vitally important and, while there is insufficient time to discuss this in detail, it is strongly recommended that you devise a method that will focus attention on the important factors, giving a bird's-eye view of the general structure and leave the detail of the individual items to trust investment officers.

The answer to the small account problem, in banks large enough to have one, is the Common Fund, for which enabling legislation has been passed in New Jersey. Many of you will challenge this next statement—but the answer to the small trust departments is the same. I shall lead with my chin and predict that the small banks in many states will eventually have this same medium available for their use by some co-operative arrangement. Don't bother to tell me why it cannot be done and why it will not work. I know that but if it has the merit I think it has, and the need is as great, you will find the way to do it. The Common Fund has already proved the principle of the selected list idea. A bank informed me only a few weeks ago that they went through 375 individual motions to enter a purchase of $67,000 worth of a bond issue in 2 accounts—15 would be required to establish completely the same purchase in their Common Fund.

Your profession is accustomed to many legal restrictions, the advisability of which you may often question. If you intend to administer accounts with complete or very liberal discretion on investments you have an opportunity to make your own rules in accordance with your own particular circumstances, but be sure to mark well your boundaries.

The tide of criticism of banks has ebbed since the bank holiday and has been worn threadbare as a political campaign issue. There is an opportunity for pleasure, new business, and profit if you break with tradition by getting out to see many of the people who customarily come to you, and those who do not but whom you would like to have as trust accounts. Strangely enough this will simplify your investment problems by the mutual understanding engendered.

Says Hybrid Economic System, Involving Price and Profit Control, Cannot Endure

Dr. Harold G. Moulton, President of Brookings Institution, contends line must be drawn between "regulation" and "control," and American democracy is inherently incapable of achieving a controlled economy. Scores government usurpation of managerial functions.

In a pamphlet published by the Brookings Institution of Washington, D. C., entitled "Economic Systems" and subtitled "Free Enterprise, Communism, Socialism, Hybrids; Regulations Compatible with Private Enterprise," Dr. Harold G. Moulton scores the drift in the United States in recent years toward a "hybrid" type of economic organization, which, he says, cannot endure. According to Dr. Moulton this is a new type of economic organization, which he characterizes, as follows:

Harold G. Moulton

"Instead of a completely centralized domination of economic life by government—as under communism, fascism, and nazism—and instead of government ownership and operation of selected industries, as under state socialism, the new American philosophy conceived that the function of government should be to **control** the operation of the economic system. Individuals would still be free to own and operate whatever type of business enterprise might seem to offer the best hope of profit, and private enterprise and competition would be depended upon to furnish the spark and driving force for technological advancement.

"American development along these lines involved two stages: The first was that of the Roosevelt administration from 1933 to 1940; and the second was that of the year 1946 under the Truman administration. The latter was much more farreaching in its potential impact upon the operation of the private enterprise system."

Asserting a hybrid system, involving price and profit control, with retention of form of private enterprise, cannot endure, Dr. Moulton argues: "Wartime experience in this and other countries demonstrated the impossibility of controlling industrial prices without controlling wage rates and agricultural prices — basic elements of cost. The problem is no different in time of peace. But, since in time of peace the control of wage rates is a practical impossibility in a democratic country, prices cannot be stabilized if conditions are conducive to sharply advancing wage rates.

"Assuming that the system could be effectively administered, prices and profits would not be allowed to rise in industries whose products are in high demand by consumers, and thus an expansion of production in such fields would not be induced. Similarly, the maintenance of existing prices in industries whose products are in low demand would serve to check the shift out of such industries. Not only would consumer choices cease to be effective in guiding production, but the government itself would not adjust prices in line with consumer desires because of the powerful opposition of vested interests who want the government to prevent readjustments adverse to themselves.

"In the absence of a functioning price and profit mechanism, the allocation of productive effort would thus have to be made directly by the government. With the vital decisions thus taken out of the hands of business enterprisers, the incentive to assume business risks would be destroyed."

Regarding the outcome of the situation, Dr. Moulton concludes, despite recent socialist trends, a democracy such as exists in the United States is inherently incapable of achieving a unified program of government control. In his own language:

"A number of considerations combine to make it impossible for a government like that of the United States to develop and maintain a coherent, comprehensive program of control over economic life. These pertain on the one hand to the nature of democratic government, and on the other to the intricate and baffling character of the control problem itself. It should be emphasized that we are not at this place concerned with devices for preventing business depressions, but with general government **control** over the economic system.

In the first place, the United States government itself is not a unified, law-making organization. With a view to safeguarding the public against extreme or ill-advised government measures, the Constitution provided for a threefold separation of power—a system of checks and balances. Congress can refuse to pass legislation recommended by the President; the President can veto legislation passed by Congress; and the courts, in turn, may nullify acts passed by Congress and approved by the President, by declaring them unconstitutional. Even when the party in power also has a majority in Congress, the President often cannot gain the support of Congress for specific measures which he deems important; and, similarly, Congress sometimes cannot win the President to its point of view.

"Second, the government's economic policy is inescapably a mere composite of the policies of past and present administrations. A new administration is inevitably committed to the continuance of many programs and policies already embodied in law or administrative commitments. This is substantially the case even when there is a change in the party in power. An incoming administration cannot simply scrap outright all existing laws and policies and evolve an entirely new government program. At best, the program of any government is a combination of old and new, good and bad. It should be added that if it were possible for a new administration to launch a control program without reference to existing laws and procedures, the greater coherence that might be achieved would in some measure be offset by the loss in long-term consistency.

"Third, there is not merely a lack of unity among the three major divisions of government, but even within the executive branch there is divided responsibility. There are numerous so-called independent agencies, whose responsibilities and powers have been defined in legislative acts, and whose officials have a term of office exceeding that of the President. Such agencies are given this special status in order that they may pursue longer term policies free from immediate political considerations and gradually acquire the experience required for wise administration. Again, the precise jurisdiction of government departments or agencies is sometimes ambiguous, providing an opportunity for inter-agency conflicts. Moreover, virtually all departments, as by inner compulsion, seek constantly to extend their power, influence, and size. This is in part attributable to a natural desire to exert influence believed to be constructive; it is sometimes due to the political ambitions of a cabinet officer or department head; and it is usually affected by the fact that budget authorizations depend upon making a good showing — by pointing to some striking achievement, or by citing the increasing scope of the department's work.

"The constant struggle for influence and status is one of the most striking characteristics of government. The game is to get the ear of the Chief Executive first—or sometimes last. The only place where conflicts can be resolved is the White House; and the President must often compromise in order to maintain peace in the family and an appearance of harmony before the public. Examples of such conflicts are legion. Reference need be made only to such notorious cases as the encroachment of the Department of Commerce in the twenties, the struggle during the thirties between the Public Works and the Works Progress administrations, and the competition for influence at the White House between the departments of War, State and Treasury with reference to postwar policy with respect to Germany. Of a more permanent character are the differences and the divided responsibility between the Federal Reserve Board and the Treasury Department over financial policies.

"Fourth, under the American governmental system, the uniting states did not confer unlimited powers upon the Federal Government. To protect and preserve the rights of states and keep government close to the people, state and local governments reserved much power over economic affairs to themselves. While the constitutional powers of the Federal Government have been greatly broadened by court decisions, and while devices of various kinds have been employed to bring about team play and coordinated action, there remains a fundamental division of power and responsibility between Federal Government and state and local units which, whatever the merits from some points of view, serves to impede the development of a truly comprehensive national program.

"Fifth, government economic policies inevitably reflect the power and influence of the many special interest groups that strive perpetually for government favor or protection. In the nature of the case, a program resulting in large measure from the pressures of economic blocs cannot be internally consistent. Since such policies are formulated and executed by political parties desiring reelection, vote getting is necessarily a primary consideration. It is a maxim of politics that it is sometimes necessary to accept or promote unsound policies because of the exigencies of the political situation. Moreover, once one important group has been given protection, others insistently demand similar support—as a matter of right."

National Chamber of Commerce Sees Money Supply Major Cause of High Prices

Asserting that a major cause of high prices in the United States today is a three-fold expansion in the quantity of money in circulation, the Chamber of Commerce of U. S. Committee on Economic Policy has published a report designed to explain what the money supply is, how it rises and falls, and how it affects the price level.

The 40-page document, entitled "The Economics of the Money Supply," is a survey of what is one of the most important problems confronting the nation.

Observing that inflation, according to Webster, is not an increase in prices, but an increase in the supply of money which is followed by a price increase, the report shows how the amount of money may expand or shrink through changes in bank credit based on fractional reserves, as well as through government issues. "Since inflation is a monetary phenomenon," the report states, "the remedies must be found primarily in monetary measures."

The situation is a delicate one, however, and calls for the highest degree of intelligence and caution. The booklet observes: "A shrinkage in the supply of money would tend to force a drop in demand for goods and services and a consequent fall in prices. But the great question is whether such a decline in prices might start a downward spiral leading to another depression."

A sudden braking of monetary expansion, while fully capable of bringing down prices and living costs, according to the report, "might also bring down the whole house."

It is pointed out that, clearly, some very difficult decisions are ahead for the monetary authorities and the American people. The document continues:

"Specific proposals have been made by competent business, banking and government authorities for the establishment of a national monetary commission similar to that set up in 1908."

In an appendix to the report are indicated some of the questions with which such a commission would have to deal.

Benedict Baker Dead

Benedict J. Baker, President of B. J. Baker & Co., Inc., Boston, Mass., died Nov. 18 at the age of 63.

Public Utility Securities

Philadelphia Electric

President H. B. Bryans of Philadelphia Electric Company, in an address before the New York Society of Security Analysts Nov. 17, described the financial condition and future prospects for his company, and the following is summarized from his comprehensive talk:

Philadelphia Electric is the fourth biggest electric company (in volume) and serves a population of about 3,000,000 in the Philadelphia area. One-third of the U. S. population lies within a 300-mile radius; and of some 446 varieties of industry in the United States, 386 are represented in this area. The $5 billion worth of finished goods produced in the Philadelphia area is more than the total produced in any one of 40 states. About 87% of the company's revenues are electric, 11% manufactured gas (in suburban areas), and 2% steam-heating.

Philadelphia Electric's growth in electric sales has been considerably better than for the Middle Atlantic states and the industrial north east. Philadelphia population increased 16% in 1940-47 compared with 8% for New York and Boston and 3% for Chicago. Living standards are relatively high, wtih home-ownership the best percentage for any of the 10 largest metropolitan areas. Reflecting the company's long-term growth, the 1948 output of over 8 billion KWH is 160 times as large as in 1900; growth has averaged about 8% per annum in the past 25 years.

Anticipating continued growth, the company planned a $235,000,000 construction program during 1947-52, and this now has been extended one year and the amount increased by $87,000,000; the seven-year program will increase plant 60%, and capacity will gain 771,000 KW. In its manufactured gas operations the company has one of the lowest cost systems in the country, using several new research developments in which it has taken the lead. In September it began to receive natural gas from Texas Eastern Transmission Corp., with which it has a contract for 20,000,000 cubic feet daily. It also expects to receive 30-50 million cubic feet from Trans-Continental Gas Pipe Line Corp. when that company completes its pipeline in 1951. This will increase gas plant capacity 50%.

About one-third of the $322,000,000 construction program during 1947-53 is being financed through cash from depreciation reserve funds and surplus earnings. Fifty-five million dollars of bonds and $45,000,000 preferred stock have already been sold, leaving $115,000,000 financing over the next five years. This will be raised in a diversified way through issues of bonds, preferred and common stock, and possibly some debentures. It is the company's policy to keep funded debt below 50% and common stock equity at 35% or more. Further financing is unlikely until late 1949 or early 1950, after which about one new security annually will appear through 1953.

The company's average residential rate last year was 2.9¢ compared with 3.1¢ for the electric industry and an average of 3.3¢ for 12 metropolitan companies. Annual use is about 1,680 KWH, well above the national average. Eighty percent of the company's gas and steam sales are protected by fuel adjustment clauses; gas rates were recently increased and now include fuel adjustment. The company has actively promoted the sale of electric ranges and water heaters, despite competition from gas on which rates are relatively low. The company is cooperating with the industry in experimenting with the heat-pump and has just completed two experimental installations.

It is expected that total revenues will increase at least $21,000,000 in the next five years, or a gain of 16% over this year; the forecast makes allowance for a business recession during the period.

Cost of electric generation is expected to be about the same five years hence as today, since the efficient new machines should more than offset any anticipated increase in fuel prices. Moreover, the improved quality of coal now being received is a partial offset to higher prices. With an anticipated decline of 13% in the amount of coal burned to produce 1 KWH, a saving in fuel expense of about $4,500,000 is anticipated by 1953 (if fuel prices should remain unchanged).

Accounting costs, now $3.41 a year per customer, are considerably below average for large metropolitan companies, but will be reduced still further through greater use of machine operations. Since the company wishes to raise its depreciation reserve from 17% of plant to 20% in 1953, depreciation accruals in relation to revenues are expected to rise from 9.3% of revenues to 11.9%.

Mr. Bryans pointed out that earnings suffered a set-back in the early 1940s as the result of sharp tax increases and a heavy rate reduction; the loss of revenue could not be immediately recovered since the sale of new appliances became restricted. From the low point of $1.31 a share in 1943 (restated to present capitalization) earnings rose to $1.71 in 1947, but are expected to drop back to $1.60 in 1948. The decrease is due to higher costs, particularly fuel, as well as added interest and dividends on new securities issued earlier this year. Much of the higher fuel costs will be recovered by fuel adjustment clauses, but there is a time lag before these adjustments are in operation.

The company is currently charging off 7¢ a share for plant account adjustments (reaching an original cost basis in 1960). Earnings this year are also reduced 14¢ by charging off substantial expenses in connection with the refinancing program (similar charges will be 11¢ next year, 7¢ in 1950-52 and 6¢ in 1953). Mr. Bryans does not look for any spectacular increases in earnings, but he believes that the character of the Philadelphia area and the company's preparations for future growth of revenues and reduction in operating costs "point to a continuation of satisfactory earnings."

To Manage Office

ORLO VISTA, FLA.—Slauson, White & Rowe, Inc., of Washington, D. C., announce the appointment of Mrs. Mabel White Slauson as manager of their Florida office located at Orlo Vista, Florida. Mrs. Slauson has been associated with the Washington office for 16 years.

Evans George & Associates

MONROE, LA.—Evans George & Associates, Inc. is engaging in an investment business. Officers are Evans George, President; M. S. George, Vice-President, and Carl Stevenson, Secretary and Treasurer. P. F. O'Brien of Winona, Minn., is also connected with the firm.

Too Much Post-Election Pessimism

(Continued from first page)

understood the Soviet character and the menace to western freedom which it presents. The Nazis in a single volume, Hitler's "Mein Kampf," told all their potential adversaries what they proposed to do. Communism provides scores of texts, from Marx to Stalin, consistently detailing implacable plans for the destruction of the free world. Only innocent ivory-tower occupants can doubt their purpose. Only traitorous fifth-column knaves can profess any hope of a composition with the Reds that will leave the rest of us free.

To discuss the possibility of war with Russia is unrealistic. She is already waging it with the weapons of her choice, on battlefields determined by her own high strategy. The only questions that remain are when the shooting war will start and which side will take the initiative. The prophets today who claim that Russia cannot start or wage a war with a first-class power are in many instances the same oracles who knew that Truman could not win.

This grim prospect has already imposed great burdens upon us in the form of European aid and rearmament. The rate at which these outlays must be accelerated is the only remaining question—assuming the decision for any length of time remains our own.

Why Pessimism Over Election

At home the business world takes a dim view of the election. A Republican victory and at least a moderate return to conservative principles had been taken for granted. It is known that the President's advisors, including the militant element of rejuvenated New Dealers, see in the election a series of mandates. Among these are (1) repeal of the Taft-Hartley Act, (2) farm price support at present levels, (3) price controls, and (4) higher taxes.

Consider first the implementation of these mandates and their possible effects on the business world and, secondly, the validity of the mandate assumption by the victors. Repeal of the Taft-Hartley Act would restore the status quo with the LaGuardia Anti-Injuction, Fair Hours and Wages, and the Wagner Acts governing labor relations. If the experience under this code of labor license is any guide, it will mean the immediate stimulation of strikes, the restoration to labor leaders of greater personal power without commensurate responsibility, and a succession of wage increases which nothing short of a major depression will halt.

The continuation of farm price supports at present levels means an attempt on the part of the government to prevent the normal price effects of abundant crops. This effort involves the use of funds raised by taxation of all the people to underwrite the prosperity of a part of the people. It means that the government will seize a part of the income of most of the people and use it to deny these same unhappy contributors cost-of-living relief. While this might seem to help the farmer and thus pay off a political debt, it will in the long run hurt him most by destroying normal markets and creating needless hostility between rural food producers and urban food consumers. In the long run it might be wiser for the farmer to take something less than the full measure of price support which his political power unquestionably can wring from the government.

Price control constitutes a cynical attempt by the government to avoid the inevitable consequences of its own conduct. Vast public debt, much of it unavoidable but some of it due to deliberate deficit financing, is the root cause of inflation. It has provided the greater part of the money supply which has brought about the higher level of living costs.

Rising labor costs achieved through monopoly union bargaining power and burdensome food prices, through deliberate government perpetuation of scarcities, are merely the particular pressures that exploit the inflationary potentials of greater money stocks. Price control is an attempt to change the scale on the thermometer in order to give the public the illusion of relief. Price control denies to money its functional right to bid freely in the market place. It represents a partial repudiation of the currency.

Since price control in a democracy is rarely complete but usually covers only finished products while omitting labor, it involves the limitation and, in extreme cases, even the elimination of profits. It thus becomes a more or less subtle seizure of property without due process and a contravention of free market justice.

It is little wonder that the stock market takes a dim view of price control. Inflation, instead of acting as a market stimulant, can easily become a cup of speculative hemlock juice.

In November, 1947, and again in July, 1948, Truman presented to Congress a program for inflation control. On both occasions near the top of the list was a revived excess profits tax. Our Constitution clearly stipulates the use of the power to tax to enable the government to pay its bills. The founders never contemplated its use as an instrument of inflation control or for the purpose of redistributing wealth.

Such purposes constitute a perversion of the true functions of a tax which violates the spirit if not the letter of the Constitution. Furthermore, if the government, as is most likely, imposes additional taxation only to spend the proceeds again, how can such taxation be anti-inflationary? Is money spent by the government any less inflationary than the same money spent by private parties?

Signs of Capital Anemia

The American economy is already showing signs of serious capital anemia. For the first time in our history the period from 1931 to 1945 shows an actual decline in the nonwar capital equipment of this country. A study by the National Bureau of Economic Research shows that there has been an actual decline of approximately $9 billion in the nonwar capital of the United States during this period. Such capital, so essential in maintaining and improving the high American standard of living, comes largely from corporate earnings and the savings of individuals in the upper income brackets. Higher taxes, impinging upon the greatly weakened sources of capital accumulation, will merely aggravate the ailment and predispose the economy to an early depression.

It may be well at this point to raise a question with the victorious party regarding the validity of its assumption that it has a mandate on the questions of labor, farm price support, price control and taxes. As the final returns from the election are counted, they reveal that the President actually received less than half the popular vote. It shows that the margin between victory and defeat was indeed very close.

Without denying him any credit for the magnificent effort which he made, the fact is that Mr. Truman is at least equally indebted for his victory to the failure of several million Republicans to cast their votes. The mere fact that they failed on this occasion to exercise their franchise does not alter the fact that they are citizens of this country and that their interests and wishes should be consulted by a representative and just government.

It is not at all certain that a majority of the American people wish to see the Wagner Act restored as the country's basic labor law, or high farm prices maintained at the expense of the general taxpayer, or price control restored, or discouraging and larcenous taxes imposed upon corporations and upon the diminishing income accruing to the upper brackets.

Fortunately, Congress contains a substantial conservative element in both parties which will make the realization of these assumed mandates a difficult task. Congress retains an actual majority of Senators and Congressmen who voted to override the Presidential veto of the Taft-Hartley Act. Almost all the standing committees of both Houses are under the chairmanship of men who sit on the conservative side of the aisle, no matter what party label they may be wearing.

It is possible, therefore, that business and the stock market, insofar as their current gloom reflects a fear of election consequences, are unduly pessimistic. The country is not yet ready to follow in the footsteps of the English Labor Party and forfeit the only authentic elements of economic superiority which we still possess over the rest of the world.

Andreas Chairman of North American Cement

Albert M. Andreas, who recently purchased controlling interest in North American Cement Company, New York, was elected Chairman of the executive committee and a director of the company. North American has four plants located at Catskill, N. Y.; Howes Cave, N. Y.; Hagerstown, Md.; and Berkley, W. Va.

Mr. Andreas operated Northwest Linseed Company, Minneapolis, as its President from 1941 until Sept. 30, 1947, when he sold the company. Prior to that time he was connected with Honeymead Products Company in Cedar Rapids, Iowa.

In commenting on his new connection, Mr. Andreas said that he anticipated no changes in the present management of North American Cement.

Cohu & Co., members New York Stock Exchange, handled the transaction.

Dexter Blagden Dead

Dexter Blagden, formerly a member of the governing committee of the New York Stock Exchange, died at his home at the age of 78 after a short illness. Mr. Blagden retired from business in 1928.

J. Harold Cassin Dead

J. Harold Cassin died at his home at the age of 51 after a long illness. Mr. Cassin was formerly head of the bond department of Hornblower & Weeks.

Gilbert Ottley Dies

Gilbert Ottley died suddenly in Fresno, Calif., at the age of 41. Mr. Ottley was formerly a member of the New York Stock Exchange and was a principal in Gilbert & Rogers.

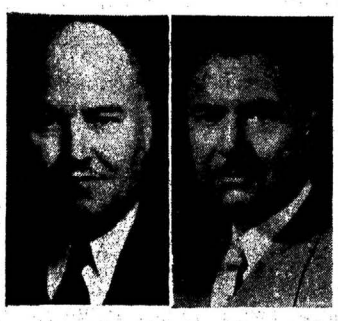
Peter Mencher Admits To Firm

Joseph Conns has been admitted to partnership by Peter Mencher and the firm name of Mencher Co., 120 Broadway, has been changed to Mencher & Co.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

Barnard Townsend, President of **Title Guarantee & Trust Company of New York,** announces the election of Alexander E. La



Alex. E. La Pointe Frank B. Morgan

Pointe and Frank B. Morgan as Vice-Presidents of the company. Mr. La Pointe will continue in charge of the trust department and Mr. Morgan will continue as Comptroller. Mr. La Pointe joined the investment department of the company in 1933 and was successively Assistant Trust Officer and Trust Officer. He is a graduate of Rutgers University's Graduate School of Banking and has had extensive experience in the commercial banking field. Mr. Morgan, a graduate of Lehigh University, joined the company as Auditor in 1934 and became Comptroller in 1937. He is a certified public accountant in New York State and company representative at the National Association of Bank Auditors and Comptrollers.

* * *

J. P. Morgan & Co. Inc., of New York announce that Joseph P. Dow has been appointed an Assistant Secretary.

* * *

Manufacturers Trust Company of New York announces that Brian T. Moran, Jr. has been appointed an Assistant Secretary. Mr. Moran began his banking career in 1925 with the Pacific Bank in New York City. He has been with Manufacturers Trust Company since 1941, during which time he has been associated with the bank's Comptrollers Department.

* * *

Horace Reid was elected President of the **Buffalo Savings Bank of Buffalo, N. Y.,** on Nov. 16 to succeed the late William S. Rogers. Mr. Reed is President and founder of the Niagara Lithograph Co., according to the Buffalo "Evening News," which also said in part:

"Mr. Reed's business career in Buffalo covers more than 50 years, during which he has taken an active part in the city's banking affairs. He has been a member of the bank's Executive Committee for many years and a member of the Board of Trustees since April, 1937. In addition, he is a director of the Manufacturers & Traders Trust Co. and has served as a member of that bank's Executive Committee. Mr. Reed was born in Mansfield, Ohio."

* * *

The **Indian Head National Bank of Nashua, New Hampshire** increased its capital Nov. 9 from $200,000 to $300,000 by sale of $100,000 of new stock, according to the weekly bulletin of the Office of the Comptroller of the Currency.

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Albert M. Creighton, Chairman of the Board of Directors of the **Federal Reserve Bank of Boston,** announced on Nov. 19 the election of Russell Hale Britton, Executive Vice-President and Cashier of the **First National Bank of Rochester, N. H.,** as a Class A Director of the Reserve Bank, to succeed Leon A. Dodge, who will retire at the expiration of his present term on Jan. 1. This is learned from special Boston advice to the Hartford "Courant" which added that Frederick S. Blackall, Jr., President and Treasurer of the Taft-Peirce Manufacturing Co. of Woonsocket, Rhode Island, was re-elected as a Class B Director of the Reserve Bank.

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The election of Geoffrey S. Smith as President of the **Girard Trust Company of Philadelphia** was announced on Nov. 18 by the Board of Managers of the institution. Mr. Smith, who is 47 years of age, will succeed in the Presidency James E. Gowen, who will become Chairman of the Board. The Philadelphia "Inquirer" of Nov. 19 in reporting these changes, further said in part:

"The Board of Managers also announced the promotion of J. Malcolm Johnston from Vice-President in charge of the trust department to Senior Vice-President. All three changes will become effective Dec. 1. Mr. Gowen, who has already served nearly 10 years as President, will continue to take a very active part in the management of the bank. Mr. Smith, who is a native of Philadelphia, is a son of Edward B. Smith, founder of investment firm which bore his name and is now Smith, Barney & Co. Mr. Smith has been a member of Girard's Board of Managers since 1938. In 1940 and 1941 he served in Washington as Assistant General Counsel to the War Production Board. Mr. Johnston, who has been with Girard since 1916, was made a VicePresident in 1940 and head of the Trust Department a year later.

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George P. Edmonds of **Wilmington Del.,** was elected President of the **Wilmington Trust Company** on Nov. 18 by the Board of Directors. He succeeds the late Elwyn Evans. Mr. Edmonds announced that he resigning as President of Bond Crown & Cork Co., a subsidiary of Continental Can Company, and will devote all of his business time to the bank. The first connection of Mr. Edmonds with Delaware banking was in 1936 when he was named a Director of Union National Bank of Wilmington. Upon its absorption by Wilmington Trust in January, 1943, he became a director of the trust company and a member of its Executive Committee. He also is a director of United States Rubber Co. and a member of its Finance Committee, a director of the Warner Company of Wilmington and a member of its Executive Committee, and a trustee of Delaware Hospital.

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Appointment of Heinz Schneider of New York as Assistant Vice-President and Manager of the Foreign Department of the **Union Bank of Commerce of Cleveland** was announced on Nov. 16 by John K. Thompson, President. Mr. Schneider comes from the **Manufacturers Trust Co. of New York,** where he was Assistant Secretary and officer in charge of the foreign collection division of the foreign department. At the Union Bank of Commerce he succeeds Archie J. Battista Vice-President, who recently became associated with Geo. H. McFadden & Bro., cotton merchants of New York, Memphis and Houston. Mr. Schneider was born in Berlin, Germany and was educated at the Universities of Freiburg and Berlin. After training in banking and real estate, he came to the United States in 1936 and joined the foreign department of the Manufacturers Trust Co.

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The **Superior State Bank,** of Superior, Wis., was converted into the **"Superior National Bank,"** effective Nov. 15. The bank has a capital of $100,000. C. A. Gray is President and John G. Trautt, Cashier.

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Through a stock dividend of $100,000, the capital of the **Commercial National Bank in Muskogee, Okla.** was increased, on Nov. 3 from $300,000 to $400,000.

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The election of Jack Srenco as a Vice-President of the **United Bank and Trust Company of St. Louis, Mo.** was announced on Nov. 17. He was one of the principal stockholders, said the St. Louis "Globe Democrat" which further stated that the board also voted an extra dividend of 50 cents and quarterly of $1 payable Jan. 3 of record Dec. 21.

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Directors of the **American National Bank of Nashville, Tenn.,** have voted to increase the surplus to $5 million, an amount equal to the present capital, by a transfer of $250,000 from undivided profits. This announcement is credited to Parkes Armistead, President, in Nashville press advices.

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On Nov. 4 the **Calcasieu-Marine National Bank of Lake Charles, La.** increased its capital from $600,000 to $750,000 by a stock dividend of $150,000, it was reported in a recent bulletin of the Office of the Comptroller of the Currency.

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An increase in the capital of the **State National Bank of El Paso, Tex.,** from $600,000 to $1,200,000, through a stock dividend of $600,000 was made known by the office of the Comptroller of the Currency on Nov. 8. The enlarged capital became effective Nov. 1.

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The 78th annual statement of **The Dominion Bank, Toronto,** issued Nov. 22 shows substantially higher deposits with increases in investments and commercial loans for the year ended Oct. 30, 1948. Profits for the year amounted to $2,319,434 compared with $2,441,201 in the preceding 12-month period. After providing $950,000 for Dominion and Provincial Government taxes and $247,000 for depreciation of bank premises, net profits for the year were $1,122,097. Dividends at the rate of 10% per annum absorbed $700,000, leaving $422 097 to be carried forward to profit and loss account, increasing it to $1,054,510. Capital totaled $7,000.000 and reserve $10,000,000 both unchanged. Total deposits of $358,501,000 were up $35,000,000 from a year earlier. Commercial loans and discounts in Canada set a new record at $132.304,000, compared with $127,584,000 last year, while Dominion, Provincial and other high grade securities totaled $162.335,000, a rise of $23 000,000. Cash assets of $68,053,000 represented more than 18% of public liabilities, and immediately available assets of $241,283.000 exceeded 66% of total liabilities to the public. Total assets now exceed $393,000.000, a new high for the bank. The bank's annual meeting will be held in Toronto, on Dec. 8.

Carl L. Cleaver Now With Reynolds & Co.

Reynolds & Co., 120 Broadway, New York City, members of the New York Stock Exchange, announce that Carl L. Cleaver is now associated with the firm as a registered representative.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government bond market has gone back on the defensive after the brisk rally, which carried prices well above support levels. . . . Although the market had been pretty much a professional affair, it was believed that there was more substance to the advance, than has been shown so far. . . . Selling by Federal was large enough to scare traders away, while investors have pulled out bids, which has brought prices in some instances either back to the "pegs" or close to them. . . . Volume has been light and many issues have been quoted down, rather than pushed down by the volume of liquidation. . . . Caution again prevails with the psychological factor as potent a force as ever. . . .

For a while it looked as though the government market had turned the corner, and it seemed as though the many of the fears that have been so prominent in the picture were being dispelled. . . . However, liquidation of securities by the Central Banks, along with profit taking by professionals ended rather abruptly the newly born bullishness. . . .

TREASURY CONFIDENT

The refunding operation of the Treasury, which resulted in the retention of the 1¼% rate for the one year maturity, had a marked effect upon the financial community. . . . Many implications have been drawn from this operation, with the feeling quite general now that the monetary authorities, in keeping the certificate rate at 1¼%, are apparently not going to have higher interest rates and higher taxes coming along at the same time. . . . Also by not changing the certificate rate the powers that be seem to be giving a definite sign that they are not too much concerned about their control or power over the money markets. . . .

Likewise the Treasury does not appear to be disturbed by a large floating debt which means that they have confidence that they can refund maturities as they come due and at whatever rate they may decide upon. . . . The heavy refunding seems to indicate a continuation of the "pegs," since a stable market is a requisite in the successful carrying out of the program. . . . The increase in the floating debt probably indicates that the monetary authorities are not as much concerned about the inflationary trend as speeches and other actions on their part would lead many to believe. . . . It could be that the expenditures for defense purposes are not going to be as inflationary as had been expected and the business readjustment which has been under way may be more pronounced next year. . . .

RATE PATTERN REMAINS

The rate pattern of 1¼% for one-year maturities to 2½% for longer obligations seems to be set for a time, at least until there is an opportunity to examine the trend of economic conditions. . . . To be sure, the question of increased controls over the economy in general should not be relegated to the background, since the opinion is still very pronounced that legislation will be forthcoming if there be need for it. . . . Although the interest rate on short-term obligations was not changed in the refunding operation, this does not remove the possibilities of further restrictive measures by the monetary authorities since reserve requirements could still be upped. . . . If loans should continue to advance, it is believed that there will be an increase in required reserves of the member banks. . . .

Whether the government market has gone on the constructive side, is still anyone's guess. . . . There are many uncertainties that have yet to be resolved in the money markets. . . . Bank loans must be watched very closely, because until there is a definite change in this trend over a period of time, the danger of a further tightening of the money markets will not be removed. . . . Business conditions will also be a clue to developments in the government bond market. . . . Taxes, military and defense expenditures as well as the budget position of the Treasury must be examined carefully. . . . Until more is known about these various forces, one should still be very selective in purchases of governments. . . .

MARKET OPERATIONS

Although prices of government securities have moved in a wide range, in the last month, these gyrations have nonetheless resulted in better business for the dealers, since important portfolio adjustments have been brought about by the quotation changes. . . . Savings banks, for instance, have sold eligibles in order to repurchase top issues thus reversing the process that had been going on in the past. . . . Other non-bank investors have bought back some of the positions that were liquidated, with shorts in some cases being sold in order to make way for the higher income obligations . . . Bank investors have switched some of their shorts into the intermediates and longer maturities. . . . The partially exempts are still being taken out of the market, with the price weakness bringing in a few more of these obligations, which have been difficult to accumulate because the floating supply has been limited. . . .

The rally in the top issue, although not too vigorous, was looked upon in some quarters as premature, since it was expected that a sizable amount of these securities would still have to be liquidated in order to make way for non-government investments. . . . The advance in the longer bank obligations was viewed more favorably since many institutions had oversold their positions in these bonds, and the need for income was resulting in these holdings being restored. . . . Also many of the smaller banks, which had been switching from bills into intermediate maturities were moving into the higher coupon issues because of the need to maintain earnings. . . .

While some traders and investors have been locked in the market because of purchases at higher levels, there is still a fairly good interest in the middle and longer maturities, although there is no rush now to make purchases. . . . This probably means backing and filling at or near current levels, with a look see attitude likely to prevail until some of the imponderables are cleared up or a definite trend established.

Railroad Securities

New York Central continues to act even poorer marketwise than the general railroad stock list. Traditionally in the past this has been one of the market leaders and there was hardly a market move of any consequence that Central did not participate in. In the current year this has not been true. Trading has been desultory and the trading range has been quite narrow. In recent sessions the stock has been selling not far from the year's low. The shares have certainly lost any investment stature they might once have had and they have apparently also lost a large part of their speculative trading following.

The lack of speculator or investor interest in the New York Central stock is not hard to justify. The company has always been a relatively high cost producer. In the period since the end of the war, with successive wage increases and the consistent rise in fuel and material costs, this basic weakness has become even more pronounced. In the first postwar year, 1946, the company reported a sizable net loss even allowing for a large Federal income tax credit. Last year the company did return to black figures but the balance for the common was little more than nominal—$0.36 a share. There has been some measure of improvement in the current year. Estimated earnings of somewhat less than $3 a share still will not compare favorable with anticipated results of such roads as Gulf, Mobile & Ohio and St. Louis-San Francisco, whose stocks sell in about the same price range.

There are a number of reasons contributing to the poor showing of New York Central. It does a large passenger and l.c.l. freight business. Both of these are expensive to handle and result in fairly heavy net losses. These losses have become even more pronounced under the wage scales now in effect. A petition to increase l.c.l. rates has recently been turned down by the ICC so that substantial losses in this division will presumably be continued. It is possible that recent steps in cutting down on the passenger service will bring worthwhile economies but it is hardly realistic to hope that the losses from this service can be eliminated over the foreseeable future.

Another adverse angle of the New York Central picture is the short average haul on its freight business. With close to 11,000 miles of line operated the average haul on freight last year was only 232 miles. This is still above the prewar haul but is down from a peak of 274 miles in 1943. This short haul aggravates the relatively heavy terminal costs which are inherent in operating in such areas as New York, Chicago, etc. Obviously the per cent of revenue absorbed by terminal costs is much larger on a shipment moving 50 miles than on a similar shipment moving 500 miles. Finally, New York Central has a fairly large proportion of low density branch and feeder line which is very expensive to operate and keep up.

Reflecting these various operating weaknesses New York Central has consistently carried a smaller proportion of gross through to net operating income before Federal income taxes than have the Class I carriers as a group. In the six prewar years 1935-1940 the road carried an average of only 10.4% of gross through to net operating income before Federal income taxes. In comparison, Class I carriers as a group carried 15.2% of revenues through. Since the end of the war its relative showing has been even poorer. In 1946 there was a deficit before Federal income tax credits and last year only 2.6% of gross was carried through. All Class I carriers were able to carry 12.4% of gross through in 1947.

