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Federal Budget Outlook Not So Bad

By W. RANDOLPH BURGESS*

Chairman, Executive Committee National City Bank of New York

Mr. Burgess predicts a surplus of from $2 to $3 billion in fiscal year 1948-49, with possible similar surplus in succeeding year, if restraint and economy prevail.

This country is waging war on three separate fronts at the same time. That is the greatest problem of statesmanship for banking and for the whole country. In foreign policy the shooting war is over, but there is no peace; the forces of communism are waging against us a "cold war."

W. R. Burgess

On the economic front, despite some recent changes, the battle against world-wide postwar inflation is far from won.

Here and in other countries a surge of social and political change is steadily pushing back

(Continued on page 29)

*Abstract of speech by Mr. Burgess before meeting of the American Bankers Association, Chicago, Ill., Dec. 15, 1948.

See PICTORIAL INSERT for pictures taken at 23rd Annual Dinner of the New York Security Dealers Association.

Avoid a Cold War Between Government and Business!

By EMIL SCHRAM*

President, New York Stock Exchange

N. Y. Stock Exchange executive, in pointing out dependence of government on business, warns it should not ride roughshod on its operations and then condemn the inevitable results as evils of our economic system. Points out dangers of excessive corporate debts and neglect of stockholder. Scores taxation as instrument of government policy, and attacks restrictions on securities transactions. Defends speculation and urges limited tax exemption of dividends.

If a poll were taken, as to who represents the world of finance, the National Association of Insurance Commissioners or the New York Stock Exchange, I can imagine that close to 100% of those polled might say the New York Stock Exchange. Like some other recent polls, however, the result would be in error. Life insurance assets now aggregate close to $55 billion, and the assets of fire, casualty and allied companies swell the total to more than $60 billion. This is under the some $70 billion approximate value of stocks listed on the New York Stock Exchange, but I am sure that if we were to project the present trend of growth to any extent into the future, the assets which you gentlemen administer would soon exceed the value of all stocks listed on the Exchange. And I hasten to admit that you

Emil Schram

(Continued on page 30)

*An address by Mr. Schram at luncheon given by the New York Insurance Industry in honor of the National Association of Insurance Commissioners, New York City, Dec. 14, 1948.

Our Economy Is Basically Sound!

By HON. JOHN W. SNYDER*

Secretary of the Treasury

Asserting our economy shows encouraging signs of stability even at present high levels, Secretary Snyder sees no reasons why it cannot be maintained. Stresses continued need of confidence in government's credit and upholds Treasury's action in supporting bond market, denying it is inflationary. Points out extended prosperity can only be achieved by policy of moderation and restraint on over-buying, over-borrowing and over-expansion.

I am particularly glad to have the opportunity of speaking to you on the occasion of this National Credit Conference. Your group holds a strategic position in shaping policies of credit right at the borrower's level, where the effect on the welfare of not only the borrower but of the nation is direct and immediate. In the past, you have demonstrated many times your ability to make these policies effective. We expect the programs you are considering at this meeting to have a wholesome and salutary effect upon present and future policies.

John W. Snyder

In certain respects, 1948 has been a critical one in the credit

(Continued on page 30)

*An address by Secretary Snyder before the National Credit Conference of the American Bankers Association, Chicago, Ill., Dec. 14, 1948.

EDITORIAL

As We See It

What They Should Advise—But Will Not

Within a very few weeks one of the President's many advisory organizations must hand him a general analysis of the current state of affairs and suggest what government (or perhaps, more specifically, what the President) can and should do to promote the economic welfare of the people for which, in large measure, government has assumed responsibility. Presumably, the more vital questions concerned, or believed to be concerned, are even now under intensive study. One phase of the current situation was some time ago specially assigned to one Presidential adviser who, so it was said at the time, needed six weeks to come up with an answer. Doubtless, in due time the Chief Executive will receive such formal documents on these subjects as he may desire—some of which the public will doubtless be permitted to see. Meanwhile, preparatory activity is absorbing the attention of dozens of men and women poring over charts and tables and pondering the imponderables.

Yet it seems to us that the main substance of the advice the President needs is obvious enough. Charts and tables are unnecessary to ascertain the nature of it. The fact, the obvious fact, is that the economic welfare

(Continued on page 29)

Why Corporate Profits Are Overstated

By W. A. PATON*
Professor of Accounting and Editor, Accountants Handbook, University of Michigan

Asserting accounting methods do not take into account today's "cheap dollar," Professor Paton points out business is deducting depreciation charges and other costs in terms of a prewar dollar worth two or three times what it is now. Stresses importance of profits as means of providing risk capital and sees, as only alternative in affording business development and expansion, use of government money raised by borrowing or taxation. Holds present earning rates exaggerated because of understated "book values" of assets.

Nature and Significance of Corporate Profits

In any discussion of the level of profits and proposals dealing with the taxation of profits a necessary preliminary step is recognition of the nature of corporate profits and their general significance in the economy. Basically, corporate profits are the earnings — one might almost say "wages" — of the stockholders, the persons who provide the risk capital which is the lifeblood of private business enterprise. The corporation itself is nothing more than an institutional arrangement whereby a group of investors pool their savings for the purpose of carrying on some business activity. Capital is one of the primary ingredients of business operation, one of the indispensable factors, and like other factors capital commands a price that is a resultant of an array of demand and supply influences. In the case of funds furnished by bondholders and other groups of investors with a preferred position the return to the investor is a contractual price, determined in much the same manner as prices of commodities and personal services. The common stockholder, on the other hand, occupies the residual or buffer position in the undertaking. He furnishes the essential layer of risk capital. He is not assured of a particular level of earnings, or of any earnings. He "holds the bag." The amount of his earnings, if any, depends upon the relation of varying revenues and varying costs arising from the sum total of transactions and conditions making up the operation of the business. There is no cost-plus contract between the particular business and a definite body of responsible consumers; instead the capital invested is at the mercy of a complex of market forces and earnings for the stockholders will appear only if the array of forces brings this about. If the undertaking is never successful the stockholder will never realize an income, and may lose a part or all of his investment. If the undertaking is highly successful he will make a high rate of return on his investment. In most fields of industry a considerable range of results with respect to profits—the earnings of stockholders — is found. The particular concern in most fields of industry, moreover, has a fluctuating history in this respect. There may be periods of very profitable operation, periods of low earnings, and periods of no earnings and actual losses. As has sometimes been said, competitive private enterprise should be described not as a "profit system," but as a "profit and loss" institution.


Dr. William A. Paton

Now, the important point is that while the person who provides risk capital—the stockholder in corporate enterprise—is not assured of a particular level of earnings or of any earnings in our economy, the totality of economic and political conditions (including the tax structure) must offer a prospect of earnings if this type of investment is to be provided. It is in this manner that risk capital is priced by the market and the earnings of such capital become a requirement of continuing business activity. Without a prospect of earnings—and the prospect must not be too dim—it is obvious that there is no inducement to the person who is saving money to become a common stockholder. And since the provision of a substantial layer of risk capital is the very essence of private corporate enterprise there must be an earning prospect—an earning potential — if such enterprise is to persist. It follows that if interference with the competitive forces of the market through taxation, control of product prices or other means should be carried to the point at which incentive to provide risk capital disappears the final result would be the abandonment of private corporate enterprise and the substitution of governmental ownership and operation. The only alternative to risk capital provided directly by the individual savers of the country to supply the funds needed for business development and expansion is government money raised by government borrowing or taxation.

The Corporation and the Tax Structure

There's a second broad consideration that deserves attention preliminary to a discussion of the present level of corporate stockholder earnings. A basic weakness in our present tax structure—as has often been pointed out by students of economics and public finance—is found in the adoption of the concept that the business corporation is an entity properly subject to income taxation in its own right. This is a most unfortunate development, and one that has no adequate foundation either legally or from the standpoint of economic analysis. As mentioned above, the corporation is simply an institutional arrangement which facilitates the pooling of the resources of a more or less considerable number of persons to carry on a business undertaking. The corporation is a vehicle of administration, corporate management is the steward of the stockholders. And taxation of the administrative vehicle — of the steward—as if it were a taxable person on its own account is a highly unreasonable procedure—a procedure that would appear fantastic if we hadn't been doing it for many years. The entity on which taxes must inevitably fall is the natural person, and the only entity that has "ability to pay" taxes in any meaningful sense is the individual citizen. It is particularly important that this point be recognized clearly in the field of differential income taxation. A moderate flat tax rate applied to some computation of corporate earnings may be viewed as a form of franchise tax on the corporate institution and not be seriously objectionable, but differential taxes at high rates on corporate earnings as such are unsound in my judgment. Such taxes can be justified—if at all—only when applied to the earnings of individual citizens, either in their hands or in the hands of their representatives.

This point of view was reflected in the early income tax legislation. In the statute of Oct. 3, 1913, the list of deductions provided to individuals included "the amount received as dividends upon the stock or from the net earnings of any corporation . . . which is taxable upon its net income," and with respect to corporations the act states "that the normal tax hereinbefore imposed upon individuals likewise shall be levied . . . upon the entire net income." Similarly the act of 1916 provided for a tax on corporation net income restricted to the rate of the normal tax on personal income and dividends received were treated as a "credit" for the purpose of the normal tax in the individual return. The early statutes, in other words, did not set up a tax on a corporation as an independent entity, but instead recognized the corporation as a withholding agent for the purpose of collecting the normal rate of personal tax on the shares of the individual stockholders in the total corporate earnings.

As time went on, however, the idea grew politically that the cor-

(Continued on page 33)

*Statement by Prof. Paton to the Subcommittee on Business Profits, Joint Congressional Committee on Economic Report, Washington, D. C., Dec. 7, 1948.

INDEX

Articles and News

Regular Features

What to Do About Inflation

By NORRIS O. JOHNSON*

Assistant Vice-President, National City Bank of New York

Mr. Johnson, asserting fresh wave of doubts about continuance of good business and higher employment is in some ways a good thing and may prevent more spasms of postwar inflation, discusses inflation controls, such as rationing, allocations, maximum prices, higher taxes, reduced government expenditures and credit curbs. Concludes "we are in a situation where government policies are of overwhelming importance," and predicts an equalization of inflationary and deflationary forces, if Federal budget is kept in balance.

Maybe some of you are wondering what I am doing, talking about inflation when the stock market is so strongly signaling deflation But it would be a misreading of the record, I think, to draw the conclusion from depressed stock prices that deflation and depression lie straight around the corner. Stock prices, among other things, are a barometer of confidence of businessmen and investors. The market decline since the election reflects as much as anything apprehensions that a combination of "fourth-round" wage boosts, price controls, and an excess profits tax is going to knock business profits — and the boom — on the head. Again there are some election-induced hesitancies on the part of businessmen planning their capital equipment programs; there is questioning whether these programs will be profitable and how they can be financed. And there are other signs—as in retail trade figures—of a weakening in the general inflationary surge. Indeed some well informed observers are saying and have been saying that the boom is over.

Norris Oliver Johnson

On the question whether the boom is over I remain from Missouri. In any event, no one can feel very sure of himself until the pattern of political policy-making is unwrapped a month hence in the President's message to Congress on the State of the Union, in his Budget Message and in his Annual Economic Report. There is no question in my mind but that you could kill off the boom if the wage-earner, the consumer, and the Internal Revenue Bureau should try to cart off the whole of corporation profits. We still have an economy here predominantly of private enterprise. And when you have an economy like that, high profits, high employment, and high production go together and always have.

The fresh wave of doubts about the continuance of good business, good profits, and high employment is in some ways a good thing. It encourages prudence in business planning for the future and strengthens the guard against over-optimism. At the same time it shows how sensitive the business mechanism is to the political atmosphere in which it is called upon to work. One way of keeping a control on a business boom would be to keep businessmen frightened, not too much but just enough. But it would be a hard thing to turn on and off. The best thing is to have a good atmosphere and keep it that way.

But these doubts about continuance of the boom seem to underestimate two big factors in all government planning and policy-making—the general international situation and a strongly implied commitment by both major parties to keep prosperity and full employment. I do not know of anybody in a position of responsibility who wants to rock the boat enough to risk getting wet. There are intelligent and thinking people who believe that some kind of a short-run downturn in business would not be an unmixed evil. It might lead to some general tightening up in business efficiency and worker efficiency, shake down some excessive profit margins, and put a few cents of lost buying power back into the dollar for people living on fixed incomes or pensions. But no one wants to take many chances in the way of starting up a deflation. In other words, when this boom comes to a breaking point, it will be because of miscalculations on the part of government, business and labor, or because we have blown up a bigger balloon than we can handle.

Under these circumstances the common interest of everyone is to keep prosperity and full employment from spilling over into inflation—the way it has been doing, by spasms, since the end of the war. It requires the gloved hand, not the mailed fist approach.

Direct Controls

One way to deal with inflation is the way of material allocations price and wage controls, ration books and coupons. This way is a practical expedient in an emergency. As a long run measure it means a good deal of government dictation of what people can do with their money and where they shall work. In another sense it handles inflation by dealing with symptoms rather than causes. Many of our troubles since the war stem from the amount of buying power that was dammed up behind the temporary barricades of wartime controls. Direct controls give you a pent-up inflation or what the British call "suppressed inflation." We gave them up as a bad job in 1946. Most thinking people, I believe, would

(Continued on page 35)

*An address by Mr. Johnson before the Bank Associates of New York, New York City, Dec. 9, 1948.

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Banks Should Avoid "Loaned-Up" Condition!

By JOSEPH M. DODGE*
President, The Detroit Bank, Detroit, Mich.
Immediate Past President, American Bankers Association

Asserting primary function of banks is to have credit for worthy borrowers when it is most needed, former ABA President points to confused credit outlook as requiring flexible condition of commercial banks. Calls for voluntary credit controls and budgeting of loans by individual banks, and warns banks against remaining in a hot-house atmosphere which has been forcing growth at expense of vitality. Looks for return of normal competitive type of business along with inevitable inflationary readjustment.

Since June of this year, bank loan expansion has been reported as following the pattern of the same period of 1947, but to a smaller degree. Of course, the last six months of the year is the usual period in which there is a marked seasonal increase in loans, and an increase was to be expected.

Joseph M. Dodge

Under normal conditions, I am sure that the increase in bank loans which has occurred would have attracted little attention or concern. There has been a notable absence of speculative lending. Increased borrowing has been necessary because of the expansion of production and business activity at increasingly higher prices; also, because of a definitely low availability of equity capital. This has been supplemented by a large volume of loans to support the building activity needed to meet the housing shortage. Again this was at high prices.

As a matter of fact, if the price factor is taken into account in commercial loans, consumer credit and mortgage loans, the increases which have taken place are neither startling nor extravagant. It is interesting to note that even with the multiplication of the dollar amount resulting from the price factor, it was not until the end of 1947 and the beginning of 1948 that the total loans of all commercial banks equalled the total of 1929. But even more important is the fact that these bank loans have been necessary and have done their part in assisting the economy to function at its present level of activity.

The condition which brings expansion in the use of bank credit to public and governmental attention and causes the concern, arises from the fact that any increase in the use of bank credit is imposed on an already tremendously expanded governmental use of credit, which has been the real cause of our inflation problem. Once created, the expansion of public debt, whether Federal, State or local, does not contract except as the debt is liquidated. If it occurs at all, it is a long and slow process. Meanwhile, this credit is an addition to the money supply and stays in the spending stream. The same effect is created from loans extended by nonbank sources for longer term capital purposes.

There is a contrast between the effect of the use of this type of credit and of bank credit extended to private borrowers for sound and constructive purposes. Public borrowings are substantially permanent, while private borrowings at banks, and particularly commercial and consumer credit borrowings, are relatively short-term. Within a reasonably short period, the supply of funds arising from the use of the credit is removed from the spending stream by the payment of the debt.

Nevertheless, all the public discussion of the credit problem seems to center on the private use of bank credit; and all considered or proposed action seems to be directed toward limiting the action of banks in extending credit and limiting private borrowers in using credit. Other institutional lenders, including in particular government credit agencies, are permitted to proceed as in the past without restriction or limitation. State and municipal borrowing continues to increase in large amounts. The government itself may have difficulty in avoiding a return to borrowing if the ever-expanding proposals for the use of government funds are enacted by the Congress.

Complications Confuse Credit Outlook

There are a new series of complications which confuse the credit outlook. There are threats of material allocations; standby or outright price controls; tax increases; labor legislation which will stimulate wage and cost increases; and additional credit controls. No one can know now how many of these will be put into effect and to what degree. At the same time, in most categories of consumer goods, we now have evidence of a supply adequate to meet current demand; and we have an over-flowing supply of agricultural products which are not permitted to have their natural price effect on the markets. Deflationary pressures are becoming apparent and there is a prospect of the creation of additional inflationary pressures.

If material allocations should appear imminent, there may be a scramble for inventories and inventory loans. Any slowdown in sales volume, accompanied by wage and tax increases, immediately will squeeze marginal producers. Almost any combination of possibilities will restrict profit margins and may have a noticeable effect in the fulfillment of term-loan agreements.

On the encouraging side, we will have to note that there has been no further increase in required bank reserves within the limits authorized by the Congress. The Treasury has announced that the 1¼% rate will hold for its January offerings. At least at the moment, this suggests Washington is not convinced that the inflationary peak is still ahead of us. It may have been reached or be behind us.

However, no one should be so optimistic as to assume that if the trend from the seemingly stabilized or the apparent disinflationary conditions of the present should change, as they did so abruptly in 1947, there will not be an immediate demand for more government power to control private credit expansion. This will go hand in hand with any expansion in the use of public credit.

We must all continue to follow the principle that selective credit is necessary in the interests of both the economy and the banking business. The basic need for it has not changed. As a matter of fact, nothing much has changed. Too many people are inclined to believe that the election changed something. It did not. It only, but clearly, established the fact that for at least four more years we are going to have a continuation of the policies and the fundamental prospects which have existed right along.

To me this means that the problems of the banking business in relation to the government and to the economy are just exactly what they were in 1947, with perhaps some additional complications, the exact form and extent of which we will not know for some months. I see nothing in this which leads me to believe that selective credit is any less necessary today than it was last year.

The discussions and recommendations you will hear at this meeting about the various credit services of banks must in some way all be tied together and become internally related to an institutional investment and credit policy. It is not sufficient to have a good commercial loan policy and poor time credit and mortgage loan policies, or any other combination of them. Each must become an integrated part of a general investment policy for the bank which is related to the fundamental economic situation and which becomes redefined in its application to the operations of individual lending and investment departments.

Quality and Liquidity of Bank Investments

In considering a loan policy for a bank, the nature of the security investment account is an important and closely related factor.

(Continued on page 33)

*An address by Mr. Dodge at the National Credit Conference of the American Bankers Association, Chicago, Ill., Dec. 14, 1948.

Fiscal Consequences Of Defense Program

By BEARDSLEY RUML*
Chairman of the Board, R. H. Macy & Co., Inc.

Under assumption lasting peace is improbable, Mr. Ruml holds under defense needs Federal expenditures of $50 billion annually for next two years may be needed. Advocates civilian commission to scrutinize armament outlays, and accompanying aggressive selling of U. S. Savings Bonds. Calls for state and local cooperation in government's defense programs.

The question of war and peace underlies all issues of fiscal policy just as it underlies all public policy and much private policy as well.

It has been said over and over again in recent months that a shooting war in the near future is unlikely, but that the chances of peace are even more remote. It is worth saying again; it is worth saying until it becomes the unexpressed basic assumption in the decisions of ordinary every-day living.

Beardsley Ruml

War is unlikely because the aggressors are unlikely to attack, probably believing that over the years their objectives can be gained without resort to the mass violence of war. Peace is even more unlikely because the aggressors have as their objective the imposition on the world of a way of life that is repugnant to freedom everywhere.

If we are not going to have peace for many years to come, then we are going to have defense programs far into the future. An adequate defense program means an adequate armament program; but it means more than that. It means economic cooperation with other countries; it means extensive and skillful informational activities and educational exchanges. It also means correction of inequities and injustices at home. It means protection against those among us whose loyalties elsewhere induce them to destroy what they cannot control. It means the reformation of those whose prejudices cause them consciously or unconsciously, to undermine the moral foundations of our country, the aspiration for freedom for all and recognition of the dignity of the individual and of his inalienable rights as a human person.

An adequate defense program has, therefore, moral, political and economic aspects. In presenting the fiscal consequence of such a defense program, I do not want to give the impression these consequences are so unfortunate that we should withdraw from our defense responsibilities. On the contrary, the consequences, though serious, are not intolerable, and as long as we have no peace, a defense program, an adequate defense program, is both necessary and desirable.

Requirements of Defense Program

The money requirements do not state precisely the true economic problem. It is not the dollars themselves that build defense; in armament for example, it is particular kinds of raw material, industrial plants and skilled labor. At the moment, such materials, plants and labor are being rather fully utilized; and a vast increase in productivity, such as occurred from 1939 on, is not in the picture. We do not now have the idle resources that were then at hand.

Accordingly, an adequate defense program is likely to put some strain on some kinds of production. It may well make necessary some allocations and some controls. It will certainly limit the production of capital goods that otherwise might be available to raise the output of consumers goods and the standard of living both in the United States and elsewhere throughout the world.

There is one important favorable aspect. Since the defense program we are contemplating may require two or three years to reach its maximum rate of expenditure, it is proper to offset in some measure this demand on our productive capacity by the ordinary annual increase in productivity resulting from improved technical methods and a growing labor force. The effect will be considerable, and it will reduce the apparent burden of the defense undertaking. I say "apparent burden" because the increase of productivity allocated for armament will not be available for what otherwise might be a general and substantial increase in the standard of living during the comparable period. This is unfortunate, even for the United States, where an improvement in conditions of life for very large numbers of people is both technically possible and morally imperative.

A $50 Billion Budget

This is the background against which our discussion of fiscal policy proceeds. The elements in the background are, that true peace in the world is improbable for many years to come and that an adequate defense program is imperative and that we face total Federal expenditures that may well average $50 billion a year in the calendar years of 1949 and 1950, and perhaps somewhat more than that in the years following 1950.

These are very large figures, but they are no more than the possible requirements for which our fiscal policy must be prepared. If an adequate defense program can be had at a lower cost, we certainly want the lower cost. We should take all prudent measures to make sure that efficiency dominates all Federal expenditures, and that defense expenditure is properly conceived and controlled, always in a manner consistent with the true needs of adequate defense.

But at best the figures of the Federal budget will be large—very large by any experience of a time when we were not at war and subject to restrictive wartime controls. To appreciate how large these figures are it is only necessary to note that the projection which I have given for 1949 and 1950 will require about 20% of the national product for total Federal expenditures, and about 12% of the national product for defense. Even so, we will have about 50% more product available for non-Federal and civilian use than we had in 1939. The proportion of our national product going for defense and other Federal purposes will be much higher than in 1939, but the amount remaining for local and civilian use will be much higher too. The situation is unfortunate, but from an economic point of view it is

(Continued on page 42)

*An address by Mr. Ruml at annual meeting of Farm Bureau Federation, Atlantic City, N. J., Dec. 15, 1948.

The State of Trade and Industry

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

A fractional upturn was noted in overall industrial production last week above the level of the preceding holiday-shortened week. It was also moderately above the level of the corresponding week of last year.

Employment continued at a high point, although there was an increased number of layoffs in some parts of the country. In the Stamford-Greenwich section in Connecticut, it was reported, that concern over the decrease in employment became sufficiently serious the past week to summon a meeting of the Manufacturers' Council of that area for Monday of the current week. According to reports, similar meetings have been called in some other manufacturing centers.

In quest for the reason for these layoffs, it developed that they meant only a scaling-down from high level operations and an approach to normal prewar schedules. As the week closed, layoffs during December had amounted to about 526, moved up from 276 by disclosure of 250 more on Friday, last. Prewar employment in the area was about 8,000 in 1938, inflated to around 10,000 in 1940.

For the country at large continued claims for unemployment insurance rose about 14% and initial claims increased nearly 22% in the week ended Nov. 20.

In Lima, Ohio, the Westinghouse Electric Corporation on Saturday of last week disclosed that it had cut its working force at Lima by 800 employees since the first of the year, attributing the layoffs to a "stabilization of orders." On Jan. 1, last, the plant's working staff stood at 3,500 persons.

For the aircraft industry of Southern California, reports state that employment with but one exception is holding steady, the exception being the Consolidated Vultee at San Diego, where employment dropped by 600 workers in the last six weeks, with the possibility of the total decline reaching 2,500 workers by June 1, according to President La Motte T. Cohu. This would represent 25% of the pre-layoff payroll; but Mr. Cohu described it as a "temporary dip," since the slump comes as the company ends production of 178 Convair liners and prepares to start work on 37 military versions of the liner.

Other major companies reported enough orders on file to keep employment at the 55,000 mark at least through 1949.

* * *

The past week corporation profits came in for a thorough airing before Congress with a representative of organized labor citing figures to show what he termed "serious maladjustments between prices and income levels," while another labor official suggested that corporation profits be reduced by higher taxes and wage increases in order that the high level of speculative profits be taxed away.

Counteracting the arguments advanced by organized labor, Dr. Sumner H. Slichter, Harvard University economist, said U. S. corporations have overstated their profits by $16,400,000,000 during the last three years.

The Harvard professor told a House-Senate economic subcommittee investigating corporate profits that when 1948 figures are in, "real profits" will be only about $16,000,000,000. On the other hand, reported profits will be between $20,000,000,000 and $21,000,000,000—an overstatement of roughly 25%, he added.

These are the estimates, according to Dr. Slichter, by which reported statements of profits exaggerate the amount of corporate income available to pay dividends, expand plant, raise wages or reduce prices.

Dr. Slichter said there are two main reasons for the exaggeration in profit statements: The fact that most corporations still insist on counting a rise in the cost of replacing inventories as profits and because most corporations count the rise in the cost of replacing plant and equipment as profits.

"It is obviously ridiculous," he added, "to count a rise in costs as profits and yet most corporations do it and pay stiff taxes on the amounts so reported."

* * *

Steelmaking furnaces produced more steel per day in November than in any past month and turned out a record total tonnage for that month, according to a current release of the American Iron and Steel Institute.

Output for the 11 months, at 80,737,800 tons of ingots and steel for castings, was 5% less than in the full year 1947 and greater than in all of 1945 or 1946. The indicated total output for the full year 1948 is more than 88,000,000 tons.

Shipments of steel products in the first 10 months of 1948, the Institute reports, increased 1,879,000 net tons over the similar 1947 period, to 54,183,000 tons.

In the final two months of the year, should shipments be at the same rate as prevailed a year ago, or slightly less than the October rate, they would place the total for the year above 65,000,000 tons, which would be about 2,000,000 tons greater than in 1947, and a record for any year.

* * *

Stimulated by the approach of Christmas and attracted by many promotional sales, shoppers increased their purchases last week. The dollar volume of consumer buying was approximately even with that of the comparable week in 1947. Interest in toys and small gift items rose appreciably.

The volume of wholesale orders the past week slightly exceeded that of the preceding week and of the similar week in 1947. Fill-in orders for seasonal merchandise continue to be numerous. Many buyers attempted to maintain inventories at a moderate level. Collections, however, were less prompt than a year ago.

STEEL OUTPUT SCHEDULED AT 100% OF CAPACITY UNCHANGED FROM WEEK AGO

Some Congressmen, getting ready to attack the steel industry on the controversial capacity question, will find their ammunition

(Continued on page 28)

Observations . . . .

By A. WILFRED MAY

The Broad Investment Implications in Mutual Fund Operations and the Public's Attitude to the Market Valuation of Their Shares

The operations of the investment trusts and the behavior of the public in evaluating their shares give important substantiation to some of the investing principles that have been advocated in this column.

Exemplifying the common investing foibles is the market community's continuing attitude toward the *discounts* at which the closed-end funds sell — the significance lying in their variations as well as in the very occurrence of market prices below genuine asset value. Ever since the 1929 stock market collapse, in lieu of the previous premiums the prices of the closed-end trusts have represented discounts, exemplified by the following which are now existing: Capital Administration —41%; Adams Express—34%; Tri-Continental—33%; U. S. and Foreign Securities—33%; and so on down to only 4% on Pacific American and 2% on the traditionally low-discounted Lehman Corporation. If the trusts' cash holdings be segregated, the resultant discounts on the actual market portfolio are even greater; for example, in the case of Adams it would be about 50%.

A. Wilfred May

Such discounts must be contrasted with the premiums (the "load") of from 7 to 10% above asset value which is part of the sales price of the open-funds. The latter, additional shares of which are now being sold at an annual rate of a quarter of a billion dollars, assuredly possess management and assets of no higher quality than the former. The contrast can also be cited between the services of investment counsel who deservedly receive compensation of ½% annually, and our depreciated closed-end "Packaged Investment Counsel."

The varying discounts constitute an element of uncertainty additional to the realizable market price which the closed-end trust shareholder may expect, which is already subject to fluctuations correlated with the changing value of the portfolio.

Discount Variations Significant

The discounts to some extent are justified, for the average investment yield, after management expenses, of the closed-end funds on their securities-plus-cash is only 3.9%, as compared with 5.6% simultaneously available on the Dow-Jones average of industrial stocks. At any rate, far more significant than the absolute existence of the discounts are the variations in their size.

In the first place, the size of the discounts vary from trust to trust, the difference in these discounts being quite constant throughout the years, with the disparities maintained frozen by the interested market community in rote fashion. In other words, some funds are habitually regarded as "high-discount" and others as "low-discount" ones, without correlation to respective management ability or any other discernible justification.

Speculative Foible Reflected

In the second place, and more important, are the habitual fluctuations in the size of the discounts of the trusts as a group—**and in precisely the opposite way from which they logically should.** For, in line with generally illogical speculative behavior, the discount habitually is greater, rather than smaller, during bear periods; and conversely, it is cutomarily reduced during bull markets. Typically, a tabulation of 11 representative trusts shows that between Feb. 28 and Oct. 23, this year, during a rise from 167 to 190 in the Dow-Jones average of industrial stocks, the average discount on 11 representative trusts fell from 33 to 26%.

This, of course, is the exact converse of what should happen according to standards of common sense; for the market's valuation of the underlying assets is more precarious—and hence more, and not less, discount-able—when the market is inflated. But such value consideration—as well as mere common sense—are completely excluded by the forces of speculative psychology. A double-accentuation of bear market emotion thus entails a double-discounting in the case of trust shares on the down-side; that is, there is a growing discount on the trust shareholder's participation in assets which are already being depreciated in their own stock market.

Public's Attitude Reflects Fundamental Speculative Fallacy

But most significant of all is the trust community's attitude toward the discount. Far from considering whether or not the re-

(Continued on page 16)

Brown Bros. Harriman To Admit Kingsbury

Brown Brothers Harriman & Co., 59 Wall Street, New York City, announce that Frederick H. Kingsbury, Jr., has been proposed for general partnership as of Jan. 1, 1949. Established in 1818, Brown Brothers Harriman & Co. is the oldest and largest private banking firm in the United States with total assets of approximately $215,000,000. In addition to its commercial banking activities, the firm also conducts an extensive investment advisory business. It holds memberships on the New York Stock Exchange, New York Curb Exchange and the stock exchanges in Boston, Philadelphia and Chicago, in all of which cities offices are maintained.

F. H. Kingsbury, Jr.

General partners include Moreau D. Brown, Thatcher M. Brown, Prescott S. Bush, Louis Curtis, E. Roland Harriman, Stephen Y. Hord, Thomas McCance, Ray Morris, H. D. Pennington and Knight Woolley. W. Averell Harriman, Ambassador-at-large for the Economic Cooperation Administration, is a limited partner. Under Secretary of State Robert A. Lovett was a general partner before going to Washington in June, 1947.

Mr. Kingsbury, an alumnus of Princeton University, has been associated with the firm since 1929 and in recent years has been a Manager.

Manufacturers Trust Co.'s Twenty-Five Year Club

At the Ninth Annual Banquet of the Twenty-Five Year Club of Manufacturers Trust Co., New York, held at the Roosevelt Hotel, the following officers were elected for the coming year:

Charles Frederick, President

Edward J. Colbert, Vice-President

Carl Funk, Secretary-Treasurer.

Harvey D. Gibson, President of Manufacturers Trust Co. and honorary member of the Club, addressed the gathering and presented service plaques to 49 employees who became members this year, bringing the total membership in the Club to 349.

With T. H. Jones & Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO — George D. V. Shelton has been added to the staff of T. H. Jones & Co., Union Commerce Bldg., members of the Cleveland Stock Exchange.

The Automobile and the American Economy

By HON. CHARLES SAWYER*
Secretary of Commerce

Stressing importance of economic growth under free enterprise, Secretary Sawyer holds stockholder, along with labor and management, constitutes part of the business structure. Says we must continue to make capital investment attractive and contends business is healthy and on sound foundation. Asserts "there is nothing to be afraid of," though some discipline and restrain and even sacrifice to deal with inflationary problems may be required of all.

Some regard history as a chronicle of campaigns and battles—a record of the rise and fall of dynasties and empires—the success and failure of great warriors. The great events of history, however, are those which mark definite progress in the struggle of men to achieve higher standards of living and those which mark changes in the ideas and symbols by which men live. What worked this miracle? What qualities of the mind or body of man contributed to this amazing result? Curiosity? Desire for money? The irresistible urge of the inventive genius? It is not easy to assign the credit; but one thing is clear—this great achievement is the work of men and women who live and labor in a free society.

Charles Sawyer

Men do things because they want to do them or because they are made to do them. That difference marks the distinction between a democratic and a totalitarian society. When we ask ourselves the question — when, if ever, will the next one hundred millionth motor vehicle be made? —the answer is wrapped in mystery. Will Americans want to make another one hundred million automobiles? If they want to make them, will they be able to do so?

Our aim should be to maintain a type of developing society where men will want to do the things typified by this magnificent accomplishment in the automobile world. You and I believe in free enterprise. This great production of motor vehicles was wrought by free enterprise as we understand it. Will free enterprise continue to function and grow, adapting itself as it has in the past to new conditions? Whatever changes are made in the patterns of capitalism, one thing is necessary — growth. Growth can come only from the creation and profitable investment of capital. When our system is healthy, profits are earned, and these earnings are reinvested. The result is more jobs, more products, more human satisfaction — in short, economic and social progress.

Labor, Management and Stockholders Comprise Business Structure

However, the providing of investment opportunities for capital is not enough. We frequently refer to capital and labor and assume that those two elements comprise the whole of our business structure. The truth is there are three elements in the present-day business structure. There is a very large group known as labor, which does all of the manual work and an important part of the mental work involved in the industrial process. There is a very large group comprising millions of people, a majority of them women, who have never seen the plants where their products are made and who are, for the most part, unfamiliar with the manufacturing processes. These are the stockholders. There is a third, not too vocal and frequently unrecognized group who take the capital, employ the labor, and make the basic plans and decisions and are responsible for the final results. These are the managers. Some people think that stockholders and managers are one and the same. This is a highly inaccurate concept. That may have been true 100 years ago; today, however, the managers own only a small fraction of corporate stock. The total ownership of officers and directors in public-held corporations is less than 4% of the stock holdings outstanding. The tremendous shifts in stock holdings which occur on the great exchanges of this country take place largely without the knowledge, and certainly without the control, of the men who run the enterprises themselves.

If we are to continue the great progress we have made industrially we must continue to make capital investment attractive; but beyond this we must enable those who make profits possible to participate in the fruits of their efforts. We must give consideration to the two groups who make industry go — labor, those who produce; and management, those who conceive and direct production.

Labor desires to share — and should share—in the fruits of its effort. Management also should be given adequate reward for the good judgment, courage, skill, energy foresight and devotion which are required to operate a business successfully. I spoke earlier of the importance of the symbols and ideas by which men live. In the Middle West, in the early years of the century, our fathers talked about freedom and opportunity, as we do today. Behind them was a century in which economic expansion meant land to develop, land in the West. Throughout the Nineteenth Century the frontier beckoned to Americans. It was rich in opportunity. It attracted heavy investments of foreign capital. It created jobs for those who were willing to work, and offered fresh opportunities to those who were dissatisfied with the conditions of employment in the East. It kept the economy on the move—building railroads, building new communities, new industries. Just before the end of the century, the free land ran out. The physical frontier vanished; and with it went the older American pattern of expansion and opprtunity.

The frontier was a symbol of our opportunities. These American men and women could see the tangible results of their labor. They were important as individuals. They knew the satisfaction of working with others to build homes and industries, establish legislatures, courts of law, and school systems. Pushing back the frontier meant progress; it also meant continued freedom. When the frontier was gone, we needed another symbol; we found one peculiarly suited to our American traits—the automobile.

Automobile Means Freedom

We are, as we always have been, a people who keep moving. For the average American, the automobile means freedom to move where he wants to go. It means much more. It stands for the way in which the American economy can best provide him with a steadily increasing abundance of the things he wants and needs. Behind a man's car is an industry that has become a national legend. Men point to the automobile industry as an illustration of the way our system works for the benefit of the whole economy.

It is one of our great national assets—a major factor in peacetime output and employment, with its facilities and engineering skill at the service of the country in time of war.

Prior to the war the automotive industry was the largest producer of durable goods for civilian use. At present motor vehicles and parts make up one-third of all consumer durable goods.

The value of the industry's wartime contribution is incalculable. Before the war, in 1939, the total value of automotive shipments was four billion dollars. By 1944 the value of automotive shipments increased to 17 billion dollars, and half of the products were produced by prewar facilities. These facilities were doubled during the war—800 million dollars worth being added to old plants and 1.1 billion dollars worth built into new ones.

The speed with which reconversion was accomplished by the automobile industry confounded the prophets of unemployment and depression. It was the most important single contribution to the smooth transition from a wartime to a civilian economy.

Although the United States has only 6% of the world's population, it has three-fourths of the automobiles and half the trucks. A third of the passenger car mileage in the United States is for purely business purposes. Including driving to and from work, mileage for business use amounts to over half of the total. In the fiscal year 1948 the Federal Government derived well over a billion dollars in revenue from manufacturers' excise taxes on automotive products, including gas, oil, tires, vehicles and parts.

The automotive industry is symbolic of the American economic system at its best. It is efficient. It is competitive. It has aimed to produce as cheaply as possible and to base its profit on volume. It has paid its workers well. The United States is not the only country in the world where automobiles are made. It is the only country, however, in which most of the workers who make them can afford to buy them. At most automobile plants built in the past 10 years, parking space is planned for three cars for every four employees. One plant has provided parking to accommodate 20,000 cars.

In the half century since Ford, Duryea, Olds and the other early manufacturers started putting their cars together in their alley workshops, the automobile has changed the face of the nation. Since 1900, 15 hundred different makes of passenger cars have been launched in the United States. Some never came off the drawing board, but most of them have been in actual production. Each made its contribution.

We live and think differently because of the automobile. We have increased our circle of friends and our circle of interests. We have increased our tempo of living. We have built new industries and added to our economic potential. Old and new industries have been stimulated and kept

(Continued on page 38)

*An address by Secretary Sawyer at a dinner meeting of the Automobile Manufacturers Association, Detroit, Mich., Dec. 9, 1948.

Automobile Securities

By ROGER W. BABSON

Mr. Babson discusses automobile securities and says it is evident insiders have been getting out of their motor stocks. Gives reasons why insiders are bearish, and asserts "I had much rather have my money in a new automobile than in stock of company making it."

If you think you can't afford to give your wife on Christmas some good jewelry, fine furniture, or something else real, it may be O. K. to give her and yourself a good new motor car, provided it has no gear shift. Therefore, I will this week discuss the automobile industry.

Roger Babson

It is very evident from what I learn here in New York that the insiders have been getting out of their motor stocks ever since Harry Truman was re-elected. They fear a fourth round of wages, frozen prices, and a drying up of purchasing power due to the general high cost of living. The following are the prices of stocks on certain dates:

Name of Company	1946 High	1948 Before Election	1948 Recently
General Motors	80⅜	65⅛	57¼
Chrysler	*141	60¼	52
Studebaker	38½	27	21¾
Hudson Motor	34½	17	13¼
Nash-Kelvinator	25⅜	18⅜	15½
Kaiser-Fraser	17⅞	10⅛	8¼
Mack Trucks	*76¾	18¼	14

*Not adjusted to split-up.

(Ford stocks are all family owned and are not traded on the Exchange)

Considering the large output of cars which these companies are producing and the apparent good future outlook, today's stock prices are very significant of what the big manufacturers themselves think.

Second-hand Market

Certainly the used-car market is going to smash. If you have doubts, ask any dealer what he will pay you in cash for your old car. In many cases you will find this to be only half what you would have had to pay for the same second-hand car six months ago, while since Nov. 2, 1948 you cannot get a bid for your second-hand trucks.

I do not blame the dealers. They had a terrible time during the war and have been entitled to two years of good business. It seems a shame that they must give to Uncle Sam so much of it in taxes. So many speculative buyers, however, placed orders with several different dealers that the new car market is also messed up. These and other facts will soon be brought out at public hearings in Washington, together with accounts of the trade-in hold-ups and black market transactions.

Why Insiders Are Bearish

In asking a large manufacturer why he is not buying his own motor stocks, he said, in addition to whining about coming wage increases, frozen prices and the election: "The 1948-49 cars are not too good anyway. The bodies and mudguards are made of tin; you can't get into some cars without knocking your hat off; the doors are too wide and heavy; the headlights are for ornaments instead of usefulness; while customers are getting tired of being forced to buy all kinds of accessories."

Automobile owners enjoy reading illustrated newspaper advertisements of their own and other cars. These printed advertisements are instructive and interesting, but the public is tired of listening to the automobile ballyhoo that comes over the radio. Owners are at last beginning to realize that they are paying for these expensive radio programs, which expense is added to the price of the cars. It is too bad that the automobile dealers must suffer from these extravagant and mistaken policies of the motor car manufacturers.

Notwithstanding the above comments, I had much rather have my money in a new automobile than in the stock of the company which is manufacturing it. Certainly, I would not buy a second-hand car which had the old standard gear shift. One might as well buy a horse and buggy. Just in closing, let me say that there is one man in the world who could knock my forecasts galleywest. His name is Joe Stalin! If our troops should get mixed up with his soldiers in China or elsewhere, we all would be thankful to own any kind of an automobile at almost any price, especially if Joe should "accidentally" drop a bomb on Detroit!

Roderick A. Gillis Joins G. E. Jaffe Co.

CLEVELAND, OHIO—Roderick A. Gillis has become associated with G. E. Jaffe & Co., Union Commerce Bldg., members of the Cleveland Stock Exchange. Mr. Gillis was formerly a partner in Wood, Gillis & Co.