As has been noted, there has been some improvement in this year's showing. The showing is still far from encouraging, however. For the nine months through September the transportation ratio was still at the unduly high level of 44.6%. This was nominally higher than it had been a year earlier. Obviously, this narrow margin of profit under present boom conditions is cause for considerable concern as to what earnings may be if traffic declines even modestly from these levels or if wages go up again without a quick compensatory increase in freight rates. Most analysts consider the stock as still unattractive on this basis.

Halsey, Stuart Offers $50,000,000 Public Service Electric & Gas Co. Debentures

Halsey, Stuart & Co. Inc. and associated underwriters on Nov. 23 publicly offered $50,000,000 Public Service Electric and Gas Co. 3% debentures, due Nov. 1, 1963, at 101.209% and accrued interest. The group was awarded the debentures at competitive sale on Nov. 22 on its bid of 100.68. Bidding for the new debentures was close. The Halsey, Stuart bid differed from the second best bid of 100.6799 for 3s submitted by Morgan Stanley & Co. by 1 mill per $1,000 bond or by about $50 on the entire issue.

Of the net proceeds, $30,000,000 will be applied to the retirement, on a pro rata basis, in advance of maturity, of an equal principal amount of the company's 2%-2¼% bank loans made Sept. 10, 1948 and due Sept. 10, 1950. The loans, made with nine banks, total $50,000,000. The balance of the proceeds will be added to the company's cash resources to reimburse it for expenditures made under its construction program for additions and replacements to its utility plant and to provide for future similar expenditures.

The new debentures will be redeemable at prices ranging from 104.21% during the 12-month period beginning Nov. 1, 1948 to 100% in the 12-month period beginning Nov. 1, 1962. Through operation of the sinking fund they will be redeemable at prices scaled from 101.15% on Nov. 1, 1949 to 100% on Nov. 1, 1962.

The company is engaged primarily in the production, purchase, distribution and sale of electric energy and manufactured gas in New Jersey. It also sells electric and gas consuming appliances and by-products of the manufacture of gas. Of its operating revenues of $162,406,734 for the 12 months ended June 30, 1948, $116,513,675, or about 72%, were derived from electric operations and $45,893,059, or about 28%, were derived from gas operations.

The territory served by the company includes most of the larger cities and more populous sections of New Jersey and extends from the northeastern part of the State, at the Hudson River, southwest across the State to Trenton and Camden at the Delaware River. The population of this area, served with both electricity and gas, according to the 1940 Federal census, was approximately 2,877,000.

Election Result a Basic Set-Back for Capital

(Continued from first page)

116.60 and on Monday, Dec. 8, at 112.52, having lost slightly over 4 points. A week later it had dropped to 111.15, an aggregate decline of only 5.45 points or 4.7%. On Nov. 1, 1948, the same average was 189.76 and at the close of Nov. 3 it had dropped 7.30 points. A week later, Nov. 10, it stood at 173.48, an overall decline of 16.28 points or 8.6%. In other words, the reaction in 1948 was percentagewise about twice as violent as in 1941, and we feel that we are justified in our belief that the period of initial and extreme shock has now run its course.

Firm Statistical Foundation

Furthermore, while stock prices are much higher than they were at the time of Pearl Harbor, they are resting on a firm statistical foundation. The stock exchanges had not seriously participated in the postwar boom even when the Dow-Jones Industrials peaked out at 212.50 in May, 1946. Equally important was the fact that investment and business psychology in the spring of that year was extremely distrustful of the permanence of the then current level of prosperity. The ensuing 2½-year period has witnessed an oscillation of the Average between 163 and 193, actuated largely by the varying status of Soviet-American relations but also by the imminence or remoteness of tax and regulatory legislation in the Washington picture. All the while employment, personal incomes, profits, dividends and the various other indicators of business health were steadily rising. As a result, and again using the Dow-Jones Industrials, we note that the price of the 30 stocks in this Average is now about 8.3 times estimated 1948 earnings, a low ratio when compared with that existing at certain high and low points in recent stock market history and portrayed in the following table:

Date	D-J Average	Annual Earning Rate	Ratio of Average to Earnings
Nov. 20, 1948	178	$21.40	8.3
Mar. 16, 1948	165.39	18.86	8.8
May 17, 1947	163.21	19.44	8.4
Oct. 9, 1946	163.12	10.02	16.3
May 29, 1946	212.50	9.32	22.8
April 28, 1942	92.92	10.08	9.2
Mar. 21, 1938	98.95	10.50	9.4
Mar. 10, 1937	194.40	11.46	17.0
Sept. 3, 1929	381.17	19.84	19.2

The amount of borrowing in relation to aggregate value of listed stocks continues to be insignificant as it has been for a considerable period of time. New York Stock Exchange customers' debit balances and free credit balances about offset each other, indicating that the market is virtually on a cash basis. The wide spread in the yields from common stocks and high-grade bonds, and the very conservative ratio of stock prices to book values are not those which might be characteristic of a boom period. Even if 1949 profits for one reason or another decline 20% or 25% from 1948, the stocks comprising the Dow-Jones Industrials would still be earning around $15 and at 180 the multiple would be 12 times. Oddly enough, this is approximately the times-earnings ratio which would have existed several times in 1946 at the now classic lows around 163 if we had utilized the actual earnings for that full year which, of course, were not ascertainable until early in 1947.

It was fortunate that on Election Eve stocks were not at the 225 to 250 levels which they might have been had they fully reflected boom conditions in the field of business and the return of a Republican administration to Washington. In that event, the post-election decline in quotations might have been catastrophic.

Near-Term Unpromising

(2) We find it difficult to generate any marked degree of enthusiasm for the prospects of materially improved stock prices for the near-term even though current levels are statistically low. The repeated recoveries from the 163-165 level during the 1946-1948 period of oscillation to which we have referred were made possible because investor confidence was bolstered by the steady improvement in industrial earning power which was taking place at that time and by the passage of Federal legislation by Congress, some of it over the veto of the President, which was favorable or reassuring to the business community. We do not minimize the effects of the frequent changes in the international situation which alternately depressed or buoyed up stock prices. But so far as the 81st Congress is concerned, the story is obviously to be different. We do not pretend to know or even guess whether or not there will be an excess profits tax next year or what its provisions will be, what changes will be made in basic labor and public utility legislation, what if any powers involving price controls and materials allocation will be given the President or what the ultimate Federal budget will look like in fiscal 1949 or 1950. The press and radio will continue to carry a full complement of predictions with respect to these subjects as they have been doing since Nov. 3. It was precisely the laws most liked by investors and businessmen which were continuously cited by President Truman in the bill of particulars by which he successfully indicted the 80th Congress as one of the "worst" in American history. Whether or not the legislative bite of the Second New Deal will be as lethal as its campaign bark may not be ascertainable from the various policy statements expected next month from high ranking officials of the new administration nor completely from the President's State of the Union and subsidiary messages early in January. Much of the expected legislation is extremely controversial, with hearings and debates spread out for many months. Even in 1942, under the extreme pressure of a wartime emergency, it was not until late in April, about 5½ months after Pearl Harbor, when the investor was able to obtain a fairly clear idea of what the provisions of the Internal Revenue Act of 1942 were likely to be. Incidentally, the lifting of tax uncertainty was almost coincidental with the beginning of the great wartime bull market on April 28, 1942, when the Dow-Jones Industrials were at the 92-93 level.

Great Political Uncertainty to Continue

We shall be fortunate indeed if the great cloud of uncertainty now filling the investment sky is dispelled by late spring of 1949. In the meantime business executives and investors will find it difficult to make decisions and the speculative security markets are likely to be hesitant even beyond the present period of selling to take tax losses, which is unsettling to quotations.

We have personally managed to maintain ourselves in variously optimistic states of mind ever since early in May, 1942, or over 6½ years. This is a long period indeed. At this point, however, we are questioning the wisdom of the continuance of this attitude. Even if Washington should fail to turn as sharply to the left as is generally expected at this writing, any material advance in stock prices would most likely be braked by the large demand for equity capital. New offerings of stocks on a large scale have on several occasions since V-J Day proved highly detrimental to the upward movement of quotations and could do so in the future. We know that the electric and natural gas companies must raise large amounts of new money almost regardless of terms and conditions. Even if the rate of industrial expansion tapers off, as it well might do, too many managements are unhappy at having had to contract debt in one form or other in recent years, and are awaiting an early opportunity to reduce or eliminate it through equity financing.

Election's Long-Term Implications

(3) The outcome of the election has some grave long-term significance for the status of invested capital in America. A good many highly emotional statements have been made in recent weeks to the effect that the American electorate is much further to the left than had been believed, that the beginning of the extinguishment of the private enterprise system is at hand and awaits only the next depression for its final consummation and that we shall now inevitably tread down the primrose path of Socialism as the British have done. We cannot subscribe to these extremes of opinion but we must admit that in the world-wide campaign against invested capital which has been raging for almost two decades, American investors have unexpectedly lost another major battle. There is no doubt that there will be further undermining of the already deteriorating position of corporate management and ownership. Industry will be called upon to assume new public burdens as the conception of what the Federal Government owes to various groups of its citizens broadens and broadens. The decision to spend increasing amounts of budgetary funds for pensions, public health, public power and reclamation and education may be characterized as a desire of the great mass of people to enjoy "social gains," almost regardless of their cost. This is a long-term secular trend which many thought had been arrested but which now seems likely to continue for many years to come. In this connection the character of the winning appeal to the electorate practically guarantees that a sure-fire success formula in future Federal elections will comprise the lambasting of the rich and the castigation of "Wall Street."

Public's Misconception

Most serious of our doubts at the ideological level is the present inability of the owners and managers of industry and their auxiliaries, the financial and banking groups, to convince the balance of the American people that you can't have capitalism without capital. The stagnation in and the strange behavior of the securities markets for the last decade or so has been caused, among other things, by the deficiency in capital formation. This fact, in our opinion, is not even debatable. What we needed to speed up the flow of new, life-giving individual savings into industry is a revision of the tax laws and other types of restrictive legislation which have discouraged and prevented this higly important vital process. Some progress in this direction has been made in the past few

years. Now this helpful trend is not only to be stopped but actually reversed. And the deleterious effects of capital anemia are, like lead poisoning, cumulative. How can any thoughtful observer be happy at this state of affairs? Increasing taxes upon corporations and upper bracket individuals, or even keeping them high, is likely to have quite different results than in wartime with its patriotic compulsions and its tremendous urgency for maximum production.

We are not sanguine about the early prospects of selling the average voter on the need of ample corporate profits and of adequate supplies of risk capital and their relationship to corporate capital expenditures and employment levels. Elementary economic and financial truths are difficult to transform into propaganda at the comic book level.

Incidence of the Kremlin

(4) We would be willing to revise our views in the direction of greater optimism under certain conditions. Most favorable of all developments would be improvement in the overall position of the Western World vis-a-vis the Soviets. Most of our postwar troubles, including high taxes, have had their basic origins in the Kremlin. Only time will tell. A much more conservative program on the domestic front (not merely reassuring statements) than now seems possible would, of course, be very constructive, but we don't expect it and it probably won't take place. It simply wouldn't make sense.

Germany Today

(Continued from page 17)

annexed by Poland and Russia. Western Germany could produce only half its needed food. Under international law we and the British brought in millions of tons of food to prevent disease and unrest, while the Russian army lived off the land. On top of this, Mr. Molotov disregarded the Potsdam Agreement and demanded $10 billion in reparations, largely from current production. This would have meant that we would be pouring in millions of relief in the West, while Russia was draining off millions from the East. Attempts to set up the agreed German governmental agencies over all four zones and to treat Germany as an economic unit, as also agreed, met with outright Russian refusal to relinquish Soviet unilateral control of their Eastern Zone. The four Foreign Ministers met again and again to resolve these basic problems but the Russians would not budge. We could not accept their terms without surrendering Germany, and perhaps all of Western Europe, to Russian domination.

Importance of Germany's Economic Status

As the years went by Germany's economic status became almost desperate. It became more and more evident that Germany's peaceful recovery was necessary not only so that she herself could become self-supporting, not only to stop the drain on American appropriated funds, which were running to many hundreds of millions of dollars a year—but also, and much more important, for the general recovery of Western Europe as a whole. The industrial products Germany had always supplied to France, Belgium, Holland and Italy were no longer being produced. And the German purchasing power which had absorbed so much of the products of all of Europe no longer existed. Western Europe, slowly recovering from the effects of war, was running a tremendous deficit—temporarily made up by huge loans and shipments of food and coal from the United States. Only increased production, increased exports and increased trade within Europe itself could permanently close the gap between exports and required imports. Germany was producing less than half its prewar production. Its unused capacity was obviously needed by Europe and if put to work on peacetime production could become the key to European recovery.

In the face of these facts let us take a look at the record. Let us see what constructive solutions have been proposed, and what reaction came from the Kremlin.

America's offer to join her three allies in a guarantee to Europe against German aggression for 40 years was refused by Russia.

America's offer to join her zone with the other zones in Germany to eliminate the zonal barriers to trade, was refused by Russia.

America's offer to set up a democratic federal German government, under free elections and with assured human liberties, was refused by Russia.

And finally, America's offer to help all of Europe, as part of a general European recovery program, with billions of dollars of aid over a period of several years, was also refused by Russia, and under Russian pressure, by her satellites as well.

Russia Opposes Germany's Economic Recovery

All of this means that Russia and the Communist Party everywhere was opposing—and is still bitterly opposing—the economic recovery of Germany, and of all of Western Europe. It means that Russia was carefully laying the groundwork for partitioning Germany into two parts, and for dividing all of Europe into two camps.

In December a year ago the four Foreign Ministers met in London and one last attempt was made to gain Russian cooperation. It failed. The three Western Powers later determined to permit the 50 million Germans in the Western Zones to set up their own freely elected federal government, and to include Western Germany as a full partner in the European Recovery Program. Only under its own government, under its own elected leaders, could Germany begin to take its proper place as a democratic member of the family of nations. It was provided that Eastern Germany could participate fully in the new government whenever the Soviet authorities permitted it to do so.

Russian failure to carry out the Potsdam Agreement has long delayed the setting up of a German government and the establishment of real peace in Europe. At the same time communist parties had been taking over country after country in Eastern Europe, and had set up dictatorial police states under Russian domination. It was clear that effective economic recovery in Western Europe would call a halt to communist infiltration and to possible Russian domination in the West. In France a year ago, a communist-inspired general strike had failed. In Italy the election this spring had largely reduced communist influence. The decision to set up a Western German government and to include Germany in the European Recovery Program would mean another long step toward firmly establishing Western democracy in Europe.

Berlin Blockade

The Russian reaction to this decision was strong and immediate. The Soviets determined to blockade Berlin, and to force the three Western allies to withdraw from Berlin by threatening the starvation of 2½ million Germans in the Western sectors of the city. The first restrictions were introduced in March before the double currency issue had arisen in Berlin. In the meantime, General Clay had made one last offer to introduce currency reform for all of Germany. The plan had been discussed for nearly two years and could easily have been agreed if Soviet cooperation had permitted four-power control of the printing and issue of a single currency for all of Germany. But at the meeting of the Allied Control Council on the very day when agreement on the new currency was possible, Marshall Sokolovsky picked up his papers and stalked out of the meeting, before the question had even been discussed, in effect dissolved the Control Council itself, and killed any chance for four-power currency agreement.

Currency reform was long overdue. The Western allies went ahead with their own plans, and a few weeks later a currency reform was announced for Western Germany. Immediately the Berlin blockade was tightened. All transportation from the Western Zones to Berlin was halted by Russian order with the lame excuse of "technical difficulties." Freight trains, barges and trucks were stopped. Food and coal for 2½ million people no longer moved. The Russian authorities knew full well that only a month's stocks were on hand. They undoubtedly expected that the British, French and ourselves would be forced into ignominious retreat within a few weeks.

During the months that followed the German surrender, we and the Russians had many times raised our glasses in Berlin, in Vienna and in Moscow itself to toast in vodka or in champagne our common victory and our common hopes for future peace. But last June in Berlin no toasts were drunk as one wartime ally placed three other wartime allies under duress, to force a political defeat. The possible starvation of several million Germans was only one of the stakes in this Russian game of pressure politics.

In Stuttgart two years ago Mr. Byrnes had promised that the American flag would fly in Europe until the peace had been won. Now an open attempt was being made to push our flag out of Berlin. If successful there, similar pressures might be exerted in Vienna, in Trieste, perhaps in all of Europe.

I was in London when the blockade began, and when the three-Power decision was made that we would stay in Berlin despite the blockade, and that we would feed the city by air. Later, at Tempelhof Airfield in Berlin I saw our four-engine transport planes land every three minutes with 10 tons of food or coal aboard. The roar of their motors is heard 24 hours a day. Those motors have become the most important political fact in Europe. They are repeating Mr. Byrnes' words over and over again. They are saying that our airpower and our willpower have met the test. They are saying that the airlift will do the job — through the winter, and longer still, if need be. They are saying that our flag will go on flying in Berlin!

In Berlin and throughout Germany the callous Russian hunger blockade—that threatened starvation of the men and women and children of Berlin—and the British and American reply—the airlift — have had an astounding political effect in sharply orienting German thinking to the West and away from the East. Soviet propaganda now falls on deaf ears in both Eastern and Western Germany.

The airlift costs a hundred million dollars a year—a small cost indeed for the courage it has given to the freedom loving people of Europe, a small cost indeed for the time it has bought for further negotiation and for a peaceful solution.

Berlin has become a symbol—a symbol of our determination to resist the forces of totalitarian and dictatorial rule.

Western Germany's Economic Recovery

And while the airlift has been feeding Berlin, Western Germany has been experiencing rapid economic recovery. Three factors have been at work. First, food conditions have improved and the semi-starvation ration of the past has become a tolerable working ration which has been actually available. Second, currency reform has given incentive to the farmer, to the worker and to industry itself. A stable currency has replaced the old worthless paper marks. And third, the Joint American and British Export-Import Agency put all its available capital early this year into imports of much needed raw materials, in the expectation that European Recovery aid soon would follow, as is now happening. The results have been most encouraging. Coal production has risen above three hundred thousand tons per day. From less than three million tons last year, steel is now being produced at a rate above seven million tons a year. The general level of industrial production has gone within a year from 40% of prewar production to 70%. Germany's foreign trade has also been growing rapidly. Last year her exports were a little over two hundred million dollars. Now they are some sixty million dollars a month, or more than three times last year's rate. They must triple again before Germany can become self-supporting. There is a long and hard road still ahead. American assistance still is needed, but recovery is on the way and is already aiding all of Western Europe, and helping to prevent the chaos and the confusion on which communism feeds and grows.

A New German Constitution

During the past weeks German representatives from all three Western Zones, with observers from the Western Sectors of Berlin, have been in session and have been fashioning a so-called "basic law", or provisional constitution, for Western Germany. When finally drafted, and approved by the British, French and American Military Governors this basic law will be presented to the fifty million Western Germans for ratification, and a new government established in accordance with its provisions. For three and a half years Germany has been subject to the military rule of its conquerors. It is indeed time that the responsibilities of sovereignty and of coping with Germany's postwar economic and political problems be exercised by Germans. Certain military controls must of course continue until a peace treaty can be signed, but the time has now come for Germany to demonstrate her willingness and capacity to take her place among the democratic nations of the world.

The critical period of economic stagnation and political despair in Western Germany is gradually passing. Her improved economy is already contributing to the growing recovery in Western Europe. The coal and steel industries of the Ruhr are being reorganized for greater production. A percentage of Germany's increasing coal production is assured for export, under the so-called sliding scale agreement between Great Britain, France and the United States. Negotiations are under way in London today to set up an International Authority for the Ruhr to assure all neighboring countries, as well as Germany herself, proper access to the coal, coke and steel of the Ruhr Valley.

In the face of continued Russian opposition, great progress has been made during the past 12 months in bringing the British, French and American objectives in Germany into closer harmony. Many milestones on the way toward actually achieving these objectives have been passed.

Hope For the Future

Western Germany now has hope for the future. A year ago it was still in despair.

During this past year all of Western Europe has taken heart. The European Recovery Program has gotten well under way and is beginning to show results. Trade between European countries is growing. A payment plan is already in effect which will lessen European dependence on dollars for trade settlments. A good start has been made. Most of the participating countries are already producing at or over prewar rates, although growing populations, exports deficits and foreign exchange problems mark knotty problems that still lie ahead.

And self-confidence is returning to Western Europe. Only the strong will to resist can repel the invader from within or without. Economic strength is growing. Military strength will follow. Western Union has been taking tangible shape. It is slowly knitting together the defensive forces of Western Europe to bring about a balance of power on the Continent, and to discourage warlike adventures from the East.

We must continue to hold firm in Berlin—in Western Germany and throughout Western Europe. We must continue to aid those who hold to those principles of individual freedom and democracy, for which so much blood and treasure have already been spent. We must continue to strengthen our defenses in a world which still sees the threat of force and duress, defenses which will best assure that peace will prevail. The iron curtain has cut off many parts of the world from the free exchange of goods, or persons and of ideas. Police states have been imposed to prevent freedom of expression, freedom of the individual, and freedom of the ballot. Hitler and Tojo have been defeated and dethroned, but the threat of totalitarian aggression still lives today. Despite this, the gradually rising strength of the free peoples of the world, and the improved economic and political status in Western Germany and throughout Western Europe, give real hope that peace can be maintained, and that economic health and well being will gradually return to the war-torn countries of Europe. To sum up, Western democracy is winning the cold war in Europe today.

To Admit Partners; Name Now Elder & Co.

CHATTANOOGA, TENN.—Effective with the retirement of William A. S. Wheeler, the firm name of Elder, Wheeler & Co., 735 Broad Street, members of the New York Stock Exchange, was changed to Elder & Co.

William S. McGinness and Eugene M. Thomasson will be admitted to partnership in the firm as of Dec. 2.

Edwin G. Thomas to Be Stevenson Bartram Partner

As of Dec. 1, Edwin George Thomas will be admitted to partnership in the New York Stock Exchange firm of Stevenson & Bartram, 120 Broadway, New York City. Mr. Thomas, who was formerly a partner in Montgomery, Scott & Co., will acquire the exchange membership of J. Burr Bartram.

Two Kinds of Socialism

(Continued from first page)

free-enterprise economy, the conclusion is unavoidable that it is running a boom now and heading for the bust. The only question on their minds is: When does the bust come, and how long will it last? But a free economy, which is what we are supposed to have, must bust, so the Europeans think.

Returning from a trip to Europe, and having heard constantly, on the Continent as well as in England, that we are the exact opposite of the Russian completely-managed economy — of their planned, and fully-government-owned production—this writer cannot help but wonder how free this, our economy, is. In fact, Europeans do not realize that we have nothing like a free economy. Would you have called a free economy, say, 20 years ago, an economy in which the most important overall-means of production, namely, capital, is in its volume and price determined by the Federal Reserve Board, which in turn is ruled by the Administration? Certainly, the capital market with its frozen interest rate structure is not free. Or is it a free economy when the labor market is ruled by unions which are a government within the government, a political power as in no other country (with the exception of Great Britain)? Is it a free economy where the price of the most important consumer goods, of food and feed, wool and cotton, is being determined by the government or at least is not being permitted to fall? And where the output of private dwellings depends on public housing and government credit or credit guarantees? The list can be lengthened—and no doubt will be further lengthened under the new Truman Administration—by rent controls, public works, TVA's, etc., to say nothing of the lengthening economic shadow of war preparations, discriminatory taxation, and other anti-capitalistic policies.

One may go over the list of government interferences and ask: What kind of "free" economy is this? The answer is: It is freer than the European economies, but it is different from those in degree only. It is freer than the economy of Switzerland where much more interference prevails than here; Switzerland is freer than Belgium, Belgium freer than France, and so on. One may go through the list until one comes to Russia and the Russian type of economy, but the differences in terms of freedom or lack of it are merely a matter of degree. There is a scale of degrees within the Soviet sphere, too.

In principle, ours is a socialistic economy. Its functioning is guided primarily not by the principle of free marketing and by the rule of remuneration for the productive resources according to their contribution to the market value of the product. Instead, it is being controlled along social welfare points of view, whatever welfare that means, its standards chosen arbitrarily by governmental or semi-governmental agencies.

II

Speaking of socialistic economies, of which ours represents probably the mildest form, there are mainly two kinds in the world of today, looking at it essentially from the economic angle. That is a much more realistic distinction than the one between free and not free economies when they are all not free. Leaving aside irrelevant ideological quibbles as well as the (very important) political differences, there is a type of socialism, like the Russian and its variations in the Russian sphere, and the type as in Western Europe, Australia and New Zealand.

The Russian type of socialism controls the social product — most of it — and uses probably one-third to build capital. One-fourth or so is turned into non-productive expenditures: military equipment, the means to fight wars, and the cost of administration. But certainly, about one-third of the annual output of Russia serves for fresh capital formation, for productive goods in the proper sense of the word, such as factories, machines, and tractors — things to produce the goods which will be consumed later. That is decisive, of course. No economy can go on without reproducing and expanding the means which will deliver the goods. Sooner or later, every economy comes to a standstill unless it produces the means of production.

In Western Europe, however, a different kind of socialism prevails. There, too, the governments lay their heavy hands on a major part of the social output. It reaches up to 60% of the national product. Forty percent is the minimum everywhere, adding up taxes plus social security payments. The Social Security contributions in France, especially for medical services and sickness compensations, make up 25% of the wage bill. In Belgium, the wage bill is burdened by a 30% Social Security bill. Add to that the take-in of the governments out of nationalized enterprises, and one gets pretty close to, if not beyond, 50% of the gross national income of most Western European countries that goes through bureaucratic fingers. But unlike Russia, the Western Europeans do not use their revenues for capital accumulation; they dispose of them largely for bureaucratic expenses, subsidies of one kind or another, and increased services to consumers. They raise the living standards (of certain groups) instead of building capital. There is not much capital accumulation going on in Western Europe; meaning thereby not the accumulation of money, of course, but the provision of means of production, of machines, tools and equipment. Only a fraction of the social product going through the governmental channels is being directed into the production of capital goods—the essential means of future production.

That leaves the private sector of the national income to take care of the job. But it does not function. That is perhaps the most significant fact about Western Europe: the government takes away over one-half of the social product and does not invest except a small fraction, and the public does not invest either, or to an entirely unsatisfactorily extent only. They both eat up their shares, so to speak. They do not use it for capital equipment, or only a small fraction of it.

What is more, this problem is not of recent origin. Britain and France have neglected their capital equipment for a generation or longer. There is a huge backlog of equipment needs due to different factors. In addition, six years of war cut deeply into Europe's capital goods, partly destroyed them, partly made them obsolete. Furthermore, one must keep in mind that the population is rising everywhere, especially so in Britain, and even in France. Mostly so in countries which can least afford it, such as Italy and Greece. Therefore, far more capital equipment is needed to produce more consumer goods in the future, more tractors to make better use of the land, and so forth and so on. Instead, less is being produced than normally.

Between them, governments and the public consume the national product in Western Europe, which is contrary to the Russian system. Therefore, it would be a grave mistake to underestimate Russia's future potential. Inefficient and cruel as her methods of production may be, she keeps a vast manpower, out of a reservoir of nearly 300 million people, including the Central European satellites, at work. Sooner or later, there will be relatively more machines in Russia and less in Western Europe where the planners "accomplish" the very opposite of the targets at which they are shooting.

They maintain a policy of "Utopia right now" by raising the living standards of those on whose votes they rely for being reelected. In Britain, for example, $2 billion, or almost one-sixth of the tax revenue, are paid annually to keep down food prices. Another large slice serves to dispense womb-to-tomb security, old-age pensions, medical services, maternity services, compensation for accidents, compensation for lost time when you are sick, all of which is very fine. It all means "social progress," provided it lasts. It cannot last in the face of the prospect that the social product will decline, lacking the tools to keep it up—and at a reduced rate of working effort.

True, the governments try to invest. They have programs of planned investing. There is a Monnet Plan in France. There are Three-Year Plans here, Four-Year Plans there, and Five-Year Plans almost everywhere, culminating in the Sixteen-Year Plan of Poland. (In reality, planning is possible in a totalitarian set-up only.) The British Government promises to buttress the vitally important coal mines and steel plants to some extent, but spends more on subsidizing home construction for a privileged few. Trying forcibly to construct, and at the same time to raise living standards as well as to foster exports, puts too much strain on the economic machine and its current output. In Britain, as in France, Holland, and the rest, this drain on the national income due to three-fold government spending objectives, leads to all kinds of wasteful and incentive-killing regimentations on the one hand, and inflation, open or "suppressed," on the other. To buy all the resources the governments need, they print money or expand credit; prices go up in due course, and the result is still less, rather than more, capital accumulation.

British statistics provide a graphic illustration of the under-capitalization typical of Western Socialism. Here are the salient figures, from a recent White Paper: In 1947, out of a gross national income of $42,344 million, less than $8,000 million were used for what they call gross domestic capital formation "at factor cost" (before taxes). That would mean less than 20% of the national income, and would be little—since it includes dwelling construction and other consumptive capital formation—if it were true. But the amount does not represent that much of true capital formation. Some $3,100 million are allowed for depreciation of existing plants, a much too low allowance, as the White Paper itself admits that about $3,600 million would be more realistic. English experts like W. M. Dacey, the economist of Lloyd's Bank, estimate the actual depreciation even higher. In other words, less than 10% of the national income was directed into new capital goods of all kinds, and probably less than 5%, or scarcely $2,000 million were used for plant and equipment expansion—a comparatively insignificant volume. This year, when the outlay of a truly productive type runs close to $19,000 million in this country (on top of $15,000 million for homes, municipal construction, etc.), and at the rate of $3,000 million in Canada, Britain will invest less than last year, so as to reduce the inflationary strain. Instead of consuming less, and saving more, British mass living standards are being raised — the famous austerity of Sir Stafford is fading out as new elections are nearing — and the totally insufficient rate of capital-building is being further reduced. Such is the dismal picture at a time when Marshall Plan funds finance generously British socialism, and when the U. S. is carrying most of the para-military commitments of the British Empire!

And that is not the whole story. A substantial part of new "productive" capital investment represents in reality nothing but capital-malallocation, due to the arbitrary whims and political biases which guide the planning bureaucrats. The unnecessary nine million pound sterling Severn bridge project, as an example, is a monument to the glamorous wastefulness typical of the Labor regime. Also, the money spent by Europe on domestic capital formation does not buy the amount of machines and tools the figures indicate, their prices often being much higher than the American, in spite of far lower wages. Lower productivity per man-hour—which is not all together labor's responsibility—causes shockingly higher costs per unit of output than on this side of the Atlantic.

III

Burocratism chokes enterprise in every Western European country. It has the effect of reducing the incentive to invest in the private sector of the economy. In the private sectors of the Western socialistic countries, investment activities are conspicuous by their absence, and for several more reasons. Inflation—or lack of disinflation—is one reason. Excessive taxtion is another reason. The middle class cannot invest in any European country unless illegally—by evading taxes. That is the only way to accumulate enough capital to invest; but then one has to hide it. If you do not pay your taxes and build a plant, the tax collector may come around and ask, "Where did you get the money to pay for that factory? Did you pay your tax on the money?" So the best thing is, if you have made money, to manage like everybody does in France, except the salaried employees, the wage earners and the big corporations. Everybody else avoids paying taxes. The French farmer—some 40% of the population — hides his income preferably in the form of gold. So does the average business man who may export it and buy land in Switzerland or in some other form so that the French authorities cannot get at his profits. The net result is that individuals do not participate in productive accumulation. As a matter of fact, no European can fulfill his obligations as a taxpayer and still accumulate capital. That holds even for Switzerland.

As to the working class and its savings, take the case of a high class French mechanic. The maximum he could earn up to last Summer—presently, wages are to be raised by 15%, but prices rise, too—in the Renault automobile plant was $65 a month (at the then official exchange rate of francs). His American counterpart earns well over $300. Of course, the Frenchman buys food much cheaper, at least the basic foods. Bread made of Kansas wheat costs in Paris much less than half the American price, thanks to food subsidies. The same holds for milk and a few other things, especially also rent, which is controlled since 1914. The same man, if he is not married and has a two-room apartment, pays the equivalent of about a dollar and a quarter per month for rent. Naturally, the landlord does not build new houses. No dwelling construction whatsoever is going up in Paris. At such rents, one cannot build, one actually loses money as a landlord, and the result is that 20 or 30 years hence there will be no urban dwellings in France to speak of. The Socialists leave that problem for the next generation.

In the meantime, the engineer manages to live—mainly to eat—on $59 per month, after paying $6 in taxes and social security. He certainly has nothing left for savings.

IV

An additional and fundamental reason for lack of private capital accumulation is that the social product itself is small, much too small, almost everywhere in Europe. In French industry, for example, there are more people working now than before the war, but the number of hours worked is smaller than ever before, because weekly working hours have been reduced. Moreover, thanks to negative incentives of Western Socialism at an advanced stage, many people in factories and mines work at reduced efficiency, if and when they work, leaving aside the labor-time losses due to recurrent industrial strife, or the loss of the manpower absorbed in huge administrative apparatuses.

With better machines they could produce as much or more in less hours. But the machines are antiquated and growing older, and European labor resists new labor-saving devices. (The case of an American automatic gear-cutting machine, against which 17,000 workers of the Austin plant went on strike last August, is a "classic." European farmers generally refrain from utilizing such "new" methods as the planting of alfalfa and stick to ancient production techniques. In addition to the officially reduced number of working hours, absenteeism is rampant all over Europe, except in Switzerland and in Finland. Absenteeism reaches at times 10% of the number of people employed in factories. Why? Wages are low, taxes are high, and the incentive is lacking. (They are not lacking in Russia!) Compulsory medical insurance is one of the major forces in Europe keeping production down. All one has to do is to go to a doctor, and the doctors are co-operative. If they are not, they lose their clients, and since they get little per indivdual client, they have to have many of them. As a French doctor put it, "Don't we all need eight days' vacation?"

Of course, everybody needs eight days' vacation, and the alleged patient gets compensation for eight days' pay, plus some medicine and the doctor's service and so forth, all at public expense.

The consequences of this artificially created absenteeism cannot easily be overestimated.

V

Among other factories at play in Western Europe, which reduce national output or capital outlay, or both, two are important. One is the commercial warfare going on in Europe. There is little genuine trade between them. Presently, the physical volume of trade between Western European countries is barely one-half of what it was in 1938. The volume of their trade with overseas is greater, especially with the Americas, than before the last war, if only moderately. But the important thing is the intra-European trade. Normally, two-thirds of Western Europe's exports and more than one-half of its imports are of intra-European destination and origin, respectively. The point is that intra-European trade is the backbone of Europe's welfare, and that it is being strangulated mutually by the monetary and commercial warfare. Foreign exchange restrictions, in particular, undermine each affected currency from inside and out, demoralize financial confidence, and drive capital into short-term venture, if not

into hiding. But foreign exchange barbwires, and the related tricks of bilateralism, are necessary to protect externally the socialist systems. The latter would break down at once without protection of this sort, against the flight of domestic capital provoked by socialism.

Lastly, there is the Russian menace. Few Europeans doubt that Russia could not overrun the Continent whenever she wants to. That ultimately the Americans will beat her, is pretty generally agreed upon, but in the meantime we die, they say, and it does not console them a bit. Under that feeling and threat, it is hard to proceed with long-term productive ventures. Capital accumulation presupposes peace, inviolatability of property and contractual rights, the conviction that what one builds will not be destroyed by bombs or overrun by Bolsheviks or confiscated by the government because of war danger or actual war.

The Russian Menace has several implications from the point of view of productivity and investment "progress." For one thing, it compels to armaments, another drain on the resources of the West that lags behind Russia in this respect, too. For another thing, it interferes with the intra-European East-West trade which is essential to the welfare of both sides. Thirdly, the fear of war is the strongest force to support bolshevik parties in the democratic countries, bolstering leftist policies, appeasing attitudes, internal unrests, general strikes and revolutionary threats. At any rate, the Cold War serves as a plausible pretext and excuse to justify anti-capitalistic fallacies which discourage private investment.

In reality, the Russian Menace itself is a consequence of Western Europe's capital-frustration. Because Britain and France are as weak as they are; because they are doing scarcely more than replacing the current obsolescence of their capital equipment while the Soviets are expanding theirs; because the former do not spend on armament anywhere in proportion to the latter—that is why Russia is winning slowly but surely in the great European contest between East and West. Of course, living standards are incomparably lower under the iron rule of Bolshevism than under the "soft" bureaucratism of Laborites, Fabians, Social-Democrats, and what have you. But the pseudo-communism that promises Utopia in the remote future—at the price of unbelievable sacrifices to the present generation—that does not tolerate short hours, long vacations, strikes, or slow-downs, nor absenteeism, still less any obstruction to mechanization, and treats its subject as working slaves, that kind of socialism gets the work out of them and the capital equipment out of their product.

If Western Europe would begin to expand seriously its capital equipment — to save in genuine productive fashion rather than to consume, hoard and bungle unproductively—its military potential would be strengthened accordingly, and the Russian menace would fade out as a bad dream. They would do even better by embracing the system of free enterprise, to which Britain owes that accumulation of wealth that is currently being dissipated.

That Western Europe's economic problem is not a fundamental one — it would not be fundamental if it were not for Socialistic bungling — is proved by the fact that the $4.8 billion needed allegedly for this year's Marshall Plan amounts on the average to far less than 5% of the recipient's annual national income. Is there any country among them that could not raise its efforts by 5%, the additional products to be sold abroad, and the proceeds to be used to purchase the very things which the American taxpayer has to provide now?

The State of Trade and Industry

(Continued from page 5)

caught up with each of these blocks standing in the way of full production. Whether it can continue at the present high rate and not be subject to serious spot emergencies is hard to tell.

Steel is now being turned out at a rate which ought to go a long way next year toward taking steel people off a perennial barbecue spit. At least, says the trade paper, that this is what sales people hope for, pray for and live for.

A major hurdle steel has faced has been electric power. Thanks to some outlandish gyrating in changing schedules, plants, product-mix and a few other things, power shortage has not yet seriously cut steel fabrication or output. The power shortage in steel is like the steel shortage. More is being produced than ever before but not enough to satisfy all consumers in the steel and fabricating groups. The power shortage in steel has been spotty. It is a geographical problem and at times a paradox. Three areas that can't always meet peak demand are Pittsburgh, Cleveland and Chicago.

In Cleveland a rationing program is in effect to cut industrial power consumption at peak hours. Parts of Pittsburgh will come under a similar plan the first of December. It has worked quite well in Cleveland, "The Iron Age," observes, because industry there has been able to figure out ways of shifting power loads to offpeak hours. Steel mills, for instance, try to schedule their operations so that the big mills are down for roll changes during the top-demand hours.

The probability of more than 92 million tons of steel ingots being turned out next year—barring strikes—is not much help to steel consumers today. But it may be the answer to a lot of steel shortage questions today.

Behind the steel shortage is a critical pig iron supply picture that gets no better. Conversion deals are often supported by a supply of a pig iron obtained after long arduous planning. But just as often after the pig iron is found for the steel, another shortage shows up in ingot molds. Tight pig iron supplies have mold makers frantic at times. The steel is often in sight with no molds to pour it in. So it goes. If several links in the steel supply picture ever break down at one time it would be bad—for supplier and customer, this trade paper 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 99.2% of capacity for the week beginning Nov. 22, 1948, an increase of 0.2 point, or 0.2% above the preceding week. A month ago the indicated rate was 98.9%.

This week's operating rate is equivalent to 1,788,100 tons of steel ingots and castings against 1,784,500 tons a week ago, 1,782,600 tons a month ago, and 1,685,200 tons, or 96.3% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, highest prewar year.

The current percentage rate of operations figures are based upon the total annual steelmaking capacity as reported by the producing companies at the start of 1948 and does not include any new capacity which has been added since Jan. 1. A revision in the total annual capacity figure is expected to be as of Jan. 1, 1949.

ELECTRIC OUTPUT ATTAINS NEW HISTORICAL RECORD IN WEEK ENDED NOV. 20

The amount of electrical energy distributed by the electric light and power industry for the week ended Nov. 20, was 5,626,900,000 kwh., according to the Edison Electric Institute. This was an increase of 56,133,000 kwh. above output in the preceding week, and 446,404,000 kwh., or 8.6% higher than the figure reported for the week ended Nov. 22, 1947. It was also 862,182,000 kwh. in excess of the output reported for the corresponding period two years ago.

CAR LOADINGS GAIN BY 3.4% IN LATEST WEEK

Loadings of revenue freight for the week ended Nov. 13, 1948, totaled 871,677 cars, according to the Association of American Railroads. This was an increase of 28,511 cars, or 3.4% above the preceding week this year which included Election Day. It represented a decrease of 6,606 cars, or 0.8% under the corresponding week in 1947, and a drop of 45,447 cars, or 5% below the similar period in 1946.

AUTO OUTPUT RISES AS MAJOR MANUFACTURERS STEP UP PRODUCTION

Production of cars and trucks in the United States and Canada advanced to 120,592 units from 113,029 (revised) units the previous week, according to "Ward's Automotive Reports."

Gains by the "Big Three" companies, "Ward's" stated, caused production of cars and trucks in the United States and Canada to rise the past week.

Output in the similar period a year ago was 115,197 units, and 76,820 units in the like period of 1941.

This week's output consisted of 88,799 cars and 25,743 trucks made in the United States and 3,959 cars and 2,091 trucks made in Canada.

BUSINESS FAILURES RISE SHARPLY IN WEEK

Commercial and industrial failures rose sharply to 126 in the week ended Nov. 18 from 96 in the preceding week, according to Dun & Bradstreet, Inc. Casualties were more numerous than in any week since February this year and exceeded the 79 occurring in the comparable week of 1947 and 24 in 1946. Failures were one-half the number in the corresponding 1939 week.

Casualties involving liabilities of $5,000 or more rose to 108 from last week's 81 and 64 a year ago. Failures with liabilities under $5,000 numbered 18 and exceeded those of both the previous week and the corresponding 1947 week by 3.

Retailing failures were the largest since early 1943 and the only other marked increase occurred in manufacturing.

The Middle Atlantic States failures were the greatest since April this year. New England and Pacific failures also increased the past week.

FOOD PRICE INDEX IRREGULARLY LOWER IN LATEST WEEK

Food prices in wholesale markets moved irregularly last week with nine commodities going higher and 11 lower. This resulted in a drop of two cents in the Dun & Bradstreet wholesale food price index for Nov. 16 to $6.37, from $6.39 on Nov. 9. The latest figure compares with $6.95 on the corresponding date a year ago, or a drop of 8.3%.

Items that advanced during the week included flour, wheat, rye, oats, butter, cheese, cottonseed oil, cocoa and potatoes. Counteracting these were declines for corn, beef, hams, bellies, lard, beans, raisins, prunes, steers, hogs and lambs.

COMMODITY PRICE INDEX SHOWS EASIER TONE FOR WEEK

There was a slightly easier tone in commodity markets last week following the firming up noted in the previous period. The Dun & Bradstreet daily wholesale commodity price index closed at 271.10 on Nov. 16, slightly off from 270.93 a week ago, and considerably below the 293.10 recorded on the corresponding date a year ago.

Trading volume in leading grains expanded this week. Futures prices continued to move upward with December wheat and oats reaching new highs since mid-July and December corn selling at the highest since mid-August. Best prices were not maintained, however, as fears of a continued dockworkers' strike tended to hold advances in check.

Strength in the market was influenced by liberal government buying of cash wheat and corn for export and the belief that prices of agricultural commodities will be supported at a high level.

Demand for flour in domestic markets showed some improvements late in the week with a material increase in bookings in eastern and southwestern areas.

Cocoa was steady most of the week as large users appeared to be well covered, but prices advanced sharply at the close due to fears that an acute supply position will develop if the maritime strike is prolonged. Coffee prices ended higher, reflecting continued strength in primary markets. Better demand and lighter offerings resulted in a rise of 3½ cents per pound in butter prices during the week.

A heavy Fall run of livestock to market depressed prices last week. In one of the sharpest declines of the current season, hog prices fell more than $2 per hundred-weight with closing quotations said to be at the lowest level since November, 1945.

Declines of $1 to $1.25 occurred in cattle and sheep prices. Lard was fairly steady, although the make has been increasing due to larger hog receipts.

Cotton prices moved in a narrow range this week, but the tone was firm and the market closed slightly higher following the gains recorded in the preceding period.

Trading in spot markets was quite slow as reported sales in the ten spot markets dropped sharply to less than half the volume in the corresponding week a year ago. Mill demand was quiet and export sales were relatively small. Government loan entries of cotton continued in good volume, totaling 315,182 bales in the week ended Nov. 4. This brought total entries for the season to date to 1,969,786 bales. Cotton consumption during October, according to a preliminary estimate by the New York Cotton Exchange Service Bureau, totaled 720,000 running bales, against 730,000 in September, and 829,000 in October a year ago. In cotton textiles, sales of print cloths and sheetings for first quarter delivery were quite active.

Trading in the Boston raw wool market remained rather quiet with only limited offerings of fine staple, greasy domestic wools. There was a brisk business in scoured government-owned medium grade wools and blanket manufacturers purchased good quantities of revalued CCC wools for consumption.

RETAIL AND WHOLESALE TRADE REFLECTS INCREASE IN CONSUMER BUYING FOR WEEK

Numerous promotional sales gave an impetus to retail dollar volume during the past week. Fractional increases above the previous week were reported in many sections with the volume of consumer purchases remaining slightly higher than that of the similar week last year, Dun & Bradstreet, Inc., reports in its latest summary of trade. Shoppers continued to be selective in their purchases and moderately priced merchandise of good quality sold well.

Promotional sales of Fall and Winter apparel on Armistice Day attracted considerable consumer attention.

Women's winter coats of broadcloth and wool suede continued to be in very large demand. The consumer interest in skirts, blouses, sweaters and other accessories increased moderately. The demand for men's apparel rose slightly with shopper interest centered in topcoats and overcoats.

There was no appreciable change the past week in retail food volumes and requests for fresh fruits, vegetables and canned goods remained steady. The retail volume of meat and dairy products was almost unchanged and many consumers requested moderately priced meat cuts. Bakers' goods remained in large demand. Shoppers continued to purchase frozen foods in a sizable volume.

Retail hardware volume decreased slightly last week, while the sales volume of furniture and housewares rose moderately.

Consumer interest in the major electrical appliances dipped noticeably. Some sharp decreases in the retail sales of refrigerators were reported. There was a slight rise in the demand for radio and television sets. Heralding the approach of the Christmas season, shoppers bought toys and gift merchandise in an increased volume.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from 1 to 4% above that of a year ago.

Regional estimates exceeded those of a year ago by the following percentages: New England and South 3 to 7, East 1 to 5, Midwest 0 to 3, Northwest 0 to 4; the Southwest and the Pacific Coast regions varied from 2% below to 2% above a year ago.

Total wholesale order volume rose slightly in the week and was approximately even with that of the corresponding week a year ago. Many retailers continued to reorder substantial quantities of seasonal merchandise; new orders increased fractionally. The number of buyers attending the various wholesale markets was estimated to be more than 20% above that of the comparable 1947 week.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Nov. 13, 1948, decreased by 9% from the like period of last year. This compared with a decrease of 8% recorded in the preceding week. For the four weeks ended Nov. 13, 1948, sales decreased by 1% and for the year to date increased by 6%.

Retail trade volume here in New York City for the third successive week again fell short of total sales for the comparative period last year with department store sales estimated at close to 10% under the 1947 week.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Nov. 13, 1948, declined by 12% from the same period last year. In the preceding week a decrease of 4% (revised) was registered over the similar week of 1947. For the four weeks ended Nov. 13, 1948, an advance of 1% was recorded over that of last year and for the year to date, volume increased by 5%.

As We See It

(Continued from first page)

the first place candidate Truman, like his leading opponent, was all things to all men in the campaign—that is all things to all men except "Wall Street," "the Corporations," "Big Business," and, in general, to all those who by their own efforts have succeeded in making a reasonably comfortable and secure position for themselves. At any rate among those who have been "promised" many things there are many disparate elements with conflicting and mutually inconsistent ambitions and desires, and the various programs which have been "pledged" can not all be given effect, or at all events can not be given effect without in some instances at least offsetting or nullifying one another. But this is not the whole story by far. These "pledges" were as often as not couched in terms which either were quite unrealistic in the circumstances or else were too vague or equivocal to be assigned exact meaning.

Also Congress

But there is even more in this post-election picture. The people on November 2 chose not only a President and Vice President, but a House of Representatives and a substantial part of a Senate membership. One of the features of the campaigning was the extraordinarily wide differences of view and belief between President Truman and a very substantial and exceptionally influential segment of his own party. It may be that in the remainder of the nation, the so-called "southern conservatives" were repudiated at the polls — in a psychological sense in any event — but the significant fact remains that they did not and do not have to stand for election or re-election in these other sections of the country. The President somehow successfully defeated or offset the "southern revolt" so far as total election returns are concerned. It definitely remains to be seen whether he can achieve corresponding results in the new Congress when it meets. One thing would appear as certain as anything can be in this uncertain political world of ours, namely that he can not do so by "steam roller" techniques. There are a good many points other than the so-called civil rights matter at which these southerners disagree with the personal platform upon which President Truman is supposed to have received a mandate from the people.

Thus it comes about that we are now passing through that "strange interlude" during which the successful candidates get down to work to decide what they really intend to do during the terms of office to which they have been elected. From what little seeped out of the President's vacation quarters it was clear enough that some sort of process as this was under way. Now that the Chief Executive is back in Washington he is still busily engaged in formulating specific programs to present to Congress—both, probably, in public in his annual messages and in private when the "cards are down." It would, of course, be a meaningless gesture —except possibly for political purposes—to hand Congress a re-typed copy of his "twenty-one points," or any other similar list of demands. A practical, working program must contain only a fraction of all this, and that fraction must be carefully selected in light of the situation in Congress, and preferably, in close collaboration with Congress. All this still holds quite regardless of whether the President by his own personal efforts snatched victory from defeat, or whether other forces were largely responsible for the outcome on Election Day. He must still work with Congress on a give and take basis if he is to succeed in his second term.

Particular Cases

A number of particular cases of this general situation are already pushing themselves forward into the lime light. One of them is the so-called Taft-Hartley law situation. It did very well for campaign purposes to "promise" repeal of this enactment. The fact is that it, itself, is an amendment of the revered Wagner Act. Simple repeal would leave both laws in the waste basket. Such an outcome would give us no concern, but no one supposes that President Truman has anything of the sort in mind. It is, of course, technically quite possible to repeal the Taft-Hartley Act and re-enact the Wagner Act as it stood immediately before being amended by the Taft-Hartley law, but any such effort, or any attempt to replace the Taft-Hartley Act with any other statute, must inevitably again open the entire question of labor legislation within the field covered by the Wagner measure. The Pandora's box thus opened may not be easily closed, and he would be rash indeed who undertook to predict what the precise situation would be after that feat is accomplished.

Counterparts of this general state of affairs are found on all sides. The President and some of his eleventh hour supporters had a good deal to say about price control and rationing. Some of them doubtless would rashly re-enact a good deal of the war powers of the President with the purpose of setting up control machinery again. We are confident, however, that there are many in the Democratic party who doubt the wisdom of any such step, not only on grounds of broad statesmanship but even when viewed from the strictly political standpoint. It was this excess of controls with their economic consequences which gave the Democratic party its first defeat for many years in 1946. It can scarcely be that all this has been so quickly forgotten, or that forward looking politicians are very confident that price control or rationing would not have similar effects — and quite possibly similar after-effects — if again established in this country.

Many Other Problems

The list might be almost indefinitely lengthened. The idea of a new excess profits tax is obviously viewed with disfavor by many of the President's own party. Some of them are against it on grounds of statesmanship, others because they think it politically dangerous. And there is the old subject of tax reduction — and the farm subsidies, as well as a dozen or more other real problems. The situation is complicated, so far as gaining any clear view of the probabilities of the situation is concerned, by the fact that many of the advocates of measures the President used most freely in his campaigning were clearly not for Truman before Philadelphia. Most of them "got on the band wagon" later, but President Truman would be something less than politically human if he wholly forgot what they were doing earlier.

Probably some months must elapse before we can be certain what the second Truman Administration will be like—except, of course, it will be "New Deal."

Capital Formation and The Equity Market

(Continued from page 2)

ties. The utilization of this relatively minor portion of national income for the expansion of capital equipment has accounted for our material progress.

Net addition to capital equipment is not a continuous process. It is greater during periods of business prosperity and virtually disappears during depression.

During the Great Depression and also during World War II, there was little, if any, private net capital formation throughout the entire economy. In all probability, capital resources were being depleted. During the war, the depletion of capital resources for peacetime use was, of course, a deliberate policy in this and other countries. It released a greater stock of goods and materials for immediate war purposes. Obviously the process of living upon capital cannot continue indefinitely, leading as it does to an ultimate breakdown in the economic life of a nation. To make up for the deficiency in capital formation during the Great Depression and the war period, business enterprise has found it necessary over the past several years to spend vast sums on plant, equipment and inventories.

Savings and Capital Formation

In those cases where farmers, individuals, business enterprise and governmental units do not have sufficient funds of their own to expand plant and equipment, they must obtain funds from outside sources. In doing so, it is important that the bulk of the funds obtained come from genuine savings and not from an expansion of commercial bank credit. If bank credit is used as a substitute for savings, particularly at a time of full employment, purchasing power is increased and inflationary pressures are given further stimulus.

During World War II, the money savings of the American people rose to unprecedented levels and resulted from a high level of money income, the control of consumption and the scarcity of consumer durable goods. Since the end of the war the absolute amount of savings has declined sharply. This drop has been accompanied by a rapid decline in the purchasing power of existing savings. In other words, the failure or inability of consumers to continue to save at a high rate has diluted the value of their existing savings. Doubtless consumers would have saved more had rates of interest been higher. An incentive price has not been paid for thrift.

Not only have consumers as a whole saved less since the end of the war but many have gone into debt. Consumer and urban mortgage debt have both increased rapidly and the indebtedness incurred has itself contributed to inflationary pressures. The absolute decline in savings and the sharp rise in consumer and mortgage debt are current weaknesses in the American economy.

Business Capital Formation

At a time when consumers have been saving less, business enterprise has utilized its own large volume of internal savings in financing the rehabilitation and expansion of plant and equipment and the building up of inventories. Over the past three years business has spent about $70 billion for these various purposes. Internal sources of funds, including the liquidation of government and other marketable securities, furnished about 60% of this amount. The balance was obtained in the form of new security issues and increases in bank loans and trade credits.

Expenditures for new plant and equipment alone amounted to $12 billion in 1946, $16 billion in 1947 and will probably amount to over $19 billion in 1948. About three-fourths of the total has been spent on new equipment and one-fourth on plant. In the early postwar period funds were spent mainly to renovate and replace equipment, and, more recently, with the growing emphasis on cost reduction, to introduce new technology and to produce new products.

By reason of inflation the actual increase in productive facilities is less than the dollar amounts would suggest. Dollar totals must be sharply deflated to reach a basis of comparison with prewar years.

Important differences are to be found among various types of industrial corporations in the relative amounts spent on plant and equipment and inventory accumulation. The largest relative amounts have been expended on plant and equipment in such lines of endeavor as the chemical, iron and steel, and oil industries, electric and gas utilities, and communications. As would be expected, the largest relative amounts have been spent on inventory accumulation by the food and tobacco industries and by retail trades.

Internal Sources of Funds

Internal funds have been a particularly important source of financing for companies engaged in the production of transportation equipment; of food, rubber and petroleum products, of non-ferrous metals and iron and steel. Such funds have been drawn largely from retained earnings, i.e., net earnings after taxes and dividends plus current depreciation accruals.

These funds have been supplemented by those obtained from a reduction in holdings of marketable securities.

Although business savings have been large in the postwar period, their use in meeting corporate financial requirements is available only to existing businesses. New undertakings must, of necessity, obtain their initial working and fixed capital funds entirely from outside sources.

Retained earnings have been quite large not only by reason of large net corporate profits but also by reason of the conservatism which has characterized dividend payments. Thus, in the postwar period, less than one-half of net earnings has been disbursed to stockholders as contrasted with three-fourths in 1939 and two-thirds in 1929. Conservative dividend policy has been dictated by the desire to avoid financial structures top-heavy with debt, to avoid seeking equity funds under unfavorable market conditions, and to make good the deficiencies in depreciation allowances.

Corporate Taxation

Retained business earnings as a source of funds for capital formation are of such importance, that, in my opinion, if it can possibly be avoided, the government should refrain from increases in corporate income tax rates and from the adoption of an excess profits tax. In depriving corporations of funds which, since the end of the war, have financed the bulk of business capital formation and in forcing corporations deeper into debt to finance their requirements, increased corporate taxes are bound to have a damaging effect on the economy.

An excess profits tax, in particular, is discriminatory, capricious and arbitrary in its effects. It encourages wasteful expenditure, penalizes initiative and enterprise, and discourages new ventures. By its very nature, it is extremely complex and difficult to administer. In a peace economy it interferes with the function of profits, which is that of guiding the flow of investment.

In this connection I can do no better than to quote a statement made on Oct. 15, 1945, by Mr. Vinson, when he was Secretary of the Treasury, before the Senate Finance Committee. Secretary Vinson said: "Repealing the excess profits tax means getting out of the tax system a tax which certainly in its present form has

no place in the peacetime system. The case against the excess profits tax for 1946 goes beyond the fact that it is primarily a wartime control and that it is erratic and inequitable. It is also an obstacle to that reconversion and expansion of business which is so necessary for a high level of employment and income."

Government tax revenues constitute such a large proportion of national income, that the government cannot be insensible to the effect of tax legislation on the economy. Tax legislation which impedes, discourages or retards capital formation consumes the seed corn of our economic life.

The Problem of Depreciation

In this connection it needs to be borne in mind that, by reason of the decline in the purchasing power of the dollar, depreciation accruals are generally inadequate at the present time. Depreciation allowances are intended to recover the original dollar cost of capital equipment. This practice is satisfactory in periods of relative price stability, but in periods of inflation it may lead to an overstatement of earnings and to a dissipation of real capital. In consequence, most business concerns are establishing special reserves to offset the decline in the purchasing power of depreciation accruals. This practice, sound as it is, does not recover, tax-free, the purchasing power invested in the original equipment. The question arises whether our corporate tax laws should not be modified to permit depreciation accruals to be adjusted for changes in the purchasing power of the dollar. Certainly a solution to this problem must be found if American industry is to continue to have a dynamic equipment policy.

Equity Financing

As a source of funds required by corporate enterprise, equity financing has been disappointingly small in the postwar period. To a larger extent than ever before, business enterprise is financing itself by the retention of earnings and by reliance upon the commercial banking system. Increases in bank loans to business enterprise through 1946 and 1947 were the largest on record. No doubt the great use of bank credit by business is to be attributed, in part, to the unfavorable equity markets.

The relative dearth of equity financing in recent years is brought out by a study of changes occurring in the financial statements of 45 large manufacturing corporations over the past quarter century. Financial practices in the decade of the 'Twenties stand in marked contrast to those of the present time. From 1923-1929 there was but a slight increase in short-term debt and a marked decline in long-term debt, occurring mainly in 1929. The increase in equity funds, about evenly divided between the increase in capital stock and earned equity, precluded the need to borrow on current account and permitted the repayment of long-term debt. In recent years these particular corporations have obtained the funds they required by a sharp increase in current debt and in retained earnings. Common stock flotations have not been a relatively important source of funds.

Obviously, equity financing needs to be encouraged. Otherwise corporations will lack a balanced financial structure, will become top-heavy with debt and, in the event of a business recession, may be forced to liquidate assets at depressed prices to pay off maturing debt. They will lack the ability to adjust their policies quickly to changing economic conditions.

Reasons for Low Volume of Equity Financing

Many reasons account for the relatively low volume of equity financing at the present time as contrasted with the more favorable situation in the middle 'Twenties. These include the easy money policies which cause corporate borrowers to favor debt financing, the fact that interest is a deductible expense, not subject to tax, and high personal income tax rates which discourage risk taking. Additional factors are the very high margin requirements and severe restrictions imposed on security loans which stand in marked contrast to the absence of such restrictions on real estate loans. Other deterrents are the growing institutionalization of savings and the fact that the largest gains in personal income in the postwar period have been among such groups as the agriculturalists, who do not ordinarily invest in common stocks and who are unfamiliar with this type of security.

Even investors familiar with the security markets have shown a reluctance to purchase common stocks, despite the wide spread between the yield on common stocks and the yield on bonds. This reluctance of investors to purchase common stocks stems in part from an apprehension over domestic and foreign political developments and from doubt as to the continuance of high corporate earnings. Investors are aware that break-even points are high, that the replacement cost of plant and equipment has risen far above original cost and that, in case of a recession, the decline in inventory values may prove a source of considerable embarrassment. Investors are aware that the inflated prices paid for new equipment have had the unfortunate effect of increasing the burden of overhead costs and of making the cost-price structure more rigid. Many an investor therefore has shunned risk securities and has contented himself with public or private debt obligations.

How to Encourage Equity Financing

While many of the factors accounting for the low volume of equity financing cannot be corrected directly by remedial governmental action, our government can take certain steps which will encourage equity financing. Equity financing will be encouraged if the easy money policies which stimulate debt financing are ended and if certain reforms are made in the Federal tax structure. These reforms include the elimination of the double taxation of corporate dividends, the adoption of British practice of generally excluding capital gains from the definition of individual net income, the clarification of "Section 102" of the Internal Revenue Code which imposes penalties on corporations found to have accumulated reserves in excess of "reasonable" needs, and changes in tax legislation and administration concerning the liberalization of depreciation schedules for plant and equipment.

The double taxation of corporate dividends, in its effects upon individual stockholders, is discriminatory and inequitable. Stock ownership as such is taxed without reference to the income status of the individual recipient of dividends. A possible remedy lies in making dividends a deductible item for purposes of the corporate income tax.

Similiarly, the capital gains tax has worked against the full functioning of the equity markets. Since the adoption of the Federal income tax, practically every known method has been used in the taxation of capital gains. In my opinion, none of these methods has proved satisfactory and we should now profit by British experience and adopt their practice of generally ignoring capital gains and losses in computing taxable income. The British do not consider gains arising from the sale of capital assets as income, unless transactions in such assets constitute the regular trade or business of the taxpayer. The exclusion of capital gains from the income tax base should encourage risk investments, thereby increasing the pool of venture capital, should make for greater liquidity in the securities markets and should result in greater stability in Federal tax revenues.

Within reasonable limits, corporate management itself should be given complete discretionary latitude in the adoption of depreciation schedules for plant and equipment. This change will encourage business management to adopt scientific and progressive equipment policies and to replace existing equipment before it has become obsolete. It will lead to a dynamic equipment policy.

In corporate tax legislation and administration, too little attention has been given to the economic effect of depreciation schedules permitted corporate enterprise. One of the reasons cited for the unprogressive character of British plant and equipment is the fact that permitted annual rates of depreciation have been low. On the other hand, Swedish tax law permits rapid depreciation with the result that Swedish industry has followed a dynamic equipment policy.

The suggestions advanced relative to changes in tax law and administration may seem quite unrealistic at the present time in view of impending increases in defense and other Federal expenditures. If these expenditures reach the point where there is danger of an annual budgetary deficit, new tax legislation will be required.

In giving consideration to whatever tax legislation is required, the new Congress should make careful study of the effect of the proposed legislation upon capital formation. To continue as leader of the democratic forces of the world we must have a strong and expanding industrial plant. We must have a corporate financial structure which is flexible, resilient and able to adapt itself to changing conditions. It was the industrial plant, the adaptability and flexibility of management and the genius of our scientists and industrial managers which made this country the arsenal of democracy and enabled us to wage a global war.

The Basic Needs of the Economy

Long-run requirements for capital goods in this country are enormous. There is need for construction of all types—housing, schools, hospitals, roads, public utilities, etc. There is need for the adoption of new technological processes and for improvements in plant and equipment as a means of reducing costs and creating new products. There is need to capitalize upon innovations in the field of electronics and atomic energy. We are on the threshold of great economic advance, not economic stagnation. Those who argue that economic stagnation, not progress, is to be our lot are generalizing on the basis of a single depression and not on the basis of the long-time upward trend of American economic development.

We can achieve continued material progress if we keep in mind the basic truth that capital formation in the form of new construction, plant and equipment, must be matched by increased savings. The problem of savings is itself a twofold one—that of increasing the total amount and that of channeling an increased proportion into equity securities. To the extent that savings increase, a smaller volume of bank credit will be required to finance the long-term needs of the economy. Inflationary pressure will subside. To the extent that savings are channeled into equity securities, our corporate enterprise will have a better balanced and more flexible financial structure and hence will be better able to adjust itself to changing business conditions.

As members of the Association of Stock Exchange Firms, you are cognizant of these basic considerations. You are aware of the need for more savings, for more plant and equipment, and for a more active equity market. You are aware of the fact that these problems concern not simply the financial district of New York but the very strength and stability of our country. Your Association is in a strategic position to carry this important message to the American people.

Let's Stop Talking and Do Something

(Continued from page 9)

now, what they actually are, because shortly all the manufacturers will have their real postwar cars introduced.

You can imagine the thousand and one decisions that have to be made in designing a sound postwar model: How could more safety be designed into a car—get all-out visibility through bigger windshields and eliminating the hood obstruction, so the driver can see a child or a dog four feet ahead of the bumper. How could the longest seats ever built in a car be designed and roominess be provided at shoulder height? How could you make the car so comfortable and well-balanced that you could drive 500 to 700 miles in a day, yet not be half as fatigued as in the old style cars?

Why couldn't you design better control into the model, so it would grip the road and hug the curves? Should you dare to attempt to bring out the "New Look" in cars?

The New York "Times" has just published an interesting article on "The New Look in Automobiles." It says:

"Women's influence on car design and construction will be, perhaps, the outstanding development in the new models to be presented this Fall and Winter. Major emphasis will be on economy and interior decor.

"Reports that have slipped out of the factories put special stress on esthetic appeal. This is attributed to the women's influence on car purchases, which was rated at almost 80% before the war.

"An essential element in women's approval is the decorative schemes of car interiors. In the new cars color combinations will rival the carefully selected shades of the smartest drawing rooms.

"The choice of fabrics for upholstery was made with as much care as that bestowed by famous modistes in fashioning wearing apparel."

The auto industry competes with tremendous imagination and vigor to anticipate such trends as appear in new models. I'm reminded of a little story spilled by "Fortune" magazine about my son Edgar Kaiser, manager at Willow Run: One night Edgar was dashing out of his home with his wife's stunning new evening gown under his arm. His wife exclaimed, "Where are you going with my dress?" "Oh," said Edgar, "the color is so beautiful; I want to have it made up for an interior fabric." To sum up—I'd say one postwar objective has been to put colorful finishings and restful comfort into your car to give it the feeling of home.

The public may have been disappointed that revolutionary things like rear engines and concepts of fiction writers didn't pop out in postwar cars. . . . The famous Charles Kettering used to say, "if you don't put it into a car, you don't have to take it out." It's a rule of the industry to delay engineering innovations until all possible "bugs" have been removed. Consequently, the industry has proceeded slowly toward automatic transmissions. The whole industry has been working hard on lower-cost, simpler, foolproof automatic transmissions. Likewise, in the trend toward higher compression ratios in engines: testing goes on without letup, yet, widespread use of engines of the original Kettering engine type would depend on how fast the oil industry makes higher octane gasoline generally available.

"Cars of the Future"

In the secret experimental plants of the industry, there are many conceptions of the "cars of the future." Naturally all of us have our share in clay mockups, on the drawing boards and under the wraps of experimental projects. Kaiser-Frazer is gearing up for production of four new models this coming year. We are getting all set to build models in the price range of the Ford, Chevrolet and Plymouth. This car is in the process of being built in metal, a step before tooling. The anticipated date of introduction is 1950, or when steel permits.

Every auto builder must look several years ahead, and a hint of one of my fond beliefs is summed up by saying—The rock-bottom bargain in roomy but lighter autos will come when we find really new ways of manufacturing cars. Today's automobile has 20,000 or more parts. I believe the day will come, and not too far away, when the parts will be reduced to a fraction of that number. That's the way to real cost reduction.

As to our entering the automobile industry, we did so because we believed the organization built up in construction and the war efforts should have an opportunity to make a contribution to the kind of cars wanted by the American people. Some timid people said the older tradition of free enterprise, with the opportunity and right to compete, no longer existed in the automobile industry — that no new organization could enter the field with much hope of success. But I had heard it said "it can't be done" every step of the way. There were those who said an inexperienced organization could not dam a river, could not build the world's largest cement plant from scratch, could not build ships in less than six months, though it proved possible to build them on an average of 15 to 20 days per ship, month after month; yes, it was said it was a rash undertaking to build the only basic steel industry on the West Coast, that it was foolhardy to try to break into the aluminum industry. Yet events proved these things could be done.

The simple fact is that, if there is a need and if there is a will to supply unfilled human wants, a way can be found by anyone who applies the principle, "If the need is there, it can be done." Once that question is answered, the only thing that remains is the ability to use your hands and your brain without tripping over your own fear or self-desire.

Auto Production Hinges on Steel Shortage

Next, let's consider auto production.

Here we run headlong into the bottleneck not only curtailing auto production, but affecting our entire economy and other consumer durable goods which you finance. I mean the critical shortage of basic materials, notably steel, "the Mother of Industries."

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Let's Stop Talking and Do Something

(Continued from page 31)

For three years American industries have been gasping for more and more steel, and still the shortage is unabated.

Not enough passenger cars by many millions have yet been produced to supply the auto-hungry public. The industry is estimated to have manufactured since the end of the war only a little more than half the number of cars it could have made if able to run at full capacity.

The unremitting shortages of basic materials have pressed prices of those materials upward, for when supply can't meet demand, prices are inflated. Shortages have slowed up assembly lines and held back efficiency and productivity, thereby further spiraling prices.

During 1948, the U. S. industry is scheduled to build more than five million motor vehicles. About four million will be passenger cars and more than one million trucks and coaches. It's doubtful whether 1948 will quite reach the all-time production record of 5,358,000 cars and trucks set in 1929.

It has been a ceaseless struggle for steel and other basic materials. To keep running as well as they have, other manufacturers more and more have been forced —as Kaiser-Frazer was from the outset—into acquiring their own sources of basic materials and into making trades and conversion deals for steel. Kaiser-Frazer revived and brought into production a blast furnace at Struthers, Ohio, and another in Utah, besides recently acquiring the world's largest blast furnace at Cleveland, Ohio. Kaiser Steel built one blast furnace at Fontana, Calif., and now is financing to build a second one that will double the potential pig iron capacity of the West Coast. Several auto companies have gone directly into the iron and steel business, or financed facilities.

If the automobile industry hadn't shown real initiative in combating the steel shortage there would have been 25% less cars produced this year.

When auto makers couldn't get enough finished steel from normal sources they didn't just give-up. No, they went out and bought ingots of semi-finished steel on the open market. Then they scouted around until they found a processer who converted the steel into sheets and strips.

A survey, made by "Iron Age" magazine, shows that this conversion process will result in more than 1,050,000 cars and 300,000 tons of spare parts being manufactured this year which otherwise wouldn't have been possible.

To get this additional finished steel, the automobile industry paid collectively about $115 million more than the regular mill prices, — not by gray market prices, but because the conversion of semi-finished metal, when accomplished at a point other than the mill making the semi-finished metal, necessarily must include freight, handling and other premium costs.

The majority of auto manufacturers, according to published statements from companies like Ford and Chrysler, expect the shortages of critical materials to get no better next year, with the result that production will not substantially increase, but may decline 10 to 20%.

On the other hand, three chief executives of General Motors only recently have forecast more steel for next year, with new capacity of cold rolled sheet and strip steel cracking the big bottleneck and opening the way to increased auto production.

Nation Short of Basic Materials

Yet my conviction is that the United States is dangerously short on production of many of the basic materials—short as far as sustaining and further advancing a high production, full employment peacetime economy, and more critically short in view of our international commitments and program of national defense.

Take steel again:

First, the frenzied clamor of industry after industry, particularly little fellows, newcomers and growing concerns, grows steadily stronger a full three years after the war.

Second, voluntary allocation programs are due to be continued as an alternative to compulsory government allocations. Think of it—one-third of the steel plate production has been taken by allocation programs. Insistent allocation demands have been obtained to supply steel for freight cars, oil well pipe, soil pipe for construction and farm machinery.

Third, the gray market continues unchecked in steel, with many desperate manufacturers being forced to pay fantastic prices.

Fourth, there's the scrap shortage. The scrap market has been drained by war and by steel mills operating for nine years at near capacity levels.

The steel industry requires about 25 million tons a year of purchased scrap, in addition to about the same amount of scrap of its own making. It requires a cycle of about 30 years from the fabrication of the finished steel product until the steel comes back as scrap to the open hearth furnaces. The cycle has been broken—first, by export of 20 million tons of scrap from the United States between 1930 and 1940, and second, by the shipment abroad of 140 million tons of steel during the war in the form of military supplies and equipment. The steel that went to the bottom of the seas in the form of ships and much of the miltary supplies left on foreign battlefields never will be returned to this country in the form of scrap. Moreover, 40 million tons of world steel capacity were knocked out in war-shattered lands, and it will take time for restoration.

We are overtaxing existing iron ore mines and coking coal sources. We must have more raw material sources and additional blast furnaces to make up the losses.

Fifth, American production is roaring 50% higher than prewar. This requires high production of basic materials; so does our rising population and so does an objective of steadily increasing the real income of all the people.