Roderick A. Gillis

Halsey Stuart Offers New Bedford Gas Notes

Halsey, Stuart & Co. Inc. on Dec. 15 offered $5,000,000 25-year 3% notes, series A, due Nov. 1, 1973, of New Bedford Gas & Edison Light Co., at 100½ and accrued interest. General redemption prices for the series A notes are scaled from 103½ to 100, while sinking fund redemption prices range from 100.52 to 100.

The net proceeds will be applied to the payment of outstanding promissory notes in the amount of $2,500,000 and the balance will be repaid to the Plant Replacement Fund of the company.

The company operates in Massachusetts, serving approximately a population of 222,000.

From Washington Ahead of the News

By CARLISLE BARGERON

This is about the season of the year when the economists, statisticians, physicists and the like hold their annual conventions. Unlike the Rotarians, the American Legion, the American Association of Grocerymen, if there is such a thing, who hold their annual gatherings in the summer, the economists, statisticians, the physicists and the like, hold theirs during the Christmas holidays.

Carlisle Bargeron

Formerly, there was an understandable reason for this. This was the time of the year they could get away from work. If they were working for the government, they could take "annual" or "sick" leave; if they were working for a private employer this was the best time they could steal away.

Anyway, since time immemorial we are about to appraoch that period when the newspapers seem to have room for the "papers" which the economists, the statisticians and the physicists read before assembled fellows. Our store of information has always been enriched in this period, such as that for every 2.1 persons who are receiving adequate medical care, 13.5 persons are not; that the American race is bound to expire in the year 1980 because our families are having only 1.7 babies while the Russians and the Chinese are having 8.3.

Well, this year we are likely to have some very interesting information, indeed, from these people. Heretofore, they have been solely concerned with what is happening to our foundations, to the National fabric.

Now they are concerned about what is likely to happen to them, which is far more poignant than what is happening on a broader scope. You can appreciate this. It is all very well for men to write pontifically about the end of the world. Indeed, we can do that without the slightest trace of fear; we can do it unemotionally and objectively. But if we begin to write about our own individual death, that is something else again. Notwithstanding that people are every day dying who never died before, we become excited, if not hysterical, when we discuss the subject.

In this light the American Statistical Association and the American Economics Association are meeting in Cleveland on Dec. 29. In recent years these two associations have exulted at their Yuletide gatherings, when the rest of us were so stuffed with turkey and trimmings that we didn't have the resistance to challenge them, about those of them who were making their mark in the government, who had nationally attained fame; and having pointed to them, they would extol the scientific rectitude of statistics and economics. The millions who had lived before statistics and economics came along were formally pitied and diagnosed as people who had not lived at all. Like steam heat and electricity you wondered how we had ever gotten along without these sciences.

But this year it is to be different, I am told. The meeting at Cleveland will not be one of rejoicing and recounting of accomplishments at all. Rather, it will be a meeting to save the sciences of statistics and economics, and undoubtedly at another meeting somewhere, that of the physicist as well, against the doubting Thomases that have arisen in the wake of the Presidential campaign polls.

These well known pollsters used to be looked upon in awe, at times in absentia, at times in person, by these Christmas holiday meetings. They were the graduates *summa cum laude* of the statistical and economic schools. Through their rise in national prominence, statisticians and economists everywhere had advanced themselves: they had come to have high places in government, to formulate policy over the lives of millions of people; they had come to sit at the right hand of our leading industrialists and bankers, to be indispensable to them.

But these pollsters made the profession of statistics and economics too easy. Whereas, the statisticians and economists had formerly considered a wealth of data before concluding that 3.1 families gave birth to only 2.6 babies and that 85.4 people were not living properly under the capitalistic system, the pollsters boiled it down to a sampling process. If you had 100 million people the thing to do was to sample only 3,000 people and perhaps 22 babies. Never in all the history of men has the business of statistics and economics been made so easy.

Then, kerflunk—and the pollsters go terribly wrong on the Presidential election. As the statisticians and economists gathering in Cleveland see it, this is no time for foolishness. They visualize our industrialists and bankers sending them back to their eye shades and high stools, away from the throne. They see their importance and their wage scale jeopardized. It is no time for the reading of ordinary papers. The agenda, as I understand it, is to be devoted to, first, what went wrong with the polls, and secondly, the ways and means of preserving the profession.

The meeting at Cleveland is to be no leisurely thing revolving around the accomplishments of statisticians and economists this year. It is going to be devoted to the question of what went wrong and how can we regain our standing.

With Stephenson, Leydecker

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, CAL.—Jay C. Rutledge has joined the staff of Stephenson, Leydecker & Co., 1404 Franklin Street.

Henry F. Swift Adds

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CAL. — Charles E. Cagle is with Henry F. Swift & Co., 490 California Street, members of the San Francisco Stock Exchange.

Preservation of a Free Economy

By HON. JOSEPH C. O'MAHONEY*
U. S. Senator from Wyoming

Senator O'Mahoney comments on disturbing world conditions and efforts to preserve our free economy against attacks by communism. Says no one in Washington wants a police state, but deplores dominance of big business, and cites large amount of security offerings floated by a few investment houses. Deplores drift toward centralism which breaks down local economic independence both in government and business and asserts security dealers have vital interest in this problem.

The Executive Secretary of the New York Security Dealers' Association was good enough to send me a copy of the memorandum of Dec. 2 which was mailed to members of this Association giving notice of this meeting. Your Committee on Public Relations felt that it would be appropriate to have a representative of the government speak in view of the confused thinking on the part of many since the election" and that the choice fell upon me because I happen to be the ranking Senatorial member of the Joint Senate-House Committee on the Economic Report. This is at once a challenge and a warning and I sincerely hope that my contribution this evening will not add to the confusion your committee sees.

Sen. J. C. O'Mahoney

*An address by Senator O'Mahoney at meeting of the New York Security Dealers Association, New York City, Dec. 10, 1948.

This Is a Time for Statesmanship

Certainly if ever there were a time for clear thinking, it is now. If there ever was a time for statesmanship in business and in government, this is it. What we think and say and do must be viewed against the background of world events. Nothing that we can say or do can have the slightest effect except within the structure created by the world problem which, reduced to its bare bones, is the struggle between communism and democracy, between the philosophy of those who would have the economic affairs of the people managed *for* them and the philosophy of those who believe that these affairs must be managed *by* the people themselves. I have no hesitation in saying that the people of the United States have accepted the destiny of this country to play a decisive role in world affairs for the preservation of individual freedom and real democracy and that in domestic affairs they are committed to working out a program of social and economic progress with emphasis upon the humanitarian rather than on the mere administrative objectives.

If this be true—and certainly it is true, witness our bipartisan foreign policy and the declaration of all political leaders in the recent campaign of their devotion to social progress—if this be true, I say, then clearly we must measure every political and economic proposal by the effect it has on the power of the people to control their own political and economic destiny.

We have a world problem only because the power of the people to control their own affairs has been undermined in the modern world. It has been undermined by the concentration of political and economic power and we shall not begin to understand the significance of the events of our time unless we realize first of all

(Continued on page 38)

Analyzing the Business Situation

By LEO WOLMAN*
Professor of Economics, Columbia University

Referring to election result as "the late unpleasantness," Dr. Wolman urges caution in tinkering with economic structure. Says we must understand fundamental issues and objectives to be attained in order to have cooperation, and points out present situation is unstable, because prices are high and consumers are on verge of buyers' strike. Calls attention to high break-even costs, which necessitates large output to insure profits, and says backlogs in orders are disappearing. Sees no gains made by labor in high prices and argues fourth round of wage increases will make things worse. Urges more work, more saving and more economy.

I don't suppose that anybody here expects me to make any forecasts; certainly not after what many of you hold to be the late unpleasantness of just a month ago today. That's made everybody more cautious, including economists. So I will have to content myself today with what is a much safer enterprise, trying to analyze this situation.

Prof. Leo Wolman

I want to begin with what it is we are really after. I suppose we all agree that the most desirable human society is one in which cooperative relationships exist among people; that is, the tendency is among people to cooperate with one another, be reasonable with one another. And that certainly ought to be the foremost aim of labor relations. I don't for a moment doubt that that is the foremost aim in labor relations of a great number of well-meaning people in the United States.

Our education ought to be directed toward furthering that cooperation. But the education is a difficult undertaking, because there are so many kinds of things we have to use as the material for education.

Labor Relations

In labor relations, for example, or in all matters of economic policy in this country, there is a great range of issues about which the people of the United States need to be educated. Some of the issues you heard discussed this afternoon. Others are more general, but nevertheless equally important issues, and I'd like to comprehend them under a single term; namely, the issue of how an economic system works. Because if we don't know how it works, we may tinker with it so much as to really injure it.

Now, that ought not to be a difficult subject to study now and to understand and to transmit to the general populace of this country, whether you are talking about a labor force or you are talking about ordinary citizens who go and vote—or who ought to go and vote—how this economic system works.

I say that ought to be an easier question today than it used to be because we now live in a world in which there are so many different kinds of economic systems we don't have to sit and worry about our own alone and see whether we understand that, but we are in that wonderfully peculiar desirable scientific position where we can compare our economic system with others. And not only make that comparison, but tell people about it when we think we have made a valid and careful comparison.

So that when we talk of cooperating with one another, which I think we ought to be trying to do all the time, there is a prior question, and the prior question is this: When we carry on cooperation, we do it with understanding; do we cooperate with the same idea in mind as to what the purpose of the cooperation was? Because if we were not cooperating with comprehension, with understanding, and if we were not agreed upon the goals, we might very well while we are cooperating lead ourselves into a lot of trouble, into a lot of disaster.

And that is one of the fundamental issues about this whole present situation in the United States. We have got to know what our goal is. And we have got to understand how we approach that goal.

I am not going to talk about this question in general terms. I intend to talk about it in very specific terms; namely, the economic issues which confront the United States today, right at this moment.

They reduce themselves to this simple question — anyhow, simple in stating, although not very simple in answering: What is the present state of the economic situation in the United States?

Two Camps of Economists

That is what my professional colleagues are arguing about all the time and, like all professions, they are in two camps. They are in two camps because they have different views about what this present economic situation is like. And that has nothing to do with forecasts; it's got to do with analysis.

Now, what are these two groups? What do they think? One group thinks this is a stable situation; and the other thinks it is a nonstable situation. Now, you couldn't have anything simpler than that. And all differences of opinion are like that when you stop to think of them. You think a thing is moral or you think it is immoral.

The economists today differ about this. And if you really read into what they say—read behind the lines—that's where the difference lies—that's not an academic difference, that's not a theoretical difference, that's a practical difference.

It makes a lot of difference where you stand—where everybody stands—on that question. I'll tell you why. If you think it is a stable situation, you want to let it alone; you want to do more of the same thing that produced this situation, whatever that same thing was — and you all know what that was. If you think it is stable, you think it is permanent. I don't know what "permanence" means in this insecure world, but you think it is more or less permanent, and you think it ought to be perpetuated.

Now, if you think it is unstable, your practical policies are entirely the opposite. You think it is an unstable situation; therefore, you think it is risky to perpetuate it. That's a very practical decision. Therefore, you think it is undesirable to continue policies that tend to perpetuate it because if you think it is unstable then you also believe that continuing the policies that tend to perpetuate this business will make it worse rather than better and make the problems you have got to deal with extraordinarily more difficult problems than they are likely to be anyhow.

Now, you couldn't get a prettier difference of opinion than that. And that's not my invention, either. I did not make it up for the purpose of this speech. It's in the air. It's in peoples' minds. And that's what they differ about.

I don't think I am going to leave you in any doubt as to where I stand on whether I think it is stable or unstable. It could go on longer; there is no question about that. It could go on. I don't think forever, but I do think it could go on for a period. If we had a war, it would obviously go on for a longer period. But nobody could possibly think that war was a solution of this kind of a situation, because if we did have a war, and one of the results of it was to perpetuate this kind of economic situation, certainly the aftermath of it would be something horrible to contemplate.

Conditions Not Stable

I don't think it is stable. I think it is a highly unstable situation. And feeling that way about it, I have got feelings about the things connected with it; namely, the policies connected with it.

But first I want to tell you why I think it is unstable. I am going to try to tell it to you in simple terms, because I think these are terms that everybody in this room is familiar with, and when he hears them he will know they are correct. I think all these technicalities have got nothing to do with the situation. These are simple things; they are matters of simple, everyday observation.

I think the present economic business situation in the United States is unstable because it's got these few features. These are the features that characterize business in the United States today, and they are sources of weakness, and not of strength.

One of these features is that prices are high. Now, everybody knows that. Prices are high. I'd like to put it in another way that sounds more formidable—or anyway, I think it gives you a more vivid picture of what one means when one says that prices are high—this has become an expensive country to live in. It is an expensive country for more and more people to live in. And that is one of its unstable elements that has introduced into the situation a very great measure of uncertainty that did not exist in it before.

Another way of putting that is that when you get a price movement of this kind, or when things become relatively expensive (as they have, and are continuing to, in all probability) then there gets under way a changing relationship between income and prices. Incomes of some people fall behind, and we do not know who they are; we do not know how many there are; we do not know what their aggregate income is. That is always true. We have a lot of information, but we never have the needed new piece of information that we need at a given time.

But we can get along without that information. We can almost guess it by observing things with a naked eye. And we can guess

(Continued on page 26)

*Stenographic record of an address by Dr. Wolman at the 53rd Annual Congress of American Industry, sponsored by the National Association of Manufacturers, New York City, Dec. 2, 1948.

Dealer-Broker Investment Recommendations and Literature

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

Deflation Insurance—Discussion—Elworthy Co., 111 Sutter Street, San Francisco 4, Calif.

Paper Manufacturer—Data on interesting 1st mortgage industrial bond—George Birkins Co., 40 Exchange Place, New York 5, N. Y.

Petroleum—A Reappraisal—Study of the industry — Calvin Bullock, 1 Wall Street, New York 5, N. Y.

Precision Casting with Plastic Patterns—Discussion of the A. R. D. process used by the Midwest Foundry Co., a division of **L. A. Darling & Co.**—Reprinted from the "Iron Age"—Moreland & Co., Penobscot Building, Detroit 26, Mich.

Public Utility Stock Guide—Figures on public utility preferred and common stocks—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

Tax Replacements—List—Stanley Heller & Co., 30 Pine Street, New York 5, N. Y.

Television Industry—Review—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

Western Canada Oil Industry—Data—Charles King & Co., 61 Broadway, New York 6, N. Y.

Year End Dividends—List—White & Company, Mississippi Valley Trust Building, St. Louis 1, Mo.

* * *

Aetna Standard Engineering—Memorandum—Buckley Securities Corp., 1420 Walnut Street, Philadelphia 2, Pa.

Black, Sivalls & Bryson, Inc.—Summary and analysis—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Also available is an analysis of **Phillip Morris & Co.**, a list of **Exchanges Suggested to Establish Tax Losses**, and a discussion of a switch from **Parke, Davis & Co.** to **Sharpe & Dohme.**

Chicago Rock Island & Pacific—Analysis—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Continental Casualty Co.—Bulletin—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Denver & Rio Grande Western Railroad Co.—Study—Smith, Barney & Co., 14 Wall Street, New York 5, N. Y.

Dunningcolor Corp. — Card memorandum—Bennett, Spanier & Co., 105 S. La Salle Street, Chicago, Ill.

Globe & Republic Insurance Co.—Analysis—Allen & Co., 30 Broad Street, New York 4, N. Y.

R. Hoe & Co., Inc.—Card memorandum—Adams & Co., 105 W. Adams Street, Chicago, Ill.

Income Leasehold Co.—Analysis—Edward D. Jones & Co., 300 North Fourth Street, St. Louis 2, Mo.

International Telephone & Telegraph—Memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

Lanova Corp.—Review and reappraisal—Kalb, Voorhis & Co., 25 Broad Street, New York 4, N. Y.

Lawrence Portland Cement Co.—Analysis—Orvis Brothers & Co., 14 Wall Street, New York 5, N. Y. (address request attention of Mr. B. Plunkett).

Muter Co.—Circular—Hicks & Price, 231 South La Salle Street, Chicago 4, Ill.

National Union Radio Corp.—Analysis—Augenblick & Kohn, 31 Clinton Street, Newark 2, N. J.

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

Northrop Aircraft, Inc.—Special review—John H. Lewis & Co., 63 Wall Street, New York 5, N. Y.

Plough, Inc.—Analysis—Shields & Co., 44 Wall Street, New York 5, N. Y.

Republic Natural Gas Co.—Up-to-date statistical analysis—First Southwest 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.

Victor Chemical Works—Survey—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Also available are analyses of the bond issues of the reorganized **St. Louis-San Francisco**, and of **Phillips Petroleum Co.**, a report on **Post-Election Conditions**, and leaflets on **Fruehof Trailer; George A. Fuller; Glens Falls Insurance; Gulf, Mobile & Ohio; Magnavox; Northern Pacific;** and **Shell Union Oil.**

Westeel Products Limited—Review—James Richardson & Sons, 367 Main Street, Winnipeg, Man., Canada.

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. 16, 1948 (Detroit, Mich.)
Bond Club of Detroit Christmas Cocktail Party at the Savoyard Club.

Feb. 12, 1949 (New York City)
Friday Night Bond Club Annual Dinner Dance at the Hotel Pennsylvania.

Oct. 5-9, 1949 (Colorado Springs, Colo.)
National Security Traders Association Annual Convention at The Broadmoor Hotel.

Dean Witter Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Thomas H. Wells III has been added to the staff of Dean Witter & Co., 632 South Spring Street.

How Administration Agencies Tick

By HON. EDMOND M. HANRAHAN*

Chairman, Securities and Exchange Commission

Commissioner Hanrahan stresses importance of administrative process in our system of government. Contends, however completely we control it by checks, balances and review, good administration lies in conscience of administrator and in nature of administrative process itself. Describes SEC operations, and asserts it has always separated functions of prosecutor from jury or judge, while making "fair play," its guidepost. Upholds legal doctrine of "stare decisis" and contends SEC does not constitute dangerous interference of government in business.

Whether one approaches the administrative process to praise or condemn it, one must approach it as a living fact. Many threads are woven into the fabric of regulation which covers so many aspects of our activities. The staple of all of them is that set of principles which civilized men accept as the foundations of morals and justice. The courts have for generations been spinning this staple into our rules of law, and administrative agencies have been weaving it into the fine designs of our complicated and pervasive regulatory pattern.

E. M. Hanrahan

Few of our activities are outside the scope of concern of some administrative body. The electric power and gas we use are obtained from a public utility whose rates, capital structure or operations are subject to scrutiny by the state commission, the Federal Power Commission and perhaps the Securities and Exchange Commission. The radio we listen to operates under license by and in accordance with the Federal Communciation Commission. The railroad we take to work is subject either to the jurisdiction of the State Railway Commission or the Interstate Commerce Commission or both. The bus, street car or subway we use around town is a means of transportation regulated by either the state utility commission or the municipal regulatory authority. The bank with which we do business is probably under the state banking authority and the Board of Governors of the Federal Reserve System. The daily actions of all of us are in some way affected by some regulatory force.

Our stake in the administrative process is therefore great, and grows greater with the years. And it becomes increasingly important for us as citizens to understand that process. Its efficiency has, I think, been clearly demonstrated and its necessity in our complex economic set-up is obvious. No one seriously doubts the good sense in committing a body of technical problems to experts who can spend all their time learning what such problems are and how to meet them. The fear has been for the price of that efficiency. We have never been willing to sacrifice the fundamental traditions of fair play on the altar of efficiency. We have always distrusted irresponsible power, and it is no accident that so much of our thinking about the administrative process concerns its place in the tripartite scheme of American government. In our system of checks and balances, does it fit best in the judicial, legislative or executive branch? That, in itself, is a difficult and fascinating problem whose facets are revealed in the subsidiary problems of delegation of power, definiteness of legislative standards, scope of judicial review, and so on. However completely we control this administrative process with checks, balances, and review, the soundest and most fundamental guarantees of good administration still lie in the conscience of the administrator and in the nature of the administrative process itself. And that is what I should like to touch on briefly in this talk.

SEC Administrative Processes

I do not profess expertness in any fields but my own. To the extent that what we do at the Securities and Exchange Commission has any relevance to the broader aspects of administrative process, I think it is interesting and important for me to tell you about them.

As attorneys you will be primarily interested in knowing, as I was, the extent to which the fundamental elements of due process and fairness are present and put into play in administrative hearings involving adjudications. At our Commission, for example, these hearings are usually public and are held before a trial examiner, or hearing officer, designated by the Commission. Definite Rules of Practice have been adopted which provide the basic conditions for an impartial, orderly and fair hearing, such as, adequate notice to all parties, opportunity to appear and present evidence under oath, cross-examination, objections and exceptions to rulings on evidence, and the like. Careful provision is made in these rules so that the substantive rights and procedural remedies of the parties will be safeguarded. With the exception of rather broad rules as to the admissibility of evidence, the hearings are to a great extent similar to those before a Judge.

When the hearing is concluded, the parties may file requests for specific findings together with supporting briefs. Thereafter the hearing officer prepares and submits to the Commission a recommended decision. Copies of this decision are sent to the parties and they may then file exceptions and briefs. Thereafter, if the parties so request, the case is argued orally before the Commission. An independent review of the record is then made and the ultimate decision of the Commission is published and is thereafter subject to review in the United States Court of Appeals.

You will recall that public reaction against combining the functions of judge, jury and prosecutor was one of the major factors leading to the adoption of the Administrative Procedure Act—designed to prescribe certain standards of administrative procedure. One of its provisions requires, in certain cases, the segregation of the investigative and prosecutory functions of an administrative tribunal from those of decision or determination. At the Securities and Exchange Commission we instituted, within our staff, years prior to the passage of the Administrative Procedure Act, a system of rigid segregation of functions. Working divisions of the staff and our regional offices investigate and participate in the building of an enforcement record before the Commission but do not participate in the decisional process. The Commission uses the facilities of its Division of Opinion Writing to help it in the drafting of its quasi-judicial opinions. This Division is entirely independent of the other divisions responsible only to the Commission. Its members are isolated not only from investigation and prosecution of matters in which they aid the Commission as opinion draftsmen, but from investigation and prosecution generally. Our attempt is to preserve a professional impartiality among these opinion writers, to prevent them from achieving a psychological stake in the outcome of particular cases, and to develop in them a spirit of aloofness from the conflicts of litigation before us.

Precepts of Fair Play

While it is true that in these adversary proceedings the Commission does combine in itself the functions of investigation, prosecution and quasi-judicial determination of facts and law, the fundamental precepts of due process and fair play are its guideposts. Such a combination of functions has been exercised for decades by the Interstate Commerce Commission. Its decisions and proceedings have been reviewed by the United States Courts of Appeals and the Supreme Court times without number, but I know of no case where it has been held that an administrator who prefers charges is disqualified from hearing and deciding a case. To my mind when the Commission or any other agency institutes proceedings its action is comparable to what a court does in the first stage of a show cause proceeding or in the issuance of a contempt citation. No decision on the merits is made at that time. The Commission, like the court, merely concludes that the matter warrants further examination in formal proceedings and the ultimate judgment of the Commission is no more influenced by the preliminary authorization to proceed than is the ultimate judgment of a court by the issuance of a temporary restraining order pending a formal hearing for a permanent injunction.

So far as our decisions are concerned, we endeavor to apply as consistently as possible the doctrine of *stare decisis*. But we have not, of course, followed this principle blindly. Once in a while it is necessary for us to reverse ourselves. We have no intention of hamstringing business on the one hand, or of harming the interests of investors on the other, by inflexible adherence to precedents, when our experience shows us that the principle formerly established is no longer applicable.

Effects of Growth of Administrative Agencies

However, I did not want to limit my remarks to the procedural aspects of the administrative process. I think that the growth of administrative agencies is having important effects on our living law—our laws-in-action.

Here, too, although what I have to say may have broader implications, I limit myself excusively to some aspects of the Commission's work. The statutes administered by the Commission have a fairly

(Continued on page 36)

*An address by Commissioner Hanrahan before the New York County Lawyers Association, New York City, Dec. 8, 1948.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Insurance Stocks

Last week the Glens Falls Insurance Company issued a statement on earnings for the nine months ended Sept. 30, 1948. This is one of the first companies to give any specific indications of current operating results.

The report submitted to the directors at the quarterly meeting showed the following figures compared with the similar ones for 1947.

	Nine Months to Sept. 30 1948	1947
Net Underwriting Earnings	$1,107,068	$858,204 (loss)
Net from all Sources after Taxes	1,621,119	58,675 (loss)

The improvement in underwriting results is clearly evident and hardly needs to be pointed out. While these figures are for only one company in the fire insurance industry, it is expected that other companies will show comparable results when the year-end statements are released.

At the same time as the directors of Glens Falls reviewed the operating results, they also approved the payment Jan. 3, 1949 of an extra dividend of 40 cents a share and the regular quarterly dividend of 40 cents a share. This in effect increases the payment expected for next year to $2 from the $1.60 a share paid for the last several years.

A number of other companies have also been active concerning dividend payments during the past two weeks. Great American Insurance announced that it would pay on Jan. 14, 1949 a year-end dividend of 10 cents a share in addition to the regular quarterly payment. Hanover Fire announced an increase in the quarterly rate to 35 cents from 30 cents effective next month. Also on Tuesday of this week the Insurance Company of North America raised the semi-annual dividend from $1.25 a share to $1.50 and declared the usual extra of 50 cents a share payable Jan. 15, 1949.

These changes together with others recently made and the ones that are likely to follow, should increase dividend payments of fire insurance companies considerably next year.

For purposes of comparison a tabulation of some of the leading companies in the insurance industry has been prepared to show dividend payments for the past three years. Also shown is the current price of the shares and the range so far in 1948.

	Dividends Paid 1948	1947	1946	Bid Price 12-14	1948 Price Range High	Low
Aetna (Fire)	$1.80	$1.80	$1.80	47	49	— 41
American Insurance	0.70	0.70	0.70	17⅞	18⅛	— 14⅞
Agricultural Insurance	3.00	3.50	3.50	58	67	— 51
Boston Insurance	2.40	2.20	2.55	61¾	72	— 52
Continental Insurance	2.50	2.00	2.00	61¼	64¼	— 48½
Fidelity-Phenix Insurance	2.70	2.20	2.20	65¾	69⅞	— 53½
Fire Association	2.50	2.50	2.50	57	61	— 44½
Fireman's Fund	2.60	3.00	3.00	78	78	— 65¾
Fireman's (Newark)	0.50	0.50	0.50	14⅛	15¼	— 11¼
Glens Falls	1.60	1.60	1.85	45	47	— 40¼
Great American	1.20	1.20	1.20	31¼	32¾	— 26
Hanover Fire	1.20	1.20	1.20	31	31	— 23¾
Hartford Fire	2.50	2.50	2.50	118	122	—100
Home Insurance	1.30	1.20	1.20	29¾	29¾	— 23
Insur. Co. of North America	3.00	3.00	3.00	106	108	— 92
National Fire	2.00	2.00	2.00	46½	49½	— 41
New Hampshire	2.00	2.15	2.05	42	45	— 40
North River	1.00	1.00	1.00	24¼	25½	— 21
Phoenix Insurance	3.00	3.00	3.00	82	90	— 73½
Providence-Washington	1.40	1.40	1.40	32½	35¼	— 30½
St. Paul Fire & Marine	2.25	2.00	2.00	75	81	— 65½
Security Insurance	1.40	1.40	1.40	30½	31	— 23
Springfield Fire & Marine	1.90	1.90	1.90	44½	46¾	— 39½
U. S. Fire	2.00	2.00	2.00	58	58	— 45½

It is evident that few changes have been made in the last three years in dividend payments. A number of companies, such as Boston Insurance, Fireman's Fund, Fireman's (Newark), Glens Falls, and Springfield Fire & Marine because of capital requirements sold additional common shares and in some cases adjusted dividend rates.

With underwriting operations once again indicated to be on a profitable basis and with investment income generally trending upward, additional increases in dividend payments may be expected.

Among the more interesting companies which will be meeting for dividend action during the next two weeks are the following: Aetna (Fire), Continental Insurance, Fidelity-Phenix, Boston Insurance, and Hartford Fire.

In the meantime insurance stocks continue to act well marketwise. After declining in the post election market most issues have recovered their losses and a number of the leading shares are now selling only slightly below their highs of the current year.

Humrichouser & Denbow

(Special to THE FINANCIAL CHRONICLE)

ASHLAND, OHIO—Wade Humrichouser and C. S. Denbow are engaging in a securities business from offices at 521 Cleveland Avenue.

With H. B. Cohle Co.

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, OHIO—Peter Q. Wilshire has been added to the staff of H. B. Cohle & Co., Union Trust Bldg., members of the Cincinnati Stock Exchange.

Profit and Its Functions

Petroleum industry analyst and Vice-President of Chase National Bank, in testimony before Congressional Committee citing case of oil companies, contends reported "profits" are overstated and rate of return on capital employed is erroneous yardstick in inflation periods.

Joseph E. Pogue, Vice-President of the Chase National Bank of New York in charge of its Petroleum Department, appeared before the Subcommittee on Business Profits of the Joint Congressional Committee on the Economic Report in Washington, D. C., on Dec. 9, and supported the views of Prof. Sumner H. Slichter and Prof. W. A. Paton that present corporation profits are exaggerated. Restricting his testimony largely to the results of a financial analysis made of 30 petroleum companies, Mr. Pogue outlined what he considered to be the fundamental principles affecting profits and gave his opinion, on the basis of his survey, Profits are overstated in periods of inflation.

Joseph E. Pogue

According to Mr. Pogue:

What Are "Profits"?

Few business terms are less understood than "profits." The expression is often thought of as representing the funds left over after providing for all expenses and available in their entirety for removal from the business in the form of dividends. This is rarely true in ordinary times and entirely false in times of inflation.

The term "profits" is a popular expression, the technical counterpart of which is "net income." Net income, or profit, however, at best is an accounting interpretation or abstraction, not a reality or tangible quantity such as "cash in the till." According to accounting practice, it is determined by taking the total income received by an enterprise and deducting the operating expenses and taxes, and then subtracting an **estimate** of the extent to which the capital assets employed have been extinguished; that is, worn out and used up. The sum thus set aside out of the total cash produced is supposed to be sufficient to replace the facilities of the business so that it can continue as a going concern. It is obvious that the adequacy of the sum thus set aside for replacement determines the reality of the reported net income. It is equally clear that "profits," depending for their computation on an estimate, are themselves not an absolute quantity.

Fundamental Principles Affecting "Profits"

There are four basic conditions which should be clearly held in mind by anyone seeking to analyze the size and significance of profits. I shall try to define these four principles and then briefly illustrate each point by data taken from our study of 30 oil companies.

(1) In times of inflation, or rapid change in the purchasing power of the dollar, "profits" as reported on the basis of established accounting practice are in effect overstated by the amount of the rise in replacement costs over the sum set aside to cover capital extinguishments—depreciation, depletion, and the like.

(2) In times of inflation, reported "profits" cannot properly be compared with previous years because of the shrinkage in the purchasing power of the dollar. Only by correcting for the changing length of the yardstick can this be done with any semblance of accuracy.

(3) In times of inflation, the rate of return on the capital employed, ordinarily a very useful standard, cannot be used as a criterion of the magnitude of profits because the rate of return is a ratio between two sets of dollars of different values. It is a mathematical error to strike a ratio between things of a different kind. Only by adjusting either the capital employed or else the "profits" to like dollars is such a ratio permissive.

(4) In all times, inflationary or normal, the most effective criterion to apply in the judgment of "profits" is their adequacy or inadequacy in the process of capital formation. Our entire economy is dependent upon the formation of sufficient capital funds to maintain and expand the country's productive capacity. As capital costs rise, "profits" are called upon to supply increasing amounts of these funds.

Reported "Profits" Are Overstated in Periods of Inflation

The reported net income of 30 oil companies was $763 million in 1946 and $1,219 million in 1947, an increase of $456 million, or 60%. On the face of it, this increase appears large. But the charges for capital extinguishments (depreciation, depletion, etc.), designed to recover the capital funds extinguished during the year were in adequate to replace the physical counterpart of this capital at prevailing higher costs. "Profits" were therefore called upon to make up the discrepancy and part of the reported total was diverted to this purpose. Thus "profits" computed by accounting procedure were larger than *de facto* profits. In other words, the *increased* cost of replacement appeared on the books as a profit.

The extent to which reported "profits" were thus in effect overstated can be approximately determined by adjusting the capital extinguishment charges, which are expressed in historical dollars, so that they reflect current dollars, or the cost of the physical capital to be replaced. If this is done,[1] we find that the adjusted net income[2] becomes $418 million in 1946 and $513 million in 1947, an increase of 23%. These figures are, respectively, $382 million less and $763 million less than the reported figures which are accordingly magnified by inflation to the extent of 91% in 1946 and 149% in 1947. It thus becomes apparent that the changing value of the dollar distorts the income account so that the reported net income ceases to be synonymous with profit.

The absorption of part of the reported net income by the higher costs of replacements is indicated by a 1947 rise in capital expenditures of $699 million, and by a decline in the percentage of net income paid to stockholders from 43.4% in 1946 to 34.9% in 1947. By way of comparison, this ratio was 66.3% in 1938.

Reported "Profits" Cannot Properly Be Compared With Previous Years

All financial transactions are ordinarily expressed in monetary units. The dollar, of course, is our standard of value just as the yard is one of our standards of length. "Profits" are expressed in dollars. But these dollars are no longer the same from year to year; their purchasing power or value has changed. Thus it is not proper to say that the "profits" of 30 oil companies have increased from $763 million in 1946 to $1,219 million in 1947. One can say, with propriety, however, that these "profits" increased from $763 million **1946 dollars** in 1946 to $1,219 million **1947 dollars** in 1947. This consideration suggests that a more correct view of the change in "profits" can be gained if the dollars are adjusted to reflect the **same** purchasing power.

This adjustment can be made with a fair approach to accuracy by dividing the reported dollars by the Bureau of Labor Statistics Index of Wholesale Prices of All Commodities. If this is done, the adjusted net income, expressed in dollars of prewar purchasing power, becomes $509 million in 1946 and $648 million in 1947, the latter figure showing an increase of $139 million, or 27%, from 1946. Thus it is found that 33% of the reported "profits" for 1946 and 47% of the reported "profits" for 1947 were absorbed by the shrinkage in the value of the dollar.

If this correction is not made in the reported figures, one finds himself comparing two different kinds of aggregate and falling into the same type of error as if he concluded that two bushels are twice as much as one ton.

Rate of Return An Erroneous Yardstick Under Inflation

The rate of return on capital employed is ordinarily a useful and widely used measure of profits. It provides a true picture so long as the value of the dollar remains reasonably constant. It is computed by establishing the ratio of current net income to accumulated borrowed and invested capital, or invested capital alone. Since investments are made in the past and income is derived in the present, this ratio is obviously the relation of present dollars to past dollars. If the two sets of dollars are approximately the same in value, all well and good. But if the two sets of dollars differ substantially, as they do when inflation intervenes, then the ratio is not only false but one commits a mathematical error even in computing it. It is not permissive to strike a ratio between unlike things; for example, no one would undertake to say that profits of $1 million made by an enterprise which had a net investment of 10 million pounds sterling represented a rate of return of 10%. He would first convert the dollars to pounds or else the pounds to dollars and then compute the ratio.

For the 30 oil companies in 1946 and 1947, the rate of return on borrowed and invested capital indicated by the **reported** figures rose from 9.3% to 13.2%. But this computation is erroneous. The error, however, can be eliminated if the numerator and denominator of the ratio are expressed in like dollars. When this is done, the adjusted rate of return becomes 6.5% for 1946 and 7.7% for 1947.

Relation of "Profits" to Capital Formation

Capital is a word with two meanings. It represents monetary funds which are held or expended, and it represents plant and facilities for which the expenditures are made. We shall refer to finan-

(Continued on page 42)

1 All adjustments presented in this statement are computed by means of well-known economic indices expressed in terms of 1935-1939=100 as a prewar base. The indices and computations are shown in detail in "Financial Analysis of Thirty Oil Companies for 1947," previously referred to.

2 These computations were made on the basis of net income before deducting minority interests' share.

Housing Costs in Gradual Decline

By ROBERT M. MORGAN*

Vice-President and Assistant Treasurer, Boston Five Cents Savings Bank, Boston

Savings bank mortgage specialist sees real estate industry heading into a period of uncertainties, particularly in field of housing. Says demand for mortgage money is slackening because of decline in new construction, less need for veterans' housing, and drop in total volume of real estate transactions. Looks for lower costs because of mass production and on-site prefabrication methods in building, and upholds private housing construction as key to inflation curb in mortgage field.

Although there are indications of still further rises in construction costs to come in 1949, there may be some offsets in builders' overhead and builders' profit margins. As to prices, certain materials—notably lumber—have started downward; and a number of other building materials may follow suit if the recent decline in their production levels is any indication of lessened demand. Steel products and cement, however, show no signs of weakness and are still in short supply. A new round of wage increases, on the other hand, would in all probability raise all material prices.

Robert M. Morgan

Labor costs in construction in the postwar years rose because of both higher wage rates and reduced productivity. Although the hourly rates have continued upward in 1948, and may well go higher in 1949, there is some real hope that the labor cost factor will continue to be gradually and slowly cut through higher productivity, increasing use of mechanical equipment, and the building techniques of larger scale operations. Already the abandonment of overtime and the delivery on schedule of materials have been helpful in cutting total construction labor costs.

But it is in neither materials nor labor but rather in overhead and builders' profits that there lie the most possibilities for reductions in over-all cost. Completion time is now almost normal at three to four months, having been cut from a period of four to five months earlier this year, and from one of nine to twelve months two years ago. Elimination of delays, better delivery, and more productive labor are contributing to a reduction in overhead. The margin of profit on construction was naturally inordinately high in the early stages of the housing shortage; and until three to six months ago, there was no tendency to trim. But as there began to appear on the market new structures completed, ready for occupancy and unsold —houses which failed to move quickly—there began a softening in the profit margin. As a result, anticipated selling prices in the $9,500 to $14 000 range have within the past three months been cut $500 to $1,000. It is entirely reasonable to expect that this trend may continue in 1949, with some of the less efficient operative builders dropping out of the market; but before doing so, they have left an impression on the over-all selling price level by their willingness to take a shorter profit.

It would seem, therefore, that while there may be further advances in material prices and wage rates, the normalizing of the industry may bring some lower overhead and reduced profit margins and may produce a situation where in 1949, although the cash out-of-pocket costs are up, the net selling prices are up only slightly, if any, over 1948.

Fully recognizing the degree to which available funds for mortgage investment in certain parts of the country have been exhausted, or nearly so, there would appear to be some grounds for concluding that the demand for mortgage money may not be as pressing as it has been in the past three years because of:

(1) the slackening of new construction;

(2) the degree to which the need for veterans' housing has been met;

(3) the possibility that we have reached or are nearing the peak of real estate prices;

(4) the drop in the total volume of real estate transactions.

Under these conditions, it would be logical to assume that mortgage rates might resume their normal relationship to government rates wherever the mortgage market is competitive by virtue of funds available for investment. Obviously, mortgage rates have seen the bottom; certainly, they are having a try for higher levels; but there is a real question as to how much of a lift there is in store for them in the months immediately ahead unless there is an increase in the yields on governments.

Applications for G.I. home loans have been declining steadily all year. Whereas during 1947 they averaged about 45,000 a month, by August they numbered but 27,000 and in September but 23,-000. There has been considerable talk to the effect that they have just about dried up, but the above figures do not confirm any such conclusion. Something like 1,300,-000 G.I. loans have been guaranteed. This represents but a small proportion of the 15,000,000 veterans who might be eligible to apply, but it probably covers a large proportion of those whose housing needs were most pressing. It would be natural to assume a levelling out of the number of applications following the first big readjustment period.

Housing is subject to the same general laws of supply and demand as any other article. In the period immediately following the war it was the tremendous growth in demand, due to the return of men from the service to civilian life and the shifting of war plant workers to other occupations, which was chiefly responsible for the housing shortage — rather than the lack of supply.

An examination of the demand would show that:

(1) The marriage rate—as the index of family formation—rose steadily following the war to about 1,000,000 a year, but since early Spring 1948, has been subsiding to about 700 000 a year as marriages deferred by the war have been completed. In April, 1947, it was estimated by the Census Bureau that 3,000,000 families had been forced to double up as against 2,000,000 in 1940; but indications are that the number is steadily declining as more accommodations become available.

(2) The price of rent, as a commodity, is dirt cheap—cheaper by comparison than any other item in

(Continued on page 39)

*Part of address by Mr. Morgan at the National Credit Conference of American Bankers Association, Chicago, Ill., Dec. 15, 1948.

No Danger of Severe Price Declines

By EWAN CLAGUE*

U. S. Commissioner of Labor Statistics

In appraising economic factors in our postwar prosperity, Commissioner Clague contends present conditions differ from those following World War I, when prices declined abruptly. Points to larger backlog in consumer demands, large military expenditures and heavier exports as sustaining price level, but says some wartime prices must necessarily come down. Looks for mixed consumers' price index in next year, with little change in general level.

The Bureau of Labor Statistics collects, compiles and publishes current information on many vital economic conditions for the United States. Our statistical reports cover a wide variety of economic factors. Among these are employment, wages, prices, industrial relations, housing and public construction, productivity, industrial hazards and a number of others. These data furnish the basis for appraising the current economic situation and analyzing certain basic trends in our economy.

Ewan Clague

Before attempting to present my appraisal and analysis, however, I should like to make clear the limitations within which it is possible to do this. In one sense of the term, no one can exactly foretell the future. The experience of the poll takers in the recent election is an example of this. In certain of the natural sciences such as astronomy, physics and chemistry, it is possible to discern future events with a high degree of precision, although even in these so-called exact sciences, the best thinking of the scientists has viewed these developments as representing nothing more than a very high degree of statistical probability. At any rate, we economists know that in our field, where we must deal with the uncertainties of human will and emotion, we can never be sure how long most trends will continue; nor can we be sure that some outside factor will not completely dislocate an apparently firm trend. So all that we can do is to look at past and present data, evaluate them in the light of our present knowledge, and indicate some of the probabilities of future developments. Furthermore, these probabilities are not nearly as high from a statistical point of view as they would be in the natural sciences. Therefore, in no sense of the term, can anything that I say be construed as a firm forecast of future events. What I am doing today is presenting for your consideration what has already happened, and indicating on the basis of that, what may happen next.