Louis H. Bean, the Government economist who has gained fame as a forecaster, said I could quote him today as saying the United States ought to have 110 million tons of steel capacity to make up for the facilities not built during the depression of the 1930's. That's 25% more than the tonnage expected to be produced this year. Louis Bean declared that while the steel industry held capacity back, human beings kept on propagating and our population steadily increased. He remarked that, somehow, we didn't arrange to hold the population back.

Sixth, the requirements of rearmament and the European Recovery Program, plus our obligations in the Far East, are piled on top of our civilian demands. National defense needs are currently concentrated on aluminum. By the second half of 1949, it is forecast that the military lend-lease program for Europe will start rolling and our own military forces will have to start replenishing their reserve stocks.

Needs for Expansion Are Vast

However, the thing that is close to my heart, is that we as a people keep forever raising our standard of living and keep developing our resources of nature, manpower, skills and brainpower to the maximum. We must not be content to brag that our abundant way of life makes the American income nine times that of the rest of the world—as it does. We can't afford to say that we won't build our industrial plant up to capacity for high production and high employment, because it would be too big in a period of depression.

The plain fact is that the United States is substantially short of having built its productive capacity to adequate size. I was shocked by a finding from the eminent Harvard economist, Dr. Sumner H. Slichter, who said: "An expenditure of about $50 billion would be required by American industry to raise the capital invested per worker just to the level of 1929—in other words, American industry has about one-fifth less capital per worker today than in 1929." Imagine having less industrial capital per worker than 20 years ago! Dr. Slichter told me the nation shows a need for capital investments in industry totaling $78 billion dollars.

Investment Incentives Advocated

Where are the investment funds going to come from? The public is not investing sufficient funds through the stock markets to supply new funds required to keep the nation's factories and businesses growing and prospering. The incentive for people to save and invest in building essential increased facilities for production and commerce has been stifled.

For the sake of stimulating crucially needed risk capital—equity money—the Federal Government should establish tax incentive systems that will give more encouragement to those who invest toward creating new jobs, new products, and new or expanded businesses and manufacturing plants.

There is one proven way to achieve swift stimulation of investments in new facilities to produce more basic materials required by defense and the civilian economy. It worked during the war. It was a law allowing faster amortization, or accelerated depreciation, of capital investments for income tax purposes. Manufacturers were given the opportunity to write off certain investments in five years, instead of the 20 years required under the slow depreciation process. That law stimulated some six and a half billion dollars worth of industrial investments. The plan can work now in peacetime.

The incoming Congress and Administration should write into the next tax bill a section permitting taxpayers, if they so elect, to charge off capital invested in new facilities in a minimum of five years. This would reduce risks. It would spur up new investments and hasten the rate at which old equipment is replaced.

Another way that Congress and the Administration can encourage the investment of funds in enterprises is to establish a rebate on income surtaxes for savings that a taxpayer plows into building up the industrial and business life of the country. I am indebted for the plan for this tax incentive reform to Economist Sumner Slichter.

The reform proposed by Dr. Slichter would give taxpayers an incentive to reduce their debts or put savings into securities or real estate. It would be a curb on inflation.

"The essence of the proposal is that on the part of income which is saved, taxpayers could claim a rebate of one-third of the surtax on the amount saved," according to Dr. Slichter's plan.

You can readily envisage how constructive tax incentive reforms like these would inject the life-blood of more essential capital into our economy.

We've Only Begun

American leadership can and must, I believe, show the gumption, courage and teamwork to make our industrial and economic democracy thrive. Instead of talking, we can do the positive things to assure that the United States economy continues indefinitely employing all who want to work.

Human wants as limitless as the imagination and daring of Americans are still to be filled. We require the construction of millions of homes and rental properties, slum clearing and the rebuilding of blighted city areas. Great river valleys call for the construction of dams to generate critically needed electricity and to send life-giving waters to arid millions of acres, where new empires of cities and farms will spring up. We can invest wisely to make tremendous strides in technological progress.

We are investing, also, toward building a strong world economy, for we know we cannot be an isolated island of prosperity in a shattered, suffering world, and that we can help show the way to the better life for all peoples.

There has always been a way that a man could make his dreams live. Wherever there is a vital need, the force and initiative of our American system can and do find an answer. Your organizations and ours represent instruments that are essential to the realization of the goals of our people.

America has not begun to tap its true potentialities of manpower, natural resources and industrial greatness. It's a God-given privilege to live and give our best to this land of the free—this land of opportunity.

Strength and Weakness in Economic Trends

(Continued from page 4)

and Austria, the Greek-Turkish aid program, and most recently the European Recovery Program. Loans have become relatively less important while gifts have become increasingly important. It is estimated that this country will spend or lend more than $6 billion on such aid in the current fiscal year, which is close to the very high rate of the first half of 1947. A large proportion of this year's aid represents expenditures under the European Recovery Program.

Other major means of financing the export surplus have been liquidation of foreign holdings of gold and dollar assets (which were run down by $4½ billion in 1947 and by about $1 billion in the first half of 1948), operations of the International Bank and the Monetary Fund, and gifts and loans from private sources in the United States.

Recent Developments

Continued development of postwar expansive forces has occurred in 1948. The first quarter was one of some business hesitation, with gross national product showing no change over the fourth quarter of 1947, and with prices of many farm products breaking sharply in February. In the second quarter, however, adoption of the enlarged defense program, the European Recovery Program, and tax reduction furnished a strong upward push to the economy, and especially so since these actions were taken in a situation still characterized by excessive overall demand. Expansive tendencies were further reinforced late in the second quarter by the responsiveness of large mass-production companies to wage demands after an earlier show of strong resistance to a third-round wage increase. After the signing of a two-year agreement between General Motors and the United Auto Workers on May 29, new wage contracts were soon negotiated elsewhere in the automobile industry and in such other key industries as electrical machinery, rubber, farm equipment, bituminous and anthracite coal, and steel. Wage increases have since spread, and are still spreading throughout the economy generally. Although the increases this year have been more selective and diverse than in preceding years, the average increase approximates the rise in consumer prices during the last year.

After the first quarter, further increases occurred in retail sales and consumer and wholesale prices. Gross national product and disposable income (i.e., income of individuals after payment of personal taxes) reached new peaks in the second and third quarters as business, government, and individuals all enlarged their expenditures. Unemployment has continued at a low level, below two million persons. The index of industrial production, which had declined in July, recovered in August, and by September was back to its June level.

Slackening in Monetary Expansion

Expansion in bank loans has continued to make a substantial contribution to total spending power, though not on quite as large a scale as last year. Loans of all banks are estimated to have increased $1.8 billion between the second and third quarters, as compared to the $2 billion expansion in the corresponding period last year. Though smaller in total, the second-to-third quarter growth of loans this year has followed a pattern not much different from that of last year. Increases have taken place in all three of the main loan categories —business, real estate, and consumer loans with the smaller increase this year chiefly accounted for by a decline in the rate of growth in the business category. Currently, business loans are increasing only about one-fourth as rapidly as they were at this time last year.

Incomes Increasing

Personal income continues to increase, both as a result of increasing employment and of the spreading of wage increases throughout industry. Despite the sharp drop in prices of many crops, net income of farm proprietors has been maintained at a level above the already high level of last year. The price-support program combined with the large volume of marketings prevents substantial declines in farm incomes. Personal holdings of liquid assets are still very large and are widely distributed, despite some tendency to concentration in the hands of upper income groups. Reestablishment of Regulation W has slackened the rate of growth but has not precluded the further expansion of consumer credit.

These factors—high current income, large past savings, and ready access to credit—reinforced by the continued backlog of demand for some durables (e.g., automobiles), furnish a strong basis for continued high level of personal consumption.

Anti-Inflationary Developments

Taken together, all these indicate a considerable degree of current strength. Nevertheless, there are also evidences that in some important areas supply is equaling or exceeding demand at cur-

rent prices. These products include not only some finished consumer goods but some raw materials as well. As these products tend to stabilize or fall in price, they serve to relax somewhat other upward pressures on costs and prices elsewhere in the economy. Probably the most important development of this sort has been the record-breaking crops of this year, which have resulted in reduction of prices of wheat, corn, and cotton to support levels.

Possible balance or even excess of supply at current prices are also reported in connection with such products as cotton textiles, shoes, men's clothing, liquor, housefurnishings, coal, paper, and radios. There have been reports of more than seasonal weakness in prices of used cars.

It may also be noted that wholesale prices in general have shown smaller increases so far this year than in 1947. Furthermore, considerable divergence has developed in price movements of various commodities. Great strength has been shown by metals and moderate strength in such industries as building materials and fuels. On the other hand, prices of some foods, hides and leather, textiles, paper and pulp, and chemicals are close to or below their January levels.

Another possible symptom of general weakness may be read into the fact that new housing starts have declined and are below last year. The declines this year at this time may be interpreted as an indication of some softening in the market, reflecting the facts that the most urgent demands for housing have been met, and that consumer resistance to the extremely high prices charged for houses is becoming effective. Nevertheless, construction costs have continued to advance steadily and the index of wholesale prices of building materials in early October was at its peak.

General Prospects

Signs of general weakness must be watched closely, because after the great price increases of recent years the economy is becoming increasingly vulnerable both to sharp price declines in particular areas and to the effects of such declines on credit and on business and consumer expectations generally.

It is well to remember, however, that the postwar boom has already overridden many deflationary forces and periods and that greater strength in some lines may well continue to offset weakness in specific lines. In the past two years we have overcome the sharp break of stock prices in the fall of 1946, the weakness in nondurable goods and trade in the first half of 1947, some reduction in new private construction in the second quarter of 1947, the sharp break in prices of many farm products in February of this year, and the large Federal cash surplus in the first quarter of this year and the use of much of this surplus to retire bank-held debt.

More important than all of these things in conditioning my thinking about current economic trends is the continued state of tension in international affairs. Our defense requirements have precluded overall reduction in Federal expenditures. The enlarged defense and foreign aid programs adopted last spring are being carried out at an accelerating rate. Their full economic effects will not be felt until next year. Who can say that the present programs represent the peak of defense and foreign assistance efforts? Under the circumstances it would be dangerous to assume that inflationary forces have run their course. While the recent indications of moderation of some inflationary pressures are hopeful signs, the direction of most broad measures of economic activity continues upward. All of our energies and abilities must continue to be directed toward establishing a permanent peace without which our hopes for achieving lasting economic stability at high levels of employment and production cannot be realized.

Election Requires Portfolio Adjustments

(Continued from page 9)

proximately 45% provided personal income subject to taxation continues its upward trend. If, for example, Montgomery Ward earned $10 per common share with a 38% tax rate, the company would still earn $8.06 per share even with a 50% rate (which we believe will prove to be a high estimate) if all other things were equal. In other words, there would be a decline of approximately 20% in earnings for the average stock.

Comments on Individual Industries

We believe it is important to switch stocks immediately into the groups which have the greatest attraction not only to establish tax losses but because of our belief that there is not too much to be gained by waiting. It should be obvious to anyone that common stocks are the cheapest form of property in the world and these facts are not going to be changed by political upsets. Once the disappointment over the elections is dispelled, common stock prices may improve as earnings and dividends in all likelihood will support higher prices.

Defensive in Character Where Objective Is Peace of Mind

Electric Operating Utilities—Stocks ideal for conservative investment purposes. The cost of electric service is so low that industry is unlikely to become a political target as was the case in the Roosevelt Administration. Industry has combatted inflation by efficient operating methods and low interest rates have improved common stock earning power. The same conclusions apply to retail operating natural gas utilities.

Insurance Stocks—Continuance of the favorable trend of underwriting expected . . . only danger a further inflation spiral, but since prices for building materials are already high no further advance is expected. Purchase of quality insurance stocks is recommended.

Food Industries—Threats of sharp reduction in farm commodities diminished. The conservative equities in this group such as Quaker Oats, General Foods, Jewel Tea, etc., in our opinion have great attraction.

Retail Trade—Farm income will continue at high levels and we like Sears, Montgomery Ward, J. C. Penney and others catering to the masses instead of those depending on the carriage trade.

Industries, More Dynamic in Character, to Benefit From Armament Program, Marshall Plan and/or Construction Projects

Agricultural Issues—We have altered our viewpoint in line with the farm outlook. Many companies in this field also are engaged in other industries where outlook is favorable, such as Allis Chalmers, Caterpillar Tractor, etc. Potash mining companies attractive.

Building Industry—Outlook again very favorable. New housing bill certain.

Machinery—We would confine security selections to companies engaged in materials handling, such as Clark Equipment, Link-Belt, etc.

Petroleum—May be an easing of crude prices but earnings should hold up well. Continue to like integrated companies like Shell, Indiana Standard, Atlantic Refining and others.

Steel—Despite high wage factor, we consider securities in this group attractive. Large invested capital base. Earnings after increased income taxes should still support higher prices for most issues.

Natural Gas—Retail utilities highly stable investments as previously mentioned. FPC may be less conservative but outlook for all segments of the industry would still appear favorable.

Speculative Industries Where Outlook Is Favorable

(Naturally even greater selectivity of individual issues is of paramount importance.)

Aircraft Manufacturing—Vulnerable to renegotiation but stocks so low in price that they may be cheap as government must keep these companies strong.

Distillers—We are recommending distillers stocks as industry has improved materially since public started to buy "blends." Stocks are cheap in relation to earnings and may eventually sell on a lower yield basis as they have done on the London Stock Exchange for many years.

Electronics—A growth industry though subject to great hazard in relatively early stages. Selected stocks might experience dynamic appreciation even though stock prices in general do not go up sharply on a broad front. Television prospects bright.

Paper and Pulp—Supply now in balance with demand. Most stocks cheap in relation to prospective earnings but would follow conservative policy.

Industries Where the Outlook Is Relatively Unfavorable

It is perhaps impossible to generalize too accurately as there are many individual stocks in these industries which are still attractive either on a price basis or because of other factors.

Air Transport—Continue to avoid this group until picture clarified. May be good speculative possibilities later on.

Automobiles—Industry may suffer from steel allocation. Tooling costs for new models and heavier selling costs as order pipelines are filled may reduce profit margins. General Motors and Chrysler may be targets for anti-trust suits, union troubles, etc.

Chemical Industry—Many of the high price blue chips are probably a sale as stocks are selling on a low price-earnings ratio, comparatively speaking. Buy or hold certain special situations, particularly petrochemical issues.

Communications—We believe that Western Union and AT&T with a heavy wage factor and other problems are in weak position. Outlook dubious and we would recommend sale of these issues.

Electrical Equipment—Outlook fair. Heavy utility construction programs to come and activity at atomic plants may help GE and Westinghouse.

Moving Picture Industry—Continue to avoid stocks in this group for investment until foreign situation is clarified. However, recognize speculative trading possibilities in Paramount due to major interest in television.

Nonferrous Metal Mining—Theoretically good inflation hedges but labor difficulties increasing and possible target for price control. Stock piling may be forced at controlled prices. We are changing buy recommendations to sell for most securities in this group.

Railroads—Problems of increased severity ahead for railroads. Group does not qualify for investment and stocks should be purchased only as speculation. Switch blue chips to high quality issues in favored industries.

Railroad Equipment—With uncertainty facing the railroads, they may become more cautious in their buying programs. Outlook for railway equipments only fair.

Investing Bank Funds Under Current Economic Conditions

(Continued from page 10)

The first suggestion, to buy Treasury Bills and Certificates of Indebtedness for real availability, follows from the fact that these securities give relatively good rates of return today, are of short maturity, and enjoy an unequaled degree of marketability.

The second suggestion, that today maturities should not be extended beyond what is required and desired to increase or stabilize income, follows from the fact that I do not think we can count on any reversal in the upward trend of interest rates so long as business continues at a high level.

Short-term interest rates have been rising for the last 16 months and some further increases would not be surprising. When and to what extent these may be realized we do not know, but it now seems likely that they will be more moderate and go into effect more slowly than was expected some weeks ago. Such increases as may occur would naturally cause some readjustment all along the line in short and intermediate securities.

With respect to long-term securities, our monetary authorities have indicated and reiterated their intention of not permitting the rate on long-term United States Government Bonds to go above 2½%. This commitment has been made "for the foreseeable future." How long that means I do not know, and I do not think anyone knows; not even our monetary authorities. However, for what it may be worth, at this time I am thinking in terms of the 2½% rate not being exceeded. Of course, I may be wrong; as I said, I do not know.

Of this, however, I feel confident, in the unlikely event that support of the government bond market were abandoned by the Federal Reserve, at a time when there was great pressure to sell United State Government securities, induced by fear, caused by ignorance, loose talk, avarice and mistakes, we would quickly run into the type of demoralized market that would be most disturbing to our economy. Such a deplorable situation would call for a quick reversal of policy on the part of our monetary authorities and the adoption of an easy-money policy. Then I am sure we would see a subsequent rapid rise in prices of United States Government securities. My third and final suggestion for well-run banks, is not to worry about book loses in holdings of United States Government bonds carried at amortized cost. Such losses will automatically disappear with the passage of time. The rise in interest rates which produced them is resulting in higher earnings being received on funds currently loaned or invested than could have been realized if interest rates were lower and the bonds in question showed a book profit. Further, where such investments were made for income and as a hedge against lower interest rates, they must be expected to show book losses from time to time when interest rates are higher than when the investments were made. A hedge cannot be expected to work two ways.

Little need be said regarding the automatic disappearance of book losses with the passage of time. That is certain, if the bonds are retained. At maturity they will be amortized to par and par will be paid.

Every well-run bank has a constant inflow of funds from loans and investments. As interest rates advance these funds can be reemployed at progressively better rates and earnings will increase. That is favorable. At the same time, as interest rates rise, bond prices tend to decline and book losses develop; but from an earnings point of view that is not unfavorable. It in no wise affects earnings. Personally, I am interested in earnings and cannot deplore advances in interest rates that increase earnings, even though they reduce book profits, or cause some book losses.

Of course, there are some, even in well-run banks, who will always look back and wish they had realized book profits when they were high. To them I would say, stop and do a little figuring. For example, take a bank with a well-staggered portfolio of United States securities which showed a handsome book profit in October, 1945. At that time bond prices were but little below their wartime peak; the war, as a factor making for an easy money policy, was over; and we were on the eve of a short-lived further advance in bond prices which would have made it possible for a bank to sell in volume without unduly depressing prices. Let us assume the bank had sold early in that month all issues maturing in more than two years and then had invested and kept invested in Treasury Certificates of Indebtedness the net proceeds, that is, net after taxes on the profits. My guess is that to date the resultant loss in come after taxes would more than equal the net securities profits realized.

Finally, and for the record, I have not been referring here to book losses resulting from investments dictated by greed, which never should have been made or continued, or those which resulted from an abortive effort to secure profits by speculation. Book losses resulting from such undertakings should properly cause great pain and serve as a lesson. This may sound harsh, but I believe it is justified when bankers allow temporary conditions to sway them from a sound investment policy. Those bankers, on the other hand, who stick to a sound investment policy under all conditions will have no cause for sorrow.

Business Man's Bookshelf

Capital Formation Under Free Enterprise—National Association of Manufacturers, 14 West 49th Street, New York 20, N. Y.—paper.

Economic Systems: Free Enterprise, Communism, Socialism, Hybrids; Regulations Compatible with Private Enterprise—Harold G. Moulton—The Brookings Institution—Washington, D. C.—paper—50¢.

Let's Do Business With Russia—Why We Should and How We Can—Stella K. Margold—Harper & Brothers, 49 East 33rd Street, New York 16, N. Y.—cloth—$3.50.

The Public Views the SEC

(Continued from page 3)

sidies and personnel give it a distinct advantage with which small business in the form of a respondent, though innocent, finds it difficult to cope.

The Administrative Procedure Act was calculated to give relief from the simultaneous exercise by the Commission of the multiform functions of investigator, prosecutor, judge and jury. A study of that Act and of trial procedure before the SEC and its hearing officers shows little change, and that only in form for the most part rather than in substance.

There is a prevalent opinion that the small dealer-broker, unmonied, is cooked at the outset. It takes an Otis & Co. with large means at its disposal to bring the Commission to heel.

The trial activities of the SEC are such as to visit upon it public disapproval.

Business seeking capital or refinancing has been avoiding the underwriters and has gone directly to the insurance companies for its needs. This has involved billions, the raising of which has been taken out of the hands of the "investment fraternity."

The restrictions on the sale of securities owned by management personnel, the requirement that if sold within a certain time profits go to the corporation and that sales follow a fixed formula — all these hamper freedom of investment and the use of venture capital.

It's a long, depressing story to which no single editorial can begin to do justice. A book would be more adequate.

The securities industry is sick. Venture capital is hiding because of the absence of incentive. The Commission sticks its proboscis into private quarrels which are none of its business. This whole sorry mess cries for a cure.

"There is none so blind as he who will not see."

Awake, Commissioner McDonald!

Television—America's Fastest Growing Industry

(Continued from page 8)

celerate the eventual turn to profits.

EMERSON RADIO

Emerson Radio, the leading factor in the small radio set field, is essentially an assembly operation in a loft building rather than an integrated company owning extensive plant facilities. One of the late starters, the company now is in the process of crystallizing its position — finding its proper niche—in television. Meanwhile, there is a possibility that the regular radio set business may be reaching equilibrium after a year of buyer's markets.

MAGNAVOX

A quality maker of radio-phonograph combinations since 1938 —prior to which time it made component parts for the industry—**Magnavox** is one of the few companies which sell directly to retailers. Further, the company has a relatively high degree of integration—making its own cabinets, loud speakers, and other components—with the result that it enjoys a comparatively low break-even point. Television production was started last June and can be substantially increased above present levels without extensive plant changes Meanwhile, a large potential market for consoles exists in cities not served by television.

MOTOROLA

Although perhaps best known as the leading maker of automobile radios for the nonfactory equipped market, **Motorola** has been the biggest producer of 7-in. screen television sets in the past year. This low priced receiver probably will continue to be an important bid for volume in 1949 —but the company's major effort is likely to be in 10-in. screen receivers. In addition, **Motorola** has an important string to its bow in the form of leading position in the special communications field. Next year, the company will have about one-third of Ford and Chrysler's original equipment auto radio business—a new field.

PHILCO

The largest factor in the radio receiving set field since 1930, **Philco** is probably the ablest as well as the most aggressive merchandiser in the industry. Illustrative of the company's sales ability, its refrigerator division—acquired from Fairbanks Morse in 1938 and not really on its own until 1940—is now the third largest factor in that highly competitive business. Including freezers and air conditioners, this division is contributing a highly profitable 35% or more of 1948 sales. Television volume will soon exceed regular radio set business —the latter, in units, being ahead of last year in the face of an industry wide decline.

RADIO CORPORATION

The television pioneer, it is perhaps but natural that **Radio Corporation** today is the leading factor in all branches of the industry. Its cathode ray tube production, for example, probably has represented better than 60% of national output. Television as such does not yet exceed radio as a contributor to total sales, but should next year — assuming the company again accounts for about 25% of the set market. The record division, whose profits have declined sharply this year, should enjoy a better 1949 showing. Although a roughly $3 million loss will be sustained in television broadcasting, the overall NBC network profit will about duplicate 1947 results.

In the final analysis, each of these manufacturers might be said to enjoy their own special claim to fame—and to the security buyer's attention. Naturally, when consideration is given to the debits as well as credits, certain of these companies offer a greater measure of appeal than the others. But with the television industry still in its formative stages, it is perhaps more advisable to attempt to capitalize on the future via a "package" commitment than via specialized representation. This balanced approach will lessen the risk of later intra-industry changes without reducing immediate appreciation possibilities. Hence, we suggest the purchase of either of the following three groups: 1—Magnavox, Motorola and Philco—a $64 package available at 3.9 times this year's estimated earnings and yielding about 6.6%; 2—Admiral, Magnavox and Motorola—a $44 package also available at 3.9 times estimated 1948 earnings to yield about 6.5%; 3—Admiral, Magnavox and Radio—a $40 package available at 4.5 times probable earnings with a return of about 4.8%.

An Estimate of Television's Importance

Of necessity, the foregoing is not an all inclusive discussion of the important companies now engaged in the television industry. Zenith Radio, for example, developer of the hotly debated "phonevision" — a device engineered to bring television entertainment into the home for a nominal fee—is a notable (and purposeful) omission. In the case of certain other manufacturers perhaps conspicuous by their absence, we believe current output is either too small or too low a potential percentage of gross to merit consideration. Further, it seems to us that the bulk of the industry's 1949 prosperity probably will be shared by the companies mentioned above.

In this connection, the following table is offered as a practical illustration of television's immediate and potential importance. We hasten to add, however, that the comparative figure should be used primarily as a rough yardstick inasmuch as:

(1) Not only will television output vary from week to week, but there is some difference as to the periods covered by our current production estimates.

(2) The 1949 sales projections obviously involve certain assumptions as to component supplies and the status of non-television business—assumptions which may or may not materialize.

	‡Approx. Weekly Set Output	§Pct. of Total Sales	*¶Possible 1948 Sales	§Percent of Television Sets	*¶Possible —1949 Sales—	§Percent of Television Sets
Philco	5,750	35%	$265,000	20%	$285-300,000	40%
Radio	5,100	†30	†300,000	25	†330-350,000	35
Admiral	5,000	55	68,000	30	80- 90,000	55
Motorola	3,800	40	56,000	25	75- 80,000	50
Magnavox	2,000	50	29,000	40	40- 45,000	60
Emerson	2,000	35	30,000	20	40- 45,000	50
Avco	1,500	10	130,000	7	160-170,000	35
DuMont	1,200	65	24,000	60	45- 50,000	35

*000's omitted. †Excluding broadcasting and communications. ‡Estimated number of sets being produced. §Difference in company figures largely reflects varying extent of nontelevision activities. ¶Total dollar sales—fiscal or calendar year.

Earnings Prospects

Obviously, with the shape of things to come far from definite, any guesstimate of 1949 earnings possibilities carries a wide margin of error. No one, for example, can foresee the tax or other legislation which may or may not be enacted by the new Congress. Similarly, it is too early to tell whether or not regular radio business will suffer further serious inroads from the public's interest in television. Then too, in some cases there may be a question about the working capital required to finance next year's prospective volume. Thus, we caution against literal application of our 1949 earnings projections—which are based on present tax rates. The figures do have definite value, however, as a comparative yardstick—and this is why they are offered for consideration.

	Approx. Price	*1948 Dividend	§Price Range 1946-48	—Earn. Per Share Common— ‡Poten. 1949	Estimated 1948	Actual 1947	¶Poss. '49 Television Sales Per Share
Admiral	17	$0.60	20-6	$6.00	$4.00	$2.50	$55
Avco	7	0.40	14-4	1.50	1.10	0.96	9
DuMont	12	Nil	16-4	1.80	0.95	0.28	15
Emerson	11	0.80	24-6	3.50	2.50	2.83	25
Magnavox	12	1.00	19-8	5.50	3.50	3.36	40
Motorola	15	1.25	23-9	6.00	3.75	3.14	50
Philco	37	2.00	45-19	†11.00	†9.00	†7.63	80
Radio	11	0.30	19-7	1.90	1.40	1.13	9

*Indicated annual cash rate or declared so far this year. †Before reserves. ‡See qualifications above. §To the nearest fraction. ¶Based on projected 1949 television set sales.

Fact that the television industry's brilliant outlook is being capitalized at a low rate in the market place is partly a reflection of the skepticism which has become second nature to the speculative community. But this skepticism will tend to disappear as production prospects become a reality; equally important, the currently indifferent security buying public then might become acutely aware of the boom. Thus, the intangible of psychology has the promise of improvement. In a like vein of thought, the market's fear of an eventual competitive battle overlooks one significant fact: Radio was always a highly competitive business — but the well managed companies nevertheless prospered. We believe the same will be true of television.

A Look Into Television's Future

(Continued from page 6)

am sorry that I do not have simple answers to all of the problems that television imposed on the real estate business, but perhaps I can shed a little light on some of the reasons for those problems.

Technical Problems Not Simple

First of all, I would like to point out that although we have made tremendous advances in the production of transmission and receiving equipment, the solution of many of our technical problems will not be as simple nor as rapid as they were in radio.

A word now about television antenna installation problems. As many of you know, there is a tremendous difference between installing a radio aerial and a television antenna. In radio, a strong signal from the broadcasting station will do the trick, i.e., it will give you an acceptable, listenable signal at your receiving end. Thus there is no necessity for delicate adjustment of aerial with the antenna of the sending station.

But in television, this necessity does exist. The reasons are simple: your eye will not accept interference as your ear will do. Many of television's new developments were as the direct result of radar equipment built, designed and used during the war. In radar, as you know, the signal would bounce off objects and return to the receiver to give exact locations of enemy positions or other interfering objects. The characteristics of a television signal are very much like those of radar. With the important difference that the fact that signals bounce off objects is the essence of the radar system but the bane of the television system.

It is this problem of signals bouncing off objects on their way to your antenna that gives rise to the problems of multipath reflections or more simply GHOSTS. It is for this reason that roof-top antennas by and large are essential and that only a trained, experienced serviceman should be permitted to install your antenna.

This is not to say that inside and built-in antennas cannot work in some cases, in the reception of some stations at some locations. But because they work in one apartment or location is no reason to believe that they will work in all.

One of the answers to the problem of antenna installation will be the centralized master antenna system. I am pleased to report that several large manufacturers mass purposes and the problem of centralized antenna and that the Television Broadcasters Association, through its engineering committee, is studying these various systems. However, these systerms are not generally ready for mass purposes and the problem of individual antennas still exists.

For a final word, let me repeat that it is never safe to buy a television receiver until an experienced serviceman has approved the location.

With Merrill Lynch Firm

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CAL.—John A. MacConaty has become associated with Merrill Lynch, Pierce, Fenner & Beane, 454 North Camden Drive. He was previously with Paine, Webber, Jackson & Curtis.

J. R. Williams Now With Lester in Long Beach

(Special to THE FINANCIAL CHRONICLE)

LONG BEACH, CAL.—John R Williams has become associated with Lester & Co., Security Bldg. He was formerly Vice-President of Halbert, Hargrove & Co.

Patty With Harris, Upham

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Frank L. Patty, Jr., has become connected with Harris, Upham & Co., 523 West Sixth Street. Mr. Patty was formerly with Paine, Webber, Jackson & Curtis and prior thereto was with National Series Distributors.

Steckbauer With Cohu

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Willard R. Steckbauer has become associated with Cohu & Co., 634 South Spring Street. Mr. Steckbauer was formerly with Paine, Webber, Jackson & Curtis and Lester & Co.

Two With Akin-Lambert

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Lauren A. Dahl and A. P. Fantetti have become connected with Akin-Lambert Co., 639 South Spring Street, members of the Los Angeles and San Francisco Stock Exchanges. Mr. Dahl in the past was with Franklin Wulff & Co., Inc.

G. Brashears Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Walter D. Ogden has been added to the staff of G. Brashears & Co., 510 South Spring Street, members of the Los Angeles Stock Exchange.

We Need a Setback to Wake Us Up!

(Continued from page 15)

delivery. Only in a few markets, nonferrous metals and steel particularly, has this been the case for some time past. And in steel, at least, I believe this situation is changing rapidly in favor of the buyer.

Defense Not the Only Factor

Let me take time to talk about the steel situation for a few minutes.

For two or three months before the elections, there was a great deal of talk of increased defense spending and military land-lease for Europe. The theory was advanced by many speakers that this alone would be enough to keep inflation going indefinitely, or at least through 1949.

I did not entirely agree with this conclusion before, although I thought that strength in durable goods would probably maintain current rates of activity and current general price levels without much change, at least through the Easter period. Now I am even more doubtful.

I find most businessmen much less willing to listen to rumors and much more anxious to get at the facts about steel. Let me review them briefly:

How much steel is under direct allocation for defense purposes? This amounts to 1,390,000 tons, if a one-time allocation for atomic construction of 160,000 tons is included.

How does this compare with total finished steel production? Current rate of finished steel production is about 66 million tons annually.

How much will finished steel production increase next year? Best guess at the moment is 2 million tons.

Aren't there other allocations, however, that cut into the civilian supply? Yes, there are other allocations, amounting to 4,374,000 tons. It is a question, however, how much these actually cut into the civilian supply.

The allocation for freight cars, for example, is 3 million tons. However, the rail transportation industry received practically 5 million tons last year. At the current rate it is getting 5½ million tons.

All the industries receiving these allocations are civilian industries, which had already been receiving substantial supplies of steel even last year.

When Will Steel Reach a Buyers' Market?

This depends mainly on how long civilian industries can keep using steel at current rates. For most consumers goods, I don't believe this will be very long.

Production of these items is much higher than commonly realized.

With the exception of passenger cars, production of most of these items is way above the prewar level. Even automobiles are a little higher, and for the other items, gains range 25, 50 and even 100%.

In most cases, this increase isn't due merely to a recent sudden spurt. Just to be fair, I added up what had been produced in the three years between September, 1945, and August, 1948. That period contains at least one year in which output of most of these items was quite low.

Then I compared it, not with the *last* three prewar years, but with the *best* three prewar years.

Even on that basis, which leans over backward in trying to be pessimistic about supplies, most of these items are way ahead—civilian trucks; tractors; oil burners; replacement batteries; electric washers; vacuum cleaners; radios; irons; and brass and bronze ingots, which are used in a million and one items too small to be reported separately.

Many of these metal finished items have already reached the point of supply balance. Recent sales trends, in fact, make it look as if most of them are quickly reaching the point of excess supply. There may be a big potential demand yet, but it is limited now by high prices.

Declining Appliance Sales

Some retailers might have questioned this statement as late as two or three months ago, at least so far as major appliances are concerned. Beginning in the last week of September, however, sales of major appliances have shown a less favorable trend. During the past two or three weeks, this was exaggerated.

Even for refrigerators, the period of big gains above a year ago is apparently a thing of the past. And current production levels are more than enough to meet the current sales level. For other major appliances the demand trend is even less favorable.

This restraint in demand is not limited to urban areas. The agricultural equipment industry is an important consumer of steel. At one time they desperately wanted an allocation. During the past two or three months, however, the same signs of stickiness have appeared in agricultural equipment as have been apparent for the major appliances.

The farmer is still prosperous. He is protected by the Government, and he has been smart enough not to build up his debts. But the farmer also has on hand the biggest stock of equipment and capital goods on record, and for the first time this year his cash receipts have begun to drop below a year ago.

Capital Goods Expenditures

A great deal of steel goes into machinery, new plants and other forms of construction. Even before the elections there were clear indications that expenditures for new plant and equipment would be lower next year than they had been this year. Many expansion and modernization programs had been completed, and others were being deferred because of his cost.

I have talked to no one who doubts that the drop will now be sharper than it would have been following a Republican victory.

It will be three to six months yet before businessmen can get a clearcut picture of what the new Congress will do. They recognize the fact that new controls and higher taxes are by no means a certainty, that they will depend on conditions at the time Congress acts; but the mere existence of this uncertainty is enough to block forward planning with regard to expansion.

Another factor, which would have been present in any case, is the growing doubt in some business circles that additional plant capacity is needed. At the moment price resistance on the part of the consumer is in direct conflict with production costs. In an increasing number of cases, the number of units now being produced is not being fully absorbed.

Most businessmen feel that unit volume in many cases will go higher if, as and when prices come down. But they can't come down enough to stimulate unit volume until industrial raw material prices are lower, and until labor costs decline.

Since the wage structure is more rigid than it was after the last war, this necessary decline in labor costs merely emphasizes the statement I made earlier about the importance of output per man-hour.

I repeat—we will not be on safe ground until we see, or can look forward to with assurance, a sharp increase in general plant efficiency and output per manhour.

Buyers' Market in Steel?

All this doesn't answer the question—when will steel enter a buyers' market? I don't believe I will try to answer that question because I don't believe anyone can answer it with exactness. I feel reasonably certain that it won't enter a buyers' market in the next few months or until Congress takes action, sometime next spring, not only on business controls and higher taxes, but also on increased defense and military lend-lease.

But I could not at this time predict with any confidence that the sellers' market in steel will last all the way through 1949.

Before the elections, when inflation talk depended heavily on increased defense, the question most frequently raised was—*Where will the steel come from to meet next year's needs?*

I would like to leave this question of steel with the thought that, sometime next year, we may have to answer a new question—*Where will the customers come from who will use all the steel?*

Political Factors

I shall touch on these very briefly.

I have tried to imply so far that the business outlook, and the question of inflation versus deflation, may not depend quite so much on the foreign situation as many people seemed to believe before Nov. 2.

Nevertheless, it is an important factor. It would be a mistake to ignore it.

The basis of official policy is that there won't a war between Russia and the United States during the next few years.

If that is correct—and I believe it is, because I don't believe Russia is ready for a war or could stand a war at this time—then there is one logical conclusion that must be drawn:

The foreign situation can't look much worse than it has looked recently. I can't say with assurance that it will look much better, but that possibility can't be ruled out entirely.

We are still in a period when war-scares have been coming thick and fast. It is not impossible that we may soon enter a period during which peace-scares will be more frequent than war-scares.

What Congress does about defense and military lend-lease will be different if it acts under the pressure of a war-scare, than it will be if there has been some improvement in the foreign situation either real or apparent. Unless a later increase in defense is much larger than anyone expects, I believe we are entering a period in which civilian demands will be the decisive factor.

Domestically, the election upset caused an early diversity of opinion. Is it inflationary or is it deflationary?

Certainly wage increases will be easier to obtain than they would have been otherwise. But unless cost increases can be passed on, the effect of this may be deflationary rather than the reverse.

The farmer would have received support in any case. With a Democratic administration this support will probably be a little more active and a little more aggressive. Since one of the main difficulties, however, is that living costs have advanced more rapidly in the last two years than income, I fail to see how this can be regarded as a basically inflationary influence.

With regard to a much more basic factor, expenditures for new plant and equipments, there seems to be no doubt that the election results will be depressing.

I don't know whether you realize fully what a fundamental factor this spending for plant and equipment is. Commodities involved in new plants and equipment are either heavy or intricate, and carry with them a disproportionate amount of secondary employment. Any expansion in spending of this sort provides purchasing power, while the increase in supply comes much later. A contraction of this type of spending decreases purchasing power, but supply is not always cut down. Furthermore, simply from the psychological viewpoint the businessman who is expanding his plant is thinking in terms of favorable profit margins and increasing unit volume. When he begins to cut down in plant spending, he begins to cut down all along the line.

The checking I have done in the last two weeks confirms my belief that a great deal of this type of cutting down is already beginning to develop. Ths bull market in Government bonds that has developed in the last few weeks, in my opinion, is a further confirmation. It indicates that the big institutions, like the insurance companies, are no longer selling Government bonds in order to put capital into private enterprise.

I think we have clear evidence in this market that the demand for capital has already begun to ebb.

Automobile Prospects

There are only a few things that I want to say about automobile prospects.

It goes without saying that the recent investigation of selling practices has given dealers in general a black eye before the public. I regret this. There is no doubt that many automobile dealers, like many other businessmen, have been greedy. There is no doubt that the actions of these few have hurt the position of the many.

It is a fact that automobile demand has run consistently ahead of supply. The ethical dealer has not been able to satisfy all his would-be customers, and it has been very difficult to explain this to them and to convince them that their own place in line was being scrupulously held.

I certainly feel that dealers, as a group, should use every phase of publicity available to them to counteract the impression that has been created.

About your order backlogs, recently estimated at more than 7,000,000 cars, I can only say that I don't believe order backlogs mean much under present circumstances. *What are they worth?*

When I looked at production figures, I see that domestic shipments of passenger cars since the end of the war have amounted to about 8,500,000 cars.

When I look at used car prices—or at least this was the case until a few weeks ago—I see that anyone owning a postwar car can either sell at a profit or at a very small loss.

Why shouldn't new car backlogs be big?

I would be very much surprised if they were not at least as large as the number of new cars that have been sold since the war ended. A new car owner would be stupid indeed to keep his name off the dealer's list, when he can trade in an old car for a new one at practically no cost.

You knew as well as I do that the upward and downward phases of the business cycle are simply average results for a large number of industries. Individual industries may begin their own decline before the average turns down. Others, like yours, are in a stronger position; they hold up longer, but they feel the effects more sharply when the decline begins. The surprise and the shock are much greater.

Your industry, I am sure, will not start a recession. But neither will it be immune to it.

There is a good chance, I am afraid, that sometime in 1949 a great many of your group will be caught with your prices up and your backlogs down.

You will get the real test of what your order backlogs are worth only when used car prices go lower, as they are now. And even more will you get this test when employment turns down, as it must within the next six months if new capital expenditures drop as sharply as they seem to be dropping now.

Making Known True Stock Exchange Values

(Continued from page 11)

that as absurd. If the election had any real significance, so far as the protection of our enterprise economy is concerned, it is to be found in the manifest desire of the people to have its benefits more widely enjoyed. This manifestation may conceivably cause some apprehension among those who look backward instead of forward and who are afraid of anything that involves change.

Necessity of Large Scale Production

At this time, in accordance with the European recovery plan, efforts are being made to produce enough goods in the United States to meet the basic needs of Europe outside the Russian orbit—this in addition to satisfying our own needs. The necessity for large-scale production, therefore, is greater today than ever before. This is so because of the European reconstruction program, because of the requirements of national security and because of the wants of a fast-growing population.

These needs cannot be met unless we have increasing production and unless a large amount of capital is available. Any measures involving excessive taxation or a rigidly controlled economy would destroy the incentives without which our economic progress cannot continue. That is plain common sense.

Securities Business on Solid Foundation

I would like to say, in conclusion, that I have the strongest possible conviction that the securities business rests on a solid foundation because (1) it is an essential business and the very heart of the system which has produced the highest standard of living the world has ever known, (2) because this country will never consent to the adoption of measures or policies that would enfeeble or destroy this system, and (3) because I believe — the pessimists to the contrary notwithstanding—that our form of government, which guarantees individual freedom and freedom of opportunity, is just as secure today as it has ever been.

New York Stock Exchange Weekly Firm Changes

Transfer of the Exchange membership of Frank A. Miller to Richard W. Simmons will be considered by the Exchange on Dec. 9. Mr. Simmons will form the firm of Blunt, Ellis & Simmons in Chicago about the first of January.

Transfer of the Exchange membership of Henry C. Keenan to William Wallace Thornton will be considered on Dec. 9. Mr. Thornton will continue as a partner of Butler, Wick & Co.

Two With Fewel & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Henry C. Copps and Roy D. Waters have become affiliated with Fewel & Co., 453 South Spring Street, members of the Los Angeles Stock Exchange. Mr. Copps was previously with Searl-Merrick Co.; Mr. Waters was with C. E. Abbett & Co.

Arthur C. Watt Dead

Arthur C. Watt, financial analyst and in the past with Hodenpyl & Hardy, died at his home at the age of 62 after a long illness.

Consequences of Heavy National Debt and Expenditures

(Continued from page 11)

have in England, but once a government starts to *do good*, there's no telling whom they will "*do* good!" Remember, the Republicans have learned how to bid for votes with social legislation. In the '30's, the Democrats seemed to have a monopoly on this method of acquiring votes, but the Republicans have been apt pupils. Even a cursory study of the legislative maneuvers of the last two years, to say nothing of the campaign just ended, shows that the Republicans have learned this lesson.

The social conscience of the national Administration will continue elastic enough to include the farmers. You haven't heard of many politicians of national stature attacking the agricultural price support program! Regardless of the Administration in power, the farmer will continue to be an object of special solicitude so far as Washington is concerned.

There is little likelihood of a change in the national power policies. In the campaign, both parties tried to outdo one another in advocating public development of the remaining water and power resources of the West and Northwest.

Atomic development, even for civilian purposes, will necessarily continue to be a national monopoly.

In the fields of education, public health, raw materials conservation and public regulation of business, particularly marketing, we must expect a considerable expansion of government activities.

Parenthetically, may I emphasize that I am neither deprecating nor advocating these expansions of government in fields which used to be considered the exclusive domain of private effort. I merely "call 'em as I see 'em." And, of course, I may be wrong. But before you dismiss this social welfare trend too lightly, take a good look at the rest of the world. You cannot fail to see that humanity is on the march, and that capitalism needs must bestir itself to meet the deadly threat of the glowing *promises* of its opponents in the ideological war. Look at what has happened in England and you will see the difference between a *socialistic* government and our socially-minded government. To really clinch the argument, I will go so far as to say that, compared with the rest of the world, even Wallace's proposals are *reactionary!*

These social activities of our government are expensive. As there is every probability that they will be expanded rather than contracted, we may look forward to increasing expenditures for them. That more government costs more money seems an obvious truism. You can find no argument here for the taxpayer to throw away his barrel!

Implications of National Debt

Let us now take a look at the implications of our enormous national debt. Literally and figuratively, it is the biggest thing in the world today. Certainly, other than war, there is nothing of greater importance to the welfare of our country and our people. Management of our quarter of a trillion dollar debt can do more for good or ill than anything else in our economy. It is not too much to say that proper management of this debt is the very basis of world stability.

Yet, there are advocates of the left and advocates of the right going up and down this great land of ours with vociferous criticism and far-fetched solutions of the problem. These proposals range all the way from those which maintain that we don't have to worry about the debt because we owe it to ourselves, to those which insist that all efforts at debt management be abandoned and the securities be permitted to find their own level in the competitive capital markets. The insurance field, especially recently, has had more than its share of the latter.

In theory, government securities should be permitted to seek their own level. But, *in fact*, there has never been a public debt which even approached ours in size, so it is possible that theory does not fully comprehend the potentialities of abandoning a quarter of a trillion dollar debt to the vicissitudes of market forces. No one knows what would happen if this were done, and certainly it is too big and too important to experiment with, especially in times of such great world uncertainty.

Artificially low interest rates on the long-term government bonds will be continued regardless of theory and criticism. Service charges alone on the public debt exceed $5 billion, which is more than the entire costs of government when I was a "young feller." Add to this a modest provision for amortization, and you get a total which no real politician would advocate increasing despite the economics of the problem. So I advise the insurance fraternity to reconcile themselves to lower interest rates than those which prevailed historically.

Military Expenditures

Another *fact* of great economic significance is our enormous military expenditures. A ceiling of $15 billion has been placed by the President on military and rearmament expenditures for the 1949-50 fiscal year—but that was *before* the election. If the Russians continue intransigent—and you may be sure that they will as they don't know any better—military expenditures will in all probability exceed this "ceiling." But even if expenditures don't exceed $15 billion, that is still very high for a ceiling!

Preparation for war is expensive business these days. Tanks, aircraft carriers and B-50 bombers cost more than the squirrel rifles my Kentucky forbearers used to lick the British at New Orleans. But whether we like it or not, there is nothing we can do about it. The Russians present us with the choice of armed peace or war. This is not to say that the Russians want war; it is to say that they do want to weaken us by heavy military expenditures which they think will hasten the day when America will be pulled down by internal weakness, and thus fall into the Communist lap without war.

Recapitulation

To recapitulate, looking ahead I see: (1) a socially-minded government with heavy expenditures for social welfare; (2) a huge public debt with a staggering interest burden; and (3) enormous military expenditures for an armed peace at best, or war at worst. What does all of this mean to our economy?

Well, first and most obvious, it means heavy taxes in "our time." Many of our ancestors left Europe to escape the crushing burden of debt and taxes in the "old country." The public debt which has been called the "curse of Europe" now has a lusty American counterpart, and the taxes, too, have arrived with a vengeance.

When the government takes a larger share of the income, there is less left for labor and capital. In particular, profits will be smaller in the years ahead. It will be more difficult and will take longer to accumulate capital. Insurance, the master of time and uncertainty, will necessarily be used by more and more people to protect their earning power even though premiums may be higher because of lower interest rates.

Higher taxes will increase the advantage of the non-profit and cooperative forms of business which enjoy partial or complete tax exemption. This, too, is of considerable significance in the field of life insurance.

Next, I should say that the developments I enumerated mean that we must reconcile ourselves to a larger element of government management in our economy in the years ahead. For example, it seems self-evident to me that all the economic and financial power of government will be marshalled to fight any serious business reaction, to prevent a real depression of the 1930 type. With the great public debt hanging over our head like the "sword of Damocles," with the Russians waiting without and with their stooges boring from within, would you wait for a business reaction to run its *full* course? I say, what would *you* do? The answer is obvious. Whatever government can do to prevent a serious depression will be done. You may rest assured of that.

Another consequence of heavy debt and heavy expenditures will be the continuance of managed credit and money. A high level income has become a political and financial imperative. To some extent this will be accomplished by monetary and credit management. This means that we shall have a cheaper dollar than before the war. I see no escape from it. But that does not mean that it will be too cheap. In fact, barring war with Russia or very large military purchases, I believe that we now have the cheapest dollar that we shall have in the foreseeable future. In other words, I think that we are at, or very near the end of the long upward swing in prices.

Of course, with a managed money, we shall have continually to be on the alert to fight the temptation to make it too cheap. We want the dollar just as valuable as the debt burden and the national economy will permit; we must not "settle" for one cent less than that!

In conclusion, it seems to me that these new developments present life insurance with its golden opportunity. In a changing world, insurance will be more needed for protection than ever. Shrinking profit margins will make direct investment less attractive for the ordinary man. Increased world uncertainty with its repercussions on the securities markets, and increased government management of money, credit, and other elements in our economy, will make institutional investing, especially life insurance and annuities, the only sensible method for most of us. Higher taxes, too, will increase the advantages enjoyed by life insurance companies.

In the words of an ancient sage: "The best is yet to come."

Now Voss & Co. John Shields Joins Firm

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Howard W. Voss has formed his own investment firm of Voss & Co. with offices at 39 South La Salle Street. Mr. Voss was formerly a partner in Voss, Blair & Co. Associated with him in his new firm will be John S. Shields, formerly with Barcus, Kindred & Co.

Savings Banks Coping with Higher Operating Costs

(Continued from page 13)

consumption expenditures larger, savings have contracted. And savings could become still smaller if there should develop a business recession, even of a mild character.

With the deposit trend flattening out, it becomes necessary to take a closer look at the trend of expenses. Unless the upward trend in operating costs is checked, the ratio of expenses to deposits will advance.

The desirability of stabilizing the ratio of expenses to deposits is all the greater in view of the rising trend of interest rates. With interest rates higher, there is a tendency for thrift institutions to pay out more to depositors, policyholders or shareholders, as the case may be. Several mutual savings banks have advanced their dividend rate recently from 1½ to 2%.

In general, it is the larger and less active, and hence more profitable, accounts that are attracted to a savings bank by a higher dividend rate. The influence on management of this consideration, as well as the compelling force of competitive factors, may cause additional savings banks with good current earnings and surplus position to pay the higher rate on deposits. Therefore, control over expenses becomes increasingly important.

Bringing Operating Ratio Under Control

Mutual savings bank managements are doing several things to bring their operating expense ratios under effective control.

First, many are looking more critically at proposals for the opening of new branches, the expansion of existing quarters or the broadening of services to depositors. Under the inflationary conditions that prevail today these steps usually involve considerable cost. If the added revenue obtainable through investment of additional deposits does not seem commensurate with the increase in expense incurred to obtain these deposit additions, it may not be fair to make existing deposits carry this added cost. It may be found for example, that new quarters or services would attract mainly accounts with a heavy turnover and relatively small deposit balances. These involve a good deal of expense, without bringing a volume of new deposits that would earn enough to compensate for the added costs.

The extent to which additional expenses should be incurred by mutual savings banks to provide more service to and to meet the convenience of depositors has long been a subject of discussion and study in our industry. More intensive competition for savings is putting additional pressure upon bank managements to give more service to hold present depositors and to gain new ones. We are not in business to earn a profit for stockholders but to provide safety, liquidity and a reasonable rate of return on the savings of the people. But as a matter of common sense, there is obviously a limit on the extent to which we can take on added expense that does not produce compensatory deposit increases. For the ratio of expense per dollar of deposit will then rise, limiting the ability to pay an adequate rate of dividend in the future on all our deposits.

A second approach to the rising expense ratio problem is to review critically present operations to see if any item of expense can be reduced or eliminated without harm. It is my feeling that the mutual savings banks generally have been conducted so conservatively and economically that only limited further economies will be found possible. Nevertheless, particular banks may be able to effect savings on expense from time to time.

A trustee of one savings bank in your own group recently suggested to me that comparative statistics in the form of unit costs would be useful in stimulating economies in reduction of the cost of operation of savings banks. It had occurred to him that the statistical data now on hand at Savings Banks Trust Company, when supplemented with certain additional information which could be furnished by the banks, could be arranged in comparative form and made available to the savings banks generally. There is great merit, I believe to this idea, and the Trust Company would be glad to cooperate should the savings banks wish to pursue it further.

A number of savings banks have found that use of the facilities of Savings Banks Trust Company affords a means of reducing expense ratios. For example, the custody service for the safekeeping of securities makes available material economies. The money order service, by adding to income, can offset in part increases in bank expenses.

A considerable reduction in the expense ratio would result from a cut in the deposit insurance premium, now 1/12 of 1% of deposits. It is noteworthy that the actual cost of this insurance to the savings banks was about 11% of their total expenses in 1947.

The FDIC has recently repaid the $289 million of capital originally provided it by the government and the Federal Reserve Banks. There is every reason why the insured banks, and particularly mutual savings banks with their splendid historical record of safety, should be afforded relief from the present rate of premium. There is no concrete evidence yet, however, that the FDIC will propose to the Congress in the near future a reduction in the amount of the annual assessment for deposit insurance, which is fixed by law.

A third method of cost control is to improve operating practices so as to secure more work per man-hour. In industry, major reliance is being placed upon this approach. But it is my observation that savings banks as a whole have done such a good job along this line in the past that opportunities for further improvement are limited.

Finally, the proposal that the legal limit on individual deposit accounts be raised points the way to another possibility for holding down the ratio of expenses to deposits. A higher deposit limit will enable each savings bank to attract an additional volume of deposits with only a negligible rise in operating costs, assuming that a number of larger depositors will make deposits to take advantage of the increased limit.

Removing Limit on Individual Accounts

In New York State, the limit on the individual account has remained unchanged at $7,500 for a quarter of a century. In the interim, the purchasing power of the dollar has been cut almost in half, while income and savings per capita have expanded more than two-fold. Clearly, mutual savings banks can better serve the cause of thrift if their deposit limit is adjusted upward to reflect the great changes in the purchasing power of the dollar and in average personal income

and savings that have taken place.

In these several ways, mutual savings banks have been coping with the rising trend in the ratio of expense to deposits. Nevertheless, with the underlying trend in costs still upward, it is going to be difficult to hold operating expense at around ¾ of 1% per dollar of deposit. Despite strenuous efforts to economize and to step up efficiency the ratio may tend to creep somewhat higher in the years ahead.

The problem of rising costs is being met partially through better control over expenses and the introduction of methods and machines to increase efficiency. But the solution on which the savings banks properly place their main reliance is an adequate rate of return on earnings assets, without, of course, compromising with the highest investment standards.

Where a 2% annual dividend is being paid depositors, average earnings of a little over 2¾% on assets acquired through investment of depositors' funds would be sufficient to cover total present operating expenses and the dividend to depositors. A higher rate of earnings would be required on the investment of depositors' funds to the extent that provision must be made therefrom for additions to surplus.

But, banks make additions to surplus from the income earned on the investment of surplus account funds. The larger the surplus relative to deposits, the less the need to earn more from the investment of depositors' funds than operating expenses and depositors' dividends.

A Commendable Job Done

At this point, let me say that mutual savings banks have done a commendable job of maintaining a satisfactory ratio of surplus to deposits, despite the great wartime deposit expansion. The ratio of surplus to deposits of the savings banks of this state on their combined statements was 1 to 7 on December 31, 1939 and 1 to 10 at the end of June, 1948. This does not include reserves, visible and hidden, that make the actual position stronger than the surplus ratio indicates. For comparison, let me say that the ratio of capital funds to deposits of all commercial banks was 1 to 9 on Dec. 31, 1939 and 1 to 14 on June 30, 1948.

Under present investment conditions, it is possible to realize an average return of about 3% on a savings bank investment portfolio without sacrifice of quality standards. For example, an average return of very nearly 3% would be secured if 65% of deposited funds were placed in United States Government and other readily marketable bonds of the highest grade, 30% in real estate mortgages and 5% in cash and due from banks.

Long-term Treasury issues yield 2¼ to 2½%, and the best grade corporates 2.80 to 3%. The whole bond account might thus return an average of, say, 2.30%. Cash and due from banks would yield approximately 6/10 of 1%, assuming that half of this amount is deposited in Savings Banks Trust Company, which pays 1¼% on time deposits. Real estate mortgages yield an average return, less reserves, of about 4%. The average earned on the investment of deposited funds under this program would be very close to 3%. And bear in mind that the earnings derived from investment of surplus account funds would remain fully available for further additions to surplus fund.

Other portfolio distributions will occur to you which will similarly produce an average rate of return of approximately 3%. Regardless of the particular investment policy pursued by the individual bank, which is necessarily influenced by location, rate of growth of deposits and surplus position among other factors, I believe this conclusion is justified: It is practicable to secure an average return of 2¾ to 3% on a savings bank portfolio under present conditions, and yet conserve the great strength that has been built into the savings banking system over the past decade. This is being done generally by keeping the larger part of each savings bank's portfolio invested in United States Government bonds and other bonds of the highest quality. Then, to lift the over-all average realized yield, most of the balance of available funds is invested in carefully selected real estate mortgages that return about 1½% more than can be obtained on long-term Government and other top quality bonds.

Expanding Types of Earnings Assets

The savings banks have been proceeding cautiously, however, in expanding their holdings of earnings assets of types other than United States Government bonds. And it appears that even the competitive challenge to pay higher dividends to depositors and the consequent urge for higher levels of gross earnings will not cause a departure from prudent policies.

A year ago I spoke before this group on two economic trends that threatened to lead to trouble. One was the tendency for the volume of new financing and mortgage borrowing to outrun the current volume of savings. The second was the great extent to which corporations were relying upon bond issues, rather than stock offerings, to raise new capital.

Both these trends have become far more pronounced during the intervening twelve months, and are attracting much more attention. In order to secure funds with which to purchase the large number of new bond issues and mortgages that have become available, financial institutions have been selling government securities in huge amount, as we all foresaw a year ago would be the case. To maintain an orderly government bond market, the Federal Reserve banks purchased the government bonds liquidated by these institutions. The inflationary character of such support purchases has made necessary increases in legal reserve requirements that are quite unpopular with Federal Reserve member banks.

At the same time, excessive reliance upon bond, rather than equity, financing by corporations has become recognized more and more as a threat to future economic stability. This year, less than $1 out of every $5 of corporate security flotations consists of preferred or common stock. The rest is bond financing, creating debt having fixed interest and maturities that could prove troublesome at a time in the future when business conditions become less prosperous.

These two problems that we discussed here last year—namely, private demands for capital that exceed current savings and the lack of a healthy market for equity securities—are among the most pressing domestic issues that still confront the Administration in Washington. The inducement of increased earnings is attracting institutional investors to make shifts from United States Government bonds to interest bearing obligations of private enterprise. However, savings banks can meet present costs and combat a rising cost trend without radically changing the composition of their earnings assets. Our Government may feel confident that the policies of the savings banking system will remain in harmony with constructive and sound solutions for these and other economic problems that face our country today.

Each industry must meet the universal problem of the rising cost of doing business in a manner suitable to it. Mutual savings banks, which must henceforth watch costs the more carefully because the rise in deposits is tapering off, are reviewing their practices constantly to effect feasible economies and to increase efficiency. They are also seeking to hold down the ratio of expenses to deposits through such sound reforms as an increase in the legal deposit limit, which could lead to a rise in deposits with very little increase in expense.

There is no necessity, however, to cut operating expenses to a point where service to depositors is curtailed unduly and the effectiveness of operating organizations becomes impaired. Mutual savings banks are able to obtain from high quality investments today an average return sufficient to defray the current level of expenses and yet pay prevailing dividend rates with some margin to spare. The quest for operating economies does not have to be carried to the point where it might work to the detriment of the great thrift institutions that we serve. The solution of our problem lies rather in shaping our investment policy so as to increase earnings with safety, and in furthering a growth of deposits by aggressively encouraging the public to put their savings in savings banks.

Only Major Deflation Will End Inflation

(Continued from page 14)

it can be said that it depends on that much more than on any other single thing.

There are few votes in capital creation. Yet, the penalty for neglecting it, even though they may take some time to mature, will in the end be inexorable. It represents the difference between a dynamic, progressive economy and one that is stagnant.

Unfortunately, the problem is not well recognized. Thus today there is much talk of excessive profits, overlooking completely the fact that the major portion of these profits are being plowed back into business and industry to improve its efficiency, increase labor's productivity and raise standards.

A recent survey shows that about 94% of the work energy behind American production is from tools, leaving about 6% for human energy. Last year dividend payments to corporate owners, constituting their incentive to supply tools, was $7 billion. Payments to employees, on the other hand, were over $100 billion—in other words they got 93% and the owners less than 7% of the cash payments from industry.

Yet, the current trend is to drive risk capital further into hiding, rather than to encourage its use. Unless corrected, that trend will prevent, following a readjustment from the current postwar inflation, the development of any such period of postwar reconstruction activity as we saw in this country in the 1920's.

Prospects of Earning Power Under Recession

From a more immediate standpoint, and from the standpoint of the stock market, as well as business, a condition has developed in the current period which promises a sharper, and in many cases more complete, elimination of earning power under a business recession, than we have ever seen before. The current large profits being reported by business have drawn attention away from it. It is the persistent increase in the break-even operating point in industry.

To enable it to break even, to meet all expenses, a corporation or any other business, must maintain a certain volume of sales, or operations. This level is decided principally by two factors, operating costs, principally wages and cost of goods purchased, and price levels for goods sold. The break-even point is where these two factors balance each other.

A recent survey shows that more than 50% of manufacturers canvassed had a break-even point in excess of 70% of capacity and 25% in excess of 80% of capacity. You have seen this same trend in your own business.

Hence it is obvious that, with business, according to the Federal Reserve Index of industrial production, 90% above normal, it will not take a depression, so-called, that is a decline to below normal, but only a slump—say 70%-80% of a current capacity—to raise havoc with existing high earnings.

In such a slump prices will almost certainly decline more rapidly than costs. This will have a definite tendency to boost the break-even point at the very time volume is declining. That outlook is hardly a happy one, to say the least.

Stock Market Not Inflated

As regards the stock market, it should be recognized, and is recognized, that it is the least inflated segment of our economy. Ordinarily when we are broadly at the peak of a boom the stock market is also booming. I think I made clear a year ago the reasons for the divergent action in this period as contrasted with an ordinary boom.

Suffice it to say here that we have no record of what happens to a stock market that is not inflated when an inflationary economy becomes deflated. The only logical attitude to take, under current circumstances, in my opinion, is to wait and see. I feel very little will be lost by so doing.

One rather amusing development of the election has been the statement that the stock market was one of the polls that did not go wrong on the election; in other words we are asked to believe it has not been regulation, it has not been the fact that securities sell relatively low rather than relatively high in relation to earning power in a period of commodity price inflation that has prevented the stock market from advancing substantially during the past two years. It has been the stock market's ability to see a Democratic victory in November, 1948.

This is more than a little ridiculous, but it does bring up one interesting thought, namely the probability that the new Democratic administration will supply that ready made explanation that Wall Street always demands for all unsatisfactory stock market action — over the years immediately ahead.

Election Effects

An easy characterization of the results of the 1948 election would be that Mr. Truman had every advantage because of boom conditions existing, because of the prosperity of the rank and file of the people—a President is seldom turned out under such conditions—and the type of campaign that Governor Dewey waged.

Yet the fact remains that the American people have voted into office an Administration with a clear Leftist policy, even left of the New Deal, dominated by organized labor.

It may be that the majority were guided by purely personal and emotional considerations (high prices and high wages) without any thought of where what they were doing will ultimately lead. But if it was the considered choice of the American people, then we are definitely headed for an increasing socialistic and regimented economy.

At any rate, this must be set down as the most important election since 1932. It has projected a decision that is as great as any this country has ever faced—the decision between economic individualism and socialistic regimentation.

That being so, it seems to me that it is time, right now, for the Republican Party to take its stand—to quit its pussy-footing, its partial appropriation of New Deal thunder, its straddling of the problem of individual freedom versus increased security — and absolutely and definitely and unequivocally champion economic individualism.

The one great issue before this country today is whether this nation shall continue on the road to socialism or reverse the present trend and return to economic freedom.

Certainly on the basis of practical results the case for economic individualism is overwhelmingly strong. The country in which the natural effort of every one to better his condition by his own efforts has had the fewest bureaucratic obstructions—this country—has so far outstripped the rest of the world that the race with peoples committeed by their rulers to collectivist methods is not even close.

What economic individualism has lacked most conspicuously during the past 20 years has been sound and reasoned defense. The very strong case for free markets and a minimum of governmental interference in production and trade is being lost by default in the forum of public opinion.

The free market economy is as naturally associated with human liberty as the centrally planned economy is associated with tyranny.

No one knows **who** knows best in the field of economic production. The only way to find out what is best is through a trial process in which everyone is allowed to try and see what he can do. True economic liberalism is a policy which deliberately adopts competition, free markets and free prices as its principle.

We need to have these facts presented and sold to the American people. The time is short. It may be that it is too late. But, even if it is too late, there is nothing to be gained by straddling.

Specifically, in my opinion, the Republican Party should follow the policy of condemning present artificially low rates on government obligations and urge withdrawal from supporting them. They should condemn the present policy of granting preferred status to individual classes of borrowers of government funds. They should oppose monopoly of all types—capital as well as labor. They should oppose protective tariffs.

They should argue for withdrawal from price support policies, should work persistently toward reduction in federal expenditures and argue unceasingly for, and do everything possible to induce, saving rather than spending, and make clear the incapacity of any government, no matter how elected, to relieve us from the necessity of undoing our inflationary spree and of the impossibility of curing inflation by any means other than the hard way of deflation.

H. H. Jones Is Now With Miller, Kenower & Co.

SAGINAW, MICH.—Harry H. Jones, formerly a partner in the dissolved firm of Marxer, Jones & Co., has become associated with Miller, Kenower & Co. of Detroit. He will maintain his headquarters in the Bearinger Bldg., Saginaw.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Market still viewing future nervously. Some move up indicated but another reaction also in sight.

As this is being pounded out on the Underwood, the market is slowly retracing some of its lost ground. Here and there a stock or a group makes a noise, figuratively speaking of course, as if they really meant business. At the same time other stocks and groups seem to be sitting on the brink of a cliff pondering the possibility of jumping off. It all makes for an intriguing spectacle confusing to both sides.

* * *

Much of this confusion comes from the lugubrious forecasts that the very groundwork of the system which brought the stock market into being, is slowly but surely disintegrating. Some of these reasons are that a more labor minded Administration will affect business adversely; a more stringent tax policy plus a lot of other things the Truman regime is supposed to be readying, all detrimental to business.

* * *

Obviously I don't know what laws the new Congress will pass. I know, with others who read newspapers, what legislation will be proposed. But that is as far as my knowledge goes. I do know, however, that no matter who is in the White House that taxes were bound to go up; at least so long as we continue spending so much for armaments.

* * *

Based on reading between the lines, the market will probably face a new excess profits tax, possibly some limitations on capital issues, changes in the labor laws and some price control. But I also feel that the sharp break in recent markets was in anticipation of such and other changes.

* * *

That industry is disturbed by fears of such changes isn't exactly a secret. Yet, it was under similar regulations under Roosevelt and Truman that industry made its biggest profits.

* * *

Between now and the end of the year I don't think the market will be anything to get excited about. Tax selling will almost certainly take its toll. Fears of some of the things mentioned above will probably be distorted way out of proportion. Some of these fears will be reflected in stock prices. Most, if not all of these, will come to a head early in January after President Truman delivers his message to Congress. If the market breaks further just before this message it might well be an opportunity to look for. In any case postponements of buying will not, in my opinion, be penalized.

* * *

Practically all of the above beliefs have not been thoroughly discounted marketwise. They will come to the fore on the next break. Between now and then the current recovery may be expected to carry somewhat further. It is on the next reaction that market should be reexamined for opportunities.

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.]

George M. Root With E. F. Hutton & Co.

E. F. Hutton & Co., 61 Broadway, New York City, members of the New York Stock Exchange, announce that George M. Root, formerly Assistant Vice-President of the Dollar Savings Bank of the City of New York, is now associated with them in their institutional department.

Hicks With Shields & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Roland J. Hicks has become associated with Shields & Co., 210 West Seventh Street. He was formerly cashier of the local office of Buckley Brothers.

With First California

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Richard L. Woodward is with First California Company, 510 South Spring Street, members of the Los Angeles Stock Exchange.

Maloney & Meyer Add

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL. — Maloney & Meyer, Inc., 650 South Spring Street, have added Lawrence V. Fioretta to their staff.

With Maxwell, Marshall

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—David C. Snow is with Maxwell, Marshall & Co., 647 South Spring Street, members of the Los Angeles Stock Exchange.

Financial Status and Needs of Electric Industry

(Continued from page 6)

business. Competition should speed up the development and exploitation of this revolutionary appliance.

The American farm is another great source of potential load. In a year or two over 90% of the farms will have electricity available. Even now the demands for power on the farm are very great. The impending development of new appliances will make them greater.

In industry, too, the long-range prospects are for greater electrification. In addition to the many new ventures which have appeared and the increased operations of established enterprises, new processes are being developed which will require vast quantities of electric power. Among these are the synthetic fuel program, the treatment of low-grade ores, high frequency heating, and a further expansion of electro-chemical industries as a result of the increased use of synthetic ammonia, aluminum, and magnesium. In appraising the industrial use of electric energy we must always bear in mind the natural urge to substitute relatively low-cost electric power for relatively high-cost man power. Increases in the wage level accentuate this motive.

Peep Into Future

Many of you may have seen the Westinghouse study — "The Electric Utility Industry by 1957." This study estimates that the electric utility industry may be expected to increase sales to residential consumers during the next 10 years by 100%, to farm consumers by 140%, to small industry and commercial business by 50%, to large industry and commercial business by 71%, and that the overall increase will be 72%. The study concluded that, in order to meet this anticipated load, the industry as a whole, government power projects included, will have to increase generating capacity during this 10-year period by 80%. This means an increase of more than 40 million kilowatts of capacity in 10 years, or an average of over 4 million per year. Since considerable obsolete capacity will have to be retired, total installations on these assumptions would average at least 4½ million kilowatts per year. This is more than twice the 20 million kilowatts of capacity increase of the decade 1921-1931, the previous peak. Whether time will bear out these particular estimates is, of course, conjectural. The industry is convinced, however, that the long-term trend is one of substantial expansion.

In each of the years since 1945 the utility industry has been unable to install the capacity planned for the year, chiefly because of material and equipment shortages. It now appears quite likely that the industry will again fall short by perhaps as much as 700,000 kilowatts of the 4¾ million program for the year 1948. Although the official estimates for 1949 and subsequent years have not yet been published, a recent statement issued by the Edison Electric Institute indicates that the sights have again been raised. Plans for 1949, including public projects, call for the installation of approximately 6.7 million kilowatts of new capacity and plans for the four years 1948-1951 will total some 23 million kilowatts. While the capacity of equipment manufacturers is being increased rapidly, in the light of experience I personally have considerable doubt whether the 1949 program can be fully achieved.

Eighteen months ago when I spoke to you in Boston the industry was talking in terms of a four-year expansion of 11 million kilowatts. Today it is talking about a 23 million program for the next four years. This startling increase in projected installations speaks for itself.

What these various figures and projections add up to is that the industry is not confronted with a short-term construction program. On the contrary, the industry is planning for large-scale expansion at a rapid pace and for a long period of time. This fact has important implications as to the character of the financing which is appropriate during the current and succeeding years. First, let us take a quick look at the financing of the past three years and the effect which it has had on the capital structure of the industry.

Financing Data

The available data[1] indicate that the industry will have spent approximately $3.4 billion for new plant in the three years 1946-1948, inclusive. To finance this volume of capital expenditures the industry had available from internal sources approximately $1.7 billion. Of this amount $1.3 billion came from depreciation, amortization, and working capital; $400 million came from undistributed profits. Cash generated from internal sources was, of course, inadequate to finance this construction program and, accordingly, the industry raised the remaining $1.7 billion from the sale of securities. Of this total, $1.3 billion came from the sale of bonds, about $200 million came from the sale of preferred stock and a like amount from common stock. Thus, about three-quarters of the new money obtained by the industry from the market during these three years was derived from the sale of debt securities and about one-eighth each from the sale of preferred and common stocks.

If we add to the proceeds from the sale of common stock the retained earnings (which are, of course, an addition to the common stock equity), new capital has been obtained to the extent of 62% from debt securities, 9% from preferred stock, and 29% from common stock. These industry-wide figures are not too bad. But buried in them are some companies whose individual capital structures have deteriorated seriously. Some of these are now at the danger point and may be in trouble if the financial climate is unfavorable when next they are forced to go to the market.

Cost of Future Program

Now with regard to the future: How large will the program be? What will it cost? How will it be financed? What effect will the 1946-1948 pattern of financing have on capital structures?

The best guess appears to be that the expansion program will involve the expenditure of at least $2 billion per year during the next three years and — barring major reversals — perhaps as much if not more per year for the next decade. Past experience indicates that of this amount approximately $700 million per year will probably be available from internal sources such as depreciation, amortization, and retained earnings. Approximately $1.3 billion per year will, therefore, have to be raised through the sale of securities.