In the business world one of the most significant factors is prices, especially the primary market prices of commodities which are ordinarily sold in wholesale lots. This is what we call in the Bureau of Labor Statistics our index of wholesale prices. Such prices should be distinguished from prices in the retail markets. The bureau of Labor Statistics also publishes an index of these retail

(Continued on page 35)

*An address by Commissioner Clague before the 29th Annual Meeting of the Eastern Association of College and University Business Officers, Washington, D. C., Nov. 29, 1948.

Missouri Brevities

A group of underwriters headed by Edward D. Jones & Co., and including Stifel, Nicolaus & Co., Inc., Reinholdt & Gardner, Metropolitan St. Louis Co., G. H. Walker & Co., Stix & Co., Newhard, Cook & Co., Taussig, Day & Co., Inc., I. M. Simon & Co. and A. G. Edwards & Sons, on Dec. 1 publicly offered 50,000 shares of Griesedieck Western Brewery Co. (Belleville, Ill.) 5% cumulative convertible preferred stock at par ($30 per share), the net proceeds to be used in connection with the recent merger with the Griesedieck firm of Hyde Park Breweries, Inc., St. Louis. The plan of consolidation between the two firms, which was approved by their stockholders, became effective Nov. 20, 1948, and Hyde Park will continue as a separate division of Griesedieck.

* * *

Included in the nationwide group of investment houses publicly offering on Dec. 7 $150,000,000 of 25-year 3⅜% debentures due Dec. 1, 1973, of American Telephone & Telegraph Co. at 101.61 and interest, were: Stern Brothers & Co., Stifel, Nicolaus & Co., Inc., Newhard, Cook & Co., Barret, Fitch & Co., Inc., George K. Baum & Co., Inc., Smith, Moore & Co., and Stix & Co. The offering was oversubscribed.

* * *

American Investment Co. of Illinois, St. Louis, on Dec. 7 announced that the registration of the offer of exchange of its shares for the shares of The Ohio Finance Co. had been made effective by the Securities and Exchange Commission. The plan provides for exchange of securities on the following basis: For each share of 5% prior preference stock of Ohio, four shares of series A $1.25 convertible preference stock of America; for each share of 4½% preferred stock of Ohio, four shares of 4½% preference stock of American; and for each share of common stock of Ohio, four-fifths of a share of series A $1.25 convertible preference stock of American. The offer may be accepted by delivery of the Ohio shares to the Huntington National Bank of Columbus, Ohio, which is acting as depositary for the exchange, or to McDonald & Co. of Cleveland, Ohio, the dealer-manager, or to any of the participating dealers. The exchange offer expires at 3 p.m., Jan. 10, 1949, unless extended.

American Investment Co. of Illinois on Nov. 18 had filed a registration statement with the SEC covering 168,525½ shares of $25 par value $1.25 convertible preference stock, series A, and 68,175.6 shares of $25 par value 4½% preference stock. On Nov. 23, the stockholders of American increased the authorized preference stock from 300,000 to 500,000 shares, and the authorized common stock from 1,800,000 to 2,500,000 shares. The increase in the common stock was made in order to provide for shares issuable to executives and employees, as well as conversion of preferred and preference stocks, authorized but unissued.

* * *

The following Missouri investment houses participated on Nov. 17 in the public offering of $60,000,000 Northwestern Bell Telephone Co. 31-year 3¼% debentures due Nov. 15, 1979 at 101.375% and interest: Stern Brothers & Co., Stifel, Nicolaus & Co., Inc., George K. Baum & Co. and Stix & Co.

* * *

Mutual Mining Co. of Fredericktown on Nov. 29 filed a letter of notification with the SEC covering 22,000 shares of common stock to be offered at $10 per share, the net proceeds to be used for working capital. There will be no underwriting.

* * *

Stifel, Nicolaus & Co., Inc., Newhard, Cook & Co. and Reinholdt & Gardner were also included among the investment bankers who on Dec. 2 publicly offered at 100.845% and accrued interest an issue of $30,000,000 Panhandle Eastern Pipe Line Co. 3¼% sinking fund debentures due Aug. 1, 1973.

* * *

The Cherokee Basin Oil & Gas Co. of Butler on Nov. 30 filed a letter of notification with the SEC covering 25,000 shares of its no par value capital stock, which is to be offered at $10 per share, the net proceeds to be used to pay for development of oil production. There will be no underwriting.

* * *

In addition, Stern Brothers & Co. participated on Dec. 9 in the public offering of $12,000,000 Alabama Power Co. first mortgage bonds, 3⅜% series due 1978, at 102.75 and interest.

* * *

May Department Stores Co., St. Louis, has acquired the T. S. Martin Co., Sioux City, Ia., subject to the approval of the latter's stockholders on Dec. 30. Common stock of May Department Stores will be issued in exchange for the assets of the Martin firm. Details are not now available.

* * *

White & Co., St. Louis, recently offered an issue of 100,000 shares of Dynacycle Manufacturing Co., St. Louis, common stock (80 cents par value) at $5 per share, the net proceeds to be added to general funds to be used for working capital, etc. Incorporated in Missouri Sept. 29, 1947, the company is still in the development stage and is not engaged in commercial production. It plans to engage in the manufacture, sale and distribution of "Dynacycle units," parts and motors.

* * *

The directors of Rice-Stix Dry Goods Co., St. Louis, on Nov. 26 declared an extra dividend of $1 per share on the common stock, payable Jan. 3 to holders of record Dec. 15, 1948.

* * *

Interstate Bakeries Corp., Kansas City, declared a quarterly dividend of 30 cents per share on the outstanding common stock, payable Dec. 27, 1948 to holders of record Dec. 16, 1948. R. L. Nafziger, President, stated that this action was regarded by the board as initiating a regular quarterly dividend policy for the common stock, which it was hoped to maintain.

Interstate Bakeries Corp. also announces that net sales for the 40 weeks ended Oct. 2, 1948 were $44,657,514, against $39,594,011 for the 40 weeks ended Oct. 4, 1947. Net profit after Federal taxes amounted to $1,537,718, equal to $4.08 per common share, for the 1948 period, as compared with $1,044,672, or $2.46 per common share, for the corresponding period last year.

* * *

I. M. Simon & Co., Newhard, Cook & Co., Reinholdt & Gardner, Taussig, Day & Co., Inc. and Friedman, Brokaw & Lesser participated, together with others, in the public offering of 350,000 shares of Carolina Power & Light Co. common stock (no par value) at $30 per share.

* * *

Mid-Continent Airlines, Inc., Kansas City, reports a net profit of $17,484 in October, 1948, after provision for adjustment of income tax, as compared to a net profit of $27,687 in October, 1947. The loss for the first ten months of this year was $548. Operating revenues of $623,158 in October, 1948, were $39,519, or 11% above the same month last year. However, operating expenses of $593,847 in October, 1948, were 15% above October, 1947, reflecting the increased cost of labor, materials and services and the cost of operating additional schedules.

* * *

Edward D. Jones & Co., Stern Brothers & Co. and Stifel, Nicolaus & Co., Inc., also were included in the group of underwriters which purchased at $10.25 per share the 335,657 shares of common stock of Central and South West Corp. not subscribed for by holders of subscription warrants which expired on Dec. 3, 1948. The utility firm's common stockholders had subscribed for 323,949 shares of the 659,606 common shares originally offered to them. During

(Continued on page 39)

Michigan Brevities

On Dec. 9, S. R. Livingstone & Co. and First Michigan Corporation, both of Detroit, publicly offered a new issue of 67,500 shares of $20 par value 5½% cumulative convertible preferred stock and 67,000 shares of $1 par value common stock of Michigan Bakeres, Inc., Grand Rapids, the preferred being priced at $20 per share and the common at $5.25 per share. Other Michigan bankers associated in the offering are: White, Noble & Co. and Dudley H. Waters & Co., both of Grand Rapids; and Bennett, Smith & Co., Smith, Hague & Co., Campbell, McCarty & Co., Inc. and Wm. C. Roney & Co. The net proceeds will be used to redeem 5,968 shares of outstanding $1 non-cumulative prior preference stock at $20 per share; to redeem 4,425 shares of outstanding $7 cumulative preferred stock at $100 per share; and the balance will provide a major portion of the funds required for completion of the company's new Grand Rapids plant. The new 5½% preferred stock may be converted into common stock at any time at the initial conversion price of $7.2727 per share of common, subject to adjustment from time to time upon certain contingencies.

* * *

The stockholders of the Detroit Edison Co. subscribed on or before Dec. 1, 1948 for $44,671,000 of $46,641,400 new 3% convertible debentures, due 1980, offered to them last month in the ratio of $100 principal amount of debentures for each 15 shares of capital stock held as of Nov. 10, according to Prentiss M. Brown, President of the company. The unsubscribed portion will be sold to investors from time to time, either on the New York Stock Exchange or on the over-the-counter market. No underwriting was involved.

Blyth & Co., Inc., New York, acting alone and for its own account, on Nov. 16 purchased at competitive bidding from American Light & Traction Co. 192,734 shares (par $20 each) of capital stock of Detroit Edison Co. at $19.546 per share. Reoffering was made at $20.125 per share and the issue was immediately oversubscribed.

* * *

In January, 1949, the stockholders of Electromaster, Inc., Mt. Clemens, will vote on approving the transfer of all the net assets of the company to Philco Corp., Philadelphia, in exchange for 68,212½ shares of Philco authorized but unissued common stock, or one share of Philco stock for 8.796 shares of Electromaster stock. Electromaster will be operated by its present management as a division of Philco Corp.

* * *

The Detroit Stock Exchange reports that trading volume in November was 262,976 shares having a dollar value of $4,129,087. These figures represent an increase over October when 240,597 shares with a dollar value of $3,372,256 were traded; and over September when 188,620 shares with a dollar value of $2,666,754 changed hands. Post-election trading and activity in Detroit Edison Co. "rights" combined to make November the most active month of the year on the Detroit Stock Exchange.

The 10 most active stocks during November were: Detroit Edison Co., Electromaster, Inc., Avco Manufacturing Corp., Parke, Davis & Co., Commonwealth & Southern Corp., McClanahan Oil Co., General Motors Corp., Armour & Co., Gerity-Michigan Corp. and Hudson Motor Car Co.

* * *

The Detroit Steel Corp., which is constructing a new cold rolled strip mill in Hamden, Conn., has declared an extra dividend of $1 per share in addition to the usual quarterly dividend of 50 cents per share, both payable Dec. 15 to stockholders of record Dec. 6. This makes a total of $1 per share for the year 1948, as compared with $2.25 per share in the preceding year. Actual manufacturing at the Hamden plant, which will cost in the neighborhood of $2 million, may begin late in February, according to present indications. It was stated that the plant will have a capacity of 60,000 tons per annum.

* * *

On Nov. 17, First of Michigan Corp and H. V. Sattley & Co., both of Detroit, participated in the offering to the public of $1,500,000 City of Midland School District (Mich.) 1¾% school bonds dated Nov. 15, 1948, at prices to yield from 1% to 1.60%, according to maturity.

* * *

The stockholders of Gemmer Manufacturing Co., Detroit, have been advised that sales of $12,381,171 for the year ended Sept. 30, 1948 established a new high record in both dollar volume and unit output in the 42-year history of the company. Earnings amounted to $566,947, or $4.90 per share on the class B stock after providing for a $3 dividend on the class A stock. This compares with $563,938, or $4.88 per class B share, in the previous year. Frederick M. Hammond, President and General Manager, stated that "The demand for our product based on unfilled orders indicates sales will continue at a high level well into next year." At their next meeting, Dec. 21, stockholders will be asked to approve a plan to double the 100,000 shares of class B stock now outstanding. It is also proposed to change the par value of the class B stock from no par to $1 per share, and of the class A stock from no par to $37.50 per share.

* * *

The name of Tivoli Brewing Co., Detroit, has been changed to Altes Brewing Co.

* * *

Kaiser-Frazer Corp., Willow Run, on Nov. 24 announced the conclusion of negotiations with Wilbur E. Howett Co., Chicago, Ill., for the lease of a parts and accessories warehouse depot in Franklin Park, Ill. It will serve as a centralized distribution center to the auto firm's distributors and dealers. The warehouse, which is scheduled for completion in approximately nine months, will be constructed by the Howett company, and will provide 218,000 square feet of storage and shipping facilities. It will be constructed on more than 10 acres of land at a cost of about $1,100,000.

* * *

Nineteen Hundred Corp., St. Joseph, plans a two-for-one split up of its $5 par common stock by the distribution at a later date of one additional share of common stock for each share held of record at the close of business on Dec. 22,

(Continued on page 42)

Securities Salesman's Corner

By JOHN DUTTON

"You Can't Make Sales Today—or Can You?"

Victor Moore, Manager, Blair F. Claybaugh & Company, Miami Fla., sends us the following:

"So prices are going down—the averages are going lower—nobody will buy today, because they will all wait till they hit bottom

"That is the attitude of the average salesman in times like these. So what happens? They decide to sit and wait, and that tends to make a bad situation worse, and it sure doesn't bring it any commissions.

"Having discussed conditions with several dealers, I find they are all singing the blues. They tell you they just can't make a sale. Finally they admit they haven't called anybody. So that's it! We all decided the panicky public was right—but you sure can't make sales if you don't call on people.

"Now I ask you. Does that make sense? In 1928, stocks sold at 40 times earnings, and the public was fighting to buy them. Now they are selling at from two to eight times earnings, and we don't do a thing about it. So we don't get business, hey?

"Personally, I had these same ideas, but when I realized there were no checks coming in and the rent was due, I figured it was time to get a new angle or go into another business. So—you can take this for what it is worth—it paid off for me.

"First—don't cut down on advertising, but double it. Then when the inquiries start coming in, get off the seat of your pants and call on them. You will find that the average investor can be shown, and if you give him the facts about stocks, as you should know them, you'll find that sales will start coming. Remember you haven't done your client any favor if you sell him at the top of a bull market.

"Get away from your old line of selling for a rise in the market. Just tell 'em they may still go lower, but at today's prices, they are still cheap and show a marvelous yield. If they go lower, sell 'em some more!

"Remember—every share of stock sold has to be bought by someone, and the smart money buys when they are cheap. We can't be a Houdini and buy at the bottom eighth, but a few points lower at these levels won't make any difference."

Victor Moore can write this column again if he wants to. What he said goes double in spades and you can make it if you try it. Today I read some remarks made by Hal Dewar, of Dewar, Robertson & Pancoast, San Antonio, the new President of the IBA, at the Association's convention in Hollywood. Mr. Dewar asserted that a noted economist told him a few days earlier, that the investment bankers have allowed "the life insurance salesman and other representatives of trusted savings to pre-empt their position with the individual investor." It is the Victor Moores who are still keeping the small, flickering flame of security salesmanship alive in this country. It is the smaller retail organizations that are plugging away day after day and sending their men out to make the calls that are still doing the business. It is not altogether the fault of the larger underwriting firms that the securities business is in the doldrums But if there ever is going to be a rebirth of investor interest among the masses of the people it appears that the major portion of the job will have to be done other than by them.

Several of Mr. Moore's nuggets, it seems to me, can be used effectively in overcoming buyer resistance at this time. "Remember you haven't done your client any favor if you sell him at the top of a bull market," and "every share of stock sold has to be bought by someone and the smart money buys when they are cheap." Both of these observations can be included in your sales kit—they say a lot in a few words.

Street Club of San Francisco Issues First Report

Organized to promote cooperation among local investment firms in February, 1948, it has progressed into a permanent organization. Several meetings held during year.

The Street Club of San Francisco, of which Eugene A. Shurtleff, of Blyth & Co., Inc., is President, has just issued its first annual report, in which it is stated excellent progress was made and the organization can now be counted to occupy a place among the organized groups in the securities business.

The "Street Club" was organized early in 1948 in line with the idea of the Boston Investment Club, the first group of the kind formed. The purpose is to promote a spirit of cooperation and mutual understanding among representatives of the various San Francisco investment firms and to aid in their further education. Since its organization there have been nine regular monthly meetings, all attended by a capacity number of members and their guests. The Entertainment Committee provided the highlight of the year with a week-end party at Sonoma which it is hoped will be an annual affair.

The membership of The Street Club of San Francisco now exceeds 61, representing a satisfactory growth from an original group of only 16 members.

With Herrick, Waddell

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CAL.—Earl G. Bieg is with Herrick, Waddell & Reed, Inc., 8943 Wilshire Blvd.

Christmas Carols at Title Guarantee

Barnard Townsend, President of Title Guarantee & Trust Company, Dec. 14 presented a group of boys from the St. Thomas Church Choir in a program of Christmas carols at the bank's main office. In perhaps the first concert in a downtown financial institution by one of the topranking boys' choirs in the country, the boys sang a number of old French and English carols under the direction of Dr. T. F. H. Candlyn. Organist and Master of the Choir St. Thomas Church maintains one of the two full-time choir schools in this country where music and choir singing are essential parts of the curriculum. The concert was attended by business associates invited by Mr. Townsend and by employees of the bank.

With Harris Upham

MILWAUKEE, WIS.—Paul F McComas is with Harris, Upham & Co., 710 North Water Street.

Manley Hagberg to Form Own Inv. Firm

DALLAS, TEX.—About Jan. 1, Manley A. Hagberg will form

Manley A. Hagberg

M. A. Hagberg & Co., Inc. to engaged in the securities business. Mr. Hagberg has been a Vice-President of R. A. Underwood & Co., Inc.

Halsey, Stuart Group Offers Central Equips.

Halsey, Stuart & Co. Inc. and associates won award Dec. 9 of $9,720,000 New York Central RR. 2⅝% equipment trust certificates, due $648,000 each Jan. 1, 1950 to 1964, inclusive.

The group reoffered the certificates at prices to yield from 1.55% for those due Jan. 1, 1950, to 2.90% for those due Jan. 1, 1964.

The company will use proceeds to finance not more than 75% of the purchase price of new equipment to be built at an estimated cost of $13,338,000. The equipment will include 12 2,000-h.p. Diesel road passenger locomotive units; 14 double bedroom lightweight sleeping cars, 40 single and double bedroom sleeping cars, and 1,000 steel box cars of 55-ton capacity.

Others associated in the offering were A. G. Becker & Co., Inc., Blair & Co., Inc., Equitable Securities Corp., Gregory & Son Inc., Harris, Hall & Co. (Inc.), Hornblower & Weeks, Otis & Co., Inc., Phelps, Fenn & Co., R. W. Pressprich & Co. and L. F. Rothschild & Co.

With Heath & Co.

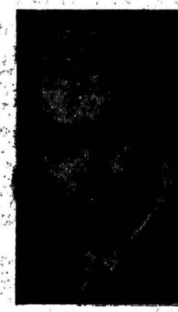
(Special to THE FINANCIAL CHRONICLE)

ELGIN, ILL.—Clifton J. Petersen is with Heath & Co., Tower Bldg.

Spahr Scores Our "Liability Currency"

Executive Vice-President of Economists' National Committee on Monetary Policy points out Federal Reserve Banks on Dec. 8 had less than $228 million of asset cash to pay out against $46½ billion of note and deposit liabilities.

"The United States, by gradual steps, has gone from an asset to a liability money," Dr. Walter E. Spahr, Executive Vice-President of the Economists' National Committee on Monetary Policy, said at a dinner meeting of the Minnesota Economic Club in Minneapolis, today. "This liability currency," he pointed out, "consists of promises to pay issued by the Treasury and Federal Reserve banks which these issuing institutions are not required to redeem in their lawful reserves, much less in such an asset currency as gold. Collateral held against Federal Reserve notes can all be illiquid government securities. Reserves of the Federal Reserve banks against their deposits and notes have been confined to gold certificates which cannot be utilized in payment of these liabilities, foreign claimants excepted



Walter E. Spahr

"On Dec. 8, 1948, the Federal Reserve banks had only $227,781,000 of asset cash to pay out against $43,490,541,000 of note and deposit liabilities—a ratio of less than ½ of 1%—and the smallness of this item is not even discussed today. This shows the extent to which we have become accustomed to liability currency and our indifference regarding the extreme smallness of the supply of asset currency which the Reserve banks normally have to pay out

"If this country had been on a gold-coin standard the Reserve banks on that date would have had about $23 billion in gold, or 100 times as much asset cash to pay out against their liabilities as they have under our irredeemable paper money system. Nevertheless, when it is suggested that we increase by 100 times the usable asset cash in the Reserve banks by returning to a gold-coin system the complaint goes up that there is not enough of such asset cash to go around and, therefore, we should continue with our liability currency.

"Under the present system there is no requirement that our government meet its liabilities domestically in terms of a good hard money which has universal acceptability.

"When the people of the United States lost the gold-coin standard and system and had a liability currency thrust upon them they lost control over the public purse, and they cannot regain control over it until a redeemable currency is put in their hands.

"A return to a gold standard on the basis of $35 per ounce fine," Dr. Spahr concluded, "should put a brake on further depreciation of our currency; encourage long-time commitment, investment, production, and employment; and open up foreign trade by allowing millions of private individuals to use their ingenuity, and by allowing them to gain possession of sound money with which to conduct their business."

Draper, Sears to Admit Spitzer

BOSTON, MASS. — Lester S. Spitzer will be admitted to partnership in Draper, Sears & Co., 53 State Street, members of the New York and Boston Stock Exchanges, on Jan. 1. Mr. Spitzer has been with the firm for some time.

With Bourbeau & Douglass

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Morris R. Geggie has become associated with Bourbeau & Douglass, 510 South Spring Street. Mr. Geggie was formerly with John M. Barbour & Co. and Nelson Douglass & Co.

With Dempsey-Tegeler

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Siegfried A. Schmidt has become affiliated with Dempsey-Tegeler & Co., 210 West Seventh Street. Mr. Schmidt was previously with Maxwell, Marshall & Co.

W. L. Henderson Opens

WALLACE, IDAHO—William L. Henderson has opened offices in the Gyde-Taylor Bldg., to engage in a securities business.

Connecticut Brevities

A million dollars of Southern New England Telephone Company 5%, 50-year gold bonds, sold during the period 1898-1909, was paid off Dec. 1 through the company's agent, the First National Bank and Trust Company in New Haven. Proceeds were obtained from the company's recent financing, a bond issue bearing interest of 3⅛% sold in March, 1948.

* * *

Three of Connecticut's largest life insurance companies have recently raised their dividend rates. **Aetna Life Insurance Company** has declared a quarterly dividend of 50 cents and an extra of 50 cents for an indicated annual rate of $2.50 against the 1947 total of $2.10. **Connecticut General Life Insurance Company** declared a 50 cent quarterly and an extra of 30 cents, which indicates a current basis of $2.30 against $2 paid in 1947. **Travelers Insurance Company** continued its $4 quarterly rate but increased the extra from $2 to $6 for an annual dividend rate of $22 against the previous $18.

* * *

A bill has been filed with the Massachusetts legislature under which the Old Colony division of **the New York, New Haven & Hartford** would be acquired by outright purchase or eminent domain by a proposed new Old Colony transportation authority.

* * *

Directors of **New Haven Clock & Watch Company** announced that the dividend on the preferred stock had been deferred. The last payment, a quarterly dividend of 22½ cents, was made Oct. 1, 1948.

* * *

Colt's Manufacturing Company's report for 40 weeks ended Oct. 10, 1948 states that the company has recently received Army Ordnance defense orders in an amount somewhat under $1 million for M3 rapid-fire machine gun parts. It was also stated that there was a substantial backlog of orders for small arms. The manufacturing departments of the Small Arms Division have been relocated in the North Armory and the company is approaching maximum gun output based on single-shift operation.

* * *

The Navy has announced that a new flying wing-type jet fighter designated the XF7U-1 will be built by the Chance Vought Aircraft Division of **United Aircraft Corporation**. The new plane was in the more than 600 mile-an-hour class and was designed for use aboard carriers. The power plants will be Westinghouse jet engines equipped with "after-burners" to increase speed for short periods.

* * *

Yale & Towne Manufacturing Company stockholders held a meeting Dec. 13, 1948 to vote on increasing the capital from 486,656 to 686,656 shares ($25 par value). Present plans call for the issuance of 24,332.8 shares of new stock as a stock dividend at the rate of one new share for each 20 shares outstanding. The remainder of the unissued stock would be available for such future disposition as might be determined by the directors.

* * *

Mr. Frank D. Layton has become Chairman of the Board of **National Fire Insurance Company** and Mr. H. Bawn Collamore has become President.

* * *

Connecticut Investment Management has announced that scrip certificates for fractional shares of stock issued June 29, 1931 to stockholders of merging corporations would become void on Jan 1, 1949. Scrip certificates for fractional shares issued to stockholders of American Colonial Corporation on or after June 1, 1943 will continue to be of value.

* * *

Connecticut Light & Power Company has announced that the second of two 31,250 kilowatt turbo generators has been put into operation at Montville. The equipment was originally ordered in October, 1946 as part of the company's postwar expansion program and was rushed to completion to meet increased electric power demands.

* * *

New Britain Machine Company has purchased the plant and certain other assets of Lucas Machine Tool Company of Cleveland, Ohio. Lucas will operate under the direction of H. N. Stephan, present Lucas Vice-President and General Manager, and no change in personnel is contemplated. Mr. R. R. Howe, New Britain Vice-President, stated that the acquisition is a logical step in that it adds an outstanding and universally known and accepted precision tool, and broadens New Britain's line for general distribution to the metal working trades.

New York Stock Exch. Weekly Firm Changes

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

Ben Jaffe will retire from partnership in Felder & Jaffe on Dec. 31.

Samuel M. Pearson will withdraw from partnership in Jerome Melniker & Co. on Dec. 31.

Percy F. Salomon, general partner in Salomon Bros. & Hutzler will become a limited partner, effective Jan. 1. On Dec. 31 the Trustees under the Will of Morton D. Hutzler, (limited partner), will retire from the firm.

Interest of the late Russell E. Sard in Bache & Co. ceased Nov. 30.

Interest of the late George P. Smith in Smith & Gallatin ceased Nov. 30.

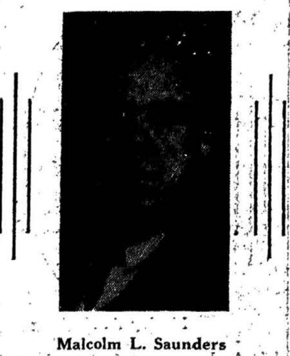
Joseph A. Kennedy Joins Staff of Julien Collins Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Joseph A. Kennedy has become associated with Julien Collins & Co., 105 South La Salle Street, members of the Chicago Stock Exchange. Mr. Kennedy was formerly with Holley, Dayton & Gernon and Cruttenden & Co.

Malcolm L. Saunders Rejoins Raymond Co.

BOSTON, MASS.—Malcolm L Saunders has rejoined the trading



Malcolm L. Saunders

department of Raymond & Co., 148 State Street. Mr. Saunders has recently been with A. G. Woglom & Co., Inc.

Halsey, Stuart Wins Southern Pac. Equips.

A group headed by Halsey Stuart & Co. Inc. were awarded yesterday (Wednesday) $15,740,000 Southern Pacific equipment trust, series Z, 2⅛% serial equipment trust certificates, due $1,574,000 annually Jan. 1, 1950 to 1959, inclusive. The certificates issued under the Philadelphia plan, were immediately reoffered by the group, at prices to yield from 1.45% to 2.45%, according to maturity. Sales is subject to Interstate Commerce Commission authorization.

Other members of the offering group were R. W. Pressprich & Co.; A. G. Becker & Co. Inc.; Equitable Securities Corp.; Harris Hall & Co. (Inc.); Hornblower & Weeks; Otis & Co. (Inc.); L. F. Rothschild & Co.; Shields & Co.; Wm. E. Pollock & Co. Inc.; First of Michigan Corp.; Freeman & Co.; Graham, Parsons & Co.; The Illinois Co.; Hayden, Miller & Co.; Edw. Lowber Stokes & Co.; McMaster Hutchinson & Co.; Mullaney, Wells & Co.; William Blair & Co.; Clayton Securities Corp.; Alfred O'Gara & Co.; Thomas & Co.; and F. S. Yantis & Co. Inc.

The certificates are to be issued to provide for not more than 66⅔% of the actual cost, estimated at $23,610,000, of the following new standard-gauge railroad equipment: 10 6,000-h.p. Diesel electric freight locomotives; 12 Diesel electric road switching locomotives; 20 Diesel electric switching locomotives; 1,300 50-ton box-cars; and 52 lightweight passenger train cars.

Schwabacher & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CAL. — Wayne R. Anderson has joined the staff of Schwabacher & Co., 600 Market Street, members of the New York and San Francisco Stock Exchanges.

With Stifel, Nicolaus & Co.

(Special to THE FINANCIAL CHRONICLE)

MILWAUKEE, WIS.—Donald C. McDowell has become associated with Stifel, Nicolaus & Co., Inc., 105 West Adams Street, Chicago.

Leading Life Insurance Executive Condemns Competitive Bidding Requirement

Leroy A. Lincoln, President of the Metropolitan Life Insurance Company, tells Life Insurance Association of America it has not proven attractive to corporate borrowers and is no where used except where required by regulative bodies. Says method results in inadequate investigation of offerings.

In the course of an address before the 42nd Annual Meeting of the Life Insurance Association of America, in New York City on Dec. 9, Leroy A. Lincoln, President of the Metropolitan Life Insurance Company of New York, took occasion to criticize the method of competitive bidding in the sale of new issues of securities. Concerning this topic, Mr. Lincoln stated:

Leroy A. Lincoln

"For certain public utility issues and for railroad securities generally, competitive bidding has been required for a period of several years. On observation thereof and on reflection, we have no reason to change our original view that competitive bidding is not in the best interest of the investor. Just why our regulatory authorities have seen fit thus to restrict the discretion of duly constituted corporate management by the strait-jacket of competitive bidding is not clear.

"Let us consider just what takes place in the creation of a security which is tendered for competitive bidding. The issuing corporation having itself decided what form of financing it desires to undertake, engages counsel, to draw the indenture and other necessary papers. No one representing the ultimate investor takes part in such discussions. It is obvious, therefore, that where conflicts might arise between the interests of the issuer and what might be the interests of the investor, such conflicts are bound to be resolved in favor of the issuer. It is true that at times some corporations do employ investments bankers as advisers in setting up their indenture provisions, but it should be emphasized that in any such case the investment banker is employed for the specific purpose of advising the issuer. His firm may or may not bid for the issue at the time of the competitive bidding but, even if it does, it has no assurance that it will be the successful bidder. Under these circumstances it is unlikely that the investment banker in this role of adviser on a specific issue would be as diligent in protecting the ultimate investor or in investigating the detailed operations of his client as he would be were he acting in the role of underwriter and distributor of the securities to his firm's customers. It is more likely that under the circumstances he would be more concerned with the marketability of the particular security rather than with its fundamental soundness as an investment.

"Having set up the issue, the next step is to clear it with the SEC in the case of a Public Utility issue or with the Interstate Commerce Commission in the case of a railroad issue. Here it should be pointed out that the SEC's operations under the Securities Act are primarily for the purpose of assuring full disclosure to otherwise uninformed investors, although it is true that under the Public Utilities Holding Company Act, the SEC may impose requirements in the nature of indenture provisions for the purpose of protecting the investor. Where the security involved is of a standardized form, one might argue that the regulatory body would be in a position adequately to protect the investor. However, companies are not uniform. Their needs are not uniform, nor can the investor's interests be properly protected on a uniform basis. The whole field of corporate activity is constantly changing. Each new development requires change.

"And investors must be constantly aware of those changes that may take place, and must adjust their pattern of lending accordingly. While it is possible that governmental bodies would be effective in such matters, it is much more reasonable to expect them not to be as alert to the changes as would those actively on the firing line of investment operations. The performance of this duty is peculiarly the function of management in our system of private enterprise.

"While I have mentioned the point, I should like again to stress the fact that since, in competitive bidding, no investor nor investment banker knows whether or not he will be the successful bidder, he is not justified in putting in a great measure of time and expense in adequate investigation of the issuer in advance of the sale. Under such circumstances, a deterioration in the character of the investment banking business is to be feared. Sponsorship responsibility on the part of the investment banker to either investors or issuers would be greatly lessened. His function would tend to become restricted merely to problems of pricing and distribution.

"For reasons which to them have seemed satisfactory, the SEC and the ICC have required competitive bidding in the two fields mentioned. Corporate officers in other fields are aware of the opportunity to resort to competitive sales of their securities as a method of financing. It seems significant that we know of no instance where an industrial corporation has called for competitive bids for its securities. There may have been some case which has not been brought to our attention but, if so, it would merely tend to be the exception that proved the rule that industry does not favor this method of disposing of its securities.

"The further one departs from the standardized type of security, such as the municipal bond and the railroad equipment trust, the more impossible it becomes adequately and appropriately to protect the investor's interests under competitive bidding. In the light of these considerations, it seems unlikely that Congress should pass legislation requiring all securities to be sold by competitive bidding. No greater disservice could be done to the savers in our country than to enact such legislation."

Chicago Exch. Members

CHICAGO, ILL. — The Executive Committee of the Chicago Stock Exchange today elected the following to membership:

Walter E. Kistner, A. C. Allyn & Co., Chicago, Ill., and Gilbert H. Osgood, Blunt, Ellis & Simmons, Chicago, Ill.

Mutual Funds

By HENRY HUNT

"Worry Killing"

"Worries may be divided into two classes: first, worries which one can 'do something about'; and, second, worries where the worrier is completely helpless to change the course of events. The first class mentioned serves a useful purpose; indeed, nothing was ever built by man which did not involve a liberal expenditure of 'fruitful worry.' The second class is wasted effort.

"If one could only fit one's emotions into the logical reasoning of the mind, then the second class of worries would cease to be bothersome. But unfortunately emotion, particularly the emotion of fear, knows few logical restraints. Most of us have to accept the fact that even the difficulties we can't help will continue to disturb us.

"Investors' worries rank high in the first group where one can 'do something about it.' After all, one has only to reach for a telephone and dispose of the irritation for good and all. Constantly through the 'security worrier's' mind runs the alternative: 'Shall I sell out and end the pain now or wait just a little longer?'

"Investment companies, if they fulfill their purpose, should serve to lessen greatly, if not eliminate, this 'security worry.' In the first place the direct element of concern is eliminated. One's investments are conceived as a whole and not as a number of individual situations, each one having its own particular 'worry potential.' In the second place, there is the delegation of worry that has taken place; someone else (your management) is fighting that battle for you.

"Once a person who has experienced the rigors of holding securities directly becomes used to the indirect method afforded by an investment company, wild horses would not pull him back to the old way; or at least so various persons who have been through the process tell us. They say that what used to seem to them a desperate game of chance becomes an unemotional business transaction. It does seem to us that 'worry killing' constitutes an important part of the service rendered by an investment company."—Written by Edward C. Johnson 2nd, President of **Fidelity Fund.**

A Job Well Done

"On Wednesday, Nov. 3, **The George Putnam Fund** repurchased a single lot of 100 shares. As most readers will remember, that day saw a decline of seven points in the Dow-Jones Industrial Average and a volume of over 3 million shares on the New York Stock Exchange. It is also an interesting fact that for the full month of November the repurchases of shares of the Fund were below the average for the first 10 months.

"We call this to your attention not in any boasting sense (although we are proud of it) but because it reflects the kind of a job investment dealers and salesmen have done in selling the Putnam Fund to their customers on an investment basis. The credit goes to the retail salesman, and to these men, and women, too, we say 'thank you.'

"It has always been our conviction that the proper selling of a fund was very important from the standpoint of the management and the dealer as well as the investor. It is so necessary that the men and women who place their money in a fund should understand the kind of a fund it is and what can reasonably be expected from it.

"In our opinion there has been too much comparative 'price selling' for the general good of the mutual fund industry. Selling swings in the Dow-Jones Averages is not selling an investment. It is selling a highly uncertain speculation and it is bound to bring unpleasant repercussions on the dealer and the management from time to time.

"We think of the Putnam Fund as a savings-investment medium and we have encouraged dealers to present it and sell it on such a basis. The record seems to indicate that dealers have done an outstanding job in the proper selling of this Fund and we are most appreciative of this fact.

"Dealers as well as beneficiaries will also be interested to know that during November investors placed more money in the Putnam Fund than in any previous month in its history."—From a **George Putnam** bulletin.

December Is Often a Good Month

The stock market doesn't always rise in December, of course. But historically it has done so a surprisingly high percentage of the time. In nine of the last 10 Decembers, for example, the Dow-Jones Industrials have managed to turn in a plus figure for the month —despite depression, war, taxes, price control and general turmoil.

Year	Nov. 30	Dec. 31	Rise
1938	149.82	154.76	4.94
1939	145.69	150.24	4.55
1940	131.00	131.13	0.13
1941	114.23	110.96	—3.27
1942	114.50	119.40	4.90
1943	129.57	135.89	6.32
1944	147.33	152.32	4.99
1945	191.46	192.91	1.45
1946	169.80	177.20	7.40
1947	179.40	181.16	1.76

Maybe it will rise this time; maybe it won't. But historical precedent, for whatever it is worth, favors the month.—Quoted from a bulletin issued by **Selected Investments Company of Chicago.**

73.6% of Earnings Plowed Back

"Any advance in security prices that results from speculative forces sooner or later reverses itself. An increasing worth is the only reliable source of long-term capital gains.

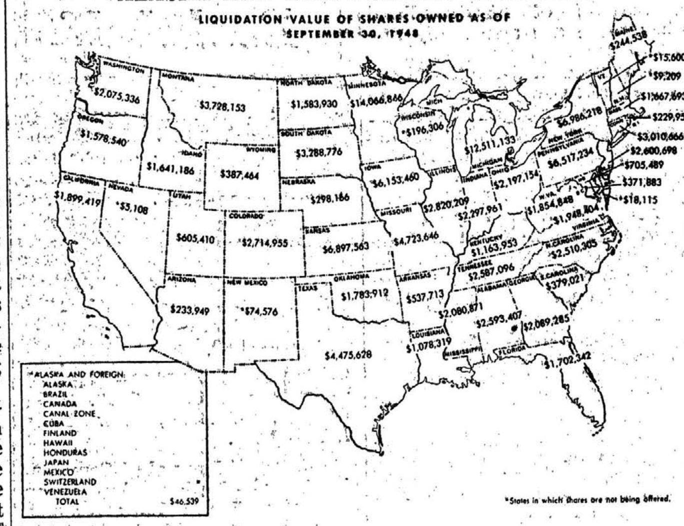
"The perfect combination of factors for an increasing worth is (a) potentials for profitable growth, (b) capable management, (c) the ability to pay reasonable dividends, and (d) still plow back a substantial portion of earnings to finance expansion. In such a company, the earnings plowed back can compound the company's ability to earn and, in reasonable time, materially increase the value of its common stock.

"Possibly no company has all of the above factors in equal amounts, but Investors Stock Fund's portfolio has been carefully selected to contain a high percentage of stocks that, in varying degrees, meet all four requirements. The last two factors, reasonable dividends and substantial plow-back of earnings, can be easily verified.

"An examination of the portfolio will show that all companies represented had average earnings per share of $7.84 during the year. Total dividends paid averaged $2.06. The average difference, or plowback, was $5.76 per share, which was 73.6% of total earnings."

The accompanying map graphically depicts the wide distribution of shares in **Investors Mutual Inc.**, the world's largest balanced fund with assets in excess of $120,000,000.

INVESTORS MUTUAL, INC., SHAREHOLDERS IN 48 STATES ALASKA AND NINE FOREIGN COUNTRIES



Tucker, Anthony Admit Borkland and Claflin

Tucker, Anthony & Co., 120 Broadway, New York City, members of the New York Stock Exchange, will admit Ernest W. Borkland, Jr. and William Claflin, III to partnership on Dec. 31. Mr. Borkland is manager of the bond and investment departments in New York. Mr. Claflin will make his headquarters in the firm's Boston office.

Firm Name to Be Andrews & Wells, Inc.

Effective Jan. 1 the firm name of Donald MacKinnon & Co., Inc., General Motors Building, will be changed to Andrews & Wells, Inc.

William F. Lally Is With Tifft Brothers

(Special to THE FINANCIAL CHRONICLE)

HARTFORD, CONN.—William F. Lally has become associated with Tifft Brothers, 49 Pearl Street, members of the New York and Boston Stock Exchanges. Mr. Lally was formerly local manager for Luckhurst & Co. and was with J. Arthur Warner & Co.

D. K. Porteous V.-P. Of Cohu Corporation

Douglas K. Porteous has been elected a Vice-President of Cohu Corporation, 1 Wall Street, New York City, distributors of Mutual Investment Funds.

Canadian Securities

By WILLIAM J. McKAY

On March 31 next, Britain's oldest colony will become Canada's tenth province. When the act of union of Canada and Newfoundland is consummated by the British Parliament the 3,842,000 square mile area of the Dominion of Canada will surpass that of the whole of Europe by some 60,000 square miles. The Canadian population will be automatically increased by the entry into the Dominion confederation of 320,000 Newfoundlanders to make a total of approximately 13¼ million Canadians.

This historic union of the important territories of Newfoundland and Labrador with the senior Dominion of the British Commonwealth of Nations was brought to a happy conclusion after protracted negotiations which were not always free of acrimonious argument. Finally, however, the democratic will of the people decided the issue by popular referendum. Moreover the ultimate terms of confederation were even more generous than those initially offered by Canada as the basis of the referendum.

Despite the inevitable protest of minority interests which favored complete independence and closer collaboration with the United States, the general reaction of the majority of the people of the new Canadian province has been entirely favorable and there are high hopes of enhanced prosperity and security for Newfoundland within the borders of a unified and greater Canada.

There is little doubt that this new and appropriate union will bring mutual benefits to both parties. As a province of Canada the constitution of Newfoundland, which was suspended in 1934 when the London Commission of government took control, will be resurrected. With a greater degree of independence, together with the influence of Canadian progressiveness in the field of development of natural resources, it is inevitable that Newfoundland's known and unknown economic assets will now be vigorously explored. The hitherto neglected mineral wealth, virgin forests and hydro-electric power reserves of the vast territory of Labrador will now receive closer attention from Federal agencies and Canadian industrial interests. The program of development of the fabulous Labrador iron-ore deposits will be accelerated and the delay before actual production will be shortened by several years.

It is not generally realized moreover that Labrador is not the only economic asset that Canada will gain as a result of the inclusion of Newfoundland in the Canadian confederation. Within the borders of Newfoundland proper there are also many important although hitherto little known mineral and industrial assets that will now play a valuable role in the enlarged Canadian economic scheme. The Newfoundland pulp and paper industry was responsible last year for a total of exports that surpassed in value the hitherto leading export of fish. Canada can now lay claim to the possession of the largest papermill in the world—the Bowater mill at Cornerbrook. The Anglo-Newfoundland Development Co. mills at Grand Falls also produce newsprint on a large scale and are a main source of supply for leading newspapers in the United Kingdom. As a result of Anglo-Newfoundland's prospecting for sulphur for is newsprint production, the Buchans Mining Co.'s extensive lead and zinc deposits were discovered. The Dominion Iron and Steel Co.'s iron-ore mines on Conception Bay not only provide ore for the Dominion Iron and Steel blast furnaces at Sydney, Nova Scotia but also for exports to Europe. There are extensive coal-fields on the west coast which so far have not been actively exploited and oil is also known to exist but similarly little effort has been devoted to its development. As on the mainland Newfoundland is also well supplied with an abundance of potential hydro-electric power.

Thus the economic benefit to Canada of this valuable new addition to her existing vast territories is already considerable, but the future is likely to show that current appraisals will fall far short of the actual economic potentialities of the Dominion's 10th province.

During the week there was steady demand in both the external and internal sections of the bond market but activity was still restricted by the absence of available supply. Free funds strengthened following continued demand in connection with oil investment and a slackening of the recent persistent selling pressure. Stocks were irregular with the gold issues exceptionally the main center of attraction. The base metals also were in renewed demand.

After early unsettlement following news from Calgary that refinery capacity in Alberta had been reached there was a subsequent minor rally led by British Dominion which was reported to have promising results from its joint drilling test with Gulf Canadian north of the Redwater field. The industrial issues were irregular and mostly lower. Despite the favorable dividend announcement of Consolidated Mining & Smelting Co., there was little market response as far as CPR was concerned. In view of Canadian prospects as a whole and the Canadian Pacific's participation in virtually every phase of the Dominion's economic activity there is little doubt that this undervalued stock must eventually move higher.

Business Man's Bookshelf

Taxation of Manufacturing in the South—James W. Martin and Glenn D. Morrow — Bureau of Public Administration, University of Alabama—Paper.

Causes of Industrial Peace Under Collective Bargaining — National Planning Association, the Dewey and Almy Chemical Co. and the International Chemical Workers Union, Washington, D. C. —Paper—$1.00.

Corporation Finance—Floyd F. Burtchett and Clifford M. Hicks —Harper & Bros., New York, N. Y.—Cloth.

1949 Credit Manual of Commercial Laws — National Association of Credit Men, 1 Park Avenue, New York 16, N. Y.—Cloth—$10.00.

Facts and Figures of Government Finance—The Tax Foundation, Inc., 30 Rockefeller Plaza, New York 20, N. Y.—Paper.

Government Activity in the Lending Field—News Bureau of the American Bankers Association, 12 East 36th Street, New York 16, N. Y.—Paper.

Housing and Employment—International Labor Office, 1825 Jefferson Place, Washington 6, D. C. —Paper—75c.

Present Day Banking 1948-1949 —American Bankers Association, 12 East 36th Street, New York 16, N. Y.—Cloth.

Sugar Facts and Figures— United States Cuban Sugar Council, 136 Front Street, New York 5, N. Y.—Cloth.

Bond Club of Detroit Christmas Party

DETROIT, MICH.—The Bond Club of Detroit has set Dec. 16 for their annual Christmas Cocktail Party to be held at the Savoyard Club on the top floor of the Buhl Building. The invitations to members only call for festivities to start at 4:30 p.m. to be followed by a buffet supper. Frank P. Meyer of the First of Michigan Corporation, Chairman of the Entertainment Committee, is in charge of arrangements.

E. F. Hutton & Co. to Admit D. K. Phillips

E. F. Hutton & Co., 61 Broadway, New York City, members of the New York Stock Exchange, on Jan. 1 will admit Donald K. Phillips to partnership. Mr. Phillips has been with the firm for many years.

Stock Exchange Erects 25th Christmas Tree

A 50-foot Norway Spruce has been erected in Broad Street by the New York Stock Exchange. It is the 25th Christmas tree to bring holiday cheer to the financial district. The tree will be lighted beginning Friday, Dec. 17, and, commencing Monday, Dec. 20, recorded Christmas carols will be played from the outside gallery of the Exchange at Noon and in the late afternoon.

Observations

(Continued from page 5)

spective discount on a particular fund's capitalization is high or low, the market comment is concerned only with forecasting the *future behavior* of the discount *per se* on the basis of past performance. Consideration of whether participation in a fund of representative marketable common stocks does or does not represent good *value* at the available price (as now at a 40% discount) is almost completely sublimated to comment that even if such a discrepancy is attractive it has always existed, or that similar situations are generally available with other trusts—the controlling implication in both cases being that continuation of past performance with the preclusion of visible capital gain makes value judgments irrelevant. **Such an attitude in the trust sphere, where the values can be arithmetically calculated, epitomises the market place's characteristic fundamental error in trying to discount the future of stock prices by guessing what other people are going to do, in lieu of considering appraisable concrete value and trusting that it will work out in satisfactory income or capital-appreciation yields, or both. It is in line with the stock market's functioning as a barometer of psychological reactions instead of a thermometer of values.**

The Investing Performance

Important general investment conclusions are likewise deductible from the trusts' short- and long-term operating performance, as adequately revealed in statistical compilations. A good basis of reference is the Dow-Jones Composite Average of 65 stocks. This comparison is valid even though the trusts have an average of 10% of their assets in cash, as they are presumably committed to equity investment and in any event the expense of trust management is not required for investment in cash or short-term governments.

In the 11¾-year period from 1937 through September 30, 1948, according to compilations made by Arthur Wiesenberger and Co., (on the basis of annual restoration of dividends to the trusts as well as to the Dow-Jones issues); the closed-end companies showed a gain of 71%, and the open-end companies a gain of 56%; against a gain of 88% for the Dow-Jones Index. For the period of the first nine months of this year the trust performance is demonstrated as even worse, with both the closed- and open-end funds gaining 2%—against 7% for the blindly-buyable index.

Such negative results seem to be caused by the following:

(1) Specifically, the trusts avoided the rails, which did better than other stock groups since the early war years—which simply means that the trusts made an error in group selection.

(2) The holding of considerable proportions of their assets in cash served as a brake during bull markets—but the counterbalancing benefit from thus being partly out of the market during bear periods, was not reflected in results.

(3) The open-end funds have been penalized by their customers' irrationality in handling the greater amounts of funds to invest in times of boom instead of bust (reflecting the same investment foible as is exhibited in the above-described discount fluctuations).

(4) Unwieldiness—resulting in general from the de-liquid stock markets existing since the mid-1930's. This, entailing difficulty in flexibility in portfolio operations, has made the size of the funds a disadvantage instead of an advantage.

(5) Absence of promotion. In contrast to the open-end funds' distribution (successful despite a 7-10% load) through direct house-to-house peddling, the closed-enders' participation sales are dependent on Stock Exchange listing or left quite neglected over-the-counter. Analogy may be made to the situation in regard to the ready sale of special distributions via off-the-Exchange in contrast with the impossibility of their occurrence when the issues are passively located on an exchange.

The Broad Implications

But far more important in its general implications for the investor than any of these five reasons for the comparatively unsatisfactory results, is the whip-sawing which has generally crowned efforts to capture short-term capital profits. This conclusion is borne out by the general results during periods of narrow markets, as well as by comparing the relative results of trusts which follow digging-in policy with those pursuing rapid turnover aims.

Thus, in the unchanged market between the beginning and end of 1947, while the Dow-Jones Composite Index showed an advance of 6%, the trusts registered a depreciation averaging 1% (both calculated with dividends put back). Similarly, during the irregular short-swing markets existing in the first nine months of this year, the funds appreciated only 2% while the Index gained 7%. Furthermore, among the different trusts, those funds which have low turnover habits have generally registered better results than have the higher turnover funds.

The over-activity and the speculative approach, which result in the whip-sawing, like so many other abortive doings by those functioning in a trustee capacity, is to a great extent forced by the misguided clients. In this case it is the shareholders who feel that activity gives them their money's worth, and who prefer timing operations in the Blue Chips to workmanlike but unglamorous long-term business-like commitments in Special Situations. Consequentially, trust managers prefer the prospect of losing money "legitimately" in an American Telephone than in an unknown enterprise.

Thus the empirical record showing that attempts at market-swing-catching were fruitless enough to lower the results of the most expert investment management below those attainable from the blind placement of funds in a representative index, importantly confirms the general conclusion that true perseverance with long-term investment policy pays off in relative material results.

If . . .

"The first danger [to freedom] arises from those who sincerely love freedom, but believe the way to preserve it is to give more and more power to 'do good' to centralized government.

Harold E. Stassen

"The second comes from those who sincerely love freedom, but believe that the way to preserve it is to stand still—to maintain the status quo—to look backwards.

"The third originates with those who seek to destroy freedom by using freedom's openness as the avenue for sabotage.

"The final threat is found in those who would destroy freedom by the use of aggressive military force.

* * *

"If we demonstrate the alert, dynamic and ingenious approach to the new problems that the early leadership of our country displayed, holding fast to the fundamental concepts . . . then I am confident that we will win the economic struggle against those who would destroy the freedom of men.

"We will also win the ideological struggle against those who would destroy the freedom of men."—Harold E. Stassen.

There is, of course, much truth in what Mr. Stassen has to say—but somehow the reference to looking backwards disturbs us a little.

We know it has become rather shameful (to many) to look backwards, but how harken to "early leadership" or hold fast to fundamental principles or concepts traditional in this land of ours if we are not to look back and learn what they are and how they worked?

NYSE and Curb Amend Floor Trading Rules

In duplicate actions taken by both Exchanges, restrictions on purchases by members for own account are liberalized.

The Boards of Governors of both the New York Stock Exchange and the New York Curb Exchange at special meetings on Dec. 11 and on Dec. 13 amended the rule governing purchases by floor traders for their own account.

The first paragraph of the present Curb Rule 110 which, like Rule 374 of the New York Stock Exchange, reads as follows:

"Rule 110. (a). No member, while on the Floor of the Exchange, shall initiate for any account in which he has an interest a purchase or purchases of stock at a price higher than the last sale, i. e., 'plus tick'."

has been amended to read as follows:

"Rule 110. (a). No member, while on the Floor of the Exchange, shall initiate for any account in which he has an interest a purchase or purchases of stock at a price higher than the last sale (i. e. a 'plus' tick) if the purchase price is (I) above the price at which such stock last closed or (II) at the price at which such stock last closed if the price of the closing transaction was above the price of the transaction preceding the closing transaction (i. e. a 'plus' tick)."

so that Rule 110 now reads in its entirety as follows:

"Rule 110. (a). No member, while on the Floor of the Exchange, shall initiate for any account in which he has an interest a purchase or purchases of stock at a price higher than the last sale (i. e. a 'plus' tick) if the purchase price is (I) above the price at which such stock last closed or (II) at the price at which such stock last closed if the price of the closing transaction was above the price of the transaction preceding the closing transaction (i. e. a 'plus' tick).

(b). The provisions of this rule shall not apply to purchases made:

(1) by a specialist—odd lot dealer in a stock in which he is registered as a specialist and odd lot dealer to maintain a fair and orderly market in accordance with Rule 174;

(2) to effect or facilitate a distribution of securities, if such transaction is made pursuant to Regulation X-9A6-1 or if such transaction and such distribution are made pursuant to the approval of the Exchange;

(3) to cover a 'short' position;

(4) to offset a transaction made in error;

(5) for bona fide arbitrage;

(6) with the prior approval of a floor official to permit the member to contribute under unusual circumstances to the maintenance of a fair and orderly market."

The New York Stock Exchange has also taken the above action to facilitate better market in stocks by modifying its rules to permit members on the floor to purchase for their own accounts, under certain conditions, "long" stock at a price higher than the last sale. Previously, members of both the New York Stock and Curb Exchanges could not buy on the floor for their own accounts any stock at a price higher than the last sale, unless they acted as specialists or odd lot dealers.

Battle for European Economic Integration

By PAUL EINZIG

LONDON, ENGLAND.—It is now quite clear that the main controversy in the difficult attempt at European economic integration is between Britain and France, and that the subject of this controversy is the future trade balance between the two countries. Before the war France had a large favorable balance on her trade with Britain. Now she has a large adverse balance which she is anxious to maintain in the near future. But she is even more anxious to ensure that by the end of the Marshall Aid period the prewar situation should be restored. Nor is France alone in this respect. Most countries of Western Europe are in a somewhat similar position. Britain is confronted with an almost united continental front, in the form of a demand that during the course of the next four years her economic policy should aim at the admission of an increasing import surplus from the continent, consisting mostly of luxuries.

Dr. Paul Einzig

The British Four-Year Plan, the details of which have leaked out prematurely, takes a totally different line. Britain's aim is to establish a balanced trade with the continent. The reasons why Britain cannot afford to restore the prewar *status quo* is that in the meantime her balance of payments deteriorated to a considerable degree. If Britain were to admit large continental luxury imports, that would rule out the possibility of balancing her international accounts. On the other hand, France and other continental countries find it difficult to achieve equilibrium unless and until they have recovered their British markets for their luxury exports.

Here is a dilemma that deserves to be quoted as a classical example in textbooks on logic. The Marshall Plan demands the economic integration of Europe. In the interest of that integration Britain is urged to resume luxury imports on a large scale. Should she refuse it would jeopardize the success of integration; should she comply she would sacrifice the chances of balancing her international accounts, which is another major requirement of the Marshall Plan. In plain English, the choice appears to be between equilibrium in Britain and equilibrium in France and other countries in a similar position. Is Britain to sacrifice her chance of becoming independent of American support at the end of ERP period? If not, how could European integration be achieved?

In reality dilemmas are seldom so completely incapable of solution as it appears at first sight, and the present dilemma is no exception in this respect. The solution lies in a compromise under which Britain would be enabled to absorb a larger volume of continental luxuries, even though not nearly as large as the exporting countries would like her to, and the latter would switch over to some degree from the production of luxuries to the production of necessities. As things are at present the only way in which Britain would be able to afford to import more luxuries from Europe would be through an increase of her exports to other continents. The export drive to the countries of the Commonwealth, the Western Hemisphere, the Far East, would have to be intensified at all costs. And even then it is doubtful whether the desired result could be achieved in a world which is becoming increasingly a buyers' market and in face of growing competition.

The alternative is for the Continent to produce more goods which Britain is importing at present from hard currency countries. If France should produce more wheat, steel and other necessities, Britain could save corresponding amounts of hard currencies. Therefore she would be in a better position to spend on luxuries. While she would be in a position to buy luxuries and semi-luxuries to pay for her exports to France, any French export surplus to Britain must be of such a nature as to enable Britain to cut down her essential imports from other parts of the world. This would necessitate important changes in the production system of the country, and it would be naturally more convenient to France if all the adjustments were made by Britain alone. That is, however, out of the question.

It is to be hoped that a reasonable compromise will be reached before very long, and that this conflict will not hold up unduly European integration, on which the continuance of the Marshall Plan depends. Since both Britain and France need Marshall Aid neither party could afford a deadlock. On the other hand, there are limits beyond which it is hardly worth Britain's while to make sacrifices, dependent as she is on Marshall Aid. It would be a mistake to force Britain to sacrifice, for the sake of immediate assistance, her long-term prospects of equilibrium. The British policy should not be regarded as one of austerity for its own sake. In her impoverished state she really cannot afford to indulge in excessive luxury imports. It would be a much more realistic solution if the continental countries took her impoverishment into account and adapted their production and export policy to the deplorable but inevitable changes of British import requirements.

Brewster Joins Allen Co. In Municipal Bond Dept.

Halsey C. Brewster has joined the municipal bond department of Allen & Co., 30 Broad Street, New York City, it is announced.

"Business Profits Excessive"

By NELSON H. CRUIKSHANK*

Social Insurance Director, American Federation of Labor

Though stating profit motive is vital to free enterprise economy, AFL representative contends present high profits are created by high prices paid by workers and others. Holds business firms are following policy of "charging what traffic will bear" and this is having dangerous consequences for American economy. Says sound monetary policy by government is basic in checking inflation and wages could be raised further without rise in prices.

As a Representative of the American Federation of Labor I am very glad to have the opportunity to present our views on the very important subject with which your Committee is dealing. Labor is vitally concerned with the subject of business profits as it relates to the distribution of our national income. The economic system which we have developed in America and all the social and cultural by-products of that system are at stake. This system which is now being attacked from all sides cannot endure unless fair and equitable distribution of the rewards of productive effort among workers and investors is developed and followed.

N. H. Cruikshank

Next only to the immediate requirements of a good job at a wage sufficient to maintain his family in self-respecting decency the first interest of the working man is an economy of continuing stability. This is because the savings of working people are in such things as life insurance, government savings bonds, and in retirement programs, both private and government. The values in all of these are dollar values and working people stand to lose more than any other group if continuing price increases are permitted to whittle away the purchasing power of these dollars.

It is not only the worker's future security but his present welfare that is dependent upon a stable economy. As I shall demonstrate, the last few years' experience shows that the lag in wage increases in relation to price rises undermines the living standards of working people.

For the last several years we of labor have missed hearing in the halls of Congress the voices that were so insistent during the middle 30's on balancing the budget and reducing the national debt. We recall just ten years ago when three out of nine million unemployed men and women were on the WPA how we were told that to borrow the necessary funds to provide them with relief employment would ruin the country. We were told that a national debt of $40 billion would wreck our economy. Now with a debt of $259 billion these same voices are strangely silent on the question of retiring the national debt and devote their strident pleas to further reduction in income taxes, inheritance taxes and taxes on corporation profits. It is labor that pleads for retirement of the national debt and the establishment of a stable economy.

Profit Motive Is Vital

The American Federation of Labor has long recognized that the profit motive is vital to the continuance of a free enterprise economy. It is the mainspring of business incentive and in a really free and really enterprising economy where there is competition among business units the system benefits workers by bringing about constant improvement in productive techniques and processes. These create the increased income necessary to raise wages. When the representatives of our unions sit at the collective bargaining table with employers it is not their policy to demand wage increases that will destroy any chance for profit. Working people have no desire to kill the goose that lays the golden egg of wages. Likewise when we think of national fiscal policies we have no desire to establish programs that will destroy the system by which all of us in America have profited. By the same token we expect the representatives of business to accept the principle that a decent living standard for workers and the maintenance of their purchasing power is essential to the continuance of the system by which they profit. We expect that they should recognize that this purchasing power must not be destroyed either by wage cutting or by charging unreasonable prices.

A policy of fairness to all groups is the only possible basis for a sound economy. Such a policy has not been in operation since the end of World War II.

During the entire postwar period, unions have been struggling to keep wages abreast of the drastic price rise. Except for a few months when prices temporarily declined a little, then rose again, wages have fallen steadily behind in the rate with prices ever since V-J Day. Two years after the war's end living costs were up 24%, wages only 18%; by October, 1948 (latest figure) living costs were up 34%, wages only 31%.

Prices have been raised more than enough to cover any added cost due to wage increases, and the result has been that business profits have reached new peaks. With each postwar year, a smaller and smaller portion of the income created by American industry has gone to workers and a larger and larger part to profits. For example, wage and salaried workers in 1939 received 65% of the income created by industry; in the first postwar year, 1946, the share paid to workers had dropped to 63%, and declined further to 61.3% in 1947 and to 60.8% in the first half of 1948. Meanwhile the share going to profits of both corporate and unincorporated business increased steadily in each postwar year. The share going to profits was 29% in 1939 and 37% in 1948 (first half). (The figures are from the U. S. Department of Commerce.)

It is common knowledge that profits which reached an all time peak in 1947 are exceeding that peak in 1948. The proper measurement of profits is the rate of earnings on net worth after taxes, which represents the income on stockholders' equity or investment—the National City Bank figures are generally used for current records. For manufacturing corporations, these figures show an average earnings rate of 17% on net worth after taxes in 1947, which exceeds by a considerable amount all previous records in the 22 years covered by these figures. During the period from 1925 to 1946, in most peacetime prosperous years the earnings rate varied between 8 and 11%, and in only four peacetime years did it exceed 11%; 1928 when it was 11.6%, 1929 at 12.8%, 1941 at 12.4%, and 1946 at 12.1%. During the war excess profits taxes reduced the earnings rate to 9-10%. Yet reports for the first three quarters of 1948, for a smaller number of corporations, show an increase of more than 2% on net worth above the corresponding period of last year. In 1948 thus far these amazing profit rates are shown for individual industries: Automobiles, 26.1%; textiles and apparel, 22.5%; petroleum products, 21.3% office equipment, 25.4%; pulp and paper products, 23.0%; cement, glass, stone, 20.8%. Thus profits of leading corporations in many industries show more than double the rate of return on stockholders' equity which has been usual in prosperous peacetime years over the last two decades.

Those who would show profits as a percent return on sales ignore the fact that sales volume may double with little, if any, increase in stockholders' investment, and it is the income on investment which is significant.

High Prices Paid by Workers

The significant point about these profits is that they are created by the high prices paid by workers and other consumers.

During the postwar period, the American businesses have been depending on profits retained in the business to furnish about 70% of the new capital necessary for new equipment, working capital and other needs. This is in marked contrast to the prewar period when new capital was furnished to a much greater extent by the sale of securities to investors. This change in business practice affects our entire economy. It means in actual fact that by keeping prices high, companies actually take their new capital from consumers who pay out needed cash involuntarily to meet high prices, instead of borrowing it from investors who willingly invest their savings. A large proportion of the consumers who pay for this new capital are low income groups who have to meet high prices by cutting down their purchases of living necessities. Qualified persons have recently pointed out that there is no reason to believe adequate capital could not be obtained through new security issues. Actually the volume of new capital raised by issuing new securities has increased steadily, as a comparison of nine month periods in the three postwar years will show. It increased from $2.0 billion in 1946 to $2.8 billion in 1947 and $4.2 billion in 1948. (Commerce Department figures.) However, this $4.2 billion compares with $13 billion spent for new plant and equipment by American corporations in the first nine months of 1948, and the actual volume of capital obtained from new securities this year is only about three-fourths of that of 1929 although the amount spent for plant and equipment is almost double that of 1929. Through prices paid for consumers goods buyers are providing capital for industries over which they have no control

(Continued on page 24)

*Statement by Mr. Cruikshank before the Joint Committee on the Economic Report of the President, Washington, D. C., Dec. 8, 1948.

CED Recommends Monetary and Fiscal Policy

Outlines programs for periods of inflation and deflation for maintaining greater economic stability. Says Federal Reserve's support of long-term government bonds permits expansion of bank credit and money supply.

With the premise that a more stable America is essential to a free and stable world the Research and Policy Committee of the Committee for Economic Development, in a current statement on United States monetary and fiscal policy as this policy relates to the nation's overall economic stability, emphasizes that stability must be attained within the framework of a free and progressive economy.

The CED study was released on Dec. 10 by W. Walter Williams of Seattle, Wash., CED Chairman and President of Continental, Inc., and Philip D. Reed, Chairman of the CED Research and Policy Committee and Chairman of the board of the General Electric Co. The statement is the result of many months of study by a subcommittee of CED businessmen members under the Chairmanship of J. Cameron Thomson of Minneapolis, Minn., President of the Northwest Bancorporation.

While pointing out that monetary and fiscal policy cannot of itself offer the solution to instability in a free economy, CED believes that the program it is recommending in this field can make a major contribution to greater stability.

Following are the elements of the program recommended:

(1) In periods of inflation:

Hold tax rates stable, so that tax revenues will rise as the national income rises and the government surplus will increase.

Use the government surplus to retire debt held by the commercial banking system, including the Federal Reserve banks.

Refund maturing government debt in a way that will reduce the holdings of the banking system.

Tighten the reserve position of the banks, by Federal Reserve sale of government securities in the open market, by increase of rediscount rates and/or by increase of reserve requirements.

Reduce the volume of government loans and guarantee of loans.

(2) In periods of depression:

Hold tax rates stable, so that tax revenues will fall as the national income falls and the government surplus will decline or turn into a deficit. In extreme conditions a temporary reduction in tax rates may be desirable to stimulate private expenditure.

Expand the money supply and increase bank reserves by open-market purchase of government securities; further ease the reserve position of the banks by reduction of rediscount rates and/or by reduction of reserve requirements.

Finance the deficit, if there is one, by borrowing in a way that will induce the commercial banking system to acquire government securities, with such Federal Reserve action in providing additional bank reserves as may be necessary for this purpose.

Refinance maturing Federal debt in part by borrowing from the commercial banking system, including the Federal Reserve banks.

Expand the volume of Federal loans and guarantees of loans, within the scope of the Federal loan program accepted as appropriate in the long run.

The statement calls the Federal Reserve System's support of long-term government bonds "the currently most important problem" of Federal monetary policy. Purchase of government securities by the Federal Reserve in support of the long-term government bond market adds to bank reserves and, unless offset, permits an expansion of bank credit and the money supply, CED points out.

Reports Easing of Men and Material Shortages In Home Building

U. S. Savings and Loan League survey says cement shortage is only bottleneck in materials.

Men and materials that go into home construction are more easily obtainable today than at any time since before the war, although shortages still are hampering building production in some localities across the country.

This is the consensus of a survey just completed by the United States Savings and Loan League. Results of the study were released by the national trade organization for 3,700 savings associations and cooperative banks.

The survey found that 77% of savings institution executives think the flow of building materials has improved in their communities during the past six months and 73% believe that a lack of manpower is no longer a problem in home building.

But while there was considerable agreement that the materials situation generally had improved to a marked extent, the survey indicated that cement still is a bad bottleneck in the undertaking and finishing of housing projects.

In midwestern towns and cities, it was found, the cement shortage is having the most depressing effect, with three out of every five executives questioned stating that it was postponing many housing starts.

In other sections of the country, particularly the east and south, cement was tight by normal standards, but still far better than that found in the midwest. Aside from cement, the majority of midwestern answers revealed that the material situation there is better than last June 30, and the same is true of construction workers.

From the point of overall availability of manpower and building material supplies, states and cities in the south presented the best picture. There the belief was expressed by 90% of savings association officials that materials and supplies have improved and 82% noted that a more favorable labor situation had arrived.

In the far west, 75% of those queried thought there has been a change for the better in both men and materials. Their sentiments on materials were echoed by 66% of eastern institution spokesmen, but in that section of the country, only 60% thought the manpower situation was better.

Redemption of Bonds of Republic of Cuba

The Republic of Cuba is notifying holders of its External Loan Thirty-Year Sinking Fund 5½% Gold Bonds Issued under Loan Contract dated Jan. 26, 1923, that all outstanding bonds of this issue will be redeemed, out of moneys in the sinking fund, on Jan. 15, 1949 at the rate of 100% of their par value, together with accrued interest to the redemption date. Payment of the bonds will be made at the office of J. P. Morgan & Co., Inc., New York City.

Salesmanship Key to Future of Securities Market, H. L. Bache Says

Listed securities "best in world," broker tells meeting. We should bolster Japan with raw materials produced by surplus European labor, Frank T. Ryan says in warning of Russia.

Salesmanship equal to that practiced in other American industries was advocated for the securities business by Harold L. Bache, head of the brokerage firm of Bache & Co. in a talk before nearly 200 executives and other personnel of the firm Dec. 12 at 36 Wall Street, New York. The meeting was the second held in recent weeks for the purpose of exchanging ideas and methods for improving the outlook for the securities business.

Mr. Bache emphasized his confidence in the future of the busi-

Harold L. Bache

Frank T. Ryan

ness but declared it was important that the public should be encouraged to invest in securities listed on the principal exchanges. These securities, he said, were the best in the world, but to promote proper interest in them it was essential that "salesmanship equal to that practiced by other American industries" be employed.

Frank T. Ryan, President of World Commerce Corporation and a partner in the firm, proposed as a step in improving the international economic outlook that Japanese industry be rehabilitated by raw materials supplied from the Western Hemisphere, extracted by labor brought from over-populated European countries. He warned that Communist gains in China were driving Japan closer to the Russian sphere of influence and that the United States must move now to offset any shift in Japanese political and economic thinking.

New sources of mineral wealth, to effectively compete with Communist-controlled Northern China, exist in Alaska, Canada, Newfoundland, and Labrador, and the use of European labor would represent "the greatest of all economic aids" to countries with population problems, he declared.

The strategic necessity of applying the surplus manpower of overpopulated European countries, such as Italy, to extracting needed raw materials for Japan would, at the same time, aid in solving a major European problem, Mr. Ryan said.

"We shall fail greatly if we do not convert the principle of aid to Europe through the mechanism of the ECA into something more than the 'principle of 'giving' aid to Europe," he asserted. "Our greatest assistance to the European countries is, paradoxically, not in giving but in 'taking,' and the greatest of all economic aids to Italy, for example, would be to take from her her excess population."

The ECA would do well to study, in collaboration with the governments concerned, a mass migration of European families into selected regions for the purpose of exploiting the natural resources needed, Mr. Ryan said.

"The passing of Manchuria into Russian control will, in time, cause Japan to turn from her cooperative undertakings with the U. S. and seek more vital relations with the Soviet Union," Mr. Ryan contended. "We should be alert to develop a policy that will effectively combat this long-range influence."

Other speakers included Elmer C. Walzer, financial editor of the United Press, who discussed the need for education of the American public in the nation's investment problems under today's economy, and Dale Carnegie, noted author and lecturer, who pointed out the need for "personalized" selling.

NASD District No. 3 Elects to Committee

DENVER, COLO.—An election has been held in District No. 3 of the National Association of Securities Dealers, Inc., District No. 3, being composed of the States of Arizona, Colorado, New Mexico, Utah and Wyoming. Those elected to membership on District No. 3 Committee are: Robert L. Mitton, Robert L. Mitton Investments, Denver, Colo.; W. H. Hutchinson, Hutchinson & Co., Inc., Pueblo, Colo.; Joseph E. Refsnes, Refsnes, Ely, Beck & Co., Phoenix, Ariz.; Robert H. Burton, Edward L. Burton & Co., Salt Lake City, Utah.

These four members have been elected for a term of three years beginning Jan. 15, 1949.

At the meeting to be held in January, 1949, officers for the ensuing year will be elected after the new committee members have been installed. The hold-over members of this Committee are: Walter H. Coughlin, Coughlin & Co., Denver, Colo.; David F. Lawrence, Boettcher & Co., Denver, Colo.; Harry W. Middaugh, Central Republic Company, Denver, Colo.; Malcolm F. Roberts, Sidlo, Simons, Roberts & Co., Denver; Harold D. Writer, Peters, Writer & Christensen, Inc., Denver.

J. Nick Thomas Forms Memphis Secs. Co.

MEMPHIS, TENN. — J. Nick Thomas, Jr., has formed the Mem-

J. Nick Thomas, Jr.

phis Securities Co. with offices in the Three Sisters Building to act as dealers in municipal bonds. Mr. Thomas was formerly with J. C. Bradford & Co. and Equitable Securities Co. In the past he was a partner in Winston & Thomas.

Dammes & Koerner to Form

On Jan. 2 the New York Stock Exchange firm of Dammes & Koerner will be formed with offices at 36 Wall Street, New York City. Partners will be Herbert P. Dammes, exchange member, and Emanuel Koerner. Mr. Dammes has been active for some years as an individual floor broker. Mr. Koerner was a partner in Herzfeld & Stern.

Why Profits Are Soaring to New Highs

By STANLEY H. RUTTENBERG*
Director of Department of Education and Research,
Congress of Industrial Organizations

CIO representative, asserting American industries are in process of gouging public and are raising prices without regard to costs, lays situation to policy of corporations to seek profits under low-level as well as high-level production. Says this leads to distortions in national income and sows seeds of next depression. Holds incentive to increase production and expand capacity is curtailed by present high level of corporate profits. Denies there is scarcity of venture capital and lays low stock prices to lack of investors' faith in America's future.

The CIO hopes that this investigation and hearing will throw some light upon the level of profits which has been the subject of considerable discussion. Some groups say that profits are low and others that profits are high. We are hopeful that this series of committee hearings will get at the facts of the controversy. We are convinced that an impartial investigation into the profit picture of American industry will justify the position taken by the CIO over the period of years.

S. H. Ruttenberg

In this testimony we should like first, to review the level of corporate profits of American industries, information which we are sure is quite familiar to the members of this committee. Secondly, we should like to discuss the reasons why we think profits are soaring to new all-time highs; and, thirdly, we should like to discuss the effect upon our economy of the present level of corporate profits. Fourthly, we should like to point our finger at some of the problems which have been raised by industry groups in an attempt to indicate that present profits are not as exorbitant as they actually are.

Level of Corporate Profits

We should just briefly like to summarize the general profit picture as seen by organized labor. Reports for the third quarter of 1948 by the "Wall Street Journal" which surveyed 155 major companies in 15 industries showed third quarter earnings to be "A sweeping 41.7% above the third quarter earnings of 1947. Such a showing clearly pointed to record high earnings for all of 1948."

The National City Bank reported third quarter, 1948 earnings of 400 leading corporations to be 38% above the similar period of 1947. The National City Bank's November, 1948 letter showed that these 400 corporations had an annual return on net worth based on reports for the first nine months of this year of 18.7% as compared with 16% for 1947. Return on net worth for previous years was considerably lower.

Individual corporations of 1948 have reported unusually high levels of profits after taxes. Bethlehem Steel Corporation showed an increase in the third quarter, 1948 of 40% over the same period in 1947. General Motors increased their profits from $213 million for the first nine months of 1947 to $327 million in the similar period of 1948 for an increase of 53%. These are just two specific examples but they are representative of two basic industries which have continued to increase their prices in 1948 because they say it is necessary to meet increased costs. As we shall point out later, these companies increased prices not just to cover increased costs but far in excess of what was necessary to cover costs with the resultant effect of the level of profits as indicated.

Looking at industry as a whole, 1948 profits, before taxes, of all corporations will be at least $34 billion and over $20 billion after taxes. This compares with the previous best year, 1947, when profits before taxes were almost $30 billion and $18 billion after taxes.

In the pre-war years, 1936-39, which, by the way, were the base years for the wartime excess profits tax, the average corporate profits, after taxes, was $3.9 billion. In other words, corporate profits, after taxes, in 1948 will be more than five times what they were during the excess profit tax base period, 1936-39.

Profits Soaring to New Highs—Why?

Profits are now soaring to new all-time dangerous highs because

(1) American industries are involved in the process of gouging the public, that is, in self-interest, they are making as much as they can make while the making is good.

(2) Corporations are engaged in protecting themselves against the future depression which they feel is inevitable.

(3) Corporations think they must show the stockholders a better profit picture each succeeding year regardless of the implications for the stability of our economy which this practice carries.

(4) Corporations are raising prices with little regard whatsoever to existing costs but with concern almost solely for what the market will bear.

These four factors combined represent the self-interest, short-sighted, depression producing thinking of American industry that must be altered if we are to avoid serious economic dislocations.

This statement will briefly refer to each of these four points.

First, in connection with the desire to make as much as possible while the making is good. It seems clear upon an examination of any series of facts or figures that American industry shows little regard for the general public while it shows major concern for itself. One price increase after another has been made by the major industries since the elimination of OPA. Few attempts have been made to absorb increased costs or even to pass on to the American consumer a better product for a lower price. The only sight which industry envisions is its avidity to increase prices and reap more and more profit.

In addition corporations are engaged in protecting themselves against the depression which they feel is inevitable. This point of view is vividly set forth by Mr. Irving S. Olds, Chairman of the Board of the United States Steel Corporation in his Annual Report of 1946. He said:

"Operations are at an all-time high. Profits should be sufficient to enable a fair return to be paid to the owners of business in the form of dividends and also to permit an adequate amount to be set aside for future needs since the day will come when steel operations are at a lower rate than at the present time."

It is clear from this quote that U. S. Steel Corporation, at least, is safeguarding itself against the depression which it considers will inevitably come. Mr. Olds' remarks could be paraphrased this way:

"We must charge as high a price now as we can while business is good and production levels are at all-time peaks so that we can make sufficient profit to set aside for the rainy day when orders will fall off and production will decline."

This is an extremely dangerous attitude for American industry to take. Granted industry must protect itself against periods when production will not be at capacity levels, the question which we raise specifically in this connection is whether industry, in protecting itself against the future, is not adopting policies which will hasten "the day . . . when . . . operations are at a lower rate. . . ."

By following the policy of raising prices and profits, in other words, industry is doing more toward bringing on the depression and bringing closer the day when they will need the reserves about which they speak. That is to say that the practice of industry to raise prices and thus its profits will do more to bring on a depression and reduce production than any other single decision of industry. If, on the other hand, industry would moderate its avaricious appetite for profits by moderating its pricing policies, it would go a long way toward stabilizing our economy and thus postponing, maybe indefinitely, the "inevitable depression" which they seem desirous of protecting themselves against.

We would also like to briefly comment on the general attitude of business managers and industrialists that year-in and year-out regardless of the effect it has upon our economy profits must be ever increasing. It seems that the heads of our major corporations feel it incumbent upon themselves to maintain an enlarging profit picture for their organization. It is this attitude on the part of industrialists which is creating and adding to the serious economic distortions which are occurring. The attitude of having to do better than the last guy weighs heavy upon the minds of American industrialists. It is this selfish attitude on the part of major segments of our American life which portends serious consequences for the future. It would be for the good of industry and for the good of our economy as a whole if this attitude could be moderated.

We further maintain that industry has raised prices with no regard to increases in costs but only with regard to what the market will bear. In other words, industry sets prices on the basis of making a profit at a low level of production, it wants to make a profit even though its operations are curtailed from present levels. This means that prices must be considerably out of line with costs of production when operations are at present day high levels.

Again this self-interested think-

(Continued on page 27)

*Testimony of Mr. Ruttenberg before the Subcommittee of the Joint Congressional Committee on the Economic Reort, Washington, D. C., Dec. 8, 1948.

The Federal Budget—Its Meaning

By VICTOR B. GERARD*

Manager, Bond Department, Commonwealth Life Insurance Company, Louisville, Ky.

Mr. Gerard lays rapidly expanding federal budget to laboristic control of government. Sees more spending arising from waste and extravagance than from social reforms, and advocates election of a President "with all traditional instincts of a Scotchman." Scores deficit financing as disasterous, but foresees beginning of a primary postwar deflationary adjustment, if budget is balanced.

In many ways this is an ideal time to discuss the Federal budget. The excitement of the election is over; and the President will not submit his budget to Congress for the 1950 fiscal year, which begins July 1, 1949, for another month and a half. Thus we can consider calmly and impartially the situation that the country faces as a result of past lavish spending and the prospect of continued large-scale spending. At the same time we need not let the fundamental issues become obscured by a deluge of data and statistics as they inevitably would if the new budget figures were before us.

Victor B. Gerard

Before considering our present situation, it might be well to pause a moment and recall how we have gotten where we are. When our nation was founded a century and a half ago most people were rugged individualists. They were self-employed. They operated small farms or had small businesses with maybe one or two employees, and the employees were mostly apprentices hoping and planning to set up businesses of their own. It is natural that such people would want government activity confined to "providing for the common defense" and a few other essential functions. They felt thoroughly confident that "the general welfare" would be best promoted if every individual worked out his own destiny in whatever way was available to him.

Through the years the growth of industry into large-scale enterprises, and the resulting congestion of people in cities, has changed this nation from one in which most people were self-employed to one in which the vast majority are employees. It is estimated that today three out of every four people who are gainfully employed are on someone else's payroll. They are interested in the success of private enterprise only indirectly.

This makes a vast difference. Employees are going to have an employee's point-of-view. Today the majority of our citizens work for dollar wages and are definitely dependent on whether the company for which they work continues to employ them. If the company were to discharge them and they could not find other employment, they could not go back to a farm or move out to the frontier and start life anew. Unless the weekly paycheck makes its regular appearance, they cannot even eat and will soon be dispossessed of their homes. These are sobering thoughts which are always in the minds of the majority of our people. These are the thoughts that reflect themselves in elections. Anybody who thinks this point of view is likely to be changed should prepare to take his rightful place with King Canute and the others who think that tides can be held back.

A Workers' Government

Let us face the issue squarely. The vast majority of our people being workers desire and insist on a government that has a workers' point of view. This means unions with all the rules and regulations that endeavor to secure job protection and the continuance of the weekly pay check. This means that old age benefit payments, unemployment relief, and other forms of social security will continue to be a permanent part of our way of life. And for the farmers it means valorization schemes for agricultural prices and other types of benefits. On the side of equity, there is no reason why farmers should be discriminated against in this race to secure shelter from the natural effects of economic laws; or to make of our government a national grab-bag.

If the recent election proved anything, it proved that the Republican Party has also adopted most of the essential features of Mr. Roosevelt's "New Deal." There are those that hold that a clear-cut departure from the laboristic political trends of recent years would have enabled the Republicans to wage a successful campaign. I seriously doubt it. I believe any such program would only have resulted in turning out the large body of eligible voters who for one reason or another failed to vote it in the recent election; and would have caused them to vote, by and large, for the more liberal candidate.

I do not argue the point that even in a laboristic society, such as we now have, it might be for "the greatest good of the greatest number" if many of the "socializing" aspects of our present government were eliminated and the resulting savings were reflected in a lower tax burden. Such a program should lower prices at least by the reduction of the tax burden and provide an incentive to production that might accomplish miracles. But I do not argue this point. I merely advance my belief that it is visionary to hope that we are any time soon likely to see an abandonment of the present trend toward more and more activity on the part of the government to enlarge its responsibility for the welfare of the individual. I believe we are likely to see more and more attempts to stabilize employment and shelter the position of the workingman.

Trend of Federal Budget

Assuming that you agree with my analysis of what has been happening politically and economically in this country during the past generation and that you believe, as I do, that the future is likely to be a continuation of the trend of the recent past, let us turn our attention to the effect these developments have had on the Federal budget. Let us start by comparing the budget for the current fiscal year, which ends June 30, 1949, with the budget for the 1939 fiscal year and the 1929 fiscal year.

In the 1929 fiscal year the government spent \$3.3 billion; in 1939 the expenditures were \$9 billion. The expenditures for the current fiscal year are officially estimated at \$42.2 billion.

What is the significance of this to you—to all of us?

We must remember, of course, that \$18.8 billion of the total expenditures for the current fiscal year are for national defense and international financial aid. All of us, I'm sure, are agreed on the vital necessity of creating adequate armaments for our national defense; and most of us, probably, feel that some sort of financial aid to our former Allies is an unfortunate necessity and that failure to make this financial sacrifice now can bring more expensive and more horrible consequences eventually should Russia over-run the Western European countries and possibly China. Let us postpone any consideration of whether the national defense and foreign aid expenditures are being intelligently made and whether more effective use of the money could be developed. After all, even in vital defense spending, it is possible to waste considerable sums of money; but let that point pass.