As we all know, debt securities of electric utility companies have enjoyed ready markets — a fact which has much to do with the very substantial extent to which debt has been employed. This market has been largely among life insurance companies. Generally speaking, no difficulty should be experienced in obtaining ample funds through this medium. The problem is rather to secure sufficient funds in the form of junior securities to maintain balanced capital structures.

At the time of my remarks last year it was already apparent that the market for preferred stocks was deteriorating. Preferreds of medium grade were almost invariably difficult to sell, and institutions were withdrawing more and more from that area of investment. In an effort to regain institutional favor, issues of medium grade preferreds resorted to sinking funds, an innovation in utility stocks. Initially these sinking funds called for the annual retirement of 2% of the issue; as more issues came to market the rate sometimes rose to 2½%, or even higher. These efforts proved fruitless, however, so far as medium grade preferreds were concerned and these stocks have been forced to rely upon the long-neglected individual market.

High-grade preferred stocks a year ago continued to enjoy substantial demand from life insurance companies and other institutions. Gradually, however, these too lost their appeal in many quarters. Dividend yields rose sharply and sinking funds or purchase funds came into rather general usage. It appears likely that some institutional demand for better grade preferreds will continue, but this market is limited for the time being, at least, and any sizeable issue of preferred stock will probably have to be priced to attract individual as well as institutional investors.

The extent to which individual investors can again be interested in preferred stocks is not known. The extensive refunding of preferreds a few years ago at yields as low as 3.3% not only served to retire large amounts of stock held by smaller investors; yields at such levels militated against repurchases by this type of investor and the new stock moved instead into the institutional market. Thus it has been many years since dealers were faced with the problem of selling preferred stock to individual investors and a great deal of more or less painful probing has been necessary in seeking out new yield levels at which such stock can be sold. Please do not misunderstand this. I do not mean that we must "write off" preferred stock as a means of raising utility capital. During the first nine months of this year there were marketed $133.5 million of new money utility preferreds. The bulk of these new issues, however, was sold by higher grade companies, with only small amounts being marketed by companies of medium to lower grade.

Last year I discussed a number of protective provisions which have been developed by the SEC for the benefit of preferred stockholders. With the smaller individual investor assuming greater importance as a market for preferreds, I urge upon you again that these protective features be incorporated whenever possible. Sound and attractive issues should be the objective of the industry and of regulatory bodies alike.

Utility Common Stocks

Turning to common stocks, we find that the market has displayed considerable appetite for this class of securities during the past year. Since July 1, 1947 common stock has been offered to the stockholders of electric and gas utility companies in 27 instances. In 17 of these rights offerings, over 90% of the stock offered was taken up through the exercise of rights; parent companies figured prominently in six of these. In eight additional cases more than 70% of the offering was subscribed. Offerings of this type totaled $132,000,000 and ranged in size from $500,000 to more than $20 million.

In addition to the 27 issues offered to stockholders during this period, ten other new money issues of common stock aggregating

[1] Federal Power Commission, Class A and Class B Utilities projected through Dec. 31, 1948.

approximately $25,000,000 have been marketed directly by underwriters. These, I understand, have been generally well received.

Let us refer again to the sources of additional funds obtained by utility companies—these were in the ratio of 62% debt, 9% preferred stock, and 29% common stock, including retained earnings. In view of the unfavorable market for preferred stocks, it is not surprising that they have played so relatively minor a role in financing the construction program. It is unfortunate, however, that the resulting gap has been closed entirely with debt securities. Common stock has, in fact, failed to hold its own percentage-wise.

Some of you may remember a study to which I referred last year based upon the price-earnings ratios of substantially all electric companies whose common stock had been traded during at least four years in sufficient quantity to provide a reliable market. Several additional companies have now met these specifications, so that currently the group is made up of 41 companies. These companies were ranked in the order of their average price-earnings ratios over a four-year period and the sample was then divided into upper, middle, and lowest thirds. These three groups, which we will again call Groups A, B and C, provide a means of observing three distinct levels of market appraisal. As we noted last year, there was a marked correlation between the capital structures of these companies and the market's valuation of their earnings. Group A, whose common stocks enjoy the most favorable market appraisal, shows a low debt ratio and a large common equity. Group B companies have somewhat more debt and less common. Companies in Group C, to which the market looks least favorably, typically had heavy debt structures with only moderate amounts of common stock. Let us see how the capital structures of these companies have changed under the stress of the construction program.

As evident from the record, debt ratios have increased in all three groups and common stock ratios have decreased. While the capital structures in Groups A and B remain in satisfactory areas, the pattern which has been set is not the sort which can safely be followed throughout an expansion program so extensive as the present one promises to be. However, it is to be expected that companies which have accumulated a comfortable proportion of common stock will turn first to debt securities for additional funds. Thus the movement of ratios in Groups A and B is not yet seriously disturbing. If common stock financing is employed in somewhat more generous amounts by these companies during the remainder of the program, they should emerge with sound structures.

The problems of companies in Group "C," however, may not be so lightly dismissed. Although there are exceptions, we find that these companies are typically among the smaller in the industry, usually operating in less thickly settled territory and frequently having a background of financial difficulties during the '30's. Expansion needs found them with capital structures already heavily loaded with debt. Preferred stock has been very difficult for these companies to market and their common stocks, while showing good to excellent longer-term growth in earnings, are not well known. These companies have, in most cases, attempted to build up common equity by retaining earnings, and until quite recently they were able to maintain or improve existing ratios in this manner. It seems clear, however, that retained earnings will be inadequate for this purpose. If these companies are to come through their construction programs without becoming financial cripples or worse, they must secure adequate common equity. In marketing common stocks of these lower grade companies, substantial discounts from going market prices may frequently be necessary. This will be even more painfully true if markets continue to be unsteady. Neither management nor stockholders like to see new partners come in on a cut-rate basis, but much of this difficulty can be met through the use of rights offerings. In any event, regulatory bodies will be called upon to play much stronger roles in determining the shape of utility financing policies.

In fact, any serious economic reversal might made it difficult for all utilities to market their equities. But at the same time such an event would create the very conditions which make a sound financial structure imperative. It is therefore of the utmost importance that we begin now to build and maintain this strong equity foundation under the capital structures of our utility companies as we go through this period of rapid growth. The time may come for some of them when it is too late to act.

Earnings and Dividends Must Be Attractive

The industry's construction program can be financed successfully, of course, only if utility common stocks retain their "investor appeal." To do this, earnings and dividends must be attractive. Market declines serve to underscore this point. Many commissions have already been faced with instances where earnings have become inadequate and relief has been granted to quite a few companies. Naturally, earnings are basic. But, as we all know, earnings may lose much of their effect marketwise unless they are also reflected in dividend policy. Earnings retained in the business are all well and good, but when a company goes to the market to sell common stock, dividends assume a new importance. A company must, quite literally, compete for capital, and if it seeks to do so while continuing to retain in the business an unduly large part of its earnings, it can expect to be at a disadvantage. The old maxim applies here as elsewhere: You can't have your cake and eat it too.

But in addition to sound earnings and an attractive dividend policy, there is still a third ingredient which must be present if the construction program is to be successfully financed. Electric utility common stocks as a class are generally regarded as among the most attractive of equity investments. This ingredient, and it is an indispensable one, is action to match this belief. Let management and regulatory bodies work together in keeping common stocks strong and inherently attractive. Let management and the investment banker take the case before the investing public. The result, I believe, will be a great and strong industry which will ably serve the community, the investor, and the nation—and this result is certainly what we all desire.

Airlines Are Reaching Profit Basis

(Continued from page 15)

high for October, of 2,476,000 ton miles. All air cargo, including mail and express, totalled nearly 3½ million ton miles for that month, another all-time high.

But the Airfreight field is beset with knotty problems that can be ironed out only with time. It will continue to grow, undoubtedly, as we are able to acquaint more and more shippers with the money advantages in using air on a planned and continuous basis. The competition in this field is most intense. Not only are scheduled airlines in competition with one another for freight, as they are for passengers, but the common carrier airlines are in competition with all-cargo companies that have the advantage of serving only the big industrial centers.

By and large, the certificated airlines have carried more cargo than their non-certificated competitors, when air express and mail are taken into consideration. In Airfreight alone, American has reason to believe that it surpassed the largest of the non-certificated carriers in September in volume of ton miles carried. Considering Airfreight alone, without including air express, the largest of the all-cargo carriers for some time held an advantage over any of the certificated airlines. This is largely because, while most of our energy after the war had to be devoted to the restoration of adequate mail and passenger service, the all-cargo carriers could concentrate solely on soliciting freight. With a severely limited number of all-cargo planes, we were forced to hold our freight expansion plans somewhat in abeyance until the delivery of DC-6s permitted us to release DC-4s from passenger service and fit them for cargo. But we now have the airplanes, and our 20 years of selling cargo as well as passengers, to back up our contention that we can give the best freight service in the world.

In spite of our lower ton mile freight figures, we have consistently received a higher rate of return in our freight operation than our non-certificated competitors. For instance: in 1947 American realized $4 million in freight revenues compared with $2.7 million for the largest non-certificated carrier. This, even though their 21.3 million ton-miles exceeded American's 16.5 million. The next-ranking certificated airline, which carried less than half the tonnage, realized $2.2 million, only $500,000 under the biggest non-certificated carrier.

This is not to say that our superior freight revenues indicate a comparable margin of profit over our competitors in this operation. Our favorable rate of return is due to the fact that we provide freight service on a common carrier basis to all the cities we serve, rather than just to the industrial centers. This involves the handling of many small shipments, on which rates are relatively higher, especially for short distances. Freight tariffs are based on lower unit costs as the volume and distance of shipments increase. Conversely, our profits are cut sharply by the terminal handling costs of small shipments, which require as much handling and attention of personnel as larger volumes would.

Effects of Business Recession

There has been no business recession up to now. Actual production levels are higher than in 1945, although some commodities—notably soft goods, radios and household appliances—have come into good balance between supply and demand. I think the next potent problem of the airlines will come if travel volume drops to the 1941 level, which was higher than in any of the preceding 20 years. That would be a substantial drop—almost comparable to the drop to 1946 from 1945.

A study of the total air, rail and bus intercity passenger miles over the past decades is interesting. During the 1920's travel remained fairly constant at 30-odd billion passenger miles a year. It nosedived after 1929 to a low of 18.4 billion in 1932 and climbed slowly up to the 30 billion mark again in 1940. Then it leaped to 39.7 billion in 1941 and had trebled by 1944, due to troop movements and other wartime travel. It contracted from 116 billion in 1945 to 89 billion in 1946, down to 67.4 last year. We estimate it will drop to 61 billion this year.

Although total travel is lessening, the airlines are getting a larger percentage of what there is than ever before. In May this year, for example, the airlines carried 63.7% of the Pullman volume, compared with 58.1% in May, 1947. While our figures indicate rail travel will show a falling off of 12% this year, and bus travel 5%, the airlines will experience a drop of only 3.5%. In the event of a depression bringing volume down to the 1932 level, all traffic will be heavily off—possibly as much as 75%. It's a guess whether bus, rail or air traffic would suffer most.

We have kept abreast of the declining trend in domestic travel by curtailing our schedules enough so that we offer the public a wide choice of flights but still reduce operating costs to a reasonable figure. That we have managed to reduce costs while increasing efficiency is evidenced in these data: in 1946 we had 7.05 employees for every 10,000 available ton miles. In 1947 we reduced the figure to 5.68 employees and for the first nine months of this year the figure was down to 5.01. In September we had 4.47 employees per 10,000 available ton miles scheduled.

But the acid test of airline management and of the airlines as an industry will come with a serious drop in total travel. That's what I had in mind last year when I ventured to tell you that the industry would continue sound, although some components of it might lose their identities. I still believe this, and recent moves and pronouncements in the Civil Aeronautics Board bear out that belief.

American Airlines has long been a leader in the move to bring transportation to as great a portion of the citizenry as possible. In the recent upward revision of fares we refused to go along with the industry on a flat 10% increase. We adjusted our fares upward on DC-3s, DC-4s and Convairs to the DC-6 level, thus eliminating the approximately 10% premium charge of DC-6s. Since 65% of our passenger miles were then flown in DC-6s, the increase on other equipment did not affect our total clientele. One of the oldest laws of economics is that you drive off marginal customers with a fare increase—those for whom the cost of transportation is the decisive factor in deciding whether to travel at all or in choosing the type of carrier. It's true that other forms of transportation have made proportionate increases in rates, but it is our air to lower fares just as soon as economic conditions will permit.

Special Fares

To meet special situations we try to devise special fares. I'm thinking now of the American Family Fare Plan, which we put into effect to boost passenger loads on the days when they are lowest — Monday, Tuesday and Wednesday. On these days one member of a family with a full fare ticket can takes others for half fare. At present the average family using this plan is 2.3 persons. A family of three travels for two tickets; a mother and father with eight children all travel for a total of 5½ tickets. An illustration of the value of this plan in broadening the air travel market is the fact that 40% of our half fare passengers are "first riders," as are three out of every ten full fare passengers using the plan for families.

Along with a general tightening up of our organization to meet the needs of a dwindling market, we have opened all the stops in our efforts to stimulate new business. A sales and educational campaign of unprecedented proportions has been under way since the first of the year. The pattern of airlines sales technique is changing. We are attempting to sell air transport now as a package to business.

Research into the travel habits and expenses of vacationers has brought some startling information to light that proves most people on salary or wages who want to go to Europe cannot afford to travel by boat, even in tourist accommodations. And we are telling that story, backed up with facts, in our European sales promotion.

A number of factors have made air transport far more dependable in scheduled performance than it was before the war. The long-range DC6s and Constellations can fly over the weather and detour to avoid storm areas and thus complete flights that would have been cancelled only a few years ago. Instrument landing system perfected during the war, and the experimental success with high intensity runway approach lighting, enables us to land and take off under conditions that formerly would have cause cancellations or delays. In New York, where the air traffic problem is greatest, we are finding new methods to give us more dependable operations every year.

Conclusion

The industry is still sound. Year by year, although the total traffic is declining, more of the people who do travel are traveling by air—and finding it faster, cleaner, more comfortable, more convenient and more dependable. Technological advances every year bring all-weather flying a step closer. We have lost money heavily during the early postwar years—mostly because of unforeseeable events over which we had no control. Provided economic conditions do not change drastically, and provided we continue to show a good safe operating record, I believe the industry as a whole and American Airlines in particular have a good possibility of getting out of the red in the near future.

Halsey Stuart Group Offers C. & O. Bonds

Halsey, Stuart & Co. Inc. headed an underwriting group which offered publicly Nov. 24 $40,000,000 Chesapeake and Ohio refunding and improvement mortgage 3⅞% bonds, series H, due Dec. 1, 1973, at 100¾% and accrued interest. The group won award of the bonds at competitive sale Nov. 23 on its bid of 98.65. Sale of the bonds is subject to authorization of the Interstate Commerce Commission.

The purpose of the issue is to partly reimburse the company's treasury for large capital expenditures heretofore made for additions and betterments to its properties. The proceeds are to be added to cash working capital and used for proper corporate purposes.

Redemption prices for the new bonds are scaled from 103⅝% to 100%. They also are redeemable through operation of the sinking fund at prices ranging from 101⅛% to 100%.

With William R. Staats

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Merle S. Nirider is with William R. Staats Co., 640 South Spring Street, members of the Los Angeles Stock Exchange.

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 ende d 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. 28	99.2	99.0	98.9	96.3
Equivalent to—					
Steel ingots and castings (net tons)	Nov. 28	1,788,100	1,784,500	1,782,600	1,685,200
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Nov. 13	5,626,400	5,626,700	5,586,350	5,257,100
Crude runs to stills—daily average (bbls.)	Nov. 13	‡5,712,000	5,600,000	5,562,000	5,229,000
Gasoline output (bbls.)	Nov. 13	17,811,000	17,213,000	17,424,000	16,686,000
Kerosene output (bbls.)	Nov. 13	2,665,000	2,387,000	2,289,000	2,107,000
Gas oil and distillate fuel oil output (bbls.)	Nov. 13	7,669,000	7,549,000	7,528,000	6,159,000
Residual fuel oil output (bbls.)	Nov. 13	8,964,000	8,902,000	9,191,000	8,556,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Nov. 13	91,795,000	91,377,000	91,483,000	83,041,000
Kerosene (bbls.) at	Nov. 13	26,528,000	26,740,000	26,992,000	21,473,000
Gas oil and distillate fuel oil (bbls.) at	Nov. 13	83,979,000	83,150,000	78,647,000	63,283,000
Residual fuel oil (bbls.) at	Nov. 13	83,659,000	81,947,000	79,411,000	57,827,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Nov. 13	871,677	843,166	913,832	878,283
Revenue freight rec'd from connections (number of cars)	Nov. 13	702,860	700,182	720,063	714,633
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Nov. 18	$123,240,000	$137,751,000	$129,008,000	$100,930,000
Private construction	Nov. 18	59,946,000	63,561,000	55,204,000	54,084,000
Public construction	Nov. 18	63,294,000	74,190,000	73,804,000	46,846,000
State and municipal	Nov. 18	49,093,000	51,724,000	62,528,000	42,655,000
Federal	Nov. 18	14,201,000	22,466,000	11,276,000	4,191,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Nov. 13	11,925,000	*10,425,000	11,980,000	12,685,000
Pennsylvania anthracite (tons)	Nov. 13	1,151,000	863,000	1,223,000	1,101,000
Beehive coke (tons)	Nov. 13	146,200	*133,300	148,100	129,000
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Nov. 13	346	320	331	380
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Nov. 20	5,626,900	5,570,767	5,538,865	5,180,496
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Nov. 18	126	96	124	79
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Nov. 16	3.75628c	3.75628c	3.75628c	3.19541c
Pig iron (per gross ton)	Nov. 16	$46.82	$46.82	$46.82	$37.06
Scrap steel (per gross ton)	Nov. 16	$43.00	$43.00	$43.16	$41.25
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Nov. 17	23.200c	23.200c	23.200c	21.200c
Export refinery at	Nov. 17	23.425c	23.425c	23.425c	21.550c
Straits tin (New York) at	Nov. 17	103.000c	103.000c	103.000c	80.000c
Lead (New York) at	Nov. 17	21.500c	21.500c	19.500c	15.000c
Lead (St. Louis) at	Nov. 17	21.300c	21.300c	19.300c	14.800c
Zinc (East St. Louis) at	Nov. 17	17.500c	15.500c	15.000c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Nov. 23	100.75	100.96	100.69	101.94
Average corporate	Nov. 23	111.25	110.88	110.88	112.19
Aaa	Nov. 23	116.80	116.41	116.02	117.00
Aa	Nov. 23	115.24	114.66	114.27	115.24
A	Nov. 23	109.97	109.79	110.15	112.37
Baa	Nov. 23	103.64	103.47	103.97	105.00
Railroad Group	Nov. 23	106.56	106.39	106.74	107.27
Public Utilities Group	Nov. 23	111.62	111.44	111.62	114.08
Industrials Group	Nov. 23	115.63	115.04	114.85	115.63
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Nov. 23	2.45	2.43	2.45	2.37
Average corporate	Nov. 23	3.10	3.12	3.12	3.05
Aaa	Nov. 23	2.81	2.83	2.85	2.80
Aa	Nov. 23	2.89	2.92	2.94	2.89
A	Nov. 23	3.17	3.18	3.16	3.04
Baa	Nov. 23	3.53	3.54	3.51	3.45
Railroad Group	Nov. 23	3.36	3.37	3.35	3.32
Public Utilities Group	Nov. 23	3.08	3.09	3.08	2.95
Industrials Group	Nov. 23	2.87	2.90	2.91	2.87
MOODY'S COMMODITY INDEX	Nov. 23	402.6	398.8	404.2	454.3
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	Nov. 20	231.9	235.2	236.9	233.6
Fats and oils	Nov. 20	210.9	212.0	211.9	282.2
Farm products	Nov. 20	249.1	251.8	258.8	261.2
Cotton	Nov. 20	299.9	297.1	298.3	324.8
Grains	Nov. 20	210.0	208.7	210.8	304.5
Livestock	Nov. 20	256.7	261.9	172.1	245.1
Fuels	Nov. 20	242.3	244.1	244.1	198.2
Miscellaneous commodities	Nov. 20	172.1	171.6	169.2	177.9
Textiles	Nov. 20	194.4	193.9	194.3	221.1
Metals	Nov. 20	190.5	189.5	188.1	159.4
Building materials	Nov. 20	229.0	229.0	230.5	235.4
Chemicals and drugs	Nov. 20	151.4	152.2	156.6	157.1
Fertilizer materials	Nov. 20	142.5	142.5	142.3	134.9
Fertilizers	Nov. 20	150.1	150.1	150.1	140.6
Farm machinery	Nov. 20	151.3	151.3	146.0	128.3
All groups combined	Nov. 20	219.3	220.8	222.8	215.9
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Nov. 13	167,198	244,488	185,610	154,639
Production (tons)	Nov. 13	190,406	189,639	192,539	182,686
Percentage of activity	Nov. 13	96	95	97	101
Unfilled orders (tons) at	Nov. 13	394,769	419,248	384,134	436,819
OIL, PAINT AND DRUG REPORTER PRICE INDEX — 1926-36 AVERAGE=100	Nov. 19	144.4	144.4	144.0	150.7
WHOLESALE PRICES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Nov. 13	162.6	162.7	164.8	158.5
Farm products	Nov. 13	179.5	178.9	182.2	186.9
Foods	Nov. 13	170.4	171.6	178.0	178.0
Hides and leather products	Nov. 13	186.5	185.7	187.6	199.6
Textile products	Nov. 13	145.7	145.7	146.8	142.9
Fuel and lighting materials	Nov. 13	138.2	138.0	138.1	118.7
Metal and metal products	Nov. 13	173.1	173.0	172.5	151.3
Building materials	Nov. 13	203.3	203.6	203.6	185.3
Chemicals and allied products	Nov. 13	132.7	135.0	134.4	131.3
Housefurnishings goods	Nov. 13	149.9	149.3	148.6	133.5
Miscellaneous commodities	Nov. 13	119.2	118.5	118.7	118.1
Special groups—					
Raw materials	Nov. 13	175.4	175.1	177.2	175.8
Semi-manufactured articles	Nov. 13	158.8	158.7	158.3	155.4
Manufactured products	Nov. 13	157.8	158.1	160.6	151.7
All comodities other than farm products	Nov. 13	158.8	159.0	160.9	152.3
All commodities other than farm products and foods	Nov. 13	153.5	153.4	153.5	141.[illegible]

*Revised figure. ‡Strike in California continues. †Includes 411,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
ALUMINUM WROUGHT PRODUCTS (DEPT. OF COMMERCE)—Month of September:			
Total shipments (thousands of pounds)	130,786	135,196	119,315
AMERICAN IRON AND STEEL INSTITUTE:			
Steel ingots and steel for castings produced (net tons)—Month of October	7,973,416	*7,415,610	7,570,152
AMERICAN PETROLEUM INSTITUTE—Month of August:			
Total domestic production (bbls. of 42 gallons each)	185,043,000	183,067,000	171,619,000
Domestic crude oil output (bbls.)	172,886,000	171,196,000	160,365,000
Natural gasoline output (bbls.)	12,129,000	11,843,000	11,204,000
Benzol output (bbls.)	28,000	28,000	50,000
Crude oil imports (bbls.)	10,883,000	11,478,000	8,242,000
Refined products imports (bbls.)	4,597,000	4,425,000	3,824,000
Indicated consumption—domestic and export (bbls.)	185,588,000	184,930,000	172,913,000
Increase—all stock (bbls.)	14,935,000	14,040,000	10,772,000
AMERICAN TRUCKING ASSOCIATION—Month of September:			
Number of motor carriers reporting	287	*287	287
Volume of freight transported (tons)	2,807,215	*2,752,325	2,489,496
COAL EXPORTS (BUREAU OF MINES) — Month of September:			
U. S. exports of Pennsylvania anthracite (net tons)	692,169	690,531	855,416
To North and Central America (net tons)	541,886	488,026	395,969
To South America (net tons)	------	------	10,864
To Europe (net tons)	150,283	181,847	448,581
To Asia (net tons)	------	20,658	------
To Africa (net tons)	------	------	2
COAL OUTPUT (BUREAU OF MINES)—Month of October:			
Bituminous coal and lignite (net tons)	55,480,000	50,540,000	57,301,000
Pennsylvania anthracite (net tons)	4,961,000	*5,007,000	5,524,000
Beehive coke (net tons)	660,000	*588,000	627,000
COMMERCIAL STEEL FORGINGS (DEPT. OF COMMERCE)—Month of September:			
Shipments (short tons)	120,882	111,097	108,804
Unfilled orders at end of month (short tons)	631,032	634,148	617,247
CONSUMER PRICE INDEX FOR MODERATE INCOME FAMILIES IN LARGE CITIES 1935-1939=100—As of September 15:			
All items	174.5	174.5	163.8
All foods	215.2	216.6	203.8
Cereals and bakery products	170.7	170.8	157.8
Meats	265.3	267.0	240.6
Dairy products	208.7	211.0	195.2
Eggs	226.6	220.2	235.9
Fruits and vegetables	195.8	199.6	198.2
Beverages	205.6	205.3	187.0
Fats and oils	196.8	197.8	176.6
Sugar and sweets	173.2	172.3	181.1
Clothing	201.0	199.7	187.6
Rent	118.5	117.7	113.6
Fuel, electricity and refrigerators	137.3	136.8	124.6
Gas and electricity	94.6	94.5	92.1
Other fuels	191.0	190.1	164.0
Ice	137.6	137.3	129.6
Housefurnishings	198.1	196.3	187.5
Miscellaneous	152.7	152.4	140.8
COPPER INSTITUTE — For Month of Oct.:			
Copper production in U. S. A.—			
Crude (tons of 2,000 lbs.)	81,692	*88,105	76,815
Refined (tons of 2,000 lbs.)	101,436	102,976	108,277
Deliveries to customers—			
In U. S. A. (tons of 2,000 lbs.)	112,580	*122,938	112,310
Refined copper stocks at end of period (tons of 2,000 lbs.)	76,371	72,215	74,507
GRAY IRON CASTINGS (DEPT. OF COMMERCE) — Month of September:			
Shipments (short tons)	1,088,051	1,050,948	1,025,089
For sale (short tons)	615,978	597,678	590,702
For producers' own use (short tons)	472,073	453,270	434,387
Unfilled orders for sale at end of month (short tons)	2,587,385	2,598,789	2,679,858
INTERSTATE COMMERCE COMMISSION —			
Index of Railway Employment at middle of October (1935-39 average=100)	†127.5	†129.2	128.0
MALLEABLE IRON CASTINGS (DEPT. OF COMMERCE)—Month of September:			
Shipments (short tons)	77,824	73,273	71,568
For sale (short tons)	43,881	41,088	40,138
For producers' own use (short tons)	33,943	32,185	31,430
Orders booked, less cancellation, for sale (short tons)	31,059	37,491	28,706
Unfilled orders, end of month, for sale (short tons)	164,002	176,824	218,276
MECHANICAL STOKERS (DEPT. OF COMMERCE)—Month of September:			
Factory sales (number of stokers)	14,157	*10,975	10,206
NON-FERROUS CASTINGS (DEPT. OF COMMERCE) — Shipments, month of Sept.:			
Aluminum (thousands of pounds)	35,877	32,136	35,877
Copper (thousands of pounds)	86,973	81,976	83,158
Magnesium (thousands of pounds)	745	703	518
Zinc (thousands of pounds)	36,720	37,519	32,727
Lead die (thousands of pounds)	1,420	1,120	1,241
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100—Monthly average—month of October	143.7	144.3	146.1
PAINT, VARNISH, LACQUER AND FILLER (DEPT. OF COMMERCE)—Month of Sept.:			
Total sales reported by 680 establishments	$90,824,116	*$94,363,946	$86,312,184
PORTLAND CEMENT (BUREAU OF MINES)—Month of September:			
Production (bbls.)	18,605,000	18,961,000	17,319,000
Shipments from mills (bbls.)	19,938,000	20,704,000	19,840,000
Stocks (at end of month) (bbls.)	7,022,000	*8,355,000	7,921,000
Capacity used	93%	91%	88%
SOFTWOOD PLYWOOD (DEPT. OF COMMERCE) — Month of September:			
Production (M sq. ft. 3/8-in. equivalent)	181,567	174,062	147,823
Shipmentts and consumption (M sq. feet, 3/8-in. equivalent)	174,857	172,313	146,993
Stocks (M sq. ft. 3/8-in. equivalent) at end of month	54,082	46,571	38,070
Consumption of logs (M ft., log scale)	78,008	74,919	64,158
Stocks (M ft., log scale) at end of month	308,522	264,247	224,085
STEEL CASTINGS (DEPT. OF COMMERCE)—Month of September:			
Shipments (short tons)	149,222	140,223	137,457
For sale (short tons)	112,551	107,538	102,913
For producers' own use (short tons)	36,671	32,685	34,544
Unfilled orders for sale at end of month (short tons)	447,972	472,481	526,229
TRUCK TRAILERS (DEPT. OF COMMERCE)—Month of September:			
Production (number of units)	3,504	3,622	3,158
Shipments (number of units)	3,746	4,196	3,948
Shipments (value in dollars)	$11,206,032	$12,751,751	$10,469,130

*Revised figure. †Preliminary figure.

"What Is the Over-All Picture of the SEC?"

(Continued from page 7)

holding companies and their subsidiaries. All of these statutes were passed by the Congress between 1933 and 1940.

Regulation of our security markets is part of our legal tradition. Courts have for centuries been laying down standards of disclosure and corporate obligation. There is evidence that in London brokers were licensed as early as 1285. Since 1911 every state except Nevada has adopted some type of Blue Sky legislation. However, because the states cannot effectively regulate securities transactions which cross state lines, the need for Federal intervention to prevent fraud became apparent as soon as we began to develop broad scale securities markets.

Several bills were introduced into Congress during the early 1920's to give the Federal Government some sort of regulatory power. One introduced by Representative Volstead (R., Minn.) in 1920 would have empower the Attorney General to issue Cease and Desist orders to stop fraudulent practices in the sale of securities. Another, introduced by Representative Denison (R., Ill.) at about the same time, sought to reinforce the state Blue Sky laws by making it a Federal offense to sell securities in interstate commerce in violation of local state law. A third bill, proposed by Representative Taylor (D., Colo.) shortly after the First War, would have required the public registration of all new security issues with the Secretary of the Treasury. Only one of these bills passed the House. None of them ever became law, although similar proposals were made all through the '20s. It was not until the depression following the market break of 1929 that Congress acted. As you and I can very vividly recall, the 1929 crash seriously undermined public confidence in our security markets. It was widely believed that this confidence had first to be restored before business conditions could possibly improve.

In April 1932, in the last year of the Hoover Administration, the Senate authorized what later became known as the "Pecora Investigation" of the securities markets. Largely as a result of this Committee's work Congress enacted the Securities Act of 1933, the Banking Act of 1933 requiring the separation of commercial and investment banking functions; and, a year later, the Securities Exchange Act of 1934.

In general, the Securities Act makes it illegal to sell securities unless they are registered with the SEC. The registration statement must contain the facts an investor would reasonably want to know about the investment. Further, buyers must actually be given a prospectus containing the information in the registration statement.

The well-known **Tucker** case is a graphic picture of the registration process. It is an example of a dramatic new enterprise asking for public financing. Because of the amount of comment on it, I choose the Tucker case for discussion here.

In May 1947 the Tucker Corporation offered publicly $20 million of capital stock. The registration statement was preceded by an enormous publicity campaign. National periodicals, news reels, news items, etc., described and pictured the proposed automobile. The company used full page advertisements in newspapers throughout the country to arouse public interest. Frankly, here was a product that was "sold" before it was either produced or financed.

In a routine scrutiny of the Tucker registration statement, the Commission's staff of examiners found several apparently serious deficiencies. A private investigation was ordered. It confirmed the deficiencies, and on June 11 proceedings were instituted to prevent the registration statement from becoming effective. This procedure had the effect of an injunction and prevented the security from being sold. Then the fireworks really began. The Commission was besieged with a flood of postcards, letters, calls and threats. Some calls came from rather high levels. In the usual case, deficiencies found in the review of a registration statement are called informally to the attention of the company and correction is made. But here the Commission had cause to believe that the statement was seriously misleading and believed that the public might continue to rely on these misrepresentations and on the prior publicity unless equal publicity were given to the corrections. For that reason, the stop order procedure established in the statute was followed.

The Tucker Corporation admitted the existence of material omissions and mis-statements and set about correcting them. When the statement was amended and appeared to present a full and true picture of the enterprise in the light of all facts then known to the Commission, the stop order proceedings were dismissed. At the same time, the Commission released a detailed statement about the major items of information which had either been omitted or mis-stated in the original filing and in the accompanying publicity. Prospective purchasers of the stock were urged to read the opinion and to examine the prospectus carefully.

Please understand that the Commission, throughout these proceedings, was not in any sense attempting to approve or disapprove the securities. Congress never intended the Commission to have such authority. The policy of the law is to have the facts told and to leave the rest to the investor's judgment. Every prospectus is required to carry on its face a legend explaining that to the investor.

Whether or not the registration statement is now a complete and reliable document can be known only when **all** the facts are available. But here are some examples of the information which the Commission required the Tucker Corporation to reveal: Across the front of the prospectus appears the legend "These securities are offered as a speculation." The first page describes transactions between the promoters and the company and explains how the promoters got their stock and what they paid for it. The car is fully described. Its unconventional nature is revealed, as is the fact that tests on the pilot model "have not been completed" and "may necessitate material changes in engineering design," which would delay quantity production. There is reference to the fact that "difficulties may be encountered in obtaining some equipment, materials and parts"; and other "risks and difficulties" which the company faced are described.

We do not know how many people studied the Commission's report and the prospectus, and changed their minds about the stock. We do feel that every safeguard available was set up to see to it that the facts as then known were told. It is interesting to note that the American public invested in the securities of the Tucker Corporation, through regular investment channels, some $17 million; that, in addition the corporation has obtained about $7 million from the sale of dealer and distributor franchises.

The company has since filed a required annual report with the Commission. Upon examination, the Commission thought it necessary to conduct a confidential investigation to determine its accuracy, as well as that of the registration statement. Every effort was made to avoid adverse publicity to the venture. The company contended that the request for access to its records was unreasonable, and the Commission authorized its staff to seek enforcement of a subpoena in the Federal court in Chicago. You are all familiar with the publicity resulting from the claim of the Tucker Corporation that the examination of their records made it necessary to shut down their production line. I need not remind you, as business people, that a company's books are regularly made available to company auditors. It is hardly possible that production could have been retarded by our examination.

The court enforced the subpoena and the records were made available. Our work in this matter is still going on.

Formal proceedings like those in the Tucker case are not the rule in registration procedure. They are, in fact, the rare exception. The great mass of registration statements present very few significant problems, and those that do arise can usually be handled by informal conference and correspondence.

II

Landmark Cases

The SEC decides hundreds of matters each year — conducts scores of investigations, but in its 14 years wide attention has been attracted to only a few landmark cases. Out of each case has come some improvement in standards of investor protection.

The first was the famous Whitney case in 1938, involving one of the leading financial figures of the day. George Whitney was a power in the financial world. Brother of a Morgan partner, he had at one time or another held every position of importance that the New York Stock Exchange offered, including that of President. Yet his firm became insolvent and the SEC's investigation revealed that for years he had been misappropriating customers' securities and trust funds, and applying the proceeds to personal ventures. Later that year the McKesson-Robbins case provided an outstanding example of ingenious deceit in "blowing up" the corporation's assets through fictitious transactions which the company's auditors failed to detect. For over a decade the four Coster brothers, using different names and professing no relationship, worked together in the company. They purported to operate a foreign crude drug business as a department of the company. They, and they only knew that this department was non-existent, despite the fact that the company's accounts were audited periodically by very reputable public accountants, and the company's securities were listed on the Exchange and registered with the SEC. This mythical business attained reported sales of over $18 million a year and a gross profit of $1.8 million. Its fictitious assets were carried on the balance sheet at approximately $20 million. Not until the bubble burst and the accounts were re-audited was the magnitude of the fraud revealed and the manner of its perpetration.

The Whitney case broke just at the time the SEC and the New York Stock Exchange were working under the Securities Exchange Act of 1934 to transform the Exchange from a "private club" to the semi-public institution its function requires it to be. It brought about a prompt correction of certain Exchange practices. The McKesson-Robbins investigation high-lighted deficiencies in then current auditing practices which did not require auditors to make physical verification of inventories or to confirm receivables. Many improvements in auditing procedure date from this case.

In Detroit, it is difficult to avoid questions about the **Kaiser-Frazer** case. Certain aspects of that case are in controversy and it would not be proper for me to comment upon them. I do not have and do not intend to express any views about any issues raised in these controversies. I am going to talk only about some of the details that are matters of public record.