Excluding *all* national defense and international financial aid expenditures — and even in a peaceful world we would have to maintain some Army and some Navy—we still have expenditures of \$23.4 billion for the current fiscal year, or 160% higher than in the 1939 fiscal year. Recognizing that the cost-of-living for government has gone up as well as the cost-of-living for the rest of us, we find that in terms of 1939 dollars the expenditures of the government, again excluding defense and foreign aid costs, are still \$13.3 billion, or 47% higher than in the 1939 fiscal year. No allowance has been made in this calculation for rigid expenditures, like the \$5.3 billion of annual interest on the national debt. And we must remember that the 1939 fiscal year represented the largest government spending of any of the really prewar years.

The tremendous expansion in Federal spending that has taken place cannot be fully accounted for by the continued march of social reform. The answer seems clearly to be that both the Executive and the Legislative branches of our Government are not as concerned as they should be to see that Uncle Sam gets 100 cents of value for every dollar that he spends. Where does the fault lie? It lies at the door of every voter in the country. Not only at the doors of those who lobby for special projects; but at the doors of those who fail to take an interest in all the Alice-in-Wonderland projects that our Government is now engaged in. It is hard to pick up a paper or a magazine without running across some unbelievable project that is being financed by YOU—by all of us taxpayers.

Let us not pause for examples. In any enterprise as large as the government, it is possible to pick out many samples of waste and inefficiency. Even if the government were run with the highest of efficiency, it would still be possible to find some ridiculous instances of waste and tomfoolery. But what is now going on staggers the imagination. The situation merits the attention of all people interested in sound government.

The preliminary reports of the Hoover Commission suggest that a constructive bi-partisan job is being done by this group. It is to be hoped that such recommendations as are made which seem likely to result in economy and increased efficiency will receive enthusiastic support by EVERYONE. While the savings that may be made in any one direction may seem small in themselves, in the aggregate they are likely to bring about substantial savings. Furthermore, the effort might even instill a new point of view; a fresh attitude in our officialdom on economy and efficiency.

Perhaps what the nation most sorely needs is a President with all the traditional instincts of a Scotchman; and a Congress composed of people who will exercise the same intelligent frugality and sensible thriftiness toward Federal spending that the average housewife exhibits daily in buying her groceries at Kroger and the A & P.

The elimination of waste and inefficiency in government, therefore, is one program that all citizens, no matter what their party affiliations may be, can cooperate on.

The Budget and Taxes

All citizens should also find it possible to cooperate on a program of insisting that all expenditures be covered by current taxes. When the nation fights a war, there is justification for deficit financing; but in time of peace there is little justification for deficit financing, my Keynesian friends to the contrary notwithstanding.

It is too bad that the idea of deficit financing is so appealing. You and I individually know what would happen if we spent more than we earned. As individuals we feel sorry for people who live beyond their means. We know, also, what would happen to a company which spent more than its resources over any extended period of time. The same thing happens to governments, only the process is much slower and its effects are at first largely concealed by the ability of governments to manipulate their finances. However, we do well to remember that we have had a Federal surplus in only two of the last 19 years. And time marches on.

Let us not argue the merits of deficit financing at this point. That is a subject for another time. Let me merely point out that the Federal debt now exceeds one-quarter of a trillion dollars. Once we talked in millions; then we talked in billions; now we can start with trillions.

We have a wonderful country—the best in the whole world. The stamina of our society has proved itself. It needs no apology. But the future of our country is bleak indeed, and the outlook for our way of life is dismal to contemplate, if we fail to place our Government finances on a pay-as-you-go basis from this point on. At the current level of expenditures, the load of taxation is all but crushing. Unfortunately, however, failure to balance our budget from this point on in time of peace, now that we have a national debt of one-quarter of a trillion dollars, will ultimately result in even a more unpleasant alternative.

For it will wipe out the middle class through the historic inflationary process. And it is the middle class that is the great bulwark of our nation. Any nation is an easy prey to Communism or other "isms" as soon as there is no substantial middle class which has an interest in private property and law and order. That is why Russia was an early victim of Communism. That is why "isms" flourish in so many countries today.

To date I have not been unduly concerned about the inflationary trend in this country. What has been happening is the normal aftermath of a great war. We are now, in my judgment entering a primary postwar deflationary adjustment. It may seem a paradox to say that under such conditions the inflationary danger may increase in magnitude. But in my opinion it will. If, through deficit financing during the next few years, the people of our nation become convinced that our finances are habitually out of control, that even in time of peace we cannot balance the Federal budget, confidence in our money and our way of life will be lost; and Pandora's box of inflationary ills will be really opened and the flight from the dollar will begin. It is a gruesome thought that no nation yet—short of complete bankruptcy—has turned back on the inflationary primrose path.

Yet the die is not yet cast. An energetic effort by all citizens to keep our Federal finances in balance may stave off what now seems an almost inevitable catastrophe. We can grow up to a quarter trillion of national debt over the years, provided we do not increase it further. Our Ship of State now carries a heavy mortgage, but it is still seaworthy and good for many a voyage. Let us not take a chance by loading it further with debt and cause it to founder in an inflationary sea.

The Federal budget has a real meaning to YOU—to all of us. The way it is handled will literally affect the rest of our lives—the rest of the lives of everyone of us—in an important way.

*An address by Mr. Gerard before League of Women Voters, Louisville, Ky., Dec. 1, 1948.

Soren D. Nielsen With New York Hanseatic

Soren D. Nielsen, formerly with Newburger, Loeb & Co., is now associated with the New York Hanseatic Corporation, 120 Broadway, New York City, in its bank and insurance stock department.

Soren D. Nielsen

Pyne, Kendall to Admit Grafmueller, Mathews

Pyne, Kendall & Hollister, 52 Wall Street, New York City, members of the New York Stock Exchange, announce that C. Edward Grafmueller and Robert E. Mathews will be admitted to the firm as general partners effective Dec. 27. Mr. Grafmueller formerly was associated with Lazard Freres & Co. Mr. Mathews has been with Pyne, Kendall & Hollister for many years as manager of the trading department.

Tellier & Company Adds Two to Retail Staff

Tellier & Co., 42 Broadway, New York City, announce that Anthony Costanza and William M. Doherty are now associated with the firm in the retail sales department.

Mr. Costanza was formerly with Brady & Co., while Mr. Doherty was previously with Rutberg & Co., Inc., and C. E. deWillers & Co.

William R. Staats Co. Opens Chicago Branch

CHICAGO, ILL. — William R. Staats Co., members of the Los Angeles Stock Exchange, has opened a branch office at 209 South La Salle Street. Associated with the new offices will be Robert E. O'Keeffee, formerly of Cruttenden & Co.

Richard W. Clarke to Admit

Richard W. Clarke & Co., 17 East 42nd Street, New York City, members of the New York Stock Exchange, will admit E. Bates McKee to partnership on Jan. 1.

Freedom Being Lost!

Dr. Orval Watts of the Foundation for Economic Education ascribes trend to inflationary boom, government controls and various forms of social security spending. Sees failure to understand and apply Golden Rule.

Addressing a meeting of the Rotary Club of Tarrytown, N. Y., Dr. Orval Watts of the Foundation for Economic Education talked on the illusory nature of our so-called prosperity in the United States, asserting "we are in an inflationary boom where prices and values are marked up in terms of paper money while the real wealth per capita is declining."

Dr. V. Orval Watts

"We are in the position of a family that spends on current living expenses what should go into maintenance and repairs of the home. Business profits today are merely United States Treasury calculations of taxable income," said Dr. Watts, who advocated that these profits should go into depreciation and maintenance and are not really profits. Dr. Watts laid these present problems, which are revolutionizing American way of life, to abandoning the gold standard in 1933 and by changes in the American Constitution such as the Income Tax Amendment in 1913, along with government controls and various forms of social security spending, adding: "What we have in America today is less American in the sense of being free, than what existed in Europe before 1914 and from which millions fled when they emigrated to the United States."

"This revolution has come because people have failed to understand and apply the Golden Rule. This rule has a positive and negative," Dr. Watts said, and added: "The negative is 'Do not do unto others as you would not have them do unto you.' Today in politics the rule is 'Do unto others as you think they ought to want you to do if they knew their business.'"

People Deceived

He said that most of the so-called reforms consist of (a) tax reformer; and (b) the politician deciding what they will make (c) do for (d) so as to get (d's) vote to keep them in power. That is why the revolution has been endorsed by both political parties and is likely to continue until there is a runaway inflation and a crisis. "It is inflation that makes revolution, not deflation. By giving governments the funds and power to deceive the people while they build up the specialist institutions.

"Eventually, a crisis will occur perhaps in 5, 10 or 20 years from now and when it comes we can only hope that there will be leaders ready who will remember that it was freedom that built America and that freedom is not nearly as bad as it has been painted, during the last 15 or 20 years," Dr. Watts concluded. By freedom he explained, he meant freedom from physical coercion and intimidation whether from government or private source.

Wood, Struthers to Admit

Cornelius N. Bliss, Jr., will become a partner in Wood, Struthers & Co., 20 Pine Street, New York City, members of the New York Stock Exchange, on Jan. 1.

1949 Building Outlook Analyzed

Department of Commerce expects $18¾ billions to be expended in new construction, or more than 5% above 1948.

New construction in 1949 is expected to reach a value of $18.75 billion, setting a new dollar-volume record for building activity, the Department of Commerce has announced.

The expected total of $18.75 billion, a joint estimate of the Departments of Commerce and Labor, represents an increase of more than 5% over the $17.8 billion figure now in prospect for 1948.

Physical volume of construction in 1949, however, apparently will be about the same as in 1948, and thus will remain appreciably below previous physical volume records set in the 1920's and in 1942.

For new private construction, the 1949 outlook is for a dollar value total of $13¾ billion, approximately the same as the total which it now appears will be reached in the present year. New public construction in 1949 is estimated at $5 billion, an increase of almost $1 billion—or 24%—over the total of 1948.

Private nonfarm residential construction will continue to be the largest single component of new construction and, at $6.5 billion, is expected to constitute about 35% of the total. This estimate, however, represents a decline of more than 8%, in comparison with the figure of $7.1 billion for 1948.

Aside from residential building, most of the principal components of new private construction are expected to increase. Private nonresidential building in 1949 as a whole is estimated at just over $4 billion, an increase of 12% over the probable total for 1948. This increase in total private nonresidential building results from an estimated 15% increase in commercial construction and a 35% increase in "all other" private nonresidential building. The latter classification includes private educational buildings, churches hospitals and social and recreational buildings. These expected gains are only partially offset by an expected 6% decrease in industrial construction. Privately-owned public utility construction is expected to reach $2.75 billion, a rise of 8% over the total for 1948.

Almost half of the increase in public construction is due to an anticipated 42% increase in public nonresidential building, to a total of $1,375 million—an increase due largely to substantial advances in hospital and institutional buildings and in educational construction.

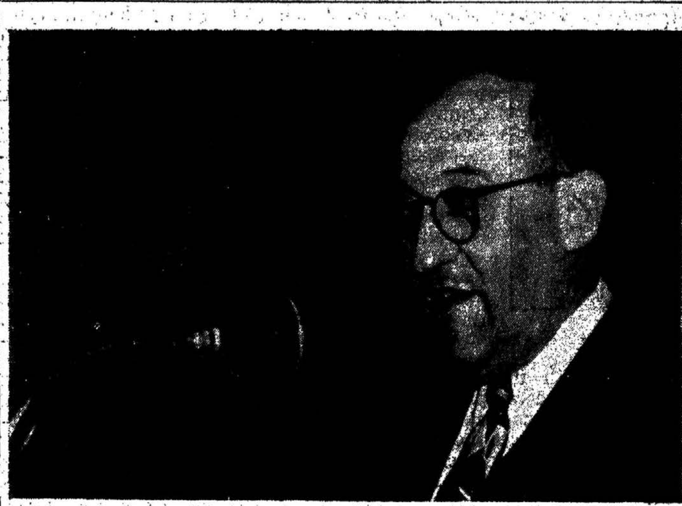
In the case of residential construction, the figures for value of work to be put in place next year are based on an estimate that construction will be started in 1949 on about 875,000 new permanent dwelling units. Practically all of this total will be privately-owned, with the number of publicly-owned units to be started in 1949 estimated at only about 30,000, largely in purely State and municipal programs and in military installations. It now appears that the 1948 volume will be about 925,000 units, of which not more than 15,000 will be publicly-owned. In the estimate for 1949, of course, no allowance could be made for any further residential construction that might result from possible future housing legislation.

Medicine Under the British National Health Act

By MORRIS FISHBEIN, M. D.*
Editor, "Journal of American Medical Association"

Leading American medical editor describes British socialized medicine and reports on its practical difficulties and problems. Scores large amount of red tape and disruption of services of medical profession. Says new regulations and regimentation is discouraging to medical profession, though it is too early to pronounce any valid judgment of effects on health of people or quality of medical services. Holds system in this country would mean more suffering and a deterioration of medical profession.

When the appointed day struck in England on the fifth of July in 1948, the world's greatest experiment in socialized medicine was under way. Other nations have experimented with state medicine and a variety of weird programs of socialized medicine and hospitalization have been tried in countries of lesser stature and fewer inhabitants than has Great Britain. The British program is all embracing. A careful study of the British act indicates that it is another attempt to make organization and administration serve purposes in medical care which are quite foreign to the philosophy of medicine itself.



Dr. Fishbein pictured while delivering address

Great Britain has been divided into some fourteen or more areas which are in control of regional boards. These boards include representatives of all of the interests mainly concerned in the conduct of hospitals. The ultimate financial control rests with the Minister of Health. He delegates to the regional boards the responsibility of planning hospital services in their own areas. They are charged not so much with the management of individual hospitals as with arranging the pattern of hospital service and determining whether or not services are adequate. Hospitals are managed by management committees. In addition, each hospital has a local committee. The chain of control is from the Minister of Health to the national health boards to the management committees and from them to the house committees.

The grouping of hospitals is supposed to remove competition among hospitals. At the same time the health authority recognizes the danger that people will lose interest in the hospital once it is included in the administrative grouping. The Minister of Health has said that people will feel just as much sentiment for a group of hospitals as they have felt in the past for their own hospital.

The representatives of the Ministry of Health have expressed hope that the regional boards will include experts and representatives of the public. The chief medical officer of each regional board is charged with selecting medical staffs. It is understood that the authorities do not wish to have it thought that a doctor is over a layman or vice versa.

On the appointed day the people of Great Britain began to apply on a special form to the doctor on whose panel they wished to be included. By this time some 95% of the population of Great Britain has been duly accepted by some physician.

Especially interesting was the question of maintenance of the staffs of hospitals. Up to now employees of hospitals discussed their remuneration, terms of service and hours of service with their employers. The authorities have in mind standardization of the various professional classes in hospital work and each group of workers will have contact with the Ministry of Health by means of a special committee. The problem of proper distribution of specialists among the hospitals has also been difficult. The regional board has the responsibility of making certain that specialists are properly distributed. They advertise vacancies that exist in hospitals and receive applications from consultants. The local management committee then sits with the regional board to recommend suitable candidates, and the ultimate decision rests with the regional board. The authorities believe that by this technic they will be able to distribute specialists properly and maintain a proper standard of specialization in various hospitals.

Several leaders suggested that a regional board would want a physician, a public health officer, a lawyer, a financial man and an architect.

Under the new act, the Ministry of Health provides hospital and specialist service without cost other than the tax paid by the people of England, and the people are provided also with appliances that are not more expensive than the type prescribed by the Ministry. Hospitals may make charges for part-paying patients in single rooms or wards. It was understood that physicians might charge fees to private patients. However, the available hospital facilities are so limited that, as far as I have been able to learn, it is exceedingly difficult to get a private patient into a hospital.

The medical and dental schools of Great Britain were not turned over to the Ministry of Health nor were their hospitals. On the other hand, all voluntary hospitals and all local authority hospitals were turned over to the Ministry of Health except that Catholic and denominational hospitals were freed from the necessity of requirement by the Ministry of Health. However, the Ministry of Health may at sometime purchase either by agreement or by compulsion hospitals which have thus far been exempted.

The Minister of Health is advised by a central council which includes 41 people of whom 6 are officers of the Royal College of Surgeons, Physicians and Obstetricians, the General Medical Council, the British Medical Association and the Chairman of the public health office. The remaining 35, appointed by the Minister of Health, include 15 medical practitioners, 2 of whom are experts in mental disease; 5 in the field of hospital management; 5 in local government, 3 dentists, 2 mental health experts, 2 nurses, 2 midwives and 2 pharmacists.

The British have organized one of the most complicated machines dealing with health that the world has ever known. Certainly this monster bureaucracy removes from hospital care and medical care all of the personal inspiration that has given to voluntary hospitals and individual physicians in the United States the leadership and progress in medical science that is distinctive in our country.

I visited England early in August of this year and took opportunity, such as was available, to view at first hand the methods of practice. At a dinner in the Aethenaeum Club I met with representatives of the medical profession and the party included Sir Wilson Jameson, chief medical officer of the Ministry of Health. I visited some general practitioners and spent several hours in viewing, by their courtesy, the conduct of practice under the National Health Act. I spoke with patients from every class of society. Mrs. Fishbein was distributing CARE packages to the poor and needy and I accompanied her and spoke to these people myself. I met members of the middle class, which in Great Britain is exceedingly small compared with ours, and I had opportunity to talk with persons of considerable wealth. May I say that practically all of those with whom I talked, regardless of their wealth, had registered under the Act.

Here are a few actual citations from letters of British physicians published in the "British Medical Journal" or available in the original in my own office. Dr. H. G. Harvey of Dorchester wrote in the "British Medical Journal" of Sept. 11:

"Since July 5 I have already written in my surgery alone 970 prescriptions, 1 per 4 patients on my list, excluding all prescriptions on my rounds, and this in the less busy summer months. One is amazed by the extras, such as douches and nozzles, eye baths, pessaries, etc., one is invited to supply. . . . More strange and more alarming still is the undoubted fact that the patients think they get all these extras free because the government supplies them. I am firmly convinced that the huge cost of prescribing now piling up will in the short-run return to the public for payment by increased taxation or other methods no less distasteful. The working classes will pay the largest share, as they represent the greater proportion of the population, and doctors may quite probably be compelled to pay by

(Continued on page 32)

*An address by Dr. Fishbein before American Pharmaceutical Manufacturers' Association, New York City, Dec. 6, 1948.

Recent and Current Insurance Investment Trends

Bruce E. Shepherd, Manager of the Life Insurance Association of America, reveals a sharp decline in holdings of government securities and proportionate increase in holdings of public utility and industrial bonds. Investment in rails and in mortgages shows little change in trends.

In presenting his report to the 42nd Annual Meeting of the Life Insurance Association of America in New York City on Dec. 9, Bruce E. Shepherd, Manager of the Association, analyzed the recent and current investment trends as indicated by changes in the composition of the aggregate assets of the United States legal reserve life insurance companies. According to Mr. Shepherd, "the composite investment holdings of all United States legal reserve life insurance companies present a postwar picture in sharp contrast with that of the war period. The accompanying table shows the amounts and percentages of assets held in the various investment classifications at the ends of the years 1945-1947 and forecasts of such holdings at the 1948 year-end.[1] A review of these data reveals that the predominant flow of life insurance funds since the end of 1945 has been into private investments, i.e., corporate securities, mortgages and real estate. This trend, greatly accentuated in 1948, has occurred in response to the capital needs of corporations and individuals as the nation's expenditures on private domestic investment—largely for producers' durable equipment and new private construction—increased by about 80% between the first quarters of 1946 and 1948 and since have been maintained at that level."

Bruce E. Shepherd

Continuing his report, Mr. Shepherd stated:

A net increase of $6,527,000,000 in outstanding corporate security, mortgage-loan and real estate investments of all life insurance companies is estimated for this year, as against corresponding increases of $4,761,000,000 in 1947 and $2,346,000,000 in 1946. In both 1947 and 1948 such increases have been substantially larger than the total increase in assets. Thus in these two years life insurance companies have been able to place in private-enterprise investments not only all new funds coming into their hands but also sizable amounts of additional funds. Decreases in holdings of government bonds (foreign and domestic combined) of $1,566,000,000 in 1947 and of about $2,909,000,000 in 1948 account for the availability of funds for private investment in excess of total new funds.

These postwar changes have had a marked effect on the composition of investment portfolios. At the end of 1948 approximately 58.3% of assets will be held in corporate securities, mortgages and real estate. This ratio, which has risen from a postwar low of 41.5%, is now slightly higher than it was at the beginning of the war. Obligations of governments (Federal, State and local and foreign), on the other hand, will represent only about 34.3% at the end of 1948 as contrasted with their postwar high of 50.2%.

Corporate Securities—Bonds of corporate enterprises have been the largest artery carrying the savings of policyholders into private investments throughout the postwar period. Such bonds held in life company portfolios at the end of this year are estimated to total $18,925,000,000, or about 34.2% of assets. The chief components of the expansion of corporate bond investments from a level representing only 22.6% of assets at the end of 1945 have been the progressive annual increases in bonds of corporations other than railroads or public utilities—i.e., principally industrial corporations. Public utility bond holdings also have risen by increasing annual amounts during this period but railroad bonds have changed relatively little in amount.

The estimated 1948 increases of $2,330,000,000 in industrial bonds, over $1,700,000,000 in public utility bonds and nearly $100,000,000 in railroad bonds will bring the respective totals of the three corporate bond classifications at the end of the year to about $7,300,000,000, $8,650,000,000 and $2,975,000,000. In proportion to assets, industrial bonds will have expanded from 4.3% at the end of 1945 to an estimated 13.2% at the end of this year, thus nearly catching up with public utility bonds in their slower-rising uptrend. The latter securities represented 11.6% of assets at the end of 1945 and will have risen to an estimated 15.6% at the end of 1948. Railroad bonds meanwhile will have declined from 6.7% to about 5.4% of assets.

Corporate stock investments represent only a small proportion of life insurance company assets but one which, up to this year, had been increasing since 1942. From 1.7% of assets at the end of that year, these holdings progressed to 2.7% at the end of 1947 but will have declined to 2.6% at the end of 1948. Their uptrend, which reflected increases in industrial stocks primarily, began to level off last year after record increases in stock holdings in 1945 and 1946. The estimated 1948 increase of $60,000,000—which is less than one-half of the 1947 increase and about one-fourth of the 1945 and 1946 increases—will bring total stock holdings at the end of the year to approximately $1,450,000,000. This will represent investments of about $950,000,000 in industrial stocks, about $400,000,000 in public utility stocks and about $100,000,000 in railroad stocks.

Mortgage Loans—Real estate mortgages have been the second largest investment channel for life insurance funds in the postwar period. Sharp increases in expenditures for private construction in 1946 and 1947 and further moderate increases in 1948 have been an important factor in the active demand for mortgage credit during these years. The 1948 increase in the mortgage holdings of life insurance companies is estimated at about $2,150,000,000, which is over one-third larger than last year's increase and about four times as large as the 1946 increase. Non-farm mortgages made up the bulk of the increases in all three years but farm mortgages also contributed. Total mortgage holdings of the life companies at the end of 1948—estimated at $10,825,000,000 or 19.6% of assets—will include loans of about $9,800,000,000 on non-farm real estate and of about $1,025,000,000 on farms. Both classes of mortgages have risen in proportion to assets during the postwar period, but farm mortgages only moderately. At the end of 1948 non-farm loans will represent 17.7% of assets as against 13.1% at the end of 1945; and farm mortgages 1.9% compared with 1.7% at the end of 1945.

Real Estate—Although life insurance companies have increased their real estate holdings by nearly 50% in the last two years, such properties at the end of 1948 will make up only about 1.9% of their assets and will total about $1,050,000,000. Until recently ownership of real estate by life insurance companies was restricted to property used in the conduct of the companies' business and to properties acquired in satisfaction of debt. Within the past few years, however, a number of States have revised their laws to permit these companies to acquire real estate for investment purposes. Acquisitions for such purposes of both residential and commercial properties more than account for the 1947 and 1948 increases—of $125,000,000 and $190,000,000 respectively—in the total real estate holdings of life insurance companies. Well over half of the real estate held by such companies at the end of 1948 will represent properties acquired for investment purposes. Such properties will then include a somewhat larger volume of commercial than residential real estate.

Government Bonds—Nearly 90% of all government bond holdings of life insurance companies represent obligations of the United States Government. At the end of 1948 such securities will approximate $16,750,000,000, of which about 2% will be in securities maturing within one year. While these Federal security holdings will then total only about 75% of their 1946 record volume—after decreases of $1,618,000,000 in 1947 and about $3,271,000,000 in 1948—they will still be a very large item in life company portfolios, slightly exceeding the combined total invested in public utility and industrial bonds at that time. About 30.2% of assets will be held in Federal securities at the end of 1948 as compared with a 1945 peak ratio of 46.0%.

An estimated increase of nearly 40% in obligations of domestic State and local governments during 1948, bringing the total to about $850,000,000 at the year-end, is notable because it reverses a down-trend which, though leveling off after 1945, had been in progress seven years. This 1948 increase will raise the percentage of assets slightly during the year from 1.2 to 1.5. Probably the chief factor influencing the trend of these securities is their yields. The great market demand for these bonds, due to their tax-exempt status, had depressed their yields to a level out of line with others and thus made them unattractive to life companies which gained little tax advantage from them. Their 1948 increase in life company portfolios, however, suggests the possibility that their yields may be readjusting to a point where they are again becoming of interest from an investment standpoint.

Canadian Government bonds (including both Dominion and subdivision bonds) are estimated to increase about $119,000,000 in 1948 to a year-end total of $1,430,000,000. This increase, which is the largest since 1945, will restore the percentage of assets invested in these securities to its 1946 year-end level after a dip to 2.5% at the end of last year. Investments of life insurance companies in obligations of other foreign governments are negligible.

[1] Final estimates based on actual year-end data of about 350 companies will become available in the Spring of 1949.

Investments, by Classes, 1945-1948

All United States Legal Reserve Life Insurance Companies

Investment Class—	Dec. 31, 1945 Amount Outstanding	% of Total	Dec. 31, 1946 Amount Outstanding	% of Total	Dec. 31, 1947 Amount Outstanding	% of Total	Estimated Dec. 31, 1948 Amount Outstanding	% of Total
Bonds—U. S. Government	$20,582,788,000	46.0	$21,639,051,000	44.9	$20,020,582,000	38.7	$16,750,000,000	30.2
State, county & munic. bonds	722,313,000	1.6	615,702,000	1.3	609,169,000	1.2	850,000,000	1.5
*Canadian Government	1,168,447,000	2.6	1,259,391,000	2.6	1,310,661,000	2.5	1,430,000,000	2.6
*Other foreign governments	7,685,000	.0	10,994,000	.0	18,693,000	.0	20,000,000	.0
Total government bonds	$22,481,233,000	50.2	$23,525,138,000	48.8	$21,959,105,000	42.4	$19,050,000,000	34.3
Railroad	3,009,138,000	6.7	2,925,669,000	6.1	2,887,024,000	5.6	2,975,000,000	5.4
Public utility	5,212,369,000	11.6	5,582,781,000	11.6	6,941,009,000	13.4	8,650,000,000	15.6
Other	1,903,134,000	4.3	3,316,474,000	6.9	4,969,290,000	9.6	7,300,000,000	13.2
Total	$32,605,874,000	72.8	$35,350,062,000	73.4	$36,756,428,000	71.0	$37,975,000,000	68.5
Stocks—Railroad	115,795,000	.2	99,778,000	.2	93,652,000	.2	100,000,000	.2
Public utility	254,329,000	.6	340,244,000	.7	375,143,000	.7	400,000,000	.7
Other	628,485,000	1.4	807,207,000	1.7	921,688,000	1.8	950,000,000	1.7
Total	$998,609,000	2.2	$1,247,229,000	2.6	$1,390,483,000	2.7	$1,450,000,000	2.6
Mortgages—Farm	775,547,000	1.7	794,534,000	1.6	894,600,000	1.7	1,025,000,000	1.9
Other	5,860,435,000	13.1	6,360,211,000	13.2	7,779,977,000	15.1	9,800,000,000	17.7
Total	$6,635,982,000	14.8	$7,154,745,000	14.8	$8,674,577,000	16.8	$10,825,000,000	19.6
Real estate	856,703,000	1.9	734,937,000	1.5	860,199,000	1.7	1,050,000,000	1.9
Policy loans and premium notes	1,961,876,000	4.4	1,890,766,000	3.9	1,937,003,000	3.7	2,075,000,000	3.8
Cash	780,247,000	1.8	756,112,000	1.6	1,020,442,000	2.0	850,000,000	1.5
Other admitted assets	957,750,000	2.1	1,056,945,000	2.2	1,103,850,000	2.1	1,175,000,000	2.1
Total admitted assets	$44,797,041,000	100.0	$48,190,796,000	100.0	$51,742,987,000	100.0	$55,400,000,000	100.0

*Includes all political subdivisions.

Sources of the above data, compiled jointly by the Institute of Life Insurance and the Life Insurance Association of America, are:

1945-1947 data are compiled from the Insurance Year Books—Life Editions—published by The Spectator Company, and from company records, with sub-classifications of government bonds estimated.

1948 data are preliminary estimates based on actual Oct. 31 records of about 175 companies, which at the end of 1947 held about 97% of the total admitted assets of all United States legal reserve companies.

Railroad Securities

Considering the state of the security markets in general, and the pessimism surrounding railroad securities in particular, it is hard to realize that there is even one railroad common stock that is still holding above the high reached in the 1946 market boom. One of the few in this enviable position is Union Pacific. Adjusting for the two-for-one split in mid-1948 and the 1946 high was 84¼. Even after the post-election decline in all sections of the market this stock the latter part of last week was selling at 86. At this relatively high level most analysts consider the stock still attractive for investment and defensive purposes.

There have been many changes in this situation in recent years which have tended to improve the already strong position of the junior equity. Taking a look at the distant past, the background is most impressive. The company has shown earnings, and paid dividends, on its common stock in every year since the beginning of the present century. For the period 1906-1932, inclusive, the distribution on the old stock never dropped below $8.00 a share—the equivalent of $4.00 a share on the present stock. From 1933 through 1947 a rate of $6.00 a share on the old stock was maintained. The new, split stock has been placed on a regular $5.00 basis, with a $1.00 extra declared recently. Very few corporations can point to such an enviable long term record.

One of the important improvements in the company's already strong position in recent years has been the sharp reduction in outstanding debt. In the years 1941-1947 the non-equipment obligations outstanding were reduced by close to $160 million. The balance as of the end of last year was down to roundly $179 million. In comparison, net working capital was close to $97 million and the company has investments in other than affiliated companies carried at $88 million. The debt retirement has been augmented by exceptionally favorable refunding. The company now has no bonds bearing interest above 3% and its largest issue carries only 2½%. The combined result of retirements and refunding has reduced fixed charges to an annual level between $5½ and $6 million. As recently as 1944 they were above $15 million.

Another development has been the sharp expansion in profits from oil and gas operations. This has probably been a particularly potent market influence as it mollifies many investors who take a dim view of railroad securities as such. As recently as 1937 net income from the oil and gas operations amounted to less than $500,000. For the five years through 1946 it averaged close to $7,500,000 and last year it soared to $16,957,218. This compares with combined present fixed charges and preferred dividend requirements of less than $10 million and would alone leave some balance for the $4,445,820 shares of common stock. For the 10 months through October 1948 net income from oil and gas operations amounted to $21,986,833 against $12,669,139 for the like 1947 interval.

Union Pacific is, by itself, a sound and consistently profitable operating property. On the average for the past 10 years net operating income, which is reported after Federal income taxes, fell just short of $33 million. The low was slightly under $20 million in the severe recession year 1938 and the high was $61 million in 1942. Last year it was close to $37 million. As a final earnings consideration, the company gets considerable income from its holdings of miscellaneous securities, mostly those of other carriers. Nonoperating income, exclusive of oil and gas operations, was above $9 million last year.

Adjusted to the present outstanding stock, but not adjusting for the reduction in debt and charges, earnings available for the common stock have averaged $7.03 over the past 10 years. The low was $3.31 in 1938. Last year the company reported $11.35 a share on the split stock. For the 10 months through October 1948, there was a rise to $11.98 a share from $8.21 realized a year earlier. There should be further gains in the last two months of the year, with final 1948 results likely to reach, and perhaps top, $16.00 a share. Considering the long term record a price-earnings ratio of less than 5½ times appears ridiculously low.

Urges Banks to Keep in Flexible Condition

Dr. Willard E. Atkins, of New York University, says on basis of recent price trends, inflationary boom appears to be checked, and to attempt to fight inflation by restricting credit, may be like a smash-up caused by stopping speeding auto with road block.

The real issue in the current situation is not primarily inflation, but "who should get the limited amounts of goods and services which are available for distribution and how much," Dr. Willard E. Atkins, Chairman of the Department of Economics, Washington Square College, New York University, New York City, told the National Credit Conference of the American Bankers Association at Chicago on Dec. 13.

Prof. W. E. Atkins

"Explicitly stated," Dr. Atkins said, "there has not been enough steel to go around; and the question has been, 'Who shall have the steel?' Shall it go to the state for armament or through the mechanism of the state for foreign uses? When controls are established making it more difficult for consumers to buy automobiles, and at the same time, mortgage terms are liberalized by more generous Federal guaranties, the actions obviously are not taken as measures against inflation, but as a decision on the part of political authorities to give the consumer fewer automobiles and more houses."

Dr. Atkins urged bankers to maintain a flexible position to meet any economic eventuality. "On the basis of current price data," he said, "reports from agriculture and various industries and the recent record of department store sales, which for five weeks were below the 1947 levels, it would appear that the postwar inflationary boom has been checked. Under such circumstances, any decisive and important action aimed at restricting trade at this time would hardly seem to be in order. In any case, the banks should be in a position of flexibility, with bankers able and willing to adjust their tactics to the situation as it develops. If this trend toward a softening of prices during the last few months should gain headway; if it should happen that the postwar recession, which has been predicted so many times, does make its appearance in 1949, it is obvious that our recent attitudes towards credit restriction will be outmoded by the course of events.

"I hope that I shall not be misunderstood. I am not predicting a substantial recession for 1949. Rather, I am trying simply to say that present facts argue against laying down rigid rules either by governmental fiat or by common agreement among bankers which may restrict and hamper the necessary and sensible adjustments to the situations as they arise.

"Although the present situation is somewhat deflationary, the American economy, always dynamic, is today even more so. In the past three years, there have been other periods when the inflationary boom appeared to be flattening out, only to be followed by a new upsurge of activity, expansion and price increase. It can happen again. If the army and navy require $20 billion instead of $15 billion; if relief to China assumes substantial proportions; if political commitments to Greece and Turkey and the European states require increased borrowings and increased shipments of steel, lead, copper and other scarce products; if the public construction of roads, harbors, irrigation projects and public building and increased shipments of launch a broad program of public health rehabilitation; and if, in addition, the Administration gives the 'go' signal to organized labor to press its demands for a fourth round of wage increases; and if—what's the use, the answer is we shall have inflation back on our hands without the bankers having any iota of responsibility for it. What is clear is that if the inflationary drive again gains momentum, it will be a consequence of governmental policy.

"Indeed, the inflation that has occurred on the whole has been the result not of loose lending by the banks, not what bankers have done, but largely what government has done. At the moment, I am not concerned with the soundness of these Administration policies, with whether or not they were desirable, or whether the whole matter might have been handled differently, or whether they were inevitable. That is not relevant to the issue. The fact remains that such policies as were used could produce nothing but inflation.

"To say that bank credit is largely a result of, rather than the cause of, the kind of inflation we have had must not blind us to the fact that credit is a very sensitive institution, that it can produce widespread havoc if not carefully used. The potentialities of bank credit have not broken out into widespread commodity, security and land speculation. That this did not occur in overwhelming proportions during the past four years is a tribute to the good sense of the American people and the wisdom that has been displayed by our loaning institutions.

"But it should, also, be clear that a policy of restricting credit no less than that of increasing credit is open to many dangers. Even in a period when credit restriction in general may be recognized as desirable, neither the government nor any individual bankers should cut off loans on a rule-of-thumb basis without good reason. If the government or the individual banker should now adopt the policy of saying: 'We have such and such amount of credit outstanding and hence we will not consider or permit additional loans,' the result could easily be disastrous. It might tip off a drive to sacrifice inventories and start an ever-widening circle of liquidation. In any case, it would hurt productive effort by restricting the productive loan. The net effect might be that not only would certain commodities become unavailable, but in due time, bottlenecks would begin to show up throughout the productive process and we might get a real undesired setback.

"When we talk about fighting inflation by restricting credit, this is what I fear: that we may adopt controls that are crude; that we may become fascinated with dollar totals of credit rather than with the quality of credit; that we may say, 'We have made so many loans, we shall, therefore, make no more'; and that 'we may not consider new situations, for if accommodated, they will raise the total credit outstanding.' After all, a policy of raising reserves to prevent banks from lending or a decision by the bankers themselves to stop lending is very simple; but these are also very crude tactics that can produce great harm. They are akin to erecting road blocks to stop speeding automobiles. You may stop the careening car, but you may also cause a smash.

"When and if the Administration launches an increased program of constructing public buildings, highways, bridges, irrigation projects and harbor improvements it will leave less cement, steel, lumber, copper and manpower available for making personal and producers' goods. If the Administration launches an increased program—call it social security—it will transfer from those who otherwise would have the claim to 'have' to those who are the beneficiaries of the new services. If credit controls are necessary to effect these purposes, then they should be understood for what they are—not credit controls, but a method for keeping people out of the market.

"I want it clearly understood that I disavow any intention of attempting to evaluate the worthwhileness of these measures. Perhaps if I were in a position to make decisions, I would make decisions similar to those that are being made now. Even though I might not like them, I might regard them as politically inevitable. What I protest against are the evasive measures and the evasive talk by which the realities are hidden from public knowledge and recognition. Thereby, I protest against the consequences of such evasions; first, because the public is not told why it is being denied the many things it wants and feels it should have; and second, because in its ignorance, it turns its frustration into anger against the innocent."

N. Y. Investment Ass'n Elects New Officers

Stanley A. Russell, Jr., of Blyth & Co., Inc., was elected President of the Investment Association of New York to succeed Philip Moore of Schroder, Rockefeller & Co., Inc., at the annual meeting of the Association. Mr. Russell is a graduate of Cornell in the Class of 1940 and of the Joint Training Program of the Investment Bankers Association of New York University Graduate School of Business Administration. For the past year he has been program director of the Investment Association, which was originally organized as the Junior Investment Bankers and Brokers Association.

Stanley A. Russell, Jr.

Other officers elected for the ensuing year include George Washburn of Eastman, Dillon & Co., Vice-President; Roger T. Gilmartin of Merrill Lynch, Pierce, Fenner & Beane, Secretary, to succeed Mr. Washburn; and Dudley F. Cates of Kidder, Peabody & Co., Treasurer. Elected to the Executive Board were Robert C. Baldridge of Morgan, Stanley & Co.; Paul Hallingby, Jr., of E. F. Hutton & Co.; H. Vernon Lee, Jr., of the New York Curb Exchange, and Donal McDonnell of McDonnell & Co. Verne Horton of Goldman, Sachs & Co. was Chairman of the Nominating Committee.

The annual meeting was followed by a cocktail party.

Clark, Dodge to Admit

Clark, Dodge & Co., 61 Wall Street, New York City, members of the New York Stock Exchange, will admit Francis W. LaFarge to partnership Jan. 1.

Public Utility Securities

Southwestern Public Service

Southwestern Public Service derives about 90% of its revenues from the sale of electricity, 6% from natural gas sales, and the remainder from water and ice business. It operates in the Panhandle sections of Texas and Oklahoma, in the south plains region of Texas, and in the Pecos Valley of New Mexico. The electric properties form a fully inter-connected system, the Texas and Oklahoma portion extending about 300 miles north and south, and 120 miles east and west. The territory has an estimated population of 600,000 and is devoted largely to agricultural production, processing of oil and natural gas, and cattle and sheep-raising. There are also numerous diversified industrial enterprises in the area.

The company has enjoyed very rapid growth in recent years, percentage gains and ratios for the 12 months ended Aug. 31, 1948 being as follows compared with those for the electric power industry:

	Company	Electric Industry*
KWH Sales	32%	10.4%
Gross Revenue	24%	12.9%
Net Operating Income	24%	0.7%
Net Income	24%	(0.5%)
Operating Ratio**	71.6%	80.45%
Operating Expenses and Maintenance—per cent of gross	46.1%	55.5%

*Figures from FPC.

**Operating expenses, maintenance, general taxes and Federal income taxes and depreciation. Includes fuel cost of 18.5% of gross revenue for industry and 9.7% fuel cost for Southwestern (12 months ended Oct. 31, 1948).

Reasons for the company's remarkable gain in earnings in recent years are (1) the low operating ratio—21½% of gross revenues being carried down to the balance for common stock, against an industry average of less than 14%; (2) extremely low fuel costs; (3) a timely expansion program, giving the company surplus power; (4) the unusual rate of growth in this territory in recent years, resulting largely from a huge irrigation program, as well as the development of oil and gas.

Low fuel costs result from the use of natural gas as boiler fuel. The company is protected by non-escalator contracts for natural gas (at all base load plants) with an average life of about five years (weighed by output of respective plants). Average cost for the fiscal year ended Aug. 31, 1948 was 6.48 cents per mcf. of gas, equivalent to $1.57 a ton for coal. Fuel cost per KWH. was reduced over 3% for the fiscal year 1948, and in the month of October the decrease was over 14%, reflecting the efficient operation of new generating units.

The company's construction program for the next four years is estimated at $75 million, or about $18 million a year. It will obtain about $15 million a year from the public in order to finance this program—some $9 million in bonds and the rest in common stock. After completion of the program, the company will have four new 50,000 KW. steam plants.

For the fiscal year ended Aug. 31, 1948 share earnings on the common stock were $2.63 a share compared with $2.31 in the previous year, a gain of about 14%. Budgeted figures for the current fiscal year (to end next August) indicate that the company hopes to earn $3.14 a share or an increase of 19%. Because of its heavy building program, the management feels that under any new tax legislation it could take advantage of probable provisions for "accelerated depreciation" on new plant, and hence that the company would not be very adversely affected either by an increase in the normal or surtax rate, or by a new excess profits tax law.