Last January, Kaiser-Frazer Corporation undertook to sell 1,500,000 shares of its common stock. The underwriters were to be Otis and Company, First California Corporation, and Allen & Company. The company had made two offerings previously through the same underwriters, in September, 1945 and January, 1946, and had sold altogether 3,500,000 shares for about $54,000,000. After some initial delay requested because of market conditions, the registration statement for the present issue became effective as of 5:30 p.m. (EST), on Feb. 3, 1948.

All of that day, the company had undertaken to stabilize the market at the opening price of $13.50 a share. It was decided that the new stock would be offered at $13.00 a share. In stabilizing, the company bought 186,200 shares, an unusually high figure as we shall see, so that it had to pay $2,513,700 in cash, plus brokerage commissions, before its new issue was even marketed. As a result of this unexpected market development, the underwriters insisted that their tentative commitment be reduced before they would go ahead with the distribution. The commitment was reduced from 1,500,000 shares firm at $11.50 per share to 900,000 firm at that price, with an option on the additional 600,000 shares at $11.60, or a step-up of 10 cents per share in the price to the underwriters. On the following day, the market was generally bad and the issue was not well received. By 1 p.m. the underwriters had ceased their stabilization (after purchasing about 40,000 shares), withdrawn the issue and had terminated the selling group agreement.

Subsequently, on Feb. 9, 1948, the closing date—that is, the date when a deal is completed, with the underwriters turning over the money and the corporation in turn transferring the stock certificates to the underwriters—two of the underwriters refused to complete the closing. They claimed that in the interval since the offering date an important lawsuit had been brought against the company (the so-called Masterson suit filed that every morning in Wayne County) and that by the terms of the underwriting agreement, the underwriters were relieved of their obligation. They were relying on one of the "out-clauses," which, in one form or another, are part of practically every underwriting agreement. They are designed to protect the parties to the underwriting agreement against unforeseen and substantial changes in circumstances between the time the agreement is entered into and the time of closing.

Back on Feb. 3, the day the whole thing started, the Commission began a private inquiry into the offering when it noticed the unusual market activity in the stock. Subsequently the hearing was made public and its scope enlarged because it appeared that the problems involved might be of great public interest and might require changes in our rules or procedures, or perhaps new legislation.

As you know, Kaiser-Frazer Corporation instituted civil action against the underwriters for millions of dollars, alleging that they sought to evade their unprofitable contract by inspiring the Masterson suit. While inquiring into that phase of the transaction, the Commission came across the names of two Cleveland lawyers who appeared to have some connection with the law suit. They would not identify their client until Judge Lederle, in the Federal court here, required them to do so. They then disclosed their client as the controlling stockholder of one of the underwriters, and stated they had been retained in connection with the filing of a law suit. However, they declined to supply any further information on the ground of attorney-client privilege. We asked the Federal District Court in the District of Columbia to require them to answer, on the ground that the attorney-client privilege may be pierced where there is *prima facie* evidence of fraud. The court ruled that the questions need not be answered in the investigatory proceedings because, on the basis of the record before the court, no *prima facia* showing of fraud had been made. Meanwhile, the Commission instituted broker-dealer disiciplinary proceedings against the two underwriters. An application by Otis & Company to enjoin the proceedings as to it was denied by the Federal district court. A stay has been granted pending appeal.

The problems raised by the company's stabilization purchases are most important. Although stabilization is an artificial force preventing the free operation of the market, the Exchange Act does not flatly prohibit stabilization but gives the Commission the power to promulgate rules and regulations for its control. There are many who are of the view that stabilization being a form of market manipulation, should be prohibited entirely. On the other hand, it is generally recognized that orderly marketing of securities may require some stabilization at the crucial point when a new issue goes on the market, in order to prevent some unexpected and perhaps inspired burst of trading from upsetting the carefully calculated pricing of the new issue.

Aside from a special rule limited to offerings at the market, the Commission has not heretofore issued any regulations against stabilization. It does require disclosure when stabilization is taking place and its extent; and it may not be used to raise the current market price of stock being sold. Whether stabilization is for the account of the issuer or the underwriter, the effect on the market is the same. The important thing is simply that the market know that an artificial price floor exists. However, it is not common for the issuer to stabilize except in situation involving competitive bidding in utility issues, where the issuer frequently stabilizes for part of the bidding period.

The Kaiser-Frazer stabilization is also marked by the abnormal quantity of stock purchased. A typical experience of stabilization by a company is the recent offering by Standard Gas and Electric Company of 250,000 shares of common stock of its subsidiary, Oklahoma Gas and Electric Company. The company bought only 25 shares. In the recent distribution by American Light & Traction Company of its Detroit Edison holdings, the first block of 450,000 shares sold last January required stabilization purchases of 1,400 shares. The sale of 450,000 shares in April, of 190,000 in September and of 192,000 last week required no purchases at all.

The experience in the Kaiser-Frazer case has done much to challenge the present stabilization procedure. The problem is now receiving close attention, and the

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"What Is the Over-All Picture of the SEC?"

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Commission would welcome comments from any one of you on the subject.

III

Prevention of Speculation on Basis Of "Inside Information"

The Securities Exchange Act of 1934 has, as one of its purposes, the prevention of speculation by corporate insiders on the basis of inside information. The restrictions imposed on officers, directors and 10% equity holders prevent them from doing things other security holders can do freely. Let me explain these restrictions briefly, for they have particular pertinence to most of you.

The first set of restrictions applies only to securities listed on a recognized exchange. Any change in the holdings of an insider must be reported to the Commission. Any profits which he realizes from the purchase and sale, or the sale and purchase, of an equity security within six months are recoverable by the corporation. This restriction on insider trading is a prophylatic rule; if the period is six months and one day, the profit is his; if it is one day less, it is recoverable by the corporation. The SEC is not a necessary party in litigation to recover profits, nor does the Commission have any power to order payment. Short of voluntary settlement, profit may be recovered only through private litigation, either in a suit by the corporation or a derivative action by a stockholder. You might ask, "How would such a transaction on the part of an officer or director be brought to light?" Ownership reports are public, and reports such as registration statements and proxy statements filed with the Commission contain disclosure of the liability. In this manner it is made known to stockholders.

The second set of restrictions arises from the registration requirements of the Securities Act and applies to all securities, listed or unlisted, subject to certain exemptions which I will not take time to spell out. A controlling stockholder may make occasional sales of small amounts of his stock through ordinary brokerage channels, but when he tries to make what is called a "distribution," through brokerage or other outside distribution channels, he becomes an "issuer" under the Act and the security must be registered, unless some exemption is available. Furthermore, a broker who handles the selling in such a situation becomes an underwriter under the Act and he too violates the law if the security is not freshly registered. A distribution may take place whether the shares are sold in a block or are dribbled out from time to time as part of a plan.

This latter situation was presented to the Commission in the recent **Ira Haupt** case. The stock involved was Park & Tilford. Some of you may recall that during the wartime liquor shortage several distilleries announced that they proposed to pay their stockholders dividends in kind. This announcement generally drove the market price of their stock away up. When Park & Tilford made such an announcement, its stock rose 13¼ points in two days. In all, the stock rose from 57⅝ to 98¼ over a period of six months. The company's dominant stockholder took the occasion of this rise to sell a substantial part of his holdings. He did not, however, sell in a block. Instead, he gave his broker a series of sell orders at the market extending over several months. Subsequently, the SEC instituted disciplinary action against the broker. The evidence showed that the broker was aware of the controlling stockholder's plan to distribute the large block even though he received his orders to sell as individual transactions. The Commission found that the security should have been registered, and held that the broker, as an underwriter, was therefore subject to disciplinary action for selling the unregistered security.

In recent years there has been much discussion of "professional" management — that is, managers without substantial stake in the enterprise. Just how far has the trend toward professional management and away from ownership management developed? To see where we stand today I had the staff get me some figures on corporations headquartered here in the Detroit area. We selected 60 listed corporations—large, intermediate, and small—from the big board, the curb, and here on the Detroit Stock Exchange. The sampling was not scientific, but the results, while hardly conclusive, are interesting. These 60 corporations have a total of 135,097,368 voting shares outstanding, held by 1,001,319 stockholders—an average of 138 shares per stockholder. Directors own only 2.26% of the total voting stock outstanding. Directors and officers grouped together own 4.13%. Of a total of 717 officers and directors, only 615 hold any stock at all, and many of these have only nominal holdings. Of course without a broader study and a comparison with figures for prior years these data do not illustrate any trends, but they do show that management holdings are not extensive. I, for one, believe in the old-fashioned idea that a manager with a stake in the business is more likely to be prudent and vigorous; and I think we face a need to approach the problems of regulation with that in mind. It is no service to the investor to limit our thinking about "investor protection" to a narrow set of concepts relating to possible management advantage, without recognizing that a prudent and vigorous management is the best investor protection.

I could go on discussing the many phases of stock-holder-management relations which are affected by the Securities Acts—the proxy rules are an example—but time does not permit.

IV

The P. U. HOLDING ACT

Americans admire and distrust bigness. We are proud of the magnitude of our achievements, but we disapprove of too much government and we declare business monopoly illegal. The growth of industrial enterprise following the Civil War was paralleled by a developing public sentiment against too much bigness in business. The Sherman Act, the period of the muck-rakers, and later the other anti-trust laws were products of this public abhorrence of bigness. There may be a vast disagreement about the remedial instruments chosen, but we all understand why such legislation was passed.

Originally, the electric and gas operating companies in this country were local businesses, locally operated and locally financed. Their steady growth, constant earnings, and need for capital to expand made them particularly susceptible to the current of consolidation which flowed through all business following the turn of the century. The process was rapidly accentuated after the First World War when the giant utility combines began their phenominal growth. Where this consolidation brought together integrated properties, it was of definite economic benefit. However, as early as 1924 the Senate expressed concern over the development and activities of the so-called "power trusts," and in 1928 it authorized the Federal Trade Commission to make an investigation of the public utility holding companies and their operations. This study lasted for seven years and has been referred to as "the most thorough-going investigation of an American industry that has ever appeared." From that study, conducted under Republican leadership, came the Public Utility Holding Company Act. The legislation was vigorously opposed by the entire industry. Many of you will recall the campaign waged against its passage. Consumers and security-holders were urged to "write their Congressmen," and a literal avalanche of mail and telegrams inundated the Capitol. The lobbying was so blatant that it became the subject of a special Senate inquiry. The Holding Company Act was one of the most controversial pieces of legislation ever enacted in this country.

Typical of the holding company systems which Congress directed to be broken up, was the United Light and Power Company. I choose this one because of its local flavor. It was of medium size, as holding companies go, not in the class of such giants of the industry as The United Corporation or Electric Bond & Share, yet the consolidated assets of the system, per books, aggregated nearly $600 million. The system consisted of several subholding systems comprising some 75 companies of various kinds, with as many as five tiers of companies. These subsidiaries operated in 12 states. The common stocks of the parent company were junior to $430 million of outstanding senior securities. This leverage produced wide fluctuations in the company's income, for earnings had to pass through nine strata of publicly held senior secuirties before becoming available to United Light and Power's common stock. A block anywhere along the line could put the parent's securities in default. By 1939 United Light and Power's preferred stock was about $28 million in arrears on dividends. It was a situation duplicated throughout the industry.

The Federal Trade Commission study had revealed that in 1932 three-fourths of the entire privately owned electric utility industry in this country was controlled by 13 large holding company groups. Three of those groups alone controlled 40% of the nation's private power, and there were interlocking relationships even among them. Control was centralized in the hands of a few individuals through various corporate devices such as pyramiding of companies and the issuance of vast quantities of nonvoting securities to the public. With that control came the power to dispense to a select few extremely lucrative contracts for engineering, banking and legal services. The unsound capital structures which were produced and the large amounts of write-ups carried in the accounts of both the operating and the holding companies made their securities easy victims of the first change in economic weather. The utility securities were among the greatest sufferers when the market broke in 1929. The Congress found that the concentration of this vast political and economic power in the hands of a few individuals and the manner in which this power was being used were contrary to the public interest. The remedy it chose to correct these "evils" was Section 11 of the Holding Company Act, the so-called "death sentence."

Congress recognized that in certain limited situations the holding company device served a constructive function in gathering into integrated systems groups of operating companies which had grown up in local isolation. This benefit the Act seeks to preserve by restricting holding companies to the ownership of integrated utility systems and related businesses. On the other hand, scattered, unrelated properties were required to be divested and holding companies serving no useful function were to be liquidated and dissolved. In addition, the non-utility businesses into which many systems wandered—such an amusement parks, oil wells, hotels, and the like—had to be divested. These are the so-called "integration" provisions of Section 11 (b) (1).

The Congress further provided that the grotesquely pyramid capital structures were to be simplified, and voting power was to be redistributed so as to eliminate the unfair control exercised through a disproportionately small investment. These are the "simplification" provisions of Sec. 11 (b) (2).

The Holding Company Act is a "specialized anti-trust law." It differs from previous legislation in the definiteness of its standards and in its machinery for enforcement. In place of the general "rule of reason" used in the anti-trust laws, the Holding Company Act contains definite, precise tests and enforcement, which is the specific assignment of the SEC as an expert agency rather than an additional task for the usual law enforcing agencies, is accomplished through actual plans of reorganization and divestment, instead of through orders to cease existing practices. Furthermore, Congress was careful to protect the rights of security holders by providing that adjustments had to be "fair and equitable," a standard given content through use in corporate reorganizations under the Bankruptcy Act, and by providing for full rights of judicial review.

A further innovation for this type of legislation was that in addition to providing for compulsory enforcement by Commission action, means were also set up to enable the companies to bring themselves into compliance on their own initiative through voluntary plans. This was done, in the words of one of the bill's sponsors, in the belief that "the legal and economic imagination which put these holding-company combinations together will devise means of taking them apart." Very early in the administration of the Act, the Commission faced the important policy decision of which of the two routes to follow. It made what I consider the wise choice of relying primarily on the companies to submit voluntary plans. As a result, the compulsory provisions have remained as the ultimate sanction against hesitant managements. It was foreseen that the holding companies would be most reluctant to make use of the voluntary procedures provided for them. The President, in submitting the initial bill to Congress, made a very pointed observation. He stated:

". . . if the disappearance of the holding company excrescence is to be realistically expected at the end of a given period there must be a constant pressure on the managers of holding company enterprises, persistent from the very beginning of that period, to insure a continual process of whittling down complicated capital structures and of disassociating operating properties not related to each other geographically or economically."

Thirteen years have elapsed since the Act went into effect. The job of Section 11 is well on its way to accomplishment, although several systems remain with difficult problems yet to be resolved. Since 1935, 470 companies, with aggregate assets of $11.3 billion, have been divested, some in sales to other holding company systems. A total of 1,431 companies have been released completely from SEC jurisdiction by sale, dissolution, merger, etc. There are now 46 holding company systems having total assets of about $15 billion subject to the Holding Company Act. As the Section 11 program is completed, many of these will also pass from our jurisidction. But there will remain an as yet undetermined number of integrated holding company systems subject to SEC regulation.

The benefits of the integration requirements of Section 11 may be illustrated by the stiuation here in Detroit. In 1903 the North American Company was instrumental in organizing the Detroit Edison Company out of the two principal electric utility companies then serving the Detroit area. It retained for itself about 14% of Detroit Edison's voting securities and from then on dominated the management of the company. In about 1925, the United Light and Power system, which already controlled the gas company in this locality, began to buy into Detroit Edison. From 1925 to 1931, the two holding companies vied with each other in purchasing the stock until North American had over 23% of the stock, at an average recorded book cost of $24.38 a share, and United Light and Power had over 20%, at an average recorded book cost of $35.87 a share. United Light and Power, however, never obtained representation on the board until North American, under the compulsions of Section 11, divested its interest through dividend distribution to its stockohlders in 1943. United Light and Power's Detroit Edison investment was held by a subholding company in its system, the American Light & Traction. United Light and Power, as you know, has been dissolved, and United Light & Railways, which survived it, is currently disposing of its ownership of American Light & Traction. Just last Tuesday American Light sold publicly the last of its holdings of Detroit Edison. Thus, as a result of the Holding Company Act, the Detroit Edison Company is now owned directly by the public and not by two absentee holding companies. Obviously, a large strong operating utility like Detroit Edison, regarded in the industry as one of the outstanding companies, has no need of a holding company parent.

Meanwhile, American Light & Traction, which also controls Michigan Consolidated Gas Company here in Detroit, is engaged in integrating its remaining gas companies into a cohesive system. This it is doing under a plan which the SEC approved last December 30. When the program is finished American Light & Traction will continue as an independent holding company. Its subsidiaries will be Michigan Consolidated, Milwaukee Gas Light Company, and Michigan-Wisconsin Pipeline Company. Michigan-Wisconsin will operate the natural gas transmission line now being built from Texas. The pipe line will enable the two gas companies to operate together as an integrated system and will provide them with the additional natural gas needed so badly by this community and the States of Wisconsin. The resources and credit of American are being used to finance the pipe line project. In this case, the holding company can perform a positive function, and it will therefore be permitted to continue.

Conclusions

At the Commission we have a daily calendar prepared by the Secretary which lists the matters to be brought before the Commission that day. The back calendars read like a catalogue of the problems of Twentieth Century American business. Subjects range from the petty speculations of an obscure broker in Mississippi to intricate corporate reorganizations. There is hardly a corporate question that does not in one form or another come across the Commission table, be it the bitter warfare of a proxy contest, the controversy in accounting circles over appropriate methods of reflecting current replacement

costs in the income statement and balance sheet, or the manner in which the International Bank is to raise its capital for international reconstruction.

These are the problems which form the fiber of our economic life. They are the problems of corporations—their conduct and their welfare. Dr. Nicholas Murray Butler once referred to the limited liability corporation as "The greatest single discovery of modern times." That statement was made before the discovery of atomic fission, but no one will question the leading part which the modern corporation has played in the development of this country and in the attainment of the bountiful standard of living which is ours. As I see it, it is the function of the SEC to guide the financial practices of these corporations and those who deal in their securities. Its object is to maintain public confidence in these institutions. Its purpose is to facilitate the application of the nation's savings to the sustenance and growth of our economic life.

The SEC has become a familiar and accepted landmark on our financial scene. It probably has ceased to be a subject of controversy. But in a free and democratic society there must be constant re-appraisal of the operations of government and fair criticism of its functions. There has always been criticism of some of the requirements of the laws administered by the SEC. Experience has demonstrated the advisability of making minor changes in the 1933 and 1934 Acts, but I doubt whether there is a thinking member of the investment fraternity who today would demand repeal of these laws or modification of their fundamental features.

I have always welcomed the inquiries people put to me about the SEC. They are my sounding board. Through them I am able to appraise the activities of the SEC and the performance of my public duty.

It has been a real and personal pleasure to appear before you today. I hope I have been able to make your hour interesting. I am glad I came—I am also happy that Chairman Hanrahan came along, that he might be exposed to this Detroit atmosphere and enthusiasm.

In closing, may I thank President Crow and his speaker's committee for inviting me. I salute you all as friends, and appreciate so much your good attention.

What's Ahead in Television?

(Continued from page 16)

preserving our entire system of free enterprise because it may supply a tool and a means of alleviating these stresses and strains.

To anyone who is just now beginning to think about television and what it can do for our country or what it might do affirmatively or adversely to any of our interests as individuals believe me, it is later than we think. Almost as late as the story of the old Southern farmer who attempted to repair a grandfather clock which had been in the family for generations. The next morning, after the repair work was done, the clock struck promptly at five—but it struck not five times, but 21 times, which prompted the old lady to jump out of bed and shout, "For God's sake, Pa, wake up! It's later than it's ever been before!"

A great deal of what is being currently said about television to newspaper people and radio people and advertising people and businessmen generally, appears to me to be designed to soothe the furrowed brow. Or to put it another way, we hear that television will not supplant anything we now have, but will rather supplement all the things we now have.

That is what people want to hear. It is the soothing approach, the disarming position.

I cannot speak with any degree of authority on what it is going to do to any business except my own. As a broadcaster, I do not think that television is going to supplement radio. I think that with the exception of widely scattered and remote rural areas containing some small towns, television stands a good chance not of supplementing broadcasting as we know it today, but of replacing it.

A television transmitter does not have to broadcast a moving picture every minute it is on the air, and to me it is entirely conceivable that during many hours of the day the program material for television will be developed with the accent on ear appeal only—and I think that the structure of sound broadcasting today will, before very many years have passed, undergo severe economic dislocations that may cause it to deteriorate in quality of service at the very time when only improvement of service could save it.

This crisis can be reached very quickly. It does not take long for an ascending curve to cross a descending curve on anybody's chart. We are not apt to find a long-drawn-out period where one slowly rising curve eventually overtakes an even slower rising curve.

I do not naturally wish to alarm you nor do I think alarm is indicated. I would urge that here is a force and an art that is arriving in adult and not infant proportions. Here, before a group such as this, lies a future that may mean much to you in your business. How, or where, or when depends entirely upon where you publish, how you publish and why you publish. I only urge that you use every effort to acquaint yourself literally from week to week as to the strides this new giant is taking. Analyze its potential both for good and for bad as far as your individual operations are concerned. This is not a new toy, it is not a curiosity.

Not a Novelty

Its novelty will not wear off for the simple reason that television is not a novelty. Most new things that appear upon our national scene cost a great deal of money. They find their quickest market among people who possess wealth.

This is not the television pattern. Television sets are expensive, but the contribution they make to the home and the ability of a television receiver to contribute to the day-to-day enjoyment of life by each member of the family, no matter how diverse their interests, has resulted in an unexpected phenomenon. The big market for receivers is in average-income homes; the second biggest market, in below average income homes, and the poorest market currently appears to be on Park Avenue or Chicago's Gold Coast. In other words, families whose incomes demand the greatest value for each dollar spent, are finding that for each dollar spent television can bring them more in terms of education and entertainment, more in terms of broadening the horizon of the living room, more in terms of understanding life as it is lived in these days and times.

The prospect which the future holds appears to me to involve radical and profound changes in the very foundation upon which our entire social, educational and economic structure is built. Within five years it is entirely possible that television will have become an integral part of the lives of 20 to 30 million families. The influence upon their daily habits, their thinking, and their concepts and philosophies will be severe. So severe indeed as to be literally revolutionary

Good and Bad Potentials

It seems to me that there are two primary considerations with which every thinking person should be concerned. Any instrument so powerful contains a potential for good and a potential for bad. It can be used properly or it can be used improperly. I would hope that during the next year or two to see a revaluation of all of the safeguards that have been set up to protect radio broadcasting from abuse, equally on the part of the licensee and on the part of government, reviewed carefully. It is entirely possible that additional precaution, peculiar to the problems inherent in the growth of television, should be taken. It would seem to me strange that the present regulatory structure which has been evolved for broadcasting would be entirely adequate when applied to television, to the extent that this combination of sight and sound, with its added factor of simultaneity, is already demonstrating its future pattern of impact. So there appears to me to be a very real need for fresh evaluation of the balance between proper control and the maintenance of proper freedom.

Aids Democratic Process

Secondly, television can make a tremendous contribution to our whole democratic process. It can make our democracy a more real and a more vital thing than it has ever been before, if it is equally protected from abuse of privilege, whether that abuse comes from misuse by the licensee or abuse through unwarranted control by Government. Its proper functioning within a very few years may conceivably result in an intensification and a rededication of our people to the American way of life, and to the ideology for which our country stands.

We have become a great nation and a tremendously big nation. Our very bigness, both in numbers and in geography, has at times, to some people, made our governmental processes as laid down in our Constitution appear archaic. Television holds the promise of providing unity. For the first time it offers the promise of a system of mass communication so complete as to transcend all barriers, either real or artificial.

You, gentlemen publish newspapers. You do not, I believe, include in your membership publishers of the big metropolitan dailies. I wish that I could tell you how television will affect your business. That is probably the only reason why you have invited me here.

In conclusion, I admit freely that I have given a lot of thought to what I have said here today, and I have given a lot of thought as to how to answer the specific question as it relates to you. I do not know the answer, and I would rather say that than to simply think up something that I think will sound good to you.

I am moderately sure that if I don't know the answer, my final admission is that I don't know who can tell you.

You have survived in a highly competitive age because you have, collectively, contrived to supply to your communities the answer to a need that exists. You will have much longer to adapt yourselves to whatever problems television eventually will present than any other class of publishers. You will have a good deal longer, I am sure, to study the picture and make whatever changes in your service to the community may appear indicated, than those of us in broadcasting, who are facing a crisis—not five years from now, but yesterday.

So I am sorry that I have not been able to give you very many answers. If any of you here feel that you know them, for goodness sake get in touch with me, because, believe me, I need them now.

Observations

(Continued from page 5)

"things just wont really turn out so badly." Excess profits taxation and the balance of the social-justice tax-spending aims are blandly waved away as improbabilities, in the face of its crystal-clear end-dorsement by Messrs. Truman and Barkley before and during the campaign, and despite the intentions firmly reiterated and such of their Congressional leaders as Senator McGrath, Chairman of the Democratic National Committee, and Senator O'Mahoney, within the past week.

Miscomprehension by the businessman of the implications of measures with which he is vitally concerned is particularly discouraging.

For example, there is widespread belittling, even by management, of the harm contained in the excess profits tax—an instrument so destructive to industry itself as well as to our entire enterprise system. The head of one of the nation's most successful companies which during the past 20 years has trebled its volume of business and working assets out of undistributed earnings, replying to a query put by the writer at a recent press conference, made the amazing reply, widely-publicised, that the impact of a hypothetical peacetime excess profits tax "would have made no difference in the company's results." Many businessmen, either because of narrow self-interest or sheer ignorance, are actually telling their legislators that they prefer re-imposition of the excess profits tax to a flat increase in the corporate rate!

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The British Pattern

In some quarters here the analogy to Britain's jump into state socialism is being decried. For example, Dr. Joseph Stagg Lawrence in an address* last week expressed his faith thus: "The country is not yet ready to follow in the footsteps of the English Labor Party and forfeit the only authentic elements of economic superiority which we still possess over the rest of the world."

While any prophecies based on foreign precedent are of course uncertain, nevertheless it seems to this writer that the course of British Labor Government legislation and particularly the public's accompanying attitudes, merit our careful study.

The reassurances of sweet reasonableness and of the "they wont really do it" category which composed the initial reaction to the Labor Party's surprising victory, lasted through a considerable "honeymoon" period. For example, the National Insurance Bill of February 1946 was generally appraised as mild by the British press, which pointed out that its provisions for unemployment benefits were only one-fourth or so as large as most of our states' payments. Similarly at the time of coal nationalization, the public was reassured by Will Lawther, President of the British Mineworkers Union, who seemingly convinced a good part of the public that coal-mining would be "financed from efficiency, not from the Treasury."

Short-Lived Honeymoon

But the pleasant "honeymoon" period evidently was destined to be shortlived. Already in March, 1946, Messrs. Attlee, Bevin, and Morrison were formerly requested by business leaders under the chairmanship of Sir Clive Bailleu, head of the FBI, to stop attacking private industry as incompetent and inefficient, to enlighten it about nationalization threats, and to give it a respite from constant bludgeoning.

By July, 1946, the Borrowing (Control and Guarantees) Act of 1946—popularly called "the Investment Control Bill" was enacted. This legislation provided for the continuation of wartime control by the Capital Issues Committee over new issues in excess of £50,000, and empowered the Treasury to guarantee loans to industry. In expounding the official philosophy, Chancellor Dalton said that an unregulated capital market was inconsistent with the government's program for continued low interest rates and large-scale expenditure for nationalization of basic industries. *"The government wants to guard against leaving the decisions about new plants to misguided profit seekers,"* said he.

At the end of the first nine months of its tenure the government had nationalized coal, the Bank of England for the socialization of credit, insurance, civil aviation, doctors, hospitals, and atomic energy.

The press at this later period began to report a loss of complacency concerning the increasingly evidenced encroachment of socialism. And on June 29, 1946, the "New York Times," which at the time of the government's installation had reported the prospect of nothing more drastic than mild New Deal-ism, carried a London dispatch saying that the planning had already achieved Fabian objectives; that it had effected a "manpower budget" channeled by official action and direction, and with its priorities bound up with all decisions affecting rationing, import controls, price controls, and building permits.

The subsequently-passed socializing legislation is too voluminous to detail in this space. Suffice it to say that it has now come to a climax in the drive to nationalize the steel industry. Here it seems highly relevant to note that the London "Economist" which had originally greeted the Labor Government with worry over its probable do-nothingness, now in its current issue expresses its alarms as follows:

"The first and the last test of the Bill is this: Will it produce steel at lower prices than would otherwise be charged? The balance of evidence is that it will not. It has not been introduced for that purpose but for reasons of the merest power politics. It is accompanied by half-baked ideas of "planned abundance" that would certainly tend to increase costs. And the experience of nationalization in general to date is that it makes for high prices at the expense of a helpless consumer . . ."

*See cover page of this issue.

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. Pullman, Inc., may also bid. **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 Investment Co. of Illinois**
Nov. 18 filed 168,425.5 shares of $1.25 convertible preference stock, series A (par $25) and 68,175.6 shares of 4½% preference stock (par $25). **Offering**—The $1.25 preference stock is to be issued in exchange for Ohio Finance Co. 5% preference stock (par $100) on a four-for-one basis and Ohio common in ratio of ⅘ preference for each common share. The 4½% preference stock would be exchanged for Ohio Finance 4½% preferred (par $100) on a four-for-one basis. **Underwriter**—McDonald & Co. will act as dealer-manager.

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.

● **Arcata (Calif.) Timber Products Co.**
Nov. 15 filed 100,000 shares 6% cumulative preferred stock (par $10) and 300 shares of common stock (par $5,000). **Offering**—To be offered in exchange for outstanding common (par $10), or as an outright sale. **Underwriter** — None. **Proceeds** — To retire outstanding common and pay notes; balance to erect plywood mill.

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.

Canada Dry Bottling Co. of Cincinnati, Inc.
Nov. 12 (letter of notification) 850 shares of common stock (no par). **Price**—$100 per share. **Underwriting**—Westheimer & Co., Cincinnati. 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: Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane.

● **Carolina Sales Corp., Greenville, N. C.**
Nov. 18 (letter of notification) $295,000 of 5% sinking fund notes, due 1958. **Underwriter**—Kirchofer & Arnold Associates, Inc., Raleigh, N. C. To retire bank loans and for additions to working capital.

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 & South West Corp. (12/6)
Nov. 1 filed 659,606 shares ($5 par) common stock. **Offering**—Offered for subscription by stockholders of record Nov. 18, 1948, at the rate of one additional share for each 10 shares held at $10.25. Rights will expire Dec. 5. **Underwriters**—Lehman Brothers and Lazard Freres & Co. and associates were awarded the issue Nov. 18 on a bid of $10.25 per share, less an underwriting compensation of 39 cents per share. **Proceeds**—To invest in the common stocks of Central Power & Light Co. and Southwestern Gas & Electric Co., subsidiaries.

Chicago Dr. Pepper Bottling Co.
Oct. 29 (letter of notification) 57,950 shares of Class "A" common stock ($5 par) and 2,050 shares of Class "B" common ($5 par). **Underwriter**—Rodger, Kipp & Co., Chicago. For additional working capital.

● **Clarostat Mfg. Co., Inc., Brooklyn, N. Y.**
Nov. 18 (letter of notification) 21,650 shares of common stock (par $1). Price, market (about $3). **Underwriter**—Cohu & Co., New York. Proceeds to selling stockholder.

● **Columbia Pictures Corp., New York**
Nov. 24 filed stock, to be sold publicly at market by Harry Cohn, Jack Cohn and members of their family. **Underwriting**—None.

● **Composite Bond and Preferred Stock Fund, Inc., Spokane, Wash.**
Nov. 22, filed 200,000 shares ($1 par) capital stock. Offering price per share is equal to the net asset value plus a distribution charge of 8½% of the selling price, or about 9.29% of the net asset value. **Distributor**—Murphey, Favre, Inc., Spokane, Wash.

● **Davisbilt Steel Joist, Inc., Washington, D. C.**
Nov. 16 (letter of notification) 5,840 shares of capital stock (par $20). Price, par. No underwriting. To develop and place on the market a new type steel joist.

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. **Bids**—Bids for purchase of bonds will be received up to 11 a.m. (EST) Nov. 30 at company's office, 25 N. Main Street, Dayton, Ohio.

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.

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.

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.

● **Flying Tiger Line, Inc., Burbank, Calif.**
Nov. 15 (letter of notification) 35,227 shares ($1 par) common stock. To be sold to Willis Air Service, Inc. For the continued use of two aircraft owned by Willis.

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. **Bids**—Bids for purchase of the bonds will be received up to noon (EST) Nov. 30 at office of Commonwealth & Southern Corp. (N. Y.), 20 Pine Street, New York.

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. Indefinite.

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.

● **Gulf Insurance Co., Dallas, Texas**
Nov. 15 (letter of notification) 10,000 shares of common stock (par $10). To be offered for subscription by stockholders in ratio of one new share for each 12 shares held. **Price**—$27.50 per share to stockholders. On rights not exercised stock will be sold to public at $30 per share. No underwriting. To increase capital and surplus funds.

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.

Harris Brothers Co., Chicago, Ill.
Oct. 27 (letter of notification) 10,000 shares of common stock. Offered present stockholders of record Nov. 10 in ratio of one-for-four shares held at $10 per share. Rights expire Nov. 26. 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., Detroit. To pay current liabilities, purchase property, building and equipment and for working capital.

● **Home Finance Group, Inc., Charlotte, N. C.**
Nov. 16 (letter of notification) 9,920 shares of 6% cumulative preferred stock (par $25). Price, par. No underwriting. To be added to working funds.

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.

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.

NEW ISSUE CALENDAR

November 29, 1948

Northern Natural Gas Co., 11 a.m. (CST) **Debenture**

November 30, 1948

Bangor & Aroostook RR., Noon (EST) **Eq. Tr. Ctfs.**
Dayton Power & Light Co., 11 a.m. (EST) **Bonds**
Georgia Power Co., Noon (EST) **Bonds**
Panhandle Eastern Pipe Lines Co. **Debenture**
Transcontinental Gas Pipe Line Corp. **Notes & Com.**

December 1, 1948

Florida Power & Light Co. **Bonds**

December 2, 1948

Peoples Gas Light & Coke Co. **Debenture**

December 6, 1948

Central & South West Corp. **Common**
Potomac Edison Co. **Bonds & Pref.**
Seaboard Air Line RR., Noon (EST) **Eq. Tr. Ctfs.**

December 7, 1948

Alabama Power Co. **Bonds**
American Telephone & Telegraph Co. **Debentures**
Oklahoma Gas & Electric Co. **Bonds**
Rochester Telephone Corp. **Debentures**

December 8, 1948

Erie RR. **Equip. Trust Ctfs.**

December 9, 1948

New York Central RR. **Equip. Trust Ctfs.**

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**
Southern Pacific Co. **Equip. Trust Ctfs.**

● **Ideal Super Market, Inc., New Orleans, La.**
Nov. 15 (letter of notification) 16,000 shares of redeemable 8% preferred stock (par $5) and 4,000 shares of common stock (par $5). Price, par for both classes. No underwriting. For a proposed new market.

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**—Offered for subscription by stockholders at rate of one new share for each five shares held of record Nov. 1. Rights expire Nov. 29. Unsubscribed will be offered to employees. **Underwriter**—The First Trust Co. of Lincoln and Cruttenden & Co. are dealer-managers. **Price**—$12.50 per share. **Proceeds**—For construction.

● **Kingsburg (Calif.) Cotton Oil Co.**
Nov. 17 (letter of notification) 76,302 shares of common stock. **Offering** — Warrants will be issued to common shareholders entitling them to purchase one share of common for each five shares held of record on Nov. 30, at $2.50 per share. Underwriting, none. To reimburse the treasury for amount spent for capital improvements.

● **Langendorf United Bakeries, Inc., San Fran.**
Nov. 17 (letter of notification) 500 shares of $1.80 cumulative preferred stock and 2,000 shares of common stock. **Price**—Preferred, $23.75 per share; common $12.75 per share. **Underwriter**—Walston, Hoffman & Goodwin, San Francisco, Calif.

Lithium Corp., of America, Inc., Minneapolis
Aug. 13 filed 100,000 shares of common stock ($1 par). Stock will be sold to present warrant holders for $3 per share. No underwriting. **Proceeds**—For additional working capital.

Livingston Mines, Inc., Seattle, Wash.
Oct. 21 (letter of notification) 90,000 shares (5¢ par) common stock and $30,000 6% 2-year interest bearing promissory notes. **Underwriter**—Lobe, Inc. For operating and general corporate expenses.

Lockheed Aircraft Corp., Burbank, Cal.
Nov. 2 filed 34,750 shares ($1 par) capital stock, to be offered officers and employees. **Underwriting** — None. **Proceeds**—For general corporate purposes.