The present capital structure is approximately 60% debt, 15% preferred stock, and 25% common stock. It is the intention of the management to shape its program for future financing so as to maintain these approximate ratios. It does not borrow from the banks except to anticipate mortgage bond financing; the present bank debt is about $3.6 millions.

Common stock offerings were made to stockholders in August 1945 (1-for-4); in February 1947 (1-for-10); also in January 1948 on a 1-for-11 basis. Over-subscriptions were allowed in the last two cases. The offerings proved quite successful, the first being 86% subscribed, the second 95% and the third 131% (including over-subscription). It appears likely that the company will make another offering next year, possibly in February or March.

The market record of the common stock has been rather outstanding. In 1942 the stock sold as low as 4½, and currently it would be selling at the equivalent of 44 before adjustment for the stock dividend of 60% paid in 1947. At the current over-counter price of around 27½ it is selling at about 10½ times earnings. Based on the current dividend rate of $2 (the quarterly rate was twice increased during 1948) the yield is 7.3%.

Street Club of S. F. Installs New Officers

SAN FRANCISCO, CALIF.—The Street Club of San Francisco held its Christmas Party at the Marine Memorial Club on Wednesday, Dec. 8, celebrating the successful completion of its first year. Officers for the coming year were announced and installed by outgoing President Eugene A. Shurtleff of Blyth & Co. The new officers are: President, Thomas M. Howard of Mitchum, Tully & Co.; Vice-President, Harold D. Barnard Jr. of Dean Witter & Co.; Treasurer, Robert B. Horner of Elworthy & Co.; and Secretary, Kenneth C. Koch of Walston, Hoffman & Goodwin.

Other members of the board of directors are: Warren H. Berl of Edwin D. Berl & Son; Clarence O. Amonette of Brush Slocumb & Co.; and Eugene A. Shurtleff of Blyth & Co. New committee chairmen named by President Howard were: Membership, Robert D. Gibson of William R. Staats Co.; Program and Publicity, David Bullen of Elworthy & Co.; and Entertainment, G. Willard Miller Jr. of Dean Witter & Co.

Burnham & Co. to Admit L. J. Greenthal

Leonard J. Greenthal, manager of the statistical department, will admit to partnership in Burnham & Co., 15 Broad Street, New York City, members of the New York Stock Exchange on Jan. 1.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government bond market continues on the constructive side with investors adding to their holdings of Treasury obligations. . . . Although tightness in the money markets has tended to limit commitments, it is believed that activity will expand with the passing of this condition, which should be soon. . . . The bank-eligible obligations are the market leaders and are expected to hold this position because the deposit institutions are showing more interest in these securities. . . . Dealers also are inclined to look with favor on the bank issues, which accounts for modest inventory building in some of these securities. . . . Positions have been enlarged in face of higher loaning rates by a few of the banks. . . .

Federal last week reported a decrease in bond holdings of more than $58,000,000 showing that the authorities will sell securities to keep the market orderly and prices within limits. . . . It is reported that a sizable amount of the securities sold were bonds in the middle maturities with indications that the 2s due Dec. 15, 1952/54 were among the largest eliminations by the Central Banks. . . This would be in line with the better tone and demand which has been appearing in the longest taxable 2s. . . . This bond on Dec. 15 becomes a four-year obligation (with a yield of 1.67%) which makes it attractive to deposit institutions that do not want to be too short or too long. . . .

OTHER FAVORITES

The 2½s due 1956/58 are also attracting attention as are the 2¼s due 1956/59, with out-of-town commercial banks reportedly the main buyers. . . . The 2½s due Sept. 15, 1967/72 likewise have their followers but have been under some pressure because of selling by savings banks. . . . The proceeds from these eliminations have been going largely into the restricted obligations. . . . Switches are still being made from certificates into the distant eligible taxables by institutions that are in need for earnings because of declines in loans or the lack of suitable mortgages. . . .

Bank loans in New York City declined again last week for the fourth time in a row, and this has many money market followers paying more attention to the government securities markets. . . . The opinion is that if loans continue this trend there will be a more active interest in government securities. . . .

There has been selling of tap bonds by savings banks, trust accounts, and the smaller insurance companies in order to take up commitments made in the recently offered telephone bonds. . . . These eliminations have not been sizable, however, and were much less than had been expected. . . . It was believed that the $150,000,000 issue of American Telephone and Telegraph Company's 3⅜s would bring in more liquidation of Treasuries than has appeared so far. . . .

PARTIAL EXEMPTS ACTIVE

The partially-exempt issues continue to be in demand, with the last four maturities getting most of the play. . . . These bonds are not easy to pick up and there have been instances recently when bids have been made that were above the quoted offering side of the market and no important amount of securities were bought. . . . It seems as though there is very little inclination to dispose of these bonds until yields decrease from current levels. . . . This is due principally to the better tax-free return that is available in these obligations compared with the yield obtainable in taxable Treasuries. . . .

HIGHER PRICES EXPECTED

Although adjustments will continue to be made in portfolios in order to meet particular needs and for year-end purposes which may cause temporary maladjustments in individual issues, investors and traders appear to feel that prices of government securities will tend to improve gradually. . . . Better quotations are looked for in the bank obligations but no wild rush up in prices is expected because Federal has too many securities that can be sold to prevent anything like that happening. . . . Recent trading limits are quite likely to hold for the time being, but a somewhat higher range might be anticipated, if business continues the "rolling readjustment" and the inflation pressure is relieved. . . .

If government spending is held within reasonable limits and the budget shows a surplus, there is quite likely to be a much better tone in the government bond market. . . . Despite the many uncertainties that confront the money markets the feeling seems to be that the immediate future will find developments in the government market on the favorable side with enough price fluctuations and volume to make it interesting for both investors and dealers. . . .

MONEY SUPPLY AND "PEGS"

Despite all the criticism that has been put forward about the price support policy of government bonds, along with its inflationary implications, it is indicated that money supply of the nation will show a decline for 1948, the first in about 11 years. . . . It is estimated that the drop in demand deposits and currency will be about $3,000,000,000. . . . While support purchases of government bonds hampered credit controls, this was offset in a large measure by the retirement of short-term Treasury securities held by the banks, which reduced deposits. . . . Also increases in reserve requirements and in interest rates on short-term governments resulted in monetary contraction, since pressure on reserves cut down the expansion of loans and investments by the commercial banks. . . .

The American Bankers Association's voluntary campaign to restrict credit expansion has also been important in this matter. . . . Unless there is a marked increase in government spending the contraction in the money supply should continue and this will eliminate the monetary factor as an inflationary force.

L. J. Reese Opens

SACRAMENTO, CAL. — Llewellyn J. Reese has opened offices at 1812 J Street to engage in the securities business. He was previously with Capital Securities Co.

Harold Fitzgerald Dead

Harold Fitzgerald died of a heart ailment at the age of 71. Mr. Fitzgerald prior to his retirement in 1938 was a partner in Munds, Winslow & Potter.

"Business Profits Excessive"

(Continued from page 18)

and from which they receive no dividends.

Although the major part of the new capital obtained by business from retained profits has been used for the constructive purpose of expanding plant and improving equipment or supplying needed working capital, nevertheless there has been a marked tendency on the part of large corporations to use their high profits for the purpose of buying up smaller concerns. A study just issued by the Federal Trade Commission shows that in the period from 1940 to 1947, 2,450 formerly independent manufacturing and mining companies with an asset value of $5.2 billion have disappeared as a result of mergers and acquisitions. These acquisitions have been particularly marked in the textile industry where companies have been making profits of 20 to 36% on net worth in 1945 and 1947, in chemicals and drugs where profits were from 15 to 24%, and in foods and beverages where profits were from 10 to 42%. We do not have enough information to show the actual effect of this merger movement on competition, but these figures give cause for much concern. What could be more destructive to our economy than the use of high profits to eliminate or seriously lessen competition in a free market? A free enterprise system depends on competition to check excesses, adjust prices and production to consumer needs, and stimulate efficiency and the invention of new techniques.

The results of the high price policies followed by so many businesses in the postwar period are now being seriously felt in various sectors of the economy. Workers' average real wages have been declining during the postwar period.

From May 1945 (V-E Month) to August 1945 (V-J Month) the decline in buying power of the weekly pay envelope of the average factory worker was 10%. From August 1945 to October 1948 (latest figure) the average factory worker's buying power has declined another 2½%. But the factory worker has fared better than the average consumer, because unions have advanced his pay. Figures from the President's Midyear Economic Report show that the per capita disposable income of the American people in the first half of 1948 was 10% below 1945 and 7% below 1946. This decline has been due entirely to the price rise, since average money wages and the per capita money income of the American people have advanced steadily in the postwar period.

High Prices Dangerous to the Economy

This cutting away of the people's buying power by the high prices which created today's high profits is having dangerous consequences for the American economy. First of all, it means a serious injustice to the millions who saved their money and bought war bonds in wartime. The buying power of their savings has been reduced by at least one-fourth and by one-third if the bonds were bought early in the war. Similarly, those who depend on social security find that their benefit payments are so reduced in buying power that they no longer provide even a bare subsistence.

Secondly, this reduction of buying power is cutting the support from under the market for the products of American industry. We must have a realistic understanding of what is necessary to reach our common goal of maintaining our economy at levels of maximum production and employment. So-called "full employment" means a steady increase in employment year by year as population increases and more workers come into the labor force seeking jobs. This means a steady increase in production of goods and services, for production is raised both by the larger number of workers and by their rising productivity. And now we come to the vital point in the whole problem of maintaining an economy of maximum employment; namely, the purchase of the products and services of industry. For unless these products are bought and taken off the market, production will be cut back, workers laid off and "full employment" will be replaced by rising unemployment with immense loss to everyone.

On whom does the American economy depend to buy its product? Before the war in 1939, consumers bought about 75% of it; government 14%, business bought about 10% for maintenance, improvement and expansion of its plants, and about 1% represented net exports to foreign countries. With rising postwar prices, consumers were able to buy only 71% in 1947, but the slack was taken up by business which bought unusual amounts for plant and equipment, and by foreign countries which in early 1947 still had enough capital to buy for reconstruction purposes. As we look ahead to 1949 a very different picture presents itself. Consumers are no longer able to buy even 70% of the total product —in the first three quarters of 1948 they bought only 69.8%; business purchases for plant and equipment which have taken up the exceptionally high proportion of 15% in 1948, are expected to drop away in 1949; foreign net purchases for private account have dropped to an insignificant amount as their funds were exhausted. The result is that the whole economy turns to the government to support the market for its products. This is a serious and dangerous situation, and the root cause of the maladjustment is high prices which cut off consumer buying power.

The market is being supported at present by government purchases for the European Recovery Program and the military program. But we cannot go on indefinitely expanding these programs to take up the slack in consumer purchasing power. We are told by competent business observers that "very small declines in civilian demands will offset very large increases in defense demand."

The serious shortage of consumer buying power is emphasized even more when we realize that consumers are forced to depend to a larger extent on borrowing and on the use of past savings to meet current expenses. Consumer short-term credit has increased at the rate of $3 billion a year since the war and is now 80% above the previous all time peak in 1939. War bonds and savings bonds are still being redeemed at the high rate of almost $3.8 billion per year; Postal Savings have declined by $67 million or 2% in the year ending September 1948; in mutual savings banks, in the first nine months of 1948, withdrawals have risen by $425 million while new savings rose by only $369 million. All these are signs of the pressure of high prices, particularly on low income groups. The Federal Reserve Board study of consumer finances in 1948 showed that half of all "spending units" had drawn on their savings for the purchase of "non-durable" goods, which is an indication of the extent to which families have had to draw on savings to meet ordinary living expenses. In the very low income groups (under $2,000) three-fourths of all savings drawn were for such purposes.

In 1949 consumer buying must increase substantially if we are to maintain our economy at levels of maximum employment and production. To achieve this, a stable dollar is essential. The postwar price rise in living costs must be stopped.

Sound Monetary Policy Basic in Curbing Inflation

Basic in checking inflation is a sound monetary policy on the part of the Federal Government. Efforts to maintain the prices of government bonds should not be permitted to interfere with such a policy, for our entire economy depends on government fiscal and monetary policies to check those excesses which may be disastrous in a boom period.

Government tax policy is also vital. The Executive Council of the American Federation of Labor has pointed out that the bulk of tax savings approved by the 80th Congress accrued to tax payers in income groups over $3,000. The low incomes still bear a heavy tax burden, and this should be kept in mind in any new measures for taxation. Their buying power is vital to the nation and must be increased.

In looking to 1949, the American Federation of Labor recognizes that in a free enterprise economy the organizations of basic productive groups—employers, labor and farmers—cannot expect the government to lift from them the burden of their own responsibility for constructive policies in regard to prices. The American Federation of Labor clearly stated its policy at the end of the war of asking wage increases which could be granted without raising prices and we seek today a situation in which it will be possible to carry out that policy. But in view of the drastic price rises and the policy of many companies to charge all the traffic will bear, labor cannot refrain from asking maximum wage increases unless we have assurance from employers that they will meet our sacrifice by following policies which will avoid price increases and permit prices to decline where they are unduly high. The great voluntary organizations which determine wage, price and production policies cannot function in an effective way on a national scale unless they meet together to discuss the current situations and decide upon policies, meeting again at intervals to review programs and consider new problems. When individual units act separately no one of them can have determining effect, no matter how great the desire may be to act for the general good. The constructive act of one unit may be completely offset and negated by the act of another. It is for this reason that the Executive Council of the American Federation of Labor has called for a joint conference of business, labor and farmers to examine facts and propose a joint voluntary program in cooperation with the government to stop inflation.

A. G. Becker & Co. to Admit Seven Partners

CHICAGO, ILL.—A. G. Becker & Co., 120 South La Salle Street, members of the New York and Chicago Stock Exchanges, on Jan. 1 will admit William D. Mabie, Herbert T. Schaffner, Alvin L. Pearson, Maurice J. Cann, David N. Dattelbaum, Russell H. Boyd, and Charles W. Ritter to partnership. Mr. Dattelbaum and Mr. Boyd will make their headquarters in the firm's New York office.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED
CAPITALIZATIONS

S. Sloan Colt, President of **Bankers Trust Company of New York**, announced on Dec. 9 the

B. A. Tompkins

Alex H. Ardrey

election of Alex H. Ardrey, Vice-President in charge of the banking department of the company, to a newly created office of Executive Vice-President.

Mr. Ardrey entered the employ of Bankers Trust Company in 1930 as Vice-President in charge of company's business on the West Coast and in the Southwest. He was made head of the banking department in 1945 and continues in this capacity, in addition to his new responsibilities.

At the same meeting, B. A. Tompkins, Vice-President since 1920, was designated Senior Vice-President.

On Dec. 9 President Colt also announced the promotion of F. A. Cochrane from Assistant Vice-President to Vice-President, and at the same time made public the promotion of five others to the office of Assistant Vice-President, one to the post of Trust Officer, and 12 others to the offices of Assistant Treasurer, Assistant Secretary, and Assistant Trust Officer. Promoted to the rank of Assistant Vice-President were: P. T. Arzee, formerly Assistant Treasurer; W. F. Finley, formerly Assistant Secretary; M. E. Gevers, formerly Assistant Treasurer; W. N. Hartman, formerly Assistant Treasurer, and J. C. Kennedy, formerly Assistant Secretary. D. J. Giles, formerly Assistant Trust Officer, was named Trust Officer. Elected Assistant Treasurers were: F. J. Behlers; R. W. Billman; E. H. Brummer; R. L. Dann; L. J. Flaherty; C. G. Miller; G. J. Ruska; R. A. Schlumpf, and Norman Wiebe. Elected Assistant Secretaries were P. A. Brock and W. C. Schubert. I. E. White was named Assistant Trust Officer.

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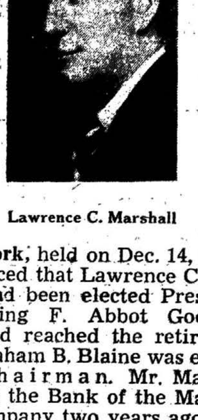
Following a meeting of the board of directors of **The Bank of the Manhattan Company of**



Lawrence C. Marshall

New York, held on Dec. 14, it was announced that Lawrence C. Marshall had been elected President, succeeding F. Abbot Goodhue, who had reached the retirement age. Graham B. Blaine was elected Vice-Chairman. Mr. Marshall came to the Bank of the Manhattan Company two years ago from the United States Trust Company of New York. He started his banking career in 1925 with the American Exchange National Bank in New York City. Following the merger of that institution with the Irving Trust Company, he became associated with the Stock Exchange firm of C. D. Halsey & Co. In 1934 he joined the United States Trust Company. In 1943 he was elected an Assistant Vice-President and placed in charge of its banking department. In 1946 he was elected a Vice-President of the Bank of the Manhattan Company and was assigned to the division handling New York City business. Mr. Marshall is a Trustee and Treasurer of the American University of Beirut, in Beirut, Lebanon, a Trustee of the Northfield Schools, Northfield, Mass.

Mr. Blaine served in World War I as a Second Lieutenant in the Infantry from August, 1917 to February, 1919. From 1919 to 1922 he was associated with the American Agricultural Chemical Co., Boston; from 1922 to 1927 he was a Vice-President of the Kidder, Peabody Acceptance Corp., Boston. In September, 1927 Mr. Blaine joined with International Acceptance Bank as a Vice-President and became a Vice-President of the Bank of Manhattan Company in January, 1932. In May, 1947 all the out-of-town business of the bank's main office at 40 Wall St. was placed under Mr. Blaine's general supervision.

Mr. Goodhue, who had been President of the Bank of the Manhattan Company for 17 years, and for 10 years before that was President of a bank acquired by the Bank of Manhattan Company, reached retirement age during the year, and hence was not eligible for re-election. During his administration, said J. Stewart Baker, Chairman, in his annual report to the stockholders on Dec. 7 (referred to in our Dec. 9 issue, page 2386) the company "has grown and prospered." Mr. Baker added that he (Mr. Goodhue) not only "directed its operation wisely but also has been an aggressive leader in increasing its business." Mr. Goodhue will remain as a director and will act as Chairman of the board's Trust Committee.

* * *

Central Hanover Bank and Trust Company of New York has announced that the following appointments have been approved by the Board of Trustees: William F. Jones and George R. Macalister, Assistant Secretaries in the Out-of-Town Division; D. C. Merrick, Assistant Secretary in the Banking Division; H. Clay Dennett, Russell R. Roetger and William R. Morris, Assistant Secretaries in the Personal Trust Division; Gerhard Dreyer, Assistant Manager in the Foreign Department.

* * *

After 44 years in the banking business and more than 30 years as an officer of **The National City Bank of New York**, James B. Birmingham, Vice-President, will retire at the end of this month following his 60th birthday, the bank announced on Dec. 13.

The directors of The National City Bank voted on Dec. 14 to increase the surplus of the bank to $172,500,000 by transfer of $10,000,000 from unallocated reserves. This action increases the combined capital and surplus from $240,000,000 to $250,000,000. The Board has previously recommended to shareholders, for approval at the annual meeting Jan. 11, an increase in the capital of the bank from $77,500,000 to $124,000,000, by transfer of $46,500,000 from surplus. If this increase is approved, the surplus thereafter will stand at $126,000,000. Undivided profits on Sept. 30, 1948, were $36,329,781.73.

* * *

Irving Trust Company of New York announces that Charles G. Gambrell, a Vice-President of the company, has taken charge of its branch office in the New York Central Building, 46th Street and Park Avenue.

* * *

An announcement by President Arthur S. Kleeman, of the **Colonial Trust Company of New York** to the effect that in order to improve the service of the institution to importers, exporters and others engaged in international trade the company has instituted the "geographical desk" system in its International Division, appeared in rather garbled form in our issue of Dec. 9, page 2396, owing to an unavoidable mix-up of type. We are hence repeating in part here the announcement made by Mr. Kleeman:

Under the new system the map of the world has been devided into a number of geographical areas, each of which is considered as a trade and economic unit. An experienced member of the International Division staff has been placed in charge of the "desk" for each unit, with the responsibility of maintaining up-to-date files of economic and trade information on that area.

* * *

The Board of Directors of **Manufacturers Trust Company of New York** has voted to amend the By-Laws of the trust company so that in the future the annual meeting of stockholders will be held on the third Wednesday in January instead of the second Wednesday, commencing with the forthcoming meeting of stockholders which will be held on Jan. 19.

* * *

C. H. Carlisle, formerly President of **The Dominion Bank, Canada**, has been elected Chairman of the bank's board of directors. Robert Rae, formerly Vice-President and General Manager, has been elected President. Mr. Rae was New York Agent for the bank from 1926 to 1929. A. C. Ashforth has been made General Manager and Thomas Wilding has become Assistant to the President.

* * *

Charles Diehl, President of **Empire City Savings Bank of New York**, announces that Arthur B. Richardson, President and director of Chesebrough Manufacturing Co., has been elected to the bank's board of trustees. Mr. Richardson also is President and director of Baybank Pharmaceuticals, Inc., and director of Clifton Oil & Gas Co. and Duhring Development Company.

Arthur B. Richardson

* * *

Edward S. Frese, who has been associated with the **Grace National Bank of New York** for the past 17 years, during which period he was Assistant Cashier from 1944 to 1946 at which time he was appointed Assistant Vice-President, has now been appointed Vice-President. He was formerly President of the Bank Credit Associates of New York.

* * *

Sterling National Bank and Trust Company of New York announces that Lester H. Sharaf, in the customer relations department at its 39th Street Office, has been elected an Assistant Cashier of the bank.

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The Bensonhurst National Bank of Brooklyn, N. Y., increased its capital Nov. 30 from $400,000 to $500,000 through a stock dividend of $100,000, it is reported by the Office of the Comptroller of the Currency.

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Raymond N. Ball, President of the **Lincoln Rochester Trust Co. of Rochester, N. Y.**, announced on Dec. 10 the promotion of six members of the bank's staff, according to the Rochester "Times-Union" which said:

Advanced to Vice-Presidents are Clarence E. Higgins, Cyril G. Kress and Joseph L. Hockenos. Elected Assistant Secretary is Robert H. Kalb, and Assistant Trust Officer, G. Nelson Turner. Named Assistant Secretary is Bertrand H. Mallison.

* * *

C. Dixon Heyer, who joined the **Provident Trust Company of Philadelphia** in 1923 and since 1942 has served as Assistant Treasurer, has been promoted to the post of Assistant Vice-President by the board of directors, according to an announcement by William R. K. Mitchell, President. At the same time Mr. Mitchell announced the promotions of five others to junior executive positions in the bank. All the appointments become effective on Jan. 1. Named as Assistant Treasurers were Horace G. Moeller of the new business department; Thomas H. Sweeny, Manager of the credit department; and William O. Jackson of the banking department. All are veterans of World War II. John A. Sears, of Wayne, who has been identified with consumer credit since joining the Provident in 1944, becomes Manager of the consumer credit department, while William Weir Donaldson, of Glenside, who has been connected with the trust department since the war, has been named an Assistant Trust Officer. He, too, served in World War II.

* * *

The board of directors of **Tradesmens National Bank and Trust Company of Philadelphia** has declared a stock dividend of 6%, subject to the approval of stockholders at the annual meeting on Jan. 11, and to the approval of the Comptroller of the Currency. The stock dividend, if approved, will be payable to stockholders of record at the close of business Jan. 7.

* * *

Walter J. Reschke, William P. Kennelly and Harold W. Dodge have been appointed Assistant Cashiers of the **La Salle National Bank of Chicago** by action of the bank's board of directors as announced on Dec. 11 by John C. Wright, President. Mr. Reschke has been with the bank since 1936 and served as head of the discount department before assuming his present position. Mr. Kennelly has been employed in Chicago banks since 1928, joining the La Salle National in 1946 as Manager of its bookkeeping department. Mr. Dodge entered the La Salle National in 1947 as Manager of its credit department and will continue in that capacity. He formerly had been associated with the Boatmen's National Bank of St. Louis for 17 years, except for 3 years during the war when he served as Lieutenant in the U. S. Navy.

* * *

A special meeting of the stockholders of the **First National Bank of Chicago** will be held on Dec. 21 to vote on the question of increasing the capital stock by a $15,000,000 stock dividend. The directors on Dec. 10 authorized the transfer of $5,000,000 from undivided profits to surplus, effective Dec. 31. The proposed additional stock, it is stated, would be distributed to stockholders of record Dec. 15 so that as of Dec. 31 the capital stock would be $75,000,000 and the surplus, $65,000,000.

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It is announced that the capital of the **National Bank of Commerce in Superior, Wis.**, has been increased from $275,000 to $282,600, effective Nov. 30, by a stock dividend of $7,600.

* * *

Wiley R. Reynolds, President of the First National Bank of Miami and Palm Beach, Fla., died on Dec. 7. He was 69 years of age. Mr. Reynolds at his death was also President of the W. R. Reynolds Co., and Chairman of the board of Little River Bank & Trust Co. of Miami, and the First National Bank of Coral Gables, Fort Lauderdale and Lake Worth. Associated Press advices from Palm Beach in the Florida "Times-Union" of Jacksonville also indicated as follows his further activities:

"He also was Chairman of the board and director of the First Trust Co. of Miami, Vice-President of the Genesee Corp., and a director of the Fort Wayne and Jackson RR. Mr. Reynolds was born in Jackson, Mich., son of the President of the People's Bank there. The Reynolds Spring Co., which he founded, was sold to the steel interests for 'quite a bit of money,' he reported."

* * *

At a meeting of the board of directors of Barclays Bank (Dominion, Colonial and Overseas) on Nov. 22 it was decided to recommend the following dividends for the year ended Sept. 30, 1948: A final dividend of 4% actual on the A stock and B shares, making 8% for the year, less income tax at the standard rate of 9/- in the £. Net profits for the year are peroted as £649,873. 18s. 4d.; last year £572,412.

Boston Inv. Club Elects New Officers

BOSTON, MASS.—The Boston Investment Club held its annual dinner meeting and election of officers at the Boston Yacht Club Tuesday, Dec. 7. The following officers were elected for the coming year:

President: Clair C. Pontius, R. L. Day & Co.

Vice-President: John J. D'Arcy, F. L. Putnam & Co., Inc.

Treasurer: William H. Claflin, Jr., Tucker, Anthony & Co.

Secretary: John Ahearn, Lee Higginson Corp.

Publicity Chairman: Edwin J. Pingree, F. S. Moseley & Co.

A luncheon was held at the Parker House for members of similar organizations from New York City, Montreal and Toronto, Canada, who attended the meeting for the purpose of discussing the mutual aims of our organizations and to coordinate efforts to stimulate aggressive merchandising methods by investment firms, thereby aiding the individual salesman.

The Investment Association of New York was represented by Philip Moore, Schroder, Rockefeller & Co., President, and Stanley Russell, Blyth & Co., Inc. The Montreal branch of the Junior Investment Dealers Association of Canada's representative was Douglas Rodomar, Secretary. The Toronto branch of the latter Association was represented by Robert Wadds, President; John Greey, Secretary, and William Wilder, Past President.

Greenhall, Heck & Co. To Be Formed in NY

As of Jan. 1 the New York Stock Exchange firm of Greenhall, Heck & Co., will be formed with offices at 30 Broad Street, New York City. Partners will be Harry A. Greenhall, John Heck, and Edward Schafer, Jr., the Exchange member. Mr. Heck and Mr. Greenhall were partners in Townsend, Graff & Co. Mr. Schafer has been active as an individual floor broker.

Analyzing the Business Situation

(Continued from page 8)

that we are now at a point in the United States where the moving in of a more expensive way of life on the capacity of people to buy has become a pretty risky thing—and it is tending to get more risky all the time.

High Cost of Doing Business

There is a second feature closely related to this, but it affects different people. It has consistently become more costly to do business in the United States. It has consistently become more costly to carry on business in the United States. I listened to a speech out in Palo Alto last summer at a business conference at Stanford University, and one of the speakers was Mr. K. T. Keller, of Chrysler. He read a paper which has since been circulated. It is a very interesting paper from this point of view. One of the figures he gave that was very interesting and got tucked away in my mind was this figure: He said the cost of retooling for Chrysler before the war when they were introducing new models was $15,000,000. And he said the cost of retooling now (which was in 1948) before the introduction of a new model was $75,000,000.

That is a big increase, and I do not think any of these index numbers, or anything, measures these increases in the cost of doing business.

As that cost increases—and as it has increased over what has got to be a pretty long period of time, much longer than most people imagine—that affects businessmen's calculations all the time. And it should. It would not be a well-conducted business system if a phenomenon of that kind did not directly and constantly affect their judgments in the future.

You heard Mr. Dodge's speech at lunch today. There is a building-up of debt. There is a plowing back of money into the business, and that is becoming a constantly more expensive thing. And when things become more costly like that, and appear to be continuing to do so, that makes decisions for the future more uncertain, and makes it likely that many decisions that might have been made in one direction will not be made in that direction again.

There is a correlary to that, and the correlary is this: It takes a phenomenal volume of business—and when I say "phenomenal" I mean it—in the United States today to make the money that is being made. I haven't got any time to talk about whether that is too much or too little, but whatever it is, it takes a phenomenal volume of business to do it.

You know when you multiply within a reasonable period of time, say ten years, the business volume of a succession of firms four times, five times, six times, seven times (and if you look at figures you will see what they look like) you are doing something. The question is: how long can you count on continuing to do that thing?

From a business point of view—and from a business point of view I mean from the point of view of the outlook for business in the future—the dependence of an income in a business whose costs are constantly rising on an absolutely phenomenal volume of business is an element of great uncertainty and weakness in the future business situation.

So, those two features are, I think, matters of common knowledge, and it would be a grave error for any observer of the American scene to discontinue them.

Let me add a third which is of a different kind. Much of the talk that goes on today is perfectly sound talk and perfectly obvious talk, and it turns on this original issue of mine as to whether we have a stable or an unstable business situation. One of the most forceful arguments advanced to prove that the situation is stable is the fact that we have got great backlogs.

Have We Great Backlogs?

I want to make a proposition about backlogs. Backlogs are always big when business is big. Otherwise, there would not be big business, or great business activity. And the same thing is true of inventories. Inventories are big when business is big, or else you couldn't do a big volume of business.

If you take percentage that inventories are of something else at that particular phase of the business situation, they are perfectly reasonable percentages because when you multiplied your business five-fold, you will have multiplied your inventories by something of that amount—or, anyhow, by a large amount—and you will have a perfectly good percentage.

If it is true that you are in a good business situation, then that business situation not only now but all time in the past, and you can make a pretty good guess about the future, will disclose the same conditions that they disclosed today—enormous backlogs, and very big inventories, both of which are necessary for the continuance of that business.

But should, for some reason or other, that business curve turn, then these backlogs disappear, and nobody knows where they go. It is like money. It is like this plethora of money which we talk about which is a plethora when it is doing the things it is doing today — and disappears somehow when the business situation happens to change.

I looked back at the 1920 period, and I don't recall—though I was around in those days and was interested in the business situation—anybody ever saying anything about backlogs at that time. I don't know if they did or not. Maybe they had another word for it. But there must have been enormous backlogs in 1920. And yet the business broke in 1920 for some mysterious reason, and the backlogs disappeared.

They must have been substantial, and I will tell you how know they were there — because the break in 1920, 1921, was succeeded by a perfectly enormous increase in production of commodities like automobiles and all the things connected with that. Now, they just didn't arise out of the clear sky. They were existing backlogs.

What people want to bear in mind is there are always two kinds of backlogs, the one backlog which is a backlog of things that people want (and that is limitless); and then there is a part of that backlog—and that is that part of the backlog that at any given time people can afford to buy.

You have got to bear that situation in mind. With rising prices, life becoming more costly all the time, more expensive, backlogs are constantly changing their character though to outward appearances it may not look like it at a given moment.

Costly Government

So, there are three factors in the situation which tend to characterize it, and I want to add a fourth. The fourth is what government is likely to do, or intends to do. Of course, government does an enormous number of things more now than it did 20 years ago, and you might speak about it or describe it in many different ways. But I want to describe it in a way that relates to the question I am talking about, to this issue.

The more government does, the more costly government becomes. And when you already have a highly costly situation, an expensive situation, which, in my opinion, is going to become excessively expensive to its own detriment, and you have added to it potentially new costs of a direct and an indirect kind to be added by the government, or in the act of being added by the government, then you have got added risks in this situation, and grave risks.

So, my conclusion is that this is an unstable situation. And unstable situations do not last. I said that has a relation to policy. This isn't an academic discussion, this is a practical discussion. It has a relation to policy, and we know it. We know it not from what we know today alone, but we know it from past history. And what we know from past history of a situation of this kind if worth recalling for a moment, and it is this. When you confront a situation of this kind you always face two kinds of risks, you face the risk of doing nothing, and you face the risk of acting.

You can pretty well see for yourself which kind of risk most people are going to take. Let me give you a concrete illustration We faced a situation in many respects like this one, though not identical with this one, in 1927 and 1929. We faced it in 1927, and we took the risk of doing nothing. We took the risk of doing nothing; and because we took the risk of doing nothing, we got ourselves into an infinitely greater risk of what happened in 1929.

And that is always true in a complex society. You can't sit back and look at it. You have got to make up your minds as to what the character of this situation is. And having made up your mind what the character of this situation is, and what it is likely to lead to, you can't stop at that point. You better go to the next point and say: "Well, that means that sound practical policy as of this nature." And what it means in the present situation is that it is unwise to add inflationary influences to this present already highly inflated situation. Because if you do, you are going to make it still more unstable, and make the aftermath infinitely more difficult to deal with.

Labor Problem

Well, that brings me to labor and the fourth round. I think having said what I have said I can dispose of that very quickly. I said I wasn't going to make any predictions—and I don't have to. The fourth round is already under way. That is, there have been some fourth round increases and there have been some talked about.

If we have a fourth round, it is going to be a reluctant round. I might almost say it is going to be reluctant on both sides. Well, that's advance; that's progress. Both sides will be reluctant about it. The business side will be reluctant because they don't think it is wise. And the labor side will be reluctant because they don't think it is wise, either.

Now, when both sides agree like that—I don't say they are agreeing in public, I am reading into their minds what they think about this—it certainly isn't up to me to say whether a fourth round is desirable or not. It certainly is undesirable, no matter what happens. It is an undesirable thing because it is going to add more fuel to this fire; it will feed it still more, and it is going to do nobody any good.

I want to make a general statement about the labor welfare—about welfare of what we call labor, this big slice of the population that is in the labor force, the 60 million, or that portion of the 60 million that comprise it.

Historically — and this is common sense, and this is logic — historically, they make their great gains when prices are falling; and they retain them later, when prices are going up for a time, depending on how prices go up. When labor gets into a situation of this kind where prices are steadily mounting almost without interruption, those rising prices eat up their gains, and they eat them up pretty swiftly.

We tend to forget the past, and I want to give you a couple of figures—the only figures I have got today, which illustrates this point—to show you how if you keep going in this thing from now on, no matter what the provocation, you are not going to do yourself very much good.

If you start in 1929—and 1929 was a good year, you know, though it didn't look so good the year after — but it was a peak year—1929 was the last of seven years during which everybody came to the United States and admired us and wrote books about us. If you compare 1929 with the latest month for which we have figures in 1948, the real hourly earnings—I will tell you what I mean by that, the purchasing power of hourly earnings, what we call real wages—in the United States between 1929 and September, 1948 increased 70%. And you know when most of that increase took place, in the depression, because prices fell and then didn't rise very much until this later stage. That's a tremendous figure. And if you knew the history of these kinds of things, you'd say that that's something you couldn't duplicate. It takes a long time to make a 70% increase in real hourly—real rates of wages, and that was 70%.

Let me take another figure which is closer to home, 1939, the end of 1939 with September, 1948. Now, we have a new batch of different things that happened, and past falls in cost of living have been eradicated in part. Between the end of 1939 and September, 1948, the real rate of wages increased 19%.

Now, there is a difference for you—increased 19%. That shows you what this eating up process is like.

Then I take another period still closer to home, September, 1945 to September, 1948. And the real hourly wage rate of manufacturing employees in the United States, 17 million of them, increased 2%. There is a picture you want to carry away with you, as to how a long historical gain can be eaten up by an inflationary period. And it is being eaten up now. And if you go for a fourth round and its aftermath, you can pretty well take it for granted it it going to be eaten up. And you needn't blame anybody for it. You can't blame it on profits, and you are not going to deal with it on price control, and you are not going to deal with it by substituting a Taft-Hartley Act for the old Wagner Act. It will, in my humble judgment, make things worse. That is my diagnosis of this.

This is an unstable situation, and unstable situations are not good to perpetuate. It is not wise to follow policies that tend to make them continued because you only add to your future difficulties.

So far as labor is concerned, their gains from now on, as they have been in recent years, will be in very large measure (if not totally) illusory gains, and they will be eating up past gains, which is what you hope to carry with you in the future.

Well, that being my diagnosis, what I say we ought to do—and that's always the hardest part of the speech; to tell you what is the matter is very simple, but to tell you how to behave, and I am not that kind of a person anyway, is a difficult thing. I have some general propositions to lay before you, and they are perfectly obvious to you what these general propositions are. They are not rules of conduct, because who am I to come here and given you rules of conduct in a week of holiday in New York City—but they are general ideas, general propositions.

More Saving and Economy

Let me put them before you. They are few. They are simple propositions. The first is this: This is a time to save. This is a time to be parsimonious. If I were a leader of labor, I'd tell them to save their money even though that might reduce retail sales, because these things matter on balance. This is the time to salt something away, to be saving, because you are going to need it, and because economically it is a sound thing to do—to save more and spend less. I don't know, but I think it can be done.

This is also a time—and that is my second proposition—to begin to think about cutting costs, hard as that is to do. Not to think about it, but I mean to do it. This is the time to think about cutting costs. I don't think, if you got cooperation, that that's an infinitely difficult matter, an insuperable matter. So far as we are able to tell, and I heard figures cited here by other speakers today and by your speaker at lunch, there is a great margin of inefficiency in the United States. I think it is correct. There is a great margin of inefficiency. And if you just got to work on that margin of inefficiency—I mean cooperatively—you probably could save a lot of money. Inefficiencies were always associated with inflations, and it is time to begin to think that it is time to get rid of these inefficiencies and to save some costs of doing business, hard as that may seem.

And then my third proposition is a perfectly terrible one, but it it my last one, and it is this: If we get into trouble, then what we ought to do—and here's where you really need cooperation, here's where you need cooperation of the first order—what we have to try to do is to make the depression or the recession or the adjustment or correction—you see I am giving you the option of choosing if some of the words are more pleasant than others — to make them as brief as possible, and the only way to make them brief is to cooperate and to cut away the dead wood, which means to work a little harder, to cut out carelessness, to cut out waste, to cut out excessive—or, to put it this way—cut out the things your can't afford any more. You can afford things in inflation not really, but you think you do—and you can't afford it in a period of correction.

So my third piece of advice is that if we, by some stroke of fate, fall into one of these situations which I have been giving these various names to, the effort should be not to ask somebody to bail you out—because it will make it worse, that's a foregone conclusion.

When and if the American people again reach the point where they are going to ask government to save them from themselves, that's going to be bad. It is to the interest of everybody in the United States in business, in industry, and among labor, and in the general public, to learn what these questions are like and to solve them by their own efforts. And if they don't solve them by their own efforts, they are going into something much worse.

Two With Kinnard

MINNEAPOLIS, MINN.—Richard W. Wigley of Mankato, Minn., and George Fleissner of New Ulm have joined the staff of John G. Kinnard & Co., Baker Arcade. Mr. Wigley was formerly with the Hamilton Trust Co.

B. C. Ziegler Co. Adds

(Special to THE FINANCIAL CHRONICLE)

WEST BEND, WIS.—Luther G. Medley is with B. C. Ziegler and Co., 215 North Main Street.

Why Profits Are Soaring to New Highs

(Continued from page 19)

ing on the part of American industry is the kind of thinking which inevitably will lead to the lower levels of production—lower levels which spell unemployment, reduced income— in brief, depression with its misery and chaos. It is the old false notion of making profits through moderate levels of production and high prices instead of **making the same level of profits or at least a reasonable level of profits** through low prices and maximum production.

If industry could be made to realize that a stable, dynamic economy could be perpetuated in America on the basis of maximum production and low prices it would be a major accomplishment. But instead, industry figures that some day production will have to be curtailed and on that day it still wants to make a profit. To accomplish this, therefore, industry sets its prices to make a profit at the low level of production. Consequently, as production increases and costs decline, profits soar. The resultant profits derived from prices established on this basis creates distortions between demand and supply which inevitably lead to imbalances that bring on economic reversals.

Economic Consequences of Soaring Profits

As a result of these practices by American industry in the establishment of its price structures, higher and higher profits, quarter after quarter, are made. As profits soar to new all-time highs, (1) serious distortions in our national income occur; (2) serious maladjustments develop between prices and income levels; (3) the seed germs of the next depression are being laid; and (4) incentives to increase production and expand capacity are lessened.

As profits soar to new highs, they do so at the expense of other segments of our national income. Profits increase because prices increase and when prices increase faster than wages, serious distortions in our national income occur.

In comparing the year 1945 with the first half of 1948, we find that corporate profits before taxes took 11% of our national income in 1945 while taking almost 15% in the first half of 1948. On the other hand, compensation of employees took 67½% of our national income in 1945 and only 61% in 1948. Even compared to 1939 the same situation is true—a greater share of our national income going to corporate profits and a lesser share going to the compensation of employees. Instead of this occurring, the compensation of employees component of our national income should be taking a larger proportion of an ever increasing national income. For example, the Council of Economic Advisers, in discussing the long range economic program specifically, said:

"In a future expanding economy, consumer income and expenditures will require a larger share in order to assure markets for everything that can be produced."

Here the Council of Economic Advisers clearly recognizes the need in an expanding economy for the compensation of employees to be ever increasing rather than declining as has been the case in the past decade.

Since the war period prices have increased much more rapidly than have the incomes of the mass of American people. The cost of living, for example, as measured by the Consumers' Price Index of the Bureau of Labor Statistics has risen over 37% since early 1945 while income in terms of average weekly wages of manufacturing workers has increased a little over 13%. This means that average weekly earnings as a result of rising prices and in spite of three rounds of wage increases purchase approximately 17% less today than it purchased in January, 1945, when weekly earnings were at their wartime peak. This distortion between prices and income is in the process of leading to a situation where the products of American industry will not be absorbed by consumers because incomes are insufficient to purchase these products. We are witnessing this situation in the Textile industry and the Shoe industry where prices are already so high that many people are refusing to buy the products of these industries. The Textile and Shoe industries are attempting to remedy this situation by curtailing production instead of curtailing prices. Again we see an example of the self-interest thinking of American industry which is so dangerous not only in this present inflationary period but which spells serious foreboding for the future.