● **Longchamps, Inc., New York**
Nov. 16 (letter of notification) 300 shares of capital stock (par $1). Price, market (about $3⅛). **Underwriter**—Delafield & Delafield, New York. Proceeds to selling stockholder.

● **Manufacturers & Jobbers Finance Corp., Shelby, N. C.**
Nov. 17 (letter of notification) 1,500 shares of 5% preferred stock (par $100) and 7,000 shares of Class "B" common stock (par $10). **Price**—Preferred, par; common $16 per share. No underwriting. For additional working capital and general corporate purposes.

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.

Mt. Vernon (Ohio) Telephone Corp.
Oct. 25 (letter of notification) 3,000 shares of 4¼% cumulative preferred stock (par $100). Price, par. No underwriter. To reimburse the treasury for capital expenditures.

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. Pullman Inc. may also bid. **Proceeds**—To replenish working capital and for construction expenses. **Bids**—Bids for purchase of the bonds will be received by the company, c/o Pam. Hurd & Reichmann, 231 So. La Salle Street, Chicago, up to 11 a.m. (CST) Nov. 29.

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. 7.

Panhandle Eastern Pipe Line Co. (11/30)
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.

● **Pervel Corp., New York**
Nov. 16 (letter of notification) 24,079 shares of capital stock. **Price**—$2.50 per share. To be offered for subscription by stockholders of record Nov. 24 in ratio of one new share for each three shares held. Rights expire Dec. 15. **Underwriting**—None. Expansion of manufacturing facilities, working capital.

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.

● **Princeton Mining Company, Missoula, Mont.**
Nov. 12 (letter of notification) 825,000 shares (10¢ par) common stock. **Price**—25 cents per share. Of the total, 660,000 shares will be offered for cash and the remainder will be to compensate salesmen. No underwriting. To continue the development of certain patented mining claims.

Renaissance Films Distribution, Inc., Montreal, Que.
Oct. 29 filed 40,000 shares (par $25) 5% cumulative convertible class B preferred stock and 10,000 shares of C stock (no par). **Underwriting**—None. **Offering**—Class B preferred will be offered at $25 per share with one share of class C given as a bonus with each 4 shares of class B purchased. **Proceeds**—To pay balance of current liabilities and working capital.

● **Robinson Plywood & Timber Co., Everett, Washington**
Nov. 17 filed 271,025 shares ($1 par) common stock, of which 105,000 shares are to be offered by company, and 166,025 shares by 15 selling stockholders. **Underwriter**—Blyth & Co., Inc. **Proceeds**—To company from the sale of the 105,000 shares will be added to working capital, except about $275,000 may be advanced to a new subsidiary to be used by it in making part payment of the option purchase price of one-half of the stock of Conifer Timber Co., Fortson, Wash.

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.

● **Rural Directories, Inc., Bowling Green, Ohio**
Nov. 15 (letter of notification) 300 shares of cumulative preferred stock (par $100) and 300 shares (no par) common stock. **Price**—Preferred, par; common, $1 per share. No underwriting. For expansion of operations.

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.

Silver Crescent, Inc., Kellogg, Idaho
Oct. 30 (letter of notification) 550,000 shares of assessable stock. **Price**—18¢ per share. **Underwriters**—R. L. Emacio & Co., Inc., and Hachez & Brown, Inc., Spokane, Wash. For mining operations.

● **Silver Diner Corp., New York**
Nov. 17 (letter of notification) 299,000 shares of common stock (par $1). Price, par. **Underwriter**—Willis E. Burnside & Co., Inc., New York. Working capital.

Silver Ridge Mining Co., Ltd., Nelson, B. C.
Aug. 24 filed 1,106,600 shares of common stock (50¢ par). **Underwriters**—Harry P. Pearson, managing director of company, and Richard K. Fudge and Victor Semenza, copartners of Pennaluna & Co. **Price**—30¢ per share U. S. funds. **Proceeds**—For exploration and other development work, to pay off loans and for other purposes.

Southern 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 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.

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.

● **Super-Seal Container Corp., Washington, D. C.**
Nov. 10 (letter of notification) 127,810 shares of common stock ($1 par). Price, par. No underwriting. For payment of debts, procurement of dies and capping machines and for working capital.

● **Surety Oil Co., Ltd.**
Nov. 18 filed 999,993 shares of common stock (par $1). **Underwriter**—Willis E. Burnside & Co., Inc., New York. **Proceeds**—For payment of moneys which was used in connection with company's organization and acquisition of certain properties; corporate purposes.

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.

● **Television & Film Productions Inc., New York**
Nov. 22 (letter of notification) 198,000 shares of common stock (par $1). **Price**—$1.50 per share. **Underwriter**—Koellner & Gunther, Inc., Newark, N. J. Production of television feature motion picture, production of short screen plays, working capital, etc.

Times Square Stores Corp., Brooklyn, N. Y.
Oct. 28 (letter of notification) 10,000 units, each unit consisting of 1 share of preferred stock (par $25) and 1 share of common stock (par $1). **Price**—$25 per unit. **Underwriting**—None. Securities to be issued through directors and officers to finance expansion, etc.

Transcontinental Gas Pipe Line Corp. (11/30)
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

(Continued on page 46)

(Continued from page 45)

common stock (50¢ par) and warrants for an additional 265,000 shares of common stock (exercisable between Oct. 1, 1949 and Dec. 20, 1949, at $10 per share), to be offered in units of $100 of notes, one share of common and a warrant to subscribe for one share of stock; also filed 2,250,000 shares of common stock to be offered to outstanding common stockholders at $10 per share at the rate of 3 shares of common for each share held. Company also contemplates private sale of $143,000,000 3⅝% first mortgage pipe line bonds. **Underwriters**—White, Weld & Co. and Stone & Webster Securities Corp. **Proceeds**—For pipe line construction, working capital, and for payment of dividends on company's preferred stock before Dec. 31, 1950.

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 Dec. 16. Additional working capital.

● **United States Life Insurance Co. in the City of New York**
Nov. 18 (letter of notification) 62,000 shares of capital stock (par $4), exclusive of 63,000 shares to be issued to C. V. Starr at $4 per share for investment. American International Co., Inc., will acquire and hold for investment 46,640 shares and will assign 6,000 shares (of the 62,000 shares) to six individuals at $4 per share. The balance (9,360 shares) is being offered to other stockholders of record Nov. 24 at $4 per share on a share for share basis. Rights expire Dec. 15. C. V. Starr has offered to purchase any shares not taken by stockholders. Proceeds will be used to increase capital to be used in company's insurance business.

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.

● **Utah Ice & Storage Co., Colorado Springs, Colorado**
Nov. 15 (letter of notification) $639,000 of 20-year first mortgage 4-5% bonds. **Underwriter**—Peters, Writer & Christensen, Inc., Denver, Colo. For acquisition of plant and business of Montana Service Corp.

● **Video Corp. of America, Brooklyn, N. Y.**
Nov. 18 (letter of notification) 200,000 shares of common stock (par 10c). **Price**—$1 per share. **Underwriter**—Henry P. Rosenfeld & Co., New York. Organizational expenses, additional equipment and working capital.

● **Virginia Dare Stores Corp., New York**
Nov. 22 (letter of notification) 20,000 shares of class A common stock. Price, market (about $4). Stock will be sold to or through brokers and dealers. Proceeds to selling stockholder.

● **Weller Sales Co., Meeker, Colo.**
Nov. 15 (letter of notification) 150 shares of 7% preferred stock (par $100). Price, par. No underwriting. For purchase of real estate, personal property and the expansion of company's business.

Western Light & Telephone Co., Inc.
Nov. 10 filed $2,500,000 first mortgage 20-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.

● **Western World Industries, Inc., Salt Lake City, Utah**
Nov. 16 (letter of notification) 20,000 shares (20¢ par) common non-assessable stock to be sold at 50 cents per share and 20,000 shares of (20¢ par) common non-assessable stock to be sold at 75 cents per share. No underwriting. To make a loan to a company and for operation expenses.

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.

● **Wireway Sales Corp., New York**
Nov. 17 (letter of notification) 299,000 shares of common stock (par 10c). **Price**—$1 per share. **Underwriter**—Mercer Hicks & Co., New York. Corporate purposes.

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

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 Guaranty Trust Co., 140 Broadway, New York, until noon (EST) Nov. 30, 1948. Probable bidders: Halsey, Stuart & Co. Inc., Salomon Bros. & Hutzler, Harriman Ripley & Co. and Lehman Brothers (jointly); Harris, Hall & 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).

● **Erie RR. (12/8)**
The company will receive bids up to Dec. 8 for the purchase of $4,850,000 of equipment trust certificates to mature in 10 equal annual instalments. No bid for less than 99% will be considered. The proceeds will be used to finance about 80% of the cost of new equipment. Probable bidders: Halsey, Stuart & Co. Inc., Salomon Bros. & Hutzler, Harriman Ripley & Co. and Lehman Brothers (jointly).

● **New York Central RR. (12/9)**
The company will receive bids up to Dec. 9 for the purchase of $9,720,000 equipment trust certificates. Bidders are asked to name either 10-year or 15-year serial maturities. Proceeds will finance up to 75% of the cost of equipment estimated at $13,338,000. Probable bidders: Harriman Ripley & Co. and Lehman Brothers (jointly); Halsey, Stuart & Co. Inc.; The First Boston Corp.; Salomon Bros. & Hutzler.

● **Southern Pacific Co. (12/15)**
Nov. 24 reported company plans the sale Dec. 15 of $15,740,000 equipment trust certificates, maturing in one to ten years. The issue will cover two-thirds of the $23,621,757 estimated cost of diesel-electric locomotives, box cars and passenger cars. Probable bidders: The First Boston Corp., Halsey, Stuart & Co. Inc., Salomon Bros. & Hutzler, Harriman Ripley & Co. and Lehman Brothers (jointly).

● **Seaboard Air Line RR. (12/6)**
Bids will be received up to noon (EST) Dec. 6 at office of Wilkie Owen Farr Gallagher & Walton, 15 Broad Street, New York, for the purchase of $3,255,000 equipment trust certificates, series E, dated Jan. 1, 1949, due in 15 equal annual instalments. Probable bidders: Saldmon Bros. & Hutzler; Halsey, Stuart & Co. Inc.; Harris Hall & Co. (Inc.).

● **Southwestern Public Service Co.**
Jan. 11 common stockholders will vote on increasing authorized preferred stock (par $100) to $21,500,000 from $11,500,000 and authorized common to 2,500,000 shares from 1,500,000 shares. The increase is designed to cover possible financing needs for expansion through the four fiscal years ending Aug 31, 1952. Traditional underwriter: Dillon, Read & Co. Inc.

● **United Light & Railways**
Nov. 20 reported company expected to file a registration statement with the SEC early in January covering an offer to common stockholders of the company's common stock interest in the American Light & Traction Co. (subsidiary). The offering of stock through rights is looked for about the end of January. This will be on the basis of one share of American Light, at not more than $12, for each five shares of United Light. This will be followed in the early spring by a similar offering. Between the two rights offerings United Light & Railways will go forward with competitive sale of $26,000,000 15-year debentures. Proceeds will be used to retire all of the company's outstanding preferred stock and to invest about $6,750,000 in common stock of the intermediate system holding company, Continental Gas & Electric Corp., to enable the latter to pay off the balance of its bank debt, which has been reduced at a rate of $1,500,000 a year.

Two With William Robbins

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—Harry A. Borowski and William S. Piper, Jr., have become associated with William Robbins & Co., 850 Euclid Avenue. Mr. Borowski was formerly with the Cleveland Stock Exchange.

Dennis H. Petty & Co.

OKLAHOMA CITY, OKLA.—Dennis H. Petty has formed Dennis H. Petty & Co. with offices in Tradesmens Bank Bldg. to engage in a securities business.

Our Reporter's Report

Underwriters and distributors who participated in the marketing of Chesapeake & Ohio Railway's $40,000,000 of new refunding and improvement bonds loom well up in the ranks of those who had reason to observe Thanksgiving Day.

This operation proved one of the fastest in recent months and left little to be desired either by the distributors or those seeking an outlet for investment funds.

Paying the company a price of $98.65 for a 3⅞% interest rate on the 25-year bonds, the successful group topped its only competitor in the field by about $6 a $1,000 piece, and was able to reoffer the issue on a basis which brought about quick assurance of subscription.

Reoffered at a price of 100¾ the bonds afforded the investor a yield to maturity of approximately 3.82%, making it the choicest morsel in that respect, which potential buyers have had put before them in quite a long spell.

Insurance companies, presumably taking advantage of the opportunity for a substantial yield and, at the same time a chance at some diversification, the field having been largely in the hands of the public utilities recently, were reported heavy buyers.

P. S. Electric & Gas

If conjecture in market places is well-founded the Public Service Electric & Gas Co., narrowly escaped another tussle with complications in the sale this week of its $50,000,000 of 15-year debentures.

The company already had made several attempts to obtain needed capital via the preferred stock route, but on two occasions called the bidding off, once after bankers had submitted their tenders.

This time, however, with four bidders in the field, report has it that but for a late change on the part of the winning syndicate, its bid would have been an absolute tie with that of the runners-up, stretching out to four decimals.

The winning bid was 100.68 for a 3% coupon while the next nearest was 100.6799 only one mill per $1,000 apart. Reoffered at 101.209 to yield 2.90%, the issue is reported a little better than half sold.

The Calendar Ahead

Monday and Tuesday of next week promise to produce a bit of renewed activity in the new issue field. On Monday two offering of "Street size" are up for bids, including $8,500,000 of new 30-year first mortgage bonds of the Florida Power Corp., and $6,000,000 of serial debentures of the Northern Natural Gas Co.

Tuesday will bring up Panhandle Eastern Pipe Line Co.'s $30,000,000 of 25-year sinking fund debentures, a negotiated deal to liquidate a promissory obligation and expand general corporate funds.

The same day Dayton Power & Light will market $15,000,000 of new first mortgage bonds due in 1978, and Georgia Power Co., will will open bids for $12,000,000 of new 30-year first mortgage bonds.

On Wednesday the right of stockholders to subscribe to 720,000 shares of new common of Virginia Electric & Power Co. is due to expire, so that underwriters could be expected to bring any unsubscribed portion of that issue to market along about the middle of the week.

Insurance Co. Portfolios

Corporate securities are back in first place as the principal element making up the investment portfolios of life insurance companies, the Institute of Life Insurance reports.

On Sept. 30 last, these companies held $18.5 billion of such securities a gain of $2.8 billion from the turn of the year and 80% greater than before the war.

This marked the first time since 1942 that corporate issues outweighed governments, although prior to that time corporates invariably topped the list, and since 1935 have exceeded mortgages.

Life firms bought $934 million of corporates in the third quarter and in the nine months to Sept. 30 such purchases footed up to $3.3 billion.

Joins Ginther Co. Staff

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—William F. Collins has become connected with Gintner & Co., Union Commerce Bldg. Mr. Collins was formerly with Merrill, Turben & Co.

Adams With Kidder, Peabody

(Special to THE FINANCIAL CHRONICLE)

PROVIDENCE, R. I.—Ernest G. Adams is with Kidder, Peabody & Co., 10 Weybosset Street.

Petersen in Berlin, Wis.

(Special to THE FINANCIAL CHRONICLE)

BERLIN, WIS.—Ralph E. Petersen is engaging in a securities business.

With Wright Wells Co.

(Special to THE FINANCIAL CHRONICLE)

AUSTIN, MINN.—James Sprot is with Wright Wells & Co., First National Bank Building.

DIVIDEND NOTICES

THE ALABAMA GREAT SOUTHERN RAILROAD COMPANY

New York, N. Y., November 23, 1948.

A dividend of $4.00 per share on the Preferred Stock of The Alabama Great Southern Railroad Company, has been declared payable December 24, 1948, to stockholders of record at the close of business December 4, 1948.

A dividend of $4.00 per share on the Ordinary Stock has been declared payable December 24, 1948, to stockholders of record at the close of business December 4, 1948.

J. J. MAHER, *Secretary.*

AMERICAN POWER & LIGHT COMPANY

Two Rector Street, New York, N. Y.

PREFERRED STOCK DIVIDENDS

A dividend of $1.50 per share on the Preferred Stock ($6) and a dividend of $1.25 per share on the $5 Preferred Stock of American Power & Light Company were declared on November 23, 1948, for payment January 3, 1949, to stockholders of record at the close of business December 6, 1948.

D. W. JACK, Secretary and Treasurer.

AMERICAN MACHINE AND METALS, INC.

A dividend of 25c per share will be paid on December 30, 1948, to stockholders of record at close of business December 10, 1948. To obtain dividend, holders of Voting Trust Certificates should exchange same for Capital Stock promptly.

H. T. Mosteller, *Treasurer.*

Atlas Corporation

Dividend on Common Stock

NOTICE IS HEREBY GIVEN that a regular quarterly dividend of 40c per share has been declared on the Common Stock of Atlas Corporation, payable December 20, 1948, to holders of such stock of record at the close of business November 30, 1948.

WALTER A. PETERSON, *Treasurer*

November 19, 1948.

a.c.f.

AMERICAN CAR AND FOUNDRY COMPANY

30 CHURCH STREET
NEW YORK 8, N. Y.

There has been declared a dividend of one and three-quarters per cent (1¾%) on the preferred stock of this Company outstanding, payable December 15, 1948, to the holders of record of said stock at the close of business December 1, 1948.

Transfer books will not be closed. Checks will be mailed by Guaranty Trust Company of New York.

HOWARD C. WICK, *Secretary*

November 18, 1948

ALLIS-CHALMERS MFG. CO.

COMMON DIVIDEND NO. 98

A regular quarterly dividend of forty cents (40c) per share on the issued and outstanding common stock, without par value, of this Company, has been declared, payable December 23, 1948, to stockholders of record at the close of business December 2, 1948.

PREFERRED DIVIDEND NO. 9

A quarterly dividend of eighty-one and one-quarter cents (81¼c) per share on the 3¼% Cumulative Convertible Preferred Stock, $100 par value, of this Company has been declared, payable December 5, 1948, to stockholders of record at the close of business November 22, 1948.

Transfer books will not be closed.

Checks will be mailed.

W. E. HAWKINSON,
Secretary and Treasurer.

November 11, 1948.

With Merrill Lynch Firm

(Special to THE FINANCIAL CHRONICLE)

WILSON, N. C.—Campbell B. Fetner is now with Merrill Lynch, Pierce, Fenner & Beane, 113 East Nash Street. He was formerly sales manager for the Carolina Securities Corp. in High Point.

DIVIDEND NOTICES

BAYWAY TERMINAL CORPORATION

Elizabeth 2, N. J.

Dividend No. 3

A dividend of ten cents (10c) per share has been declared upon the stock of Bayway Terminal Corporation, payable December 15, 1948 to stockholders of record at the close of business December 1, 1948.

JOHN L. SULLIVAN

November 23, 1948. *Secretary*

THE BYRNDUN CORPORATION

The Directors of The Byrndun Corporation on November 23, 1948, declared dividends as follows: $1.50 per share on the Participating Preferred Stock, $2.50 per share on the Class A Participating Stock, $3.50 per share on the Second Preferred Stock; 10c per share on the Class A Participating Stock, Class A Common Stock and Common Stock; and at the rate of 6 shares of Class B Common Stock of Ha Corporation of America on each 100 shares of combined holdings of Class A Participating Stock, Class A Common Stock and Common Stock; no fractional shares will be delivered but in lieu thereof stockholders will receive cash at the rate of thirty-one cents (31c) for a 6/100th of a share of said Class B Common Stock; no dividends on fractional shares; all payable on December 23, 1948, to holders of record at 3:00 P. M. on December 7, 1948.

H. G. FAHLBUSCH, President.

November 23, 1948

B.T. Babbitt INC.

80th CONSECUTIVE QUARTERLY DIVIDEND

The Board of Directors of B. T. Babbitt, Inc, has declared a regular quarterly dividend of 30c per share on the Common Stock of the Company, payable on January 3, 1949 to stockholders of record at the close of business on December 10, 1948.

LEO. W. GEISMAR, *Treasurer.*

November 23, 1948

CSC

COMMERCIAL SOLVENTS *Corporation*

DIVIDEND No. 56

A dividend of thirty-seven and one-half cents (37½¢) per share has today been declared on the outstanding common stock of this Corporation, payable on December 21, 1948, to stockholders of record at the close of business on December 2, 1948.

A. R. BERGEN,
Secretary.

November 24, 1948.

GENERAL PORTLAND CEMENT COMPANY

Common Stock Dividend

The Board of Directors of General Portland Cement Company has this day declared a dividend upon its Common Stock of 40¢ per share with respect to the quarter ending December 31, 1948, and a further year-end dividend of 35¢ per share, both payable December 15, 1948 to stockholders of record at the close of business on December 1, 1948. The stock transfer books will remain open.

HOWARD MILLER,
Treasurer

November 19, 1948

Two With McDaniel Lewis

(Special to THE FINANCIAL CHRONICLE)

GREENSBORO, N. C.—Joseph C. Rasberry and James W. Smoot, Jr., have become affiliated with McDaniel Lewis & Co., Jefferson Bldg.

DIVIDEND NOTICES

THE COLORADO FUEL & IRON CORPORATION

Dividend on Common Stock

At a meeting of the Board of Directors of the Colorado Fuel & Iron Corporation held on November 19, 1948, the regular dividend in the amount of 25c per share was declared on its common stock, payable December 24, 1948, to stockholders of record at close of business on November 30, 1948.

D. C. McGREW, Secretary.

Combustion Engineering Co., Inc.

200 Madison Avenue, New York

The Board of Directors of Combustion Engineering Company, Inc., has declared a dividend of $4.00 per share on the outstanding capital stock of the Company, payable on December 24, 1948, to stockholders of record at the close of business December 2, 1948.

H. H. BERRY,
Vice President and Treasurer.

J. I. Case Company

(Incorporated)

Racine, Wis., November 22, 1948

A dividend of $1.75 per share upon the outstanding Preferred Stock of this Company has been declared payable January 1, 1949 and a year-end dividend of 80c per share upon the outstanding $25 par value Common Stock of this Company has been declared payable January 1, 1949 to holders of record at the close of business December 12, 1948. Also, a Common Stock dividend of 10% on the Common Stock was declared payable December 10, 1948 to holders of record at the close of business November 25, 1948.

WM. B. PETERS, Secretary.

DU PONT **E. I. DU PONT DE NEMOURS & COMPANY**

WILMINGTON, DELAWARE: *November 15, 1948*

The Board of Directors has declared this day regular quarterly dividends of $1.12½ a share on the outstanding Preferred Stock—$4.50 Series and 87½¢ a share on the outstanding Preferred Stock—$3.50 Series, both payable January 25, 1949, to stockholders of record at the close of business on January 10, 1949; also $3.75 a share, as the year-end dividend for 1948, on the outstanding Common Stock, payable December 14, 1948, to stockholders of record at the close of business on November 22, 1948.

L. DUP. COPELAND, *Secretary*

Progress through Chemistry

The Board of Directors of The Davison Chemical Corporation has declared a quarterly dividend of Thirty-seven and one-half cents ($.37½) per share on its capital stock, payable December 31, 1948, to stockholders of record at the close of business December 10, 1948.

M. C. ROOP, *Secretary*

Baltimore 3, Md.
November 18, 1948

THE DAVISON CHEMICAL CORPORATION

ALLEN B. DU MONT LABORATORIES, INC.

The Board of Directors of Allen B. Du Mont Laboratories, Inc. has declared a dividend of $.25 per share for the year 1948, on its outstanding shares of Class A Common Stock and Class B Common Stock, payable on December 22, 1948 to Common Stockholders of record at the close of business on December 1, 1948.

A regular quarterly dividend of $.25 per share on its outstanding shares of 5% Cumulative Convertible Preferred Stock has also been declared payable January 1, 1949 to Preferred Stockholders of record at the close of business December 15, 1948.

November 19, 1948

PAUL RAIBOURN
Treasurer

DUMONT

In All Phases of Television

DIVIDEND NOTICES

KENNECOTT COPPER CORPORATION

120 Broadway, New York 5, N. Y.

November 19, 1948.

A cash distribution of twenty-five cents (25c) a share and a special cash distribution of one dollar and seventy-five cents ($1.75) a share have today been declared by Kennecott Copper Corporation, payable on December 22, 1948 to stockholders of record at the close of business November 30, 1948.

A. S. CHEROUNY, *Secretary.*

SOUTH PORTO RICO SUGAR COMPANY

November 23, 1948.

The Board of Directors has this day declared a quarterly dividend of 50c per share on the $25.00 par value 8% Preferred Stock outstanding; and a dividend of One Dollar per share on the outstanding Common Stock; all payable on January 3, 1949 to stockholders of record at the close of business on December 15, 1948.

F. M. SCHALL, Treasurer.

SOUTHERN PACIFIC COMPANY

DIVIDEND NO. 124

A QUARTERLY DIVIDEND of One Dollar and Twenty-five Cents ($1.25) per share on the Common Stock of this Company has been declared payable at the Treasurer's Office, No. 165 Broadway, New York 6, N. Y., on Monday, December 20, 1948, to stockholders of record at three o'clock P. M., on Monday, November 29, 1948. The stock transfer books will not be closed for the payment of this dividend.

J. A. SIMPSON, Treasurer.

New York, N. Y., November 18, 1948.

MERCK & CO., INC.

A regular quarterly dividend of 87½c a share on the $3.50 Cumulative Preferred Stock of this corporation for the quarter ending December 31, 1948, has been declared payable on January 3, 1949, to stockholders of record at the close of business December 10, 1948.

A quarterly dividend of 75c a share on the Common Stock of this corporation has been declared payable on January 3, 1949, to stockholders of record at the close of business December 10, 1948.

An extra dividend of 60c a share on the Common Stock of this corporation has been declared payable on January 3, 1949, to stockholders of record at the close of business December 10, 1948.

GEORGE W. MERCK, President.

November 23, 1948

INTERSTATE POWER COMPANY

DUBUQUE, IOWA

Notice of Dividend

The Board of Directors has declared a dividend of 15¢ per share on the outstanding Common Stock, payable on December 20, 1948, to stockholders of record on December 10, 1948. The transfer books will not be closed.

OSCAR SOLBERG, *Treasurer*

November 22, 1948

IRVING TRUST COMPANY

One Wall Street, New York

November 24, 1948

The Board of Directors has this day declared a quarterly dividend of 20 cents per share on the capital stock of this Company, par $10., payable January 1, 1949, to stockholders of record at the close of business December 14, 1948.

STEPHEN G. KENT, *Secretary*

Bayuk Cigars Inc.

A dividend of thirty-seven and one-half cents (37½c) per share on the Common Stock of this Corporation was declared payable Dec. 15, 1948, to stockholders of record Nov. 30, 1948. Checks will be mailed.

John A. Snyder
TREASURER

Philadelphia, Pa.
Nov. 19, 1948

PHILLIES

America's No. 1 cigar

DIVIDEND NOTICES

St. Louis, Rocky Mountain & Pacific Co.

Raton, New Mexico, November 16, 1948.

COMMON STOCK DIVIDEND NO. 99

The above Company has declared a dividend of 50 cents per share on the Common Stock of the Company to stockholders of record at the close of business December 1, 1948, payable December 15, 1948. Transfer books will not be closed.

P. L. BONNYMAN, Treasurer.

YALE

THE YALE & TOWNE MFG. CO.

On November 23, 1948, a dividend No. 259 of twenty-five cents (25c) per share was declared by the Board of Directors out of past earnings, payable January 3, 1949, to stockholders of record at the close of business December 10, 1943.

F. DUNNING
Executive Vice President and Secretary

TEXAS GULF SULPHUR COMPANY

The Board of Directors has declared a dividend of 75 cents per share and an additional dividend of 75 cents per share on the Company's capital stock, payable December 15, 1948, to stockholders of record at the close of business November 29, 1948.

RICHARD T. FLEMING,
Secretary

TC TENNESSEE CORPORATION

A dividend of 30¢ per share, and an extra dividend of 25¢ per share, have been declared, payable December 16, 1948, to stockholders of record at the close of business December 1, 1948.

An extra dividend of 25¢ per share also has been declared, payable January 11, 1949, to stockholders of record at the close of business December 1, 1948.

61 Broadway
New York 6, N. Y.
November 16, 1948.

J. B. McGEE
Treasurer.

Edison

SOUTHERN CALIFORNIA EDISON COMPANY

Preferred Dividends

The Board of Directors has authorized the payment of the following quarterly dividends:

37½ cents per share on Original Preferred Stock, payable December 31, 1948, to stockholders of record on December 5, 1948.

27 cents per share on Cumulative Preferred Stock, 4.32% Series, payable on December 31, 1948, to stockholders of record on December 5, 1948.

O. V. SHOWERS
Secretary

November 19, 1948

ELECTRIC BOND AND SHARE COMPANY

Common Stock Dividend

The Board of Directors has declared a dividend, subject to the approval of the Securities and Exchange Commission, on the Common Stock, payable December 24, 1948, to stockholders of record at the close of business December 2, 1948. The Company will distribute shares of Carolina Power & Light Company Common Stock at the rate of one share for each sixty shares of Common Stock held. No fractions of Carolina stock will be issued but, in lieu thereof, the cash equivalent will be paid, which is equal to the rate of fifty cents (50¢) per share on the Electric Bond and Share Company Common Stock. All Bond and Share stockholders owning less than sixty shares of Common Stock will receive only cash.

B. M. BETSCH,
Secretary

November 18, 1948.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—Look closely at the many statements issued by the men who visited the key man at Key West and you will find that you haven't learned much about what Mr. Truman definitely wants from the first session of the Eighty-First Congress.

Mr. Truman wants civil rights, many of his New Deal projects, something or other on price control, and "repeal" of the Taft-Hartley Act. About the nearest any one has come to being specific has been a couple of assertions for an excess profits tax, which will be turned down, barring extreme pressure, by the southern conservatives in charge of the legislation.

So the expectation following the election has developed. Now that Mr. Truman is responsible for what he does and does not get out of the Congress he asked the voters for, the President and his closest advisers necessarily are vague as to the controversial, specific details. This is a natural expectation, and the fuzziness of official statements probably will continue for some time.

No one, however, has said that the President wants a nation-wide fair employment practices law, and that he is prepared to stake the Democratic party's future and his own political prestige on a motion to crack the Senate's traditional right to filibuster to get such a law. No one has said what kind of a "stand-by" price control will be sought. And so on.

* * *

About materials controls, what predicting there is in quarters friendly to the Administration, is that compulsory controls are necessary. From a most responsible quarter, however, comes this private prediction:

President Truman will ask for mandatory controls. He will get them, however, only with the string that they be put on the shelf unless absolutely necessary. Coupled with this enactment will be an extension of the Taft-Wolcott voluntary control plan expiring March 1. Thus the voluntary control plan will be backed by the stick in the closet. The voluntary control plan is the one which will be used. Its scope will be broadened considerably. In particular it will be applied to the non-ferrous metals as well as steel.

* * *

Paul A. Porter, that tall, commanding, genial young man who rose from a junior publicity man at the Agricultural Adjustment Administration in the early 30s to one of the New Deal's top executives, is slated tentatively to go into the White House in the near future. He is scheduled to be one of the men close to the throne, and whatever title he may be given, it is difficult to conceive of him being one of the Presidential assistants "with a passion for anonymity."

Porter went from being an Agriculture Department publicity man to the department's legal staff. He left the government for five years to become Washington counsel for Columbia Broadcasting. In 1944 he ran the publicity for the Democratic National Committee. Second string administrative jobs he has had were with War Food Administration, OPA, Economic Stabilization. Top jobs were Rent Administrator, OPA Administrator, head of the mission to Greece, Chairman of the Federal Communications Commission. His last appearance in public life was to spearhead President Truman's drive for price control in the summer special session of Congress.

* * *

In the forthcoming Congress one of the key men to watch is Senator Joseph C. O'Mahoney of Wyoming, who will share with the floor leader of the Democrats the direction of Senate Democratic policy. He will be chairman of the Senate Democratic Policy Committee, and chairman of the Joint Committee on the Economic Report. The latter originates no legislation but its hearings provide a sounding board for legislation relating to materials controls, price control, credit restriction, and other broad economic questions.

O'Mahoney is in politics a firm New Dealer, but one who emphasizes practical politics above doctrine as such. As a politician he is alert and able. Whereas, within the boundaries of the New Deal's stock of legislative merchandise he can be pragmatic, he has a blind spot on business monopoly. On this subject he stops slightly short of being a fanatic, and many believe his pushing of the Temporary National Economic Committee inquiry of several years ago was designed to build up public steam for his overwhelming love, a Federal law for incorporation of business. O'Mahoney believes that no regulation of monopoly is effective without requiring corporations to be licensed by the Federal government. Despite his valiant efforts, he has made little progress selling this project.

Personally O'Mahoney discloses none of the intolerance of the fanatic. He is good natured. He personally enjoys maneuvering witnesses and political opponents into corners. Like a capable crown prosecutor he purrs his witness on from one point and position to another until the confused witness doesn't realize he has been sympathized by the kind inquiring Senator into the end of a dead end street until O'Mahoney figuratively comes out with "so it follows that you believe in cutting off the cats' tails." Sooner or later he smiles slyly.

* * *

France is becoming the major threat to the success of the foreign aid program. The belief is that fundamentally nothing is wrong with France except her incapacity to provide herself with a stable government; on the economic front she is relatively well off and progressing out of the war's ravages.

As it is seen here, France nearly holds the key to European economic recovery. If she slips ultimately to either the extreme of the Left or the Right, the project of coordinating a European program to stop Russian expansion will look dismal.

The hope is that France eventually will shake out of her present crisis. French government action, while it did not prevent the loss of coal production through the strike, did save the French mines from being damaged. There is no assurance, however, that the communists will not be able to pull another crisis in another month or so.

Best guessing is that it probably will be another six months before it will be known whether the present French Government can survive. If DeGaulle gets control of the government, the U. S. expects to try to continue to cooperate with France, although there is doubt as to how much cooperation the U. S. will get from France.

* * *

Strange as it may seem, the forthcoming military aid program appears to have its roots almost entirely in a psychological situation.

It is said that the United States contemplated several months ago a revival of lend-lease and gave up the project. It was not given up primarily because of a fear that the Congress of last spring was not prepared to approve it. The dominant consideration was that no lend-lease program could be big enough to do the job of mobilizing western Europe militarily to stop Russia, without jeopardizing the economic revival of Western Europe at the same time.

The thought was that since for the short-term it would not be possible in any case to erect a firm military barrier against Russia, it would be better to string along with economic cooperation. This was done.

Thereafter Europe itself began to have the jitters about its military impotence against the Russian menace. It was from Europe that came the demand for the forthcoming military aid program—even a limited military program which will not put Europe in a position to stop Russia — if Russia decides to move her armies westward.

Nevertheless, the state of European feeling is such that if the United States were to deny the limited program, the adverse effect upon Western European morale would be so great as to jeopardize economic recovery.

Hence the limited military aid program is in effect subordinate in planning to economic recovery.

* * *

While the U. S. Government may take some step toward aiding China in her present crisis of the Red advances, and this gesture might even be of some substance, the position of the government with respect to Chinese military aid has not been altered by this recent crisis, it is believed.

The U. S. position has been that China itself will undertake no genuine responsibility for stopping the Reds. Where U. S. equipment is turned over to Nanking, it just lets it slip through its hands to the Communist Reds, because of mismanagement or other considerations. Thus, when the commies completed their conquest of Manchuria, they bagged 11 completely American-equipped divisions which were surrounded and captured because no one got around to give them orders to retreat to what point.

U. S. aid to China will be effective only if the U. S. goes into China and conducts the defense of China against the Reds. That would involve an undertaking of the first magnitude, one which would involve the United States so heavily as to preclude an adequate effort on any other anti-communist front, and perhaps doom to failure the attempt to stop the Reds in Europe from moving to the Atlantic.

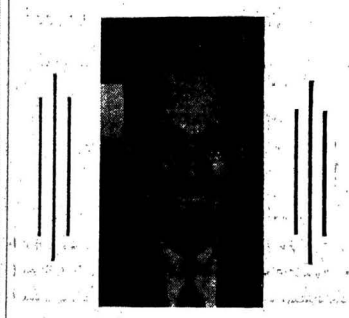
BUSINESS BUZZ

"You're fired, Finley—turn in your cigar!"

Murphy & Godie With Dempsey-Tegeler

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Anthony L. Godie and James H. Murphy have become associated with Dempsey-Tegeler & Co., members of the New York and St. Louis Stock Exchanges. The firm will open a new branch office in Chicago at 209 South La Salle Street as of Dec. 1.



James H. Murphy

Mr. Murphy and Mr. Godie, who is a member of the Chicago Stock Exchange, were both partners in Kitchen & Murphy.

With Vance, Sanders Co.

BOSTON, MASS.—Vance, Sanders & Co., 111 Devonshire Street, have added John W. Stodder to their staff.