It would be for the good of all concerned if prices were reduced so that demand would be bolstered and production maintained. The Textile and Shoe industries are doing just the opposite. They are attempting to bolster their present price structure by reducing production and eventually bringing demand and supply in balance at a point which will justify the present price structure.

This situation leads me to my third point. This practice combined with the general practices which we have discussed earlier will create the kind of situation wherein a depression will be inevitable if the economy were not receiving shots in the arm through the temporary props of a European Recovery Program, a defense and armament program, etc. Do not misunderstand our position, we feel that the European Recovery Program and the armament and defense programs are essential for American peace and security. Yet we simultaneously realize and sincerely hope that these are only temporary expenditures of our Federal Government and as temporary expenditures they will not last forever. We must therefore consider the concomitant economic developments that are necessary to maintain a full employment and full production economy on an even keel when the temporary props subside.

Therefore, it is with this thought in mind that we are calling to the attention of this Committee the fallacious economic thinking of big business in America which we think will lead us into an inevitable collapse.

The incentive to increase production and expand capacity is considerably curtailed by the present level of corporate profits. Industry realizing that it can make high levels of profits without expanding or increasing production has no drive to meet the ever increasing demand for many American products. This is an extremely dangerous development and if we are to maintain a dynamic economy production must be increased and capacity expanded.

When industry is pushed to reduce costs to make reasonable profits, it is more inclined to modernize, improve efficiency and expand than it is when consideration does not have to be given to cost factors to keep the business operating at an extremely profitable level.

It is fairly obvious that high profit levels have created greater maladjustments between prices and income as well as distortions in our national income. These distortions are creating economic situations which result in the destruction of production incentives and many other factors which lead to economic chaos.

This Committee has a major responsibility in its investigations of the profit picture. It must get to the roots of the present situation which gives rise to the exorbitant unconscionable level of profits of American Business.

* * *

The claim is made by business and industry generally that profits today are not high and are not exorbitant and are not as unconscionable levels. Industry claims that present levels of profits are essential because of the increased costs of doing business and because venture capital is not available for use in sufficiently large quantities to replace, modernize and expand facilities. Further, that large parts of today's profits are purely book profits resulting from increased evaluation of inventories. Industry claims that inventory profits cannot be considered actual profits and as such must be set aside to guard against inventory price declines. Industry also claims that profits do not take into consideration "inadequate" depreciation allowances. We should like to discuss with the Committee these claims by American business.

First of all, the contention that there is a scarcity of venture capital and that as a result portions of net profits must be retained to be used to modernize and expand production facilities. An extremely serious situation is aggravated when industry reinvests its own retained earnings in an expanding operation. It is dangerous because of the monopolistic tendencies involved. When retained earnings are used, for example, to expand capacity, the present owners of the business continue to be owners of a larger and expanded business. This means that a limited number of people continue to control a larger proportion or a larger share of that business' operations. If, on the other hand, new venture capital is secured from stock issues, a larger number of people become shareholders and the managers of the business become responsible to the enlarged number of owners. As long as industry, however, does not secure new venture capital to modernize its facilities and expand capacity, it is engaging in a serious monopolistic practice which is not in the best interest of a dynamic economy. This practice of expanding by the use of retained earnings has a tendency to eliminate new competition because if the large producer does not receive equity capital through stock transactions, it becomes extremely difficult for any new businessman to enter the scene in an attempt to float a new series of stocks to the public. If, on the other hand, large companies did secure equity capital from the public, it would tend to make the problem of securing new capital much easier for the small and new businessmen.

Industry, however, counters with the claim that it cannot secure venture capital on the open market. This claim, in our judgment, is fallacious. Industry has not made the kind of effort which they should make in order to develop sources of venture capital. Of course to look at the figures of the amount of new money secured through new securities issues, one would conclude that not much new capital is secured through flotations of stock. Considerable portions are secured through bonds and notes. However, we must look further and deeper into this problem. Just an examination of the statistics of new security issues does not answer the problem or permit us to draw satisfactory conclusions. For example, the present stock market does not reflect the profitability of American industry. From all reasonable points of view, based on the current profit picture of American industry, the level of stock prices should be much higher than they now are. Stock prices have not risen in relation to rising prices. This has resulted in the hesitation of people to invest in the stock market. With this hesitation goes the scarcity of equity capital.

But we must ask ourselves why the stock market does not reflect the profitability of American industry. Of course the stock market is discounting the future. If the future were more promising in terms of there being the opportunity to maintain full employment and full production, the situation of the stock market might be altered, but it is the lack of faith in the future of America which is being discounted by the American investor.

If the American economy could be made to operate on a fair and equitable basis whereby the mass of American people could buy the mass production goods of American industry, we would have a prosperous and profitable nation in which there would be no scarcity of equity capital and no problem of the stock market discounting the future of our nation.

One reason why industry is not floating new security issues and receiving equity capital has to do with the dividend policy of American corporations. In the prewar years corporations were distributing a large share of their profits after taxes. However, in 1929 70% of the corporate profits after taxes were distributed to stockholders in the form of dividends. A little larger proportion was distributed in the prewar years in 1936-39. However, in 1946 approximately 40% of the corporate profits after taxes were distributed in dividends and in 1947 less than 40%, and currently, about 35% of the corporate profits after taxes is being distributed in dividends. Maybe the stock market would reflect current profitability of American industry if the shareholders participated in the distribution of dividends to the same extent which they did in the prewar years.

Of course industry argues that it cannot distribute dividends because it must retain its earnings in order to meet its greater need for capital. On the other hand if industry did distribute dividends, the equity capital market might be considerably different than it is today. It seems as if we have the problem of which came first, the chicken or the egg. However, we are firmly convinced that the dividend policy of American corporations as well as the lack of faith in America's future has something to do with the equity market.

* * *

It has been claimed by representatives of industry and business and also claimed again the other day by Dr. Sumner Slichter that profits are not as high today as the dollar figures indicate them to be. This they say is true because a large amount of corporate profits are really fictitious profits secured through inventory adjustments. This is just an argument devised by management and business representatives in an attempt to explain away the present high level of corporate profits. In the judgment of the CIO, profits are profits regardless of the source from which they are derived. Inventory profits are money and the money can be used by the corporation for whatever purpose they see fit.

Many corporations have shifted their accounting practices so that they no longer reflect inventory profits. This has been done through the adoption of the LIFO method of accounting. On the other hand, corporations that have not adopted LIFO have a tendency to understate the values of their inventories and in this way discount inventory profits. If inventory profits are not to be considered real profits what are they to be considered? In the light of the current economic situation we must consider that profits are profits regardless of how they are derived.

* * *

It is further claimed by representatives of industry and big business as well as by Dr. Slichter that profits are not as high as they are indicated to be because industry does not charge off all of its actual costs. This has reference to the whole problem of depreciation allowances. It is claimed by these representatives that industry should be permitted to depreciate old property and old equipment at what it would cost to replace such equipment today. The regulations of the Bureau of Internal Revenue permit industry to depreciate the original cost of plant and equipment. It must be understood that there is nothing in the Bureau of Internal Revenue's regulations or in the tax laws that prohibits corporations from depreciating plant and equipment at current costs if they build such plants at current costs. However, if they build such plants at the cost of 5 to 10 years ago, it would be unfair and extremely fallacious to permit them to depreciate these plants at costs other than actual costs. Would industry make this point about depreciating equipment at current day costs if current day costs were less than they were 10 years ago?

We do not think that industry and their representatives would come before this Committee and make such a claim if construction costs were less today than they were 10 years ago. They are making the claim solely in an effort to explain to the public the high levels to which profits have soared. Put another way, what if prices start to decline tomorrow? How would business adjust a depreciation policy to a fluctuating price base? Industry can depreciate its equipment and plant at current day costs as long as it constructs them at current day costs.

There seems to be considerable disagreement between industry and its accounting representatives. Many accountants have recommended against the use of a fluctuating depreciation base.

Again we repeat in connection with both the inventory profits and the depreciation policy that industry has devised these two arguments currently only to explain away the currently high levels of profits. If profits today were low and not being attacked for being too high, industry would not be engaged in a propaganda campaign to up depreciation allowances and to deduct inventory profits.

There are many other problems in connection with the whole scope of the Committee's investigation which could be taken up in greater detail in the course of this testimony. However, we have touched upon the major phases and I do sincerely hope that this Committee's investigation will really uncover the true facts in the light of the situation as it relates to profit figures in American industry.

In conclusion might we say that the CIO feels: (1) an all-out attack must be made upon the monopolistic and self-interest practices of American industry; and (2) an excess profits tax and undistributed profits tax must be enacted in order that the present high levels of speculative profits can be taxed away. We sincerely hope that the results of this Committee's investigation will lead among other things to such recommendations to the incoming 81st Congress.

To Be Lewinson & Sacken

On Jan. 2 the firm name of Sydney Lewinson & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, will be changed to Lewinson & Sacken.

Jos F. Hammel Joins Straus & Blosser

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Joseph F. Hammel has become associated with Straus & Blosser, 135 South

Joseph F. Hammel

La Salle Street, members of the New York and Chicago Stock Exchanges. Mr. Hammel was formerly with Kneeland & Co., Mason, Moran & Co. and Doyle, O'Connor & Co.

Newburger Continuing Series of Exhibits

PHILADELPHIA, PA. — Newburger & Company, 1342 Walnut Street, are continuing their "Visualization" Program in their offices on Walnut Street, the second of a series of exhibits being that of the Radio Corporation of America. This exhibit will show the latest and most modern products manufactured by RCA, and carries out the philosophy of these exhibits.

"Behind a Stock Certificate there are three things —

An attractive product, priced competitively in its field.

A modern plant, with the latest efficient facilities.

Management and men who must cooperate to produce the goods, the wages and the profits.

The financial history of the company tells this success story in its most succinct terms —

Know your Company

Know its record.

Know its products

These are the real values behind your certificates."

Friday Night Bond Club Annual Dinner Dance

On Saturday evening, Feb. 12, next, the Friday Night Bond Club will hold its Thirteenth Annual Dinner Dance at the Hotel Pennsylvania, New York City. In connection with the dance this year, the club is sponsoring a Souvenir Journal.

The aims and purposes of the organization are to create a better understanding among and contact between the personnel of the "Street." The group has grown more and more popular and that today the membership contains members from many houses and institutions of the financial community.

J. F. Woolley, Jr., With Mackenzie Co.

Mackenzie & Co., Inc., 115 Broadway, New York City, announce the association with the firm of James F. Woolley, Jr., as Manager of the Municipal Bond Brokerage Department. Mr. Woolley was formerly a partner in the municipal bond firm of Woolley & Petroski, prior to which he was associated with Braun, Bosworth & Co., Incorporated.

With Bond & Goodwin, Inc.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Ralph E. Emerson is with Bond & Goodwin, Inc., 30 Federal Street.

The State of Trade and Industry

(Continued from page 5)

ineffective, says "The Iron Age," national metalworking weekly, in its current summary of the steel trade.

The steel industry's artillery is impressive. So much has output been boosted that capacity figures are a secondary problem. More steel is being made than ever before in history and, states the trade paper, this rate will keep up during the first six months of 1949. Should there be no serious labor troubles it will keep right on pouring into the pipelines.

But there is no sign of a falling off in steel production. Nor is there any chance that supply will outrun demand for at least the first half of next year. After that it is anyone's guess, but before guesses are in order such things as labor impasse, defense demand, European arms and the effects of a fourth round of wages will have to be gaged.

Demand from the oil industry, from gas pipeline firms and from the auto field will be heavy most of next year. A dark horse in the present steel picture is governmental and state sponsored construction. This may mushroom if reports of unemployment become widespread. Layoffs have occurred in the metal industry, but they are so small a part of total working force that they are only a sign to watch at this time.

There are definite signs this week that the gray market in steel has weakened—both in tonnages being offered and in price, but as long as there is a chance of higher steel prices those using steel will be wary of getting too low on inventories. Nor will they tell steel companies to cut their quotas, the magazine adds.

Yet the chance that 1949 will bring out a new record in finished steel output—because of new finished steel capacities and full output of openhearths—means the highly pressurized steel shortage phase will come to an end next year. It also means that by the end of 1949 this country can well take care of any preparedness program or a war.

No user of conversion steel, outside of some appliance makers, is doing away with this high-priced method of getting what he wants. Next year may be a different story. The bigger ones still need much tonnage that they cannot get through their regular mill sources.

The extreme steel shortage boogy man is bound to die a quiet death in 1949, since steel firms have increased and will continue to increase, their steelmaking capacities. This, concludes "Iron Age," will be done by building more electric furnaces, rebuilding and increasing output of older furnaces, building more openhearths, increasing use of blown metal from bessemer converters and highe capacity on existing units because of better performance.

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 100.0% of capacity for the week beginning Dec. 13, 1948, unchanged from the preceding week. A month ago the indicated rate was 99.0%.

This week's operating rate is equivalent to 1,802,500 tons of steel ingots and castings the same as a week ago, 1,784,500 tons a month ago and 1,711,400 tons, or 97.8% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, highest prewar year.

ELECTRIC OUTPUT ATTAINS A NEW HISTORICAL PEAK IN WEEK ENDED DEC. 11

The amount of electrical energy distributed by the electric light and power industry for the week ended Dec. 11, was 5,704,823,000 kwh., according to the Edison Electric Institute. This was an increase of 59,137,000 kwh. above output in the preceding week and 377,353,000 kwh., or 7.1% higher than the figure reported for the week ended Dec. 13, 1947. It was also 926,880,000 kwh. in excess of the output reported for the corresponding period two years ago.

CARLOADINGS RISE 10.3% IN POST-HOLIDAY WEEK

Loadings of revenue freight for the week ended Dec. 4, 1948, totaled 804,183 cars, according to the Association of American Railroads. This was an increase of 81,093 cars, or 11.2% above the preceding week this year, which includes Thanksgiving Day. It represented a decrease, however, of 74,405 cars, or 8.5% under the corresponding week in 1947, but an increase of 75,099 cars, or 10.3% above the similar period in 1945, when loadings were affected by work stoppages in the coal fields.

AUTO OUTPUT SETS ANOTHER NEW POSTWAR HIGH IN LATEST WEEK

Production of cars and trucks in the United States and Canada rose to 125,182 units from 125,170 (revised) units the previous week, according to "Ward's Automotive Reports."

The model changeover of Chevrolet cut about 1,000 units from that producer's total, but higher schedules by Cadillac and others made up the loss.

Output in the similar period a year ago was 117,902 units and in the like week of 1941, 95,990 units.

This week's output consisted of 93,090 cars and 26,112 trucks built in the United States and 3,884 cars and 2,096 trucks in Canada.

BUSINESS FAILURES DOWN SLIGHTLY

Commercial and industrial failures dipped to 122 in the week ended Dec. 9 from 126 in the preceding week, Dun & Bradstreet, Inc., reports. Casualties were more numerous than in the comparable weeks of 1947 and 1946 when 87 and 33 occurred, respectively; they were considerably less than the 270 in the corresponding week of 1939.

FOOD PRICE INDEX DROPS TO NEW LOW FOR YEAR.

The Dun & Bradstreet wholesale food price index declined another three cents last week to stand at $6.33 on Dec. 7. Marking a new low for the year, the current figure represents the lowest level for the index in more than 17 months, or since June 24, 1947, when it stood at $6.24. At $6.33, the latest index shows a drop of 14.0% from the all-time peak of $7.36 recorded on July 13 of this year and compares with $7.12 on the corresponding date a year ago, or a decrease or 11.1%.

COMMODITY PRICE INDEX MAINTAINS FAIRLY STEADY LEVEL FOR WEEK

The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., held at a fairly steady level throughout the past week. Movements were narrow and the index closed at 271.12 on Dec. 7, compared with 272.31 on Nov. 30 and 301.89 on the corresponding 1947 date.

Grain markets showed no marked changes during the week. Volume of trading on the Chicago Board of Trade fell slightly below that of the previous week, on a daily average basis.

The general trend of prices was slightly upward in the latter part of the week. Strength in wheat was attributed to active buying by mills and sizable purchases by the Government.

The outlook for the new wheat crop appears promising with ample surface moisture reported in the greater part of the winter wheat belt. Trading in corn was more active with future prices showing a tendency to sag. The cash corn market, however, showed progressive strength, influenced by relative light receipts and persistent government buying.

Domestic demand for flour continued at a slow pace with purchases limited to small lots for nearby needs. Demand for cocoa was slow and prices again moved sharply lower under continued liquidation and hedge selling. The raw sugar markets was steady at a slightly higher level. Demand for coffee was good at or close to the high levels of the previous week. Hog receipts at principal marketing centers continued in heavy volume resulting in moderate price declines during the week. Steers and lambs also trended mildly downward.

Domestic cotton markets continued to show improvement last week and both spot and futures prices again moved upward. Activity in spot markets expanded as mill buying increased in central and eastern sections of the belt.

Reported sales in the ten spot markets totalled 214,900 bales last week, against 187,600 the previous week and 293,500 in the same week a year ago. Demand was stimulated to a large extent by expectations of greatly enlarged exports in the near future. Current export volume though not large, showed some improvement. Also tending to strengthen prices was the reported tightening in spot supplies due to the continued heavy movement of the staple into the government loan, which totalled 267,264 bales in the week ended Nov. 11. This compared with a record volume 368,065 in the previous week and brought total entries for the season to date to 2,929,553 bales.

The parity price of cotton as of Nov. 15 declined for the third successive month to 30.63 cents per pound, or about ½ cent below the Aug. 15 peak of 31.12 cents.

Cotton textiles were rather quiet although prices generally were steady to firm.

RETAIL AND WHOLESALE TRADE STIMULATED BY CHRISTMAS BUYING IN LATEST WEEK

As Christmas shopping got well under way in most sections of the nation last week, moderate to sharp increases over the previous week in retail volume were reported. Retail dollar volume was about equal to that in the corresponding week last year, according to Dun & Bradstreet, Inc., in its current survey of trade. Holiday promotions and sales continued to attract shoppers in many areas. Christmas shoppers generally were more selective than in previous years.

Retail apparel volume increased slightly during the week, with a fractional rise in the demand for dresses.

Women's accessories suitable as gifts were purchased in an increased volume. Shoppers bought rainwear in a substantial quantity. While the demand for men's apparel was generally low, many consumers increased their purchases of haberdashery. Sportswear was requested frequently.

Housewives increased their demand for food during the week. More meat was purchased than in the previous week with low and moderately priced cuts still among those most frequently requested. Consumer interest in dairy foods and canned goods rose fractionally. The demand for fresh fruit and vegetables, and bakers' goods generally remained unchanged.

Shoppers' interest in furniture and housewares declined moderately in the week, while retail hardware volume was slightly higher; the demand for heating equipment dropped fractionally. Consumer interest in low and medium-priced toys was very large and exceeded that of the similar week last year. Moderately priced general merchandise suitable as gifts was purchased in an increased volume with demand for major appliances a trifle below the moderately high levels of previous weeks.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from 2% below to 2% above a year ago.

Regional estimates varied from the corresponding 1947 levels by the following percentages: New England and South down 2 to up 2, East down 1 to up 3, Midwest 0 to up 4, Northwest up 2 to up 6, Southwest up 2 to up 5 and Pacific Coast down 5 to down 1.

The total dollar volume of wholesale orders last week was slightly above that of the previous week and exceeded by a small margin the volume of orders in the corresponding week a year ago. Holiday gift and novelty items were ordered in a large volume. As in recent weeks most goods were delivered promptly. The number of buyers attending many wholesale markets moderately surpassed the number in the preceding week and in the comparable week last year.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Dec. 4, 1948, decreased by 4% from the like period of last year. This compared with a decrease of 5% recorded in the preceding week. For the four weeks ended Dec. 4, 1948, sales decreased by 6% and for the year to date increased by 5%.

While Christmas purchases showed some stepping-up here in New York the past week, dollar volume for retail trade again dropped below the 1947 level for this period, being reflected in a decrease of about 5% in department store sales.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Dec. 4, 1948, declined by 6% from the same period last year. In the preceding week a like drop was registered over the similar week of 1947. For the four weeks ended Dec. 4, 1948, a decline of 8% was recorded over that of last year and for the year to date volume increased by 4%.

As We See It

(Continued from first page)

of the people of the United States will be best served by a President and a government which will take themselves out of the way and leave the millions of Americans who know full well how to look after their own interests to do so in their own way, subject only to such "rules of the game" as will assure a fair field and no favor. The whole of American history, and much of the history of many other countries, is eloquent of this simple fact. No research is necessary to discover it or to prove it. Yet a plain forthright statement of it might be worth an infinitude of statistical reports and semi-socialistic analyses.

How to Galvanize Business

At any rate we are certain in our own mind that were the President and the Congress to adopt such a view of the situation and begin acting upon it promptly, they need have no further moment of uneasiness about the state of business next year or the year thereafter or the year thereafter. If at the same time the Government put its own house in order the danger of the type of boom that is likely to end in a disastrous bust would be minimized. It would indeed be rendered about as unlikely as human ingenuity could render it. In brief, the best that the President or the Federal Government could do to help business to do its very level best for the people it serves is to quit trying to do anything to, or for business, but get out of its way.

Of course, we are fully aware that there is little likelihood that any one in official position will give the President any such advice or that such an adviser would stay in office long, or, for that matter, that the President would accept any such idea no matter who proposed it to him. That is the tragedy of the present situation. It is nonetheless instructive to survey the situation with such a thought in mind, to speculate about the results of such a turn in policy, and to formulate some judgment about the possibility of some feeble steps in this direction, particularly if the outlook continues to give the powers that be some concern. If hesitancy in business now should presently prove to have caused the reformers and time-serving politicians in Washington to modify, to soften or perchance to abandon some of the restrictive actions heretofore said to be scheduled for the coming months it will have served an excellent purpose.

Maintain Free Markets

If the President and his advisers really want to keep business going at full tilt, the first thing they better do is to drop the idea of price controls and rationing. They had better drop the idea in toto, whether applied to all commodities in all markets or merely to certain selected commodities in certain selected markets. We are not likely to find it feasible to operate an economy which is half free and half slave, and we are certain to find that an economy which is even half slave is far less vigorous and far less capable of supplying us all with what we want than one which is free of restraint. The hope of preventing or halting what officialdom is pleased to term inflation in this way is illusory. It can not be done for any great length of time, and if it were done at all the cost would be prohibitive. Underlying causes govern prices, and we had best leave them to such causes, directing our attention to causes and not to outward manifestation.

How to Harass Business

If the President wished to do what he can to prevent business from continuing to produce as it has been producing and giving jobs to as many as it has, he could not go about it more effectively than to eliminate a number of the provisions of the Taft-Hartley Act about which he had so much to say during the campaign, and about which his tone appears to have changed somewhat in more recent weeks. A complete reinstatement of the Wagner Act as it stood prior to the enactment of the present law would eliminate such restrictions as have been imposed upon jurisdictional strikes, secondary boycotts, and the financial irresponsibility of the unions generally. This much alone would deal a severe blow to business which is only just beginning to feel some relief from the fantastic provisions of the earlier New Deal labor legislation.

Shun Tax Increases

Surely, neither the President nor his advisers can believe, if they think about the matter realistically and carefully, that business will be sustained or stimulated in its work of providing for us all by action on their part which reimposes the excess profits taxes or which greatly increases corporate income taxes. They can scarcely be unaware of the fact that corporate profits in recent years are substantially overstated by the very nature of the accepted accounting system and by the necessity of conforming to the requirements of the Bureau of Internal Revenue, but even more important it can scarcely believe that corporate profits have been hidden away or kept out of the income stream during past years. Only if they think some such thing as this could they defend an argument to the effect that the size of corporate profits has taken purchasing power away from the markets and thus tended to cause a slowing down in business.

Thank God for the Profits

The fact of the matter is that American business ended the war in urgent need of large capital investment. Conditions imposed by government rendered the task of obtaining funds from outside sources without burdensome increases in debt very difficult. It is still difficult, if not almost impossible. Large individual incomes (after taxes, that is) simply do not exist any more. The only source of funds with which to equip American corporations with the capital they needed was, therefore, their earnings. Had they not been liberal during the postwar years heaven knows how American business would have prepared itself to produce the goods and services the public wants. It may or may not be true that expenditures for capital goods on the part of private enterprise have passed or soon will pass their peak, but it is certain enough that large sums will continue to be needed for the purpose through the years if industry is to maintain its vigor. Excessive taxation of such profits is precisely what is not needed to help business over this impediment placed in its path.

And so we might continue at length, but the facts are plain without further argument. The advice the President needs is not to be found in statistical tables but is not hard to understand.

Federal Budget Outlook Not So Bad

(Continued from first page)

the democratic way of life, as the state assumes new and vast powers over the individual.

Anyone of these three great movements taken by itself would test our capacity; coming all at once they confuse our thinking and weaken our resistance. The trouble is that the prescription for one disease makes the others worse. Foreign policy, for example, requires huge spending. That increases inflation pressures, which in turn stimulate proposals for heavier taxes and more controls, moving us one step nearer to state socialism.

Looking at this kaleidoscope the banker, who thinks in economic terms, can perhaps preserve his sanity best if he tries to pin his thinking down to terms of our own Federal budget. This may seem like a narrow and materialistic interpretation of policies with sweeping human meaning, but the Federal budget is as human a document as a family budget. The family budget shows when Tom was born, when Jim broke his arm, when we moved to the larger house, and when Mary was married. Just so the Federal budget is a realistic bookkeeping of the activities of the Nation and records in its figures every step in National policy.

Outlook Not As Bad As Feared

In terms of the current budget, let me suggest that the outlook is not as bad as commonly feared, if we the people apply to it our wisdom and energy.

First, as to foreign policy, military requirements are the great question mark. It takes a courageous layman to dispute the arguments of the military experts, but this is not solely a military problem. It is a political problem, an economic problem, and above all a problem in common sense. One reason we don't quite trust the military experts is that the unification of the Armed Forces has not yet given this country a unification of military policies. Military policy today, moreover, needs the closest scrutiny lest we commit the Maginot Line error of planning and spending in terms of past wars. There seems to me sound ground for the position of the President in insisting that the military budget for next year be held within the $15 billion limit, which is after all a lot of money. Within that limit this country can maintain a strong and impressive military preparedness. Military spending beyond $15 billion would, as Dr. Nourse has stated, threaten America's position on the inflation front and on the front of social and political changes. Our struggle abroad is economic as well as military. We could lose the battle just as easily by economic weakness as by military weakness.

With respect to other foreign expenditures, E.C.A. has been successful. Communism is weaker in Europe today than it was a year ago. Production is higher. The unity of the western countries is stronger. The program has demonstrated value and must be continued. But, as recommended by the Harriman Committee, the second year's expenditures should be less than the first—I should say by $1 billion. A reasonable reduction will not weaken but strengthen the program, for it increases the pressure for self-help. Taking together the military and foreign aid, the overall expenditures for foreign policy should require only a modest increase over the present budget of $19 billion.

The Committee on Public Debt Policy has just completed a 2½ year study which has included a full review of the Federal budget. Our review, like every other thoughtful review, showed many other places where substantial savings could be made, or spending could wisely be deferred.

Predicts a Budget Surplus

The current budget for 1948-49 is likely to show a surplus of $2 to $3 billion without any new taxes. With restraint and with a real effort for economy, such as the adoption of Mr. Hoover's recommendations, the budget for 1949-50 can be made to show a similar surplus. The great "if" about all this is the word "restraint." This is no time for large public works, or even for extension of government services. If we are going to fight this war on three fronts, we shall have to be content with old buildings and old roads, and a slower modernizing of America than we should like.

To say this can be done is not to say that it is easy or will be done. When a country is on an inflationary binge, as we have been along with most other countries, the minds of men become distorted. Prudent housekeeping has no emotional appeal. The usual lesson of history is that inflation runs its course. People like it and keep on voting for unsound policies that seem in the short-run to benefit them. Both parties in the election campaign promised the people more, and not less centralized government power and service.

The most practical way to do something definite about this trend is to start chipping at the Federal budget, to build a backfire against waste and extravagance and the enlargement of Federal functions.

The first thing for us to do as individuals is not to ask for Federal aid ourselves. The banker who asks for an R.F.C. guarantee for his loans is just as surely pushing this country a little further away from the traditional American way of life as the farmer who asks for more price support, or the unwounded veteran who asks for a pension. There are arguments in theory for and against pegging the prices of government securities, but the banker who asks for it in order to protect the bonds in his own portfolio is guilty of aiding the political trend against free enterprise and toward statism.

Taking a broad look at the three threats to our American civilization the banker may have an influence on where this country moves. Three things we may do: (1) Understand the issues and take a critical look at day-to-day policies in the light of the longer term trends. (2) In our own business exercise restraint in any action which may be inflationary, restraint in any action which may draw government more largely into interference with individual freedom. (3) Work together on our public problems. What bankers do through their organized efforts may be more important in the next few years in the wellbeing of each one of us than what we do individually.

Customers Brokers Appoint Com. Heads

The Association of Customers Brokers has appointed the following chairmen of standing committees for 1948-1949:

Education: N. Leonard Jarvis, Hayden, Stone & Co.

National Chapters: Jack Bell Huhn, Bache & Co.

Entertainment: Walter McKeag, Jr., Merrill Lynch, Pierce, Fenner & Beane.

Grievances: Alfred M. Elsesser, Kidder, Peabody & Co.; Standish M. Perrin, Goodbody & Co.

Insurance: Robert J. Davidson, Fahnestock & Co.

Legal and Research: Lester Robins, Francis I. du Pont & Co.

Professional ethics: N. Leonard Jarvis, Hayden, Stone & Co.; Donald C. Blanke, Eastman, Dillon & Co.; Richard M. Ross, Dean Witter & Co.

Membership: Lewis Harder, Harris, Upham & Co.

Public Relations: Thomas B. Meek, Francis I. du Pont & Co.

G. Stewart Smith Dead

G. Stewart Smith died at Elizabeth, N. J., General Hospital. Prior to his retirement in 1942 he was head of G. Stewart Smith & Co. of Newark.

Our Economy Is Basically Sound!

(Continued from first page)

picture. But, I am glad to say that bank loans during this year have been carefully screened, resulting in a total increase of much less than last year. Total loans of the weekly reporting member banks expanded only $1.8 billion through Dec. 1, 1948, as compared with a rise of $3.8 billion in the same period of 1947.

This satisfactory showing is attributable in very large measure to the credit control program of the American Bankers Association. Through this voluntary program, the bankers of the country have rendered an important service by adhering to a more than usually cautious loan policy in this critical inflationary period.

Your willingness to forego immediate banking profits in the interest of a stable national economy is sound and farsighted banking practice.

I am today firmly convinced that the banking fraternity must conscientiously work toward effective leadership in an ever-broadening financial field. Your recent action through the A.B.A. anti-inflation program has shown a bold and aggressive inclination and ability to step out as leaders and to take an active part in shaping our present and future economy.

This has not been an easy task. It has required a high degree of flexibility. But in the interest of the national economy, bankers must maintain this position and make ready to meet inflationary pressures with self-imposed restraint, or to step in with a sound loan policy in times when the demand for bank credit is wholesome.

What May Lie Ahead

At this time it would be well to take stock of the nation's present economic position, and to calculate what may lie ahead. I should like particularly to discuss the cooperative role of the banking system and the Treasury Department in dealing with our most important national economic problem — that of strengthening our economy at the present high level of prosperity.

The achievements of this country in the three years since V-J Day have been, to say the least, remarkable. The reconversion from war to peacetime production was accomplished with amazing speed and efficiency. During these years, while substantially meeting our own current needs, we have also provided relief, rehabilitation, and reconstruction to a large part of the war-torn areas of the world.

We have now reached a stage where wartime accumulation of demand for many products is becoming more nearly satisfied. But let me remind you that severe shortages still exist in lines such as steel and other metals, and in their products. Labor shortages remain a problem. Many new products and new demands for service await only a more adequate supply of basic materials and labor.

The demand for these new items should serve to replace any significant deflationary reduction in demand that might follow the filling up of wartime shortages. In fact, such a replacement process has already been going on for some time, and corrective adjustments have occurred in various industries without appreciably affecting the over-all business level.

In certain respects, the present business picture resembles that of the mid-1920s. Although the economic levels then were lower, that period was also one of high prosperity. National income had reached the highest level in history up to that time; labor was practically fully employed; and business was highly prosperous.

The maintenance of that high-level prosperity over an extended period can be attributed to the fact that, until the stock market got out of hand in 1928, there was no hazardous volume of speculative excesses in the economy — no over-buying, over-borrowing, nor over-expansion. It is true that speculation in city real estate was overdone — and there are some signs of this today—but the impact was not of sufficient force to unsettle the economic levels. With economic conditions continuing on an even keel, the volume of industrial production became established on a generally stable but gradually rising trend for the 5-year period from 1923 through 1927.

In the interest of our country's future, we must not fail to heed the lesson of the 1920s. We must do all in our power to perpetuate a stable business trend, and make every effort to heed any signals of a business collapse similar to that of 1929.

To this end, you bankers play a most important role. One of your first responsibilities is to closely examine each loan application from the viewpoint of its effect on the national economy. For obviously, loans that are not made for a sound productive purpose mortgage future income to increase present demand. Such loans are not only inflationary today—they are distinct contributions to a boom-and-bust cycle.

Our Economy Basically Sound

Our economy is at present in a basically sound condition, and shows encouraging signs of stability in the vicinity of the present high levels. There is today no strong evidence of over-buying by consumers, nor of over-expansion by industry. And consumer demand on the whole is still for these times, healthily unsatisfied, and capacity in many lines is still inadequate.

The fact that our present economic levels are much higher than before the war is no reason for doubting that they can be maintained. The new record levels established in the mid-twenties, exceeding the peaks reached in World War I, unquestionably seemed excessive to many at the time. Now we have 25 million more people than we had in 1929. We are definitely in a growing economy, and previous standards cannot be used to measure our present prospects.

The people of all the democratic countries of the world look on the United States as a bulwark of economic and financial strength. To justify this confidence, it is essential that we recognize our joint responsibility to maintain an ever constant watch for any influence by which our own strength might be undermined.

Achievement and maintenance of national economic stability depend upon many factors, of which one of the most elemental is confidence in the government's credit.

The Treasury's first objective is to conduct fiscal policy in such a manner as to promote full confidence in the credit of the United States Government—and stability of the government bond market is essential to this achievement.

I came to the Treasury in June of 1946, when we were in the process of transition from war to peace. The country was faced with numerous and varied economic problems. Not the least of these at that time was the unprecedented size of our public debt — a public debt without parallel both in terms of its dollar total and in its relation to the economy of the country.

Confidence in the stability of the government bond market had to be assured to maintain the underlying strength of the national financial system. It would ease reconversion problems for industry, business and government. It would encourage the capital expansion so necessary for maximum production in peacetime.

Support of Government Bonds

Therefore, during my tenure of office, the Treasury, in cooperation with the Federal Reserve Board, has directed its efforts toward maintaining this confidence in the stability of the government bond market. Such efforts have contributed materially toward promoting business confidence and toward attaining the fullest economic activity in our peacetime history.

It is to be emphasized, however, that the desirability of continued stability in the government bond market and confidence in the government's credit has great implications beyond the domestic business picture alone. The present international situation makes it particularly imperative that United States financial strength and integrity remain unquestioned.

The Treasury and Federal Reserve have directed their efforts toward maintaining bond market stability in both directions — toward keeping bond prices from going up too high and too fast, and toward keeping them from going down too sharply. Beginning in the spring of 1947 we took action to control an incipient boom in the bond market — by selling long-term bonds from some of the government investment accounts, by offering the Investment Series of bonds to institutional investors, and by increasing short-term rates. All of these operations combined to take upward pressure off the market.

When conditions changed, and a downward pressure on bond prices developed, we stabilized the bond market through purchases of long-term bonds. All of our actions have been taken with a view toward promoting business confidence and of attaining a high level of employment and production.

These reasons in themselves should be enough. But there are further important reasons for maintaining stability in the government bond market.

A public debt of the magnitude of $250 billion is unknown to any past period of our economy. The uncompromising wartime demands, however, forced a revision of our entire financial and fiscal thinking. One of the important decisions made early in the war was to sell as many securities as possible to nonbank purchasers. This decision had tremendous implications for the future of our debt-management policies. This was particularly significant with respect to the sale of government securities to tens of millions of purchasers, who now hold $55 billion of nontransferable savings bonds.

Another important factor for consideration is that the budgetary cost of servicing the public debt would be increased by any significant decline in bond prices. The interest cost is already $5.3 billion a year. A further rise in the budget charge for interest payments would be of nationwide importance, and it would affect every taxpayer. A rise in the average interest rate of the public debt by as little as ½ of 1% would cost the American taxpayers approximately one billion, two hundred fifty million dollars a year.

The Treasury was able to finance the last war at an average interest rate of less than one-half the interest rate of World War I. If this had not been done, the present interest charge would have been more than $10 billion a year instead of $5 billion.

Is Support Policy Inflationary?

It has been argued that support of the market is inflationary, because of the large sales of government securities to the Federal Reserve, and that we are paying too high a price in order to gain the benefits of bond market stability which I have outlined. Actually, there has been no net increase in Federal Reserve holdings of government securities attributable to the support program. Since this program was initiated in November, 1947, Federal Reserve holdings have increased by some $950 million. Much more than this, however, is directly attributable to the $2 billion increase in reserve requirements last September.

Furthermore, if the bond market were allowed to get out of control, there is a real possibility that we would have more inflation to contend with, rather than less inflation. The removal of confidence in the stability of the bond market, and a consequent impairment of confidence in our financial situation, might well have serious consequences in this country and cause a weakening of confidence in our financial stability throughout the world.

Despite the continued strength in our national economy, there is some feeling of apprehension in business circles.

It might almost seem that this business apprehension is getting to be a seasonal affair. In the fall of 1945 there was a general fear of widespread unemployment because of reconversion from the war effort. In the fall of 1946 a business scare developed over the severe stock market break in September of that year. Last fall there was fear of unfavorable effects from the credit restriction program.

None of these business fears were realized. But unwarranted as they were, they have had the beneficial result of putting a damper on various speculative projects, which would in any case have been of questionable economic benefit. I doubt that any sound expansion plan, for which a real need existed, has been affected.

I see no reason to believe that the present business apprehension rests on any more substantial basis than the earlier ones. On the contrary, the prospect of a continuation of the policies of recent years should give the nation increased confidence in the stability of present high business levels. The President has made very clear in his statements to Congress and to the nation that a major objective of his administrative program has always been, and will continue to be, a well-maintained high-level economy, and, within this framework, to provide for a balanced budget and progressive debt reduction.

An extended prosperity can only be achieved by a policy of moderation — by encouraging a healthy business development while restraining the excesses of over-buying, over-borrowing, and over-expansion which inevitably would bring on a business depression. This policy of moderation has been and will continue to be the Administration's program.

The nation has a huge task before it. We must meet the normal demands of a growing population with high living standards. We must provide productive machinery to replace that worn out during the war. We must build new homes, new hospitals, new churches and schools, and new municipal facilities. We must rebuild thousands of miles of highways. In addition to all this, we must do our part in the great task of world reconstruction, and we must build a powerful defense establishment, to the end that normal international relationships, free from the theat of war, may become reestablished throughout the world.

This is a large order. It is a sobering prospect. In the years ahead, our major task will be to protect this American economy from the mistakes of the past—not only to insure that a serious business depression shall not happen, but to be certain that we maintain our present course of national economic progress.

Avoid a Cold War Between Government and Business!

(Continued from first page)

have a lot more to say about the values of the assets of insurance companies than I have about the market value of listed shares. Nevertheless, we are all in the same boat, the ship of finance, and everybody agrees that you have done a magnificent job while there are a few unreconstructed rebels who might dissent if I made the same claim on behalf of the Stock Exchange.

Let's Avoid a Cold War Domestically

You have heard much about the cold war between the East and the West and the claim by the East that we are trying to impose our will on the countries we are aiding. This, of course, is contrary to our purpose. To illustrate, the Labor Government in Britain has proposed the nationalization of the steel industry, a step with which our people have little sympathy, but no one has seriously suggested that in reprisal, we withdraw our aid to Britain. We concede to Britain the privilege of managing her own affairs and of running the British economy in a way that meets the approval of the majority of the English people. Cannot that same distinction be applied to our domestic affairs? Can we not avoid a cold war between government and business, the consequences of which would be disastrous? Business and government occupy separate spheres. Each has its duties and responsibilities. A cold war between them can only result in unemployment, a shrinkage in production, a slump in government revenues. On the other hand, cooperative effort will produce a stable prosperity, an unanswerable argument to the claims of the foes of democratic capitalism.

Far be it from me to try to prescribe for government and business, but if I had the job and had to do it in two or three sentences, I would say to government:

Because three-quarters or more of the Federal Government's revenues are now derived from taxes based on wages and business earnings, it is essential that the wheels of industry continue to turn. Of the qualities of statesmanship, none is more important than fairness and temperateness. It would be unfair and intemperate to create a set of conditions handicapping business and then condemn the inevitable results as evidence of the evils of the American Economic System.

And to business I would say:

Remember that this is 1948. There is a world-wide trend toward security. This trend has reached into the far corners of the earth where the New Deal has scarcely been heard of. In many countries the people are willing to surrender the heritage of freedom with its incentives for the mere promise of security—something which is abhorrent to us, but which reveals the strength of the human desire for security. Maybe we can resolve the problem of security and freedom and, in the process, level off the extremes of boom and bust. While the rewards may not be as great as we should like in any one year, the average result will be more satisfactory.

To summarize, let government not ride roughshod because of its power and let business not take the attitude of the youngster who broke up the baseball game and went home with the ball because he was not permitted to be the pitcher.

The Financial Community

Stepping down now from my role as economic physician, I would like to say that, while the financial community is not at the moment the most optimistic spot in the country, we can take pride that it has done a magnificent job both during the war and since war's end. And it has done so under most discouraging conditions. The brokerage and investment banking business has had no share in the current boom. It has, in fact, undergone somewhat of a depression since mid-1946 and presented an important imbalance in the domestic economic picture. Because you gentlemen, through your vital concern with debt and equity, wish to do your part in preserving a well-balanced economy and in guarding against unsound trade, I would like to call your attention to some figures which I regard as most significant.

According to the latest study of the United States Department of Commerce, net corporate debt increased between 1945 and 1947 from approximately $84 billion to $100 billion and it is fair to assume that by the end of 1948 it will have reached $110 billion. All private debt, including individual and non-corporate, increased from $140 billion at the end of 1945 to $172 billion at the end of 1947. It will probably advance by at least another $15 billion this year. Net public debt, including Federal, State and local, declined in the same period by about $30 billion, with the result that at the close of 1947 the private portion represented about 42% of total net public and private indebtedness, as compared with 34% in 1945. This should make us watch our step.

These figures cause me to ask this question: Is business tending to borrow too readily? Are we creating too severe a strain of repayment? We are fortunate in having a relatively low ratio of private debt to national income at the moment, but is not debt increasing too rapidly for continued economic health?

Private debt to be sound, we all agree, has to rest on ownership. Because of our present high prices, it is particularly necessary to keep the ratio of debt to total business investment low and have ample cash in the bank. While by and large, business and individuals do not appear to have an excessive ratio of debt to ownership capital, the aggregate conceals the exceptions. The situation may be summed up as follows:

(1) This year corporations will have net earnings before Federal income taxes of about $34 billion and $21 billion after taxes. They will probably pay close to $8 billion in dividends, leaving approximately $13 billion of retained earnings. If we take the three-year period 1946-1948 as a whole we find that business has reinvested some $30 billion of undistributed earnings which have cushioned the increase in debt at the expense of the stockholder. Stockholders are getting only about 40% of reported earnings against 70% in the past; yet stockholders, like government and business, have to meet higher living costs. There are exceptions among industries. Some do not have large undistributed earnings—notably the public utility industry, which must rely on external financing in large degree and as a result is on the horns of a dilemma. Your colleague commissioners, who regulate the public utility industry, insist that the companies do not exceed well-established debt ratios—investors in common stocks insist on returns that the companies cannot afford to pay.

(2) While the debt ratio of corporations is still good, the trend, if unchecked, is bad. Our tax laws encourage debt financing as against the raising of ownership funds. The yield to individuals on ownership securities, reduced by high surtax rates, is far less attractive than gross yields would indicate. We have, in one way and another, given encouragement and special assistance to the wage-earner, to the farmer and to business itself, but not to the stockholder, who must be counted in millions.

We have neglected the stockholder. Neither business nor government has given him much consideration. One of the little-recognized results of this neglect is the loss of revenue by the Federal Government. If we assume the government receives about 40 cents out of each dollar's dividend paid to individuals, it appears that in 1948, if companies could have paid the percentage of dividends which they distributed in the past, the government would have received additional revenue of $2 billion or more.

The Search for Security

Growing out of the experience of the thirties, the quest for greater security, which I mentioned earlier, has stimulated an astounding growth of life insurance and, in fact, of all forms of protection. I have no quarrel with this desire for security. It is deep-seated, a long-term trend and difficult to reverse, but I feel that, in the best interests of all the people, we must encourage incentive by doing something to make ownership more attractive. One of the most effective ways is to change our tax structure in a way to encourage investment in ownership. I am not dogmatic as to how this should be done as long as we maintain a balanced budget. I do feel that, under present conditions, with our commitments abroad, it should be done in a way to maintain or increase the government's revenues. Given the will to do so, the problem can be solved beneficially for both business and government. We should take into account (1) that business will not always have the wealth of liquid assets with which it entered the postwar period, (2) the unprecedented retained earnings and (3) the ability to borrow. Tax policy should be geared to these considerations.

Let's look at the problem for a moment from the standpoint of the stockholder. Some people say that the reason why savings do not flow into ownership is due, in a large degree, to taxes, but there are other factors. There is the unfamiliarity among savers, particularly among savers in the labor and farmer groups, with corporate securities as investments. Government data show that from 1935 to 1947 there was not only no flow of individual savings into corporate securities—there was actually a decline to the extent of approximately $3 billion. During this period, personal savings reached the tremendous sum of $172 billion. It is thus apparent that virtually all of our savings are going to institutions. Do we want our financial institutions to become the one single avenue of investment of the funds of the American people? I tremble at the responsibility which you gentlemen would have thrust upon you in that event.

Taxation as an Instrument of Policy

Taxation, whether we like it or not, has ceased to be for revenue only. It has become an instrument of social policy. By not taxing something and by taxing something else, the will of the people is expressed. We would not think of putting a tax on window panes. We choose other forms of excise taxes, for example on items in the luxury class. What I am suggesting is that there is no reason why taxation, which has already formed an important part of social policy, cannot be used to encourage instead of discouraging ownership. As a nation, we are committed to fight against concentration of power. The encouragement of wider ownership of industry is directly in line with our general economic policy.

Security Legislation

With our rapidly changing economic conditions, legislation that makes sense in one era outlives its usefulness in another. Supervision and regulation of the capital markets came into being because for a few years the public was overeager to buy securities so eager that the whole credit structure was involved. A legislative program was adopted which was necessary in character if not in detail. All of the statutes and regulations had their origin in the desire to damp down this overeagerness. I refer to the restrictions on security advertising, to the registration process in the issuance and sale of securities, to the margin requirements on stock exchange collateral, all of which are applied to no other industry. The Federal Reserve Board has authority to regulate margins "for the purpose of preventing the excessive use of credit for the purchase or carrying of securities." The amount of credit currently used is abnormally low as the 75% margin requirement virtually puts security buying on a cash basis. This may have been desirable in the roaring twenties, but how can it be justified today when security trading is at a rate of about one-quarter that of 1926 and when for many years investment by individuals in corporate securities has been almost entirely absent? I am told the Board would like to see conditions more normal before reducing margins, but I am at a loss in determining what factors are working against normalcy. It cannot be excessive speculation, it cannot be excessive volume, it certainly is not excessive loans. I personally am inclined to think their power is being used as a price control measure under the false impression that prices of stocks create inflationary trends. Decreased margins would have little effect pricewise, but would add much to liquidity so sorely needed by the equity market.

Confidence cannot be instilled in the minds of the prospective owners of American enterprises by telling them that they must have $4 of collateral for a loan of $1. Regulation should be flexible and responsive to the changed conditions of our economy. I am not advocating moderation in regulation in the interest of a higher stock market, but because of the importance that security values have in accurately reflecting economic conditions. In the matter of valuation, for example, every large business is judged by the quotations prevailing on the national stock exchanges. An ownership interest in a privately owned department store cannot be appraised without reference to the price of listed department store stocks. The same would be true of a machine tool company and, in fact, of all lines of business. Without further elaboration, I can say that this matter of sound evaluation in the security markets is of extreme importance to all insurance companies. It is part of their basic interest that restraints on the capital markets should not be excessive. They know, as we know, that you cannot badly handicap the flow of either credit or equity funds into industry without doing harm to everyone concerned. While we are on this subject of confidence, I feel that we in the financial world can do, and are on the point of doing, a better job in the sale of investments. There has been too much tendency to allow ourselves to be shaken by passing events. We should strike a note of greater confidence in the long-term advantages of the ownership of the securities of American enterprise. Instead of emphasizing the possibilities of catching "highs" and "lows," we are about to use our imagination and visualize the possibilities in interesting the public to buy securities regularly as a means of producing income, much as they have learned to purchase life insurance as a means of protection.

By encouraging long-term investment, I do not mean to belittle the importance of speculation which, carried on by people who are well informed and who can afford the risk, adds stability and liquidity to the market. Taxes alone discourage short-term speculation. A profit realized within six months is ordinary income and is taxed as such. High individual surtax rates take the lion's share.

To encourage long-term investment and ownership of American enterprise, I would like to see the capital gains rate of 25% reduced substantially. At the Exchange we see the effects of the present tax in a practical sense. It checks the flow of capital. It is not a revenue-producing feature of the tax structure. If revenue is desired from the capital gains tax, substantially more can be had by reducing the rate and shortening the holding period.

Giving thought to the double taxation of dividends which has been mentioned so often lately, I do not know of one recognized authority on taxation who is satisfied with it. I do not know of one who does not believe that it is contrary to sound tax legislation. No less an authority that Secretary of the Treasury Snyder recommended correction in a speech at Houston, Texas, in December, 1947. The Revenue Act of 1913 clearly recognized this inconsistency. At that time corporations paid a 1% income tax and dividends received by individual stockholders were exempt from the 1% normal tax.

I have explored various approaches to this knotty problem and I have become fully conscious of present conditions that make solution so difficult. Since the end of the war, corporations are retaining a disproportionate share of their earnings to finance expansion and provide additional working capital. I deem it inevitable that our government will think more seriously of the application of Section 102 of the Internal Revenue Code. The CIO at its recent meeting in Portland, Ore., has already advocated an undistributed profits tax which I hoped had been buried with the Revenue Act of 1938.

Since coming to the Stock Exchange in 1941, I have been somewhat amazed at the indifference of the small stockholder in regard to what was in his best interests. I do not refer to the trend of government policies, but to the interest taken by the stockholders in the companies that they own. I believe a deeper understanding and keener interest on the part of the average stockholder is a necessity for a free economy. Informing themselves as to the affairs of their companies and to the extent to which the government in its policies may be encroaching upon their ownership, particularly through taxation, is of major importance for small as well as large stockholders. I feel that an important part of our work at the Stock Exchange is thinking and acting in the best interests of the stockholder.

About a year ago, with the help of Franklin Cole and Co., economic consultants, we made an exhaustive study of the generation and flow of savings into investment. This study was distributed as a pamplet entitled, "Economic Progress." In an attempt to keep pace with conditions which have changed since publication of this pamphlet, we are currently exploring an interesting tax proposal. Before feeling free to advocate its adoption by the Congress, however, I intend to talk with the managements of many companies in different industries. The proposal would exempt the stockholder from taxation on that portion of dividends paid by corporations in excess of 50% of their earnings available for the common stock after Federal taxes. This proposal, if enacted into law, would:

(1) Eliminate any necessity for an undistributed profits tax;

(2) Eliminate any need for Section 102 of the Internal Revenue Code;

(3) Recognize the injustice of double taxation of dividends in principle, but only to a limited degree;

(4) Give cause for stockholders or owners to take decidedly more interest in the affairs of their companies;

(5) Increase revenues to the Federal Treasury, although it is not proposed as a revenue measure. (If this provision had been effective Jan. 1, 1948, at least 50% of earnings might have been distributed instead of less than 40%, resulting in an estimated $700 million in additional Federal Revenue);

(6) Increase the attractiveness of ownership securities and hold down the increase in the debt of corporations;

(7) Tend to reduce emphasis on possible capital appreciation and place the emphasis of investment programs on continuity and stability of income;

(8) Militate against concentration of power.

I should like to emphasize in outlining this tentative proposal that it leaves management and stockholders, or owners, in the position of determining dividend policy without one iota of government interference. This is as it should be. For example, if sinking fund repayments contained in a loan agreement or indenture interfere with more liberal dividend payments, stockholders will have the facts before them and explained. Likewise, exceptional growth, which creates extraordinary need for funds, will not be retarded by forcing dividend payments in lieu of a penalty, as under the undistributed profits tax.

Finally, I return to my main theme. We must not permit government and business to engage in a cold war which can lead only to dissension and disunity. For myself, I firmly believe that by setting aside prejudice and preconceived notions, we can enter an era of good feeling which should and will be our response to a world eagerly awaiting the lead of our country in the effort to attain political stability and economic recovery.

On Hayden, Stone Staff

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Alexander R. Birnie has joined the staff of Hayden, Stone & Co., 85 Water Street.

With Kidder, Peabody

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Richard S. Cobb is with Kidder, Peabody & Co., 115 Devonshire Street.

Medicine Under the British National Health Act

(Continued from page 21)

reduction of capitation rate as well as taxation."

Another letter which a physician wrote to the London "Times" reads:

"During the last seven days, in addition to my ordinary daily work as a country doctor, which means long hours of motoring, visits, and surgery attendances, I have been called up to issue medical certificates for (1) vacuum flasks, (2) corsets, (3) coal, (4) brassieres, (5) hot water bottles, (6) elastic stockings, (7) outside shoes, (8) milk, (9) eggs, (10) clothing for expectant mothers, (11) overseas travel, (12) successful vaccination and inoculation, (13) children's family allowance, (14) glucose, (15) prepared baby food, (16) brandy, (17) whiskey, (18) petrol, and (19) paraffin. Further to this, all my 'panel' patients, when sick, demand a duplicate certificate for their employer if they are employed in any government or municipal work, otherwise they lose some of their sick benefits. My real work—treating the sick—is becoming of secondary importance."

The "British Medical Journal" for Aug. 14, 1948 says:

"Members of the profession complain because they cannot get clothing coupons which entitle them to purchase white coats. The government permits them to get white gowns but not white coats. They are entitled to a coupon equivalent to the purchase of six gowns or coats and to a replacement coupon for three gowns or coats. The application must, however, be made to the Ministry of Health in Scotland, and for Northern Ireland to the Secretary of the British Medical Association."

Evidence already published in British periodicals indicates that for the first three months of the service the costs of drugs and appliances were three times the amounts estimated by the Ministry of Health.

I spent an entire morning with Sir Wilson Jameson, chief medical officer for the Ministry of Health, and with Dr. Kennedy, his assistant. I have since spoken to Dr. Peters of the Office of the Ministry of Health in London and to Dr. Gale of the Ministry in Scotland. When I left Wilson Jameson, he asked me if there was any further information that he might give to me and I replied that I would be especially happy to receive a copy of each of the forms and each of the regulations used under the Act. He said—and he is a notable humorist, "Doctor, have you chartered the 'Queen Elizabeth' to take you home?"

Now I have been receiving in the mail each week additional forms and additional regulations and I have assembled a considerable pile of such material. If, for instance, one wishes to have glasses, one must get a doctor's note that the eyes need testing. The family doctor is supposed to provide this note. If, however, one is unwilling on conscientious grounds to get a doctor's certificate, he may write to his executive council explaining the difficulty. Then he may have his eyes tested by either one of the special doctors described as ophthalmic medical practitioners or by an ophthalmic optician. This choice is explained on the back of the proper form which the family doctor fills out. At the post office there is posted a list of the ophthalmic medical practitioners and the ophthalmic opticians for the area concerned. These are also available in the office of the executive council. When the patient decides which of these practioners he wants to test his sight, he calls on him by appointment and hands him the family doctor's note. He is asked to supply his national registration identity number. Then when his sight has been tested, he signs a paper so that the practioner can obtain a fee. Next the prescription is sent to him by mail and he then must choose an ophthalmic or dispensing optician to get the glasses. A list of the opticians is also available in the post office. The patient takes the prescription form to the optician who makes any extra measurements that might be required and tells him what kind of glasses he can have without charge. He gives his identity number and then he signs a form for the optician. The Ministry of Health reports "there is a shortage of frames at present" so that in the early stages of the scheme, the optician will ask you if you have a spectacle frame. If the patient asks for certain types of glasses which are more expensive than those that are necessary in the opinion of the government, he signs another prescription form to confirm this and pays the extra cost.

There is now plenty of evidence that the government of Great Britain has been quite unable to meet the demand for glasses — many patients requesting two or three pairs at the first visit.

If the patient breaks the glasses less than two years after his sight was tested, they can be replaced but he has to pay the cost himself unless he can prove that the loss was not caused by his own carelessness. Patients always have to pay the extra cost of repairs for more expensive glasses.

If children are to have their eyes tested, there are additional forms to be used for meeting the needs of the children.

Since the service went into effect, a series of notes have been developed to explain these problems to the general public. In the first of these notes, the Minister points out that the greater part of the cost will be paid out of taxes. It is estimated that the first nine months of operation in England and Wales will cost £180,000,000. Certainly it is already apparent that the costs will be far beyond this estimate.

The "British Medical Journal" has protested from time to time about the payments made to the doctors. At present a general practitioner can receive about £1,200 a year, the equivalent of $4,800, provided he sees a maximum number of patients. If, however, he is unable to see that number of patients — and the numbers may run from 40 to 100 a day — his income is proportionately reduced.

As far as medicines are concerned, the patient is told that he can get free all the medicines prescribed by his doctor from any chemist who takes part in the scheme. It is said that there is no price limit or any other kind of limit for medicines prescribed for treatment. Already there has been difficulty because private patients of the doctors, regardless of the promise of the government to give free medical service to everyone concerned, must pay for the medicines that are prescribed. This leads inevitably to the difficulties which are certain to eliminate private practice and that, too, in the not too distant future.

Dental services for everyone were also promised, but the British Ministry of Health has said in its own bulletins, "At present there are too few dentists to make a full service available without delay. . . . Until a full dental service, without delays, can be made available, a special priority service for expectant and nursing mothers and young children" is being organized.

Especially interesting is Note 6, which says that everyone is entitled to free medical treatment under the National Health Service at all times. This is interesting to patients who are in Great Britain on vacation. It includes visitors from abroad who are living in England for less than three months. It concerns the commercial traveler and theatrical artist. The procedure to obtain treatment as a temporary resident requires the signing of a form stating that there is no intention of staying in the district for more than three months, after which an identity number is received. Aliens can give their home address. The doctor then signs the form and sends it to the executive council. The fees that doctors are paid for patients in these special categories are in process of being developed. Each executive council has a special fund from which payments are made. The fee paid to the doctor does not depend on the number of times that he sees the patient but is a fixed sum. It is estimated that about 350,000 patients a year in England and Wales will receive medical care as temporary residents.

One of the most interesting experiences I had while in England was a dinner at the Athenaeum Club at which were present the editor of the "British Medical Journal" and of the "Lancet" and of the "British Abstracts of Medicine and Surgery," also the presidents of the Royal College of Physicians and of Obstetricians and the Vice-President of the Royal College of Surgeons, also a well known specialist and the chief medical officer of the Ministry of Health. The talk after dinner was almost wholly about the National Health Act and I was especially interested in a discussion of the so-called Spens report about which the physicians had considerable doubt. The Spens report was designed to provide some initiative to general practitioners who might wish to go on into various specialities. Most recent available facts indicate that specialists could receive $10,000 a year up to a maximum of $20,000 a year. In order to qualify, the specialists must satisfy a board, which is not especially a board of physicians, that they are capable as specialists and this board then determines which specialists can make the $10,000 up to $20,000 brackets.

Most of the leading specialists in Great Britain—and I met many—were exceedingly doubtful as to the rewards under the Act being sufficient to encourage young men to undertake the long and rigorous road that leads to qualification as a specialist.

When time came for the payment of the first quarterly instalment to physicians working under the Act, many physicians were disappointed because they received so much less for their services than they had expected, and, as has already been said, private practice apparently promptly disappeared for the most part. According to the "Medical Press" for Nov. 3, it was implicit in the provisions of the National Health Act that private practice would take some hard knocks and the doctors were prepared for it. However, the "Medical Press" is convinced now that the National Health Act means the virtual abolishment of private practice and will inevitably lead to that result. In certain areas throughout the country, general practitioners in the better class of practice have suffered reductions in income ranging from 30 to 50%. The authorities have ruled that private patients may not attend health centers which provide auxiliary aid in diagnosis.

The control of private beds in hospitals is such that the private practitioner has virtually no access to the use of these beds. Moreover, regulations as to charges make such beds now cost from $32 to $50 per week.

Another report indicates that the specialists of Harley Street have found their private practice falling off since July and that they now draw their practice not from the upper 10% of the population but from only 2 or 3%. One specialist, Mr. Donald B. Fraser, a Fellow of the Royal College of Surgeons and a gynecologist, says that the specialist has no alternative but to be in the plan or otherwise he loses contact with the hospitals and therewith his practice. His view is confirmed by Brig. A. P. Hardy-Roberts, Secretary of London's Middlesex Hospital. He said that now the hospital has no financial worries but besides the hospital is no longer operating itself. The report, made Nov. 14, says that "there are long queues of free patients waiting for hospital space, waiting for specialists' attention, waiting for glasses, waiting for hearing aids."

Recently the extraordinary agency that is known as the Committee for the Nation's Health, which is devoting its every effort to promoting compulsory sickness insurance in the United States, has issued a statement in an attempt to discredit the few remarks regarding the National Health Act that appeared in my humorous diary in the "Journal of the American Medical Association," yet the General Secretary of the British Transport and General Workers Union himself, says that the shortages of doctors, hospitals and nurses referred to by the "Journal" exist and will have to be made good. The British Ministry of Health itself has issued a statement saying, "It was always made clear that the near inauguration of the new service would not usher in the medical Utopia but the service will make the best possible use of existing sources and as conditions permit expand their scope and build new hospitals and health centers."

The Ministry of Health admitted that doctors were working exceedingly hard and stated that the real test would come during this Winter since the number of people wishing to see physicians in the Winter is always greater.

The editor of the "British Medical Journal" in a letter to me also admits that the services are crowded but he questions whether or not any physician sat up at night to prepare forms for the following day. Now I can state solemnly and sincerely that a general practitioner who had invited me to spend a morning with him while he saw patients told me himself that it was necessary to spend the time preparing the forms and that the keeping of the books on his government basis as contrasted with his private patients had involved him in such a vast amount of paper work that he did not see how he could continue unless the government would provide him with some new type of medical clerk who would be trained particularly in handling papers for government physicians.

I talked this over with Wilson Jameson, and he admitted that it might be necessary, because of the amount of paper work necessary, to train clerks in the keeping of the necessary records. Moreover, when I was in Denmark, I actually found young women who earned their incomes by helping busy physicians and surgeons with the papers related to government patients.

In support of my statement that doctors are overburdened with forms is a letter to the "Daily Mail" by a physician who writes: "Spectacles? Yes (a green form). Good afternoon. Next! Milk? (a buff form). Next! Good Afternoon! Sickness benefit certificates? (A choice of pink and white forms.)"

I hesitate to quote a writer in a British newspaper. However, one Candidus, who is well known as a British commentator, calls attention to the overwhelming effort to take care of great numbers of the sick and to handle papers at the same time and he concludes his article with the statement, "There will be full employment for the doctors who have signed on with the National Health Service. There will be, to use a phrase of Mr. Morrison's, overful employment. Whether that state of affairs will be good for the patients, or for medicine, is another question."

Conclusion

As I stated previously, the time is too soon to pronounce any valid judgment on the effects of the British National Health Act on the health of the people of England or more particularly on the quality of medical service and the quality of the British medical profession. Some of the authorities with whom I spoke and who have been previously referred to have estimated anywhere from 20 to 100 years in order to make the system workable to the extent that it may meet the promises made by the government before the system was installed.

In the face of the shortage of doctors, nurses, hospitals, health centers, drugs, and young ladies trained to handle the paper work, the British are nevertheless attempting to make the system work. An American commentator recently wrote, "Since the British National Health Service was instituted in July, everybody in England has become a patient. Ailments which were never before discovered or considered sufficient to inconvenience the citizen are now demanding attention at state expense. Hypochondriacs and persons who have trifling ailments for which they would never trouble a doctor are now besieging the offices of doctors and dentists, simply because attention is at the expense of the state."

Regardless of the evils or the apparent benefits of the operations of the British National Health Act, the citizens of the United States, still citizens of a democracy and not of a socialistic state, could only suffer from the establishment of such a system in this country at this time. Inevitably there is deterioration of medical service because of the methods of work. Doctors simply cannot see, diagnose and treat patients in the process in which they are overwhelmed by such plans as those of the British and do a satisfactory job. If a doctor tries to see 40 patients a day, he gives all of them less than what medicine requires unless he has a vast establishment with innumerable assistants. If he tries to see 100 patients a day with a view to developing his income, he is reverting to the methods of treatment of disease that prevailed in a previous century. Fortunately for modern man, the technics of preventive medicine, the great advances in medical science, the development of new drugs which are superbly efficient make it possible for people to be far more healthy than they were in the past and to have many more years of existence. By these advancements in medical science, insurance companies benefit and when the insurance company is the government, the government benefits.

The House of Delegates of the American Medical Association met in St. Louis last week and reaffirmed its fundamental policy. It rejected unanimously the invasion of government into the practice of medicine and the attempt of government to nationalize the medical profession. This policy, restated and fully established by the representative body of American medicine, is so clear in stating our principles that I repeat it here as a concluding statement:

"The American Medical Association reaffirms its belief in the application of the principle of medical care insurance on a voluntary basis. The A.M.A. has encouraged and assisted the development of voluntary prepayment plans. Coverage is now provided throughout the country, and protection is being extended rapidly to an ever-increasing proportion of our population.

"The American people now enjoy the highest level of health, the finest standards of scientific medical care, and the best quality of medical institutions thus far achieved by any major country of the world.

"The great accomplishments of American medicine are the result of development by a free profession working under a free system, unhampered by government control.

"The experience of all countries where government has seized control of medical care has been progressive deterioration of the standards of that care to the serious detriment of the sick and needy.

"The American medical profession is unalterably opposed to the institution of any system of medical care which would result in damage to the American public. Our carefully considered opinion is that any scheme of political medicine would be a catastrophe for the American people.

"Compulsory sickness insurance, notwithstanding misleading bureaucratic propaganda, is a variety of socialized medicine or state medicine and possesses the evils inherent in any politically controlled system. It is contrary to American tradition, and is the first and most dangerous step in the direction of complete state socialism. The American Medical Association rejects any such scheme as a method of the distribution of medical care; we are equally certain that when the people understand the facts, they also will reject it with the same finality.

"On the basis of experience, we are convinced that voluntary medical care insurance, with the continued support of the American medical profession, can and will solve the economic problem of the distribution of medical care within the existing framework of private enterprise.

"It has been demonstrated that the voluntary method provides a better and less costly service and avoids the imposition of enormous taxation.

"The continuing purpose and determination of the American Medical Association is to maintain and improve the standards of medical care, and to make that care available to all our people."

Banks Should Avoid "Loaned-Up" Condition!

(Continued from page 4)

The total of the investment account, its quality and its liquidity, is the balance wheel around which the general loan policy is constructed. If the investment account provides sufficient liquidity, the loan policy can be quite different than if the investment account provides only a limited liquidity and the bank must look to the loan account for funds to meet any deposit declines.

Under present conditions, it would seem particularly desirable to establish a flexible maximum total for loans and for each category of loans. These will be related to the nature of the probable loan demands on the business, the deposit structure and possible deposit demands, and the quality and distribution of the security investment account. As the total loans in each category approach the policy maximums, there will be a need to exercise a restraining influence over the loan growth. Also, as the maximum is approached, there will be an added incentive to provide new loanable funds by a more rigid policy of liquidation of existing loans, instead of permitting indiscriminate renewals.

Any such policy which tends to limit the total expansion of bank loans and, in the process, insures more rapid payment and turnover of loans inevitably leads to selective lending and sounder assets. It is a form of self-imposed credit control. It can be just as effective as any proposed national credit control, with the outstanding advantage that the selection is made in terms of local needs and requirements by men who are completely familiar with them.

There is no doubt that from the standpoint of the individual bank the attempt to apply voluntary credit controls is a difficult one. It is difficult to determine whether making a business loan causes inflation or whether the circumstances prompting the request for the loan were the result of inflation. If it is assumed that every bank loan is inflationary, then it would appear that the only answer is to stop making loans entirely. However, no one will deny that it is necessary for business and industry and individuals to have credit available; but under basic inflationary conditions, we will all agree that speculative and long-term loans should be avoided and the use of bank credit restricted to the essential needs and constructive purposes which contribute to the functioning of the economy, without substantially or unnecessarily multiplying the inflationary pressures which already exist.

Cooperative Efforts Needed

I am convinced, and I am sure you are convinced, that this can be done much more effectively and with much less danger by the cooperative efforts of the individual bankers of the country than it can be by any law or series of regulations, no matter how carefully prepared, in an effort to meet the same problem.

We should all realize that if we exclude a renewal of government deficit financing and a continued rapid expansion of loans, there is little likelihood of deposit increases at the rate and amount to which the banking business has become accustomed; also, that if deposit increases should occur from either of these sources, there is every possibility that an effort will be made to sterilize the increase with new forms of credit controls or additions to present controls.

We all know that the present high cost of living and high prices, plus the availability of goods, has tended to reduce the rate of savings and in many localities has brought about a deposit decline. We can be certain that with rising government expenditures, government deposits in banks will be drawn down to the lowest necessary current Treasury balance in an effort to avoid cash budget deficits and additional government borrowing.

Any way you look at it, it is difficult to see how banks can depend on deposit increases to provide for substantially larger loan totals. Deposits may not rise. There may be deposit declines. If deposits rise from expanding loans, there can be legislative trouble. If deposits rise from sources outside the banking business, probably banks will not be allowed to use them to expand loans. Restrictions could be imposed which would limit the expansion of loans on the present deposit structure. Every one of these possibilities suggests limiting loan expansion now.

There are a number of things about our general economic situation we must not forget. These exist outside the banking business, but nevertheless directly affect it.

A boom such as we have experienced in this country for nearly ten years creates the material for many business and credit problems. These will seem to be unexpected when they actually arrive. But as we look back over the credit history of problem loans, we will find that the trouble factors have been both present and visible for some time before we were shocked into being aware of them.

The Boom Ending

The problems themselves will be a product of the stresses and strains which always multiply as a boom progresses. They will arise from forms of over-confidence; over-expansion; unsound cost and price relationships; and the unbalances within businesses, between businesses, and between various segments of the economy.

We are already having evidence of this. Business is slowing down in some areas while still strong in others. A limited number of industries and businesses actually are having difficulties. For a larger number, full capacity operations are restoring all the usual risks of active competition. Many a business begun since 1945 is just beginning to find out what it means to operate in a market in which demand does not exceed supply.

As products heretofore in short supply have become more readily available, the consumer tends to spread his spendable funds in a different direction. This shifts demand and reduces existing backlogs of orders. It brings more production into the area of filling current orders, instead of back orders.

At present high prices, consumers are rapidly becoming more price and quality conscious. The consumer's right of choice and his changes of taste and needs are new factors to be reckoned with. As he uses up some of his past savings and is able to save less than he used to, he becomes increasingly dollar conscious. He is concerned about what he spends and where he spends it. This can be added up to the conclusion that from now on it will not be so easy to mark up prices. It may also mean that it will be difficult to maintain or increase sales volume in many businesses. There will be a realignment of prices, which has already begun. Then high costs will squeeze profits, and profit margins will decline.

The price readjustments, the cost and profit difficulties, and perhaps more losses and business failures will, in fact, be merely a step in return to a more normal competitive type of business. It will be an inevitable inflationary readjustment. It will not necessarily lead to a depression or to a disaster. It should be expected, and it will be much healthier to get out of a hot-house atmosphere which has been forcing growth at the expense of vitality.

Any business which might lose 10% or 20% of a 200% gain in volume over 10 years will still be doing much better than its managers ever would have dared prophesy some years ago. Nevertheless, if these managers can operate only on a basis of each year's increase absorbing last year's mistakes, and have planned only for increases with no allowance for set-backs—look out.

The Selective Credit Job

As I see it, our selective credit job is divided into two parts. One is to help keep the borrower's credit in such a sound position that he can modify his course, if necessary, without embarrassment either to himself or to the bank. The other is to keep the loan and investment position of the bank sufficiently flexible that no demands on the bank need be transferred to the borrower, causing or multiplying the strains which may be placed on him from other sources.

For the first, I suggest a careful review and strengthening of the assets ratios usually applied to borrowing accounts. The ratios which appeared adequate in a long-term sellers' market will not be adequate in a buyers' market. The ratios adequate for one business will not be adequate for another similar business. The trend of a business within an industry, its competitive price and quality position, its profits margin and break-even points, will vary from other similar businesses within the industry; and the industry trend itself will be a controlling factor.

For the second, I remind you again, as I have many times in the past, that one of the primary functions of banks is to have credit available for worthy borrowers when it is most needed. That requires some reserves of credit in the banks. Loaned-up banks magnify depressions; they always have and always will. Sound businesses, struggling with internal readjustments to meet changing markets, should not be further embarrassed by demands from banks or refusals of credit which arise not from any weakness of the borrowing enterprise, but from failure on the part of bank managements to use the same foresight they expect of the borrowers themselves.

So my final point to you in connection with selective credit is this. Credit policy has to be concerned not only with the intrinsic goodness of individual loans, but with budgeting the total credit advances made by the bank in every category so that the bank is sure to retain its own credit flexibility under any less favorable conditions. These less favorable conditions may arise from higher bank reserves or declining deposits, or a combination of them, or, additional government credit controls. Whatever they are, selective credit, as it applies to individual cases and as it applies to the credit service function of banking, is one form of insuring and maintaining the strength and stability of the borrowers, the banks, and the economy.

Why Corporate Profits Are Overstated

(Continued from page 2)

poration constituted a choice taxable entity in its own right—an entity which not only had no vote as such but had a bad name among the mass of nonstockholder voters and hence could safely be pushed around. And finally the development has proceeded to the point at which the corporation is subject to a distinct system of heavy income taxes, and dividends received by individual stockholders from what is left are subject to both normal tax and surtax to the individual without regard to the fact that the total stream of corporate earnings has already been treated as taxable income This is an inequitable arrangement, and it also constitutes a major deterrent to the supplying of business enterprise with the risk capital sorely needed for the replacement and expansion of plant facilities.

Present Level of Corporate Earnings

The immediate question is: What are the merits of the charges being currently made by politicians and others to the effect that the earnings of American corporations are "excessive," that our corporations are indulging in "gouging," "profiteering," "exploitation," and that something must be done to curb these insatiable institutions if inflation is to be checked and the standards of living of the people preserved?

The first thing to be noted in commenting on this matter is the desire always present in any difficult situation — particularly in political connections — to divert attention from the real causes of our troubles to some imaginary culprit who can be safely scolded. Organized business enterprise has occupied a whipping post position in this country for some time. By a process of personifying business activity, using such expressions as capitalism, Wall Street, etc. as epithets, and forgetting that the people who provide business with capital and who supervise business operation are ordinary folks like the rest of us, a sort of mysticism is developed that tends to obscure the real issues. I hope that the members of our national legislature, in pursuing their inquiries, will discount heavily all such loose talk and abuse.

Next, I would like to call attention to the fact that it should be expected that the total stream of corporate dollar earnings for the country would increase with a great increase in business activity and dollar volume of sales. Indeed, if the total reported earnings of all stockholders of the United States were to remain constant or decline in a period of large production and sales such a development would be cause for alarm as far as the future of private business enterprise were concerned. We must be on our guard not to form opinions carelessly on the basis of aggregate figures representing earnings of stockholders, earnings of factory employees, or of any other group. Only as the available data are carefully sifted, analyzed, and compared is it possible to form reasonable conclusions as to what is going on with respect to the relative positions of the various economic groups making up the nation.

This means, of course, that the pertinent question regarding the current level of reported corporate profits—earnings of stockholders—is: Are such profits large relative to other factors? Do such profits represent an increasing share of the national product? Are current developments enhancing the economic position of those who furnish risk capital and pinching other important groups?

In my judgment a careful study of the available data discloses that a negative answer to any such question is clearly called for. The fact of the matter is that the forgotten man of the present era is the common stockholder, the chap who provides risk capital. His showing is poor whether it is expressed in terms of his share of reported corporate earnings or in terms of what he has left from any dividends he receives after personal income taxes thereon — his "take-home pay." No other important group in the community has been squeezed as much as has the investor, and this includes the furnisher of risk capital as well as the investor in bonds and other dollar contracts. One very clear evidence of this squeezing is seen in the continuing difficulty of raising new money for business expansion through the issue of common stock—and the existing layer of risk capital in many cases has been thinned by the issue of senior contractual securities to the point at which new common stock money is badly needed. It is a well known fact that new fi-

(Continued on page 34)

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Leaders act despondent while secondary stocks point to higher prices.

If recent and present market signs mean anything, I think you'll have a better Christmas and New Years than you had a Thanksgiving Day, or for that matter, an Election Day.

* * *

However, while various stocks show a little life, it is still limited to the secondary issues. The first line stocks, the so-called blue chips, are as blue as their name. They either point to lower prices, or at best a maintenance of status quo.

* * *

The stocks which show spirit are those in the relatively low price category. Among them are Avco, movie stocks like Paramount, Twentieth Century-Fox and Radio-Keith-Orpheum, a couple of coal stocks, e. g., Philadelphia Reading Coal and some of the building issues.

* * *

Why such issues should advance while others, the quality stocks like General Motors, Chrysler, Big Steel and others with a respectable background, should not, I leave to others to explain. In fact I'm not sure that the latter will not go up. The only thing I'm sure of is that the secondaries show a zip I haven't seen in them since Dewey was a "cinch to get the election."

* * *

This, of course, doesn't mean that I'm going to be right. My crystal ball has been electrified and my wife is using it as a lamp. The stars don't say a thing to me, except if I don't see them, I believe it will rain. The only thing I have is a ticker and even that's been taken away from me. It has since been switched into a translux. Reading it only drives home the fact that my glasses need changing. My charts are all smeared with sundry food stains and besides I lost my slide rule and triangle — so there you are.

* * *

But based on experience in watching markets, making and losing on them, I'd say that the familiar averages show a latent strength that can carry them to across 180 followed by another dip down to about present levels. I'm aware that the averages can't go to 180 without the leaders participating. Yet the leaders don't look promising. I know this sounds paradoxical, but it will have to stand.

* * *

The stocks which show up are the cheapies — the under 25 ones that don't take too much money to buy, if you don't buy too much of them. Here is a sample list: Avco, Thatcher, American Radiator, Philadelphia Reading Coal, Paramount, Twentieth Fox, Crane.

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.]

Why Corporate Profits Are Overstated

(Continued from page 33)

nancing through issue of common stocks has only been a trickle for years and there has been little or no improvement in this situation in such supposedly good years as 1947 and 1948. This is a serious situation, and does not suggest that now is the time to try to pick a little more meat from the stockholder's bones—unless it is deliberately intended to use this as a means of making the position of private risk capital completely untenable. The unfavorable condition and prospect of stock equities is further evidenced by the state of the securities markets. The shares of many of our best companies are selling in 1948, in terms of 1948 dollars, for much less than their prices in 1946, in terms of 1946 dollars. If corporate earnings are at a phenomenal and excessive level by proper tests the people who buy and sell equities must be extraordinarily stupid.

Accounting for Corporate Earnings

An important aspect of the present situation is that corporate net earnings as currently reported are generally **overstated to a significant degree,** particularly from the standpoint of the use of such figures for the purpose of measuring the relative economic positions of those furnishing funds and those furnishing personal services. There are no serious complications in measuring the earnings of a corporate employee, for example, who is paid $4,000 in the year 1948. He receives $4,000 of the relatively cheap 1948 dollars and that's that. In the case of the stockholder, however, the situation is much more involved. The earnings computed for the stockholder are the result of deducting from total revenues an array of applicable costs and other charges, and the final result is subject to all the limitations of an accounting system that endeavors to deal systematically with the complex questions concerned with recording costs as incurred, tracing the course of each cost factor through the stream of business operation, and allocating each type and item of cost to periodic revenue in a reasonable way. Judgments, analyses, valuations, come into play all along the line and the results are no better than the quality of the judgments exercised. It is safe to say that there is no statistical problem that the human being tackles more difficult than that of attempting to chop the stream of business activity represented by the affairs of a large corporation into annual segments and to state in black and white, in a definite number of dollars, what the company earned each year.

Aside from the technical complexity of the process, conventional accounting has certain fundamental limitations. The most serious is found in the fact that the whole structure is predicated on the assumption of a stable measuring unit. The accountant assumes that the dollar he is using in his reckonings is the same yesterday, today, and forever. Unfortunately this assumption does not square with the facts. It would be grand if the economic significance of the monetary unit did not fluctuate, but that's not the case. As every citizen knows, the only aspect of the dollar that remains unchanged from year to year is the name, and I sometimes get the notion that we would all think more rationally about our economic affairs if we changed the name every year or so as the economic content changed. Thus, we might call the 1948 unit the zollar, and this would encourage clear thinking when we were comparing the present value of money with, say, the 1940 dollar.

The accountant, in other words, records cost in terms of the dollars shown by the invoices and other underlying documents at the time the cost is incurred. Thereafter he absorbs this recorded cost into operating charges and ultimately into expense or cost of revenue. Occasionally he adjusts recorded costs downward to reflect declining prices, before final disposition of the commodities or other cost factors involved, but as a rule he does not make adjustments of recorded data to reflect advancing prices.

This limitation of conventional accounting is not a serious matter in periods of reasonably stable prices, but it is serious, in my judgment, in a period such as we are now experiencing. In the corporate income statements of 1948, for example, total revenues or receipts from customers are being shown in 1948 dollars, although not all in year-end dollars. Similarly labor costs and other charges for current services, deducted from revenues in determining net earnings, are shown roughly in terms of 1948 dollars. But certain other costs, notably depreciation, are in many cases being deducted in terms of plant expenditures made when the construction dollar was worth two or three times what it is now. The result is overstatement of real earnings, in some cases significantly. It must not be forgotten that although in many industrial companies the reported depreciation cost figure is not a large fraction of total expenses it may be an important figure when compared with net income. Assume, for example, that a particular company shows net earnings for 1948 of $10,000,000 and that the depreciation included in expenses based on recorded plant costs is $4,000,000. Assume, further, that on the average the plant facilities of the company were acquired when the price level was only half as high as in 1948. In this situation it can be urged that the expired plant cost shown as a deduction in the income statement is only half of what it should be, in terms of the 1948 prices applied to most other cost factors, and that the significant depreciation figure is therefore $8,000,000. With such a deduction the net earnings reported would be reduced from $10,000,000 to $6,000,000, a very substantial change.

In my judgment the change in the value of the dollar has been so marked, and return to an earlier dollar has become so unlikely, as to warrant changes in accounting procedure to meet the situation. The remedy, as I see it, is systematic revision of recorded costs to bring them into line with present prices in all cases in which the recorded data are so far out of line as to render income statements based thereon inadequate and misleading. Many accountants would not agree with this recommendation, but I believe all accountants recognize that present-day earning reports are subject to serious limitations, and should be read with due recognition of their shortcomings.

There has been, as might be expected, a great deal of controversy in accounting and business circles regarding this matter. As I see it the really important point involved is the definition of cost. To me *cost* is not just a nominal term but a measure of economic sacrifice or force incurred. Actual, significant cost is an economic quantum, not just a monetary expression. If this is a reasonable view it follows, for example, that if a building was built ten years ago at a cost of $1,000,000 in terms of 1938 money, and the same building would now cost $2,500,000, in terms of 1948 money, it is no longer reasonable to describe the cost of the building as $1,000,000 in making a financial statement that purports to be set up in 1948 dollars, and that the reader is expected to interpret in terms of 1948 dollars. And similarly it is no longer reasonable to describe the portion of the cost of the building deducted from revenues as depreciation of 1948 as a fraction of $1,000,000.

The problem arising in connection with inventories is of the same character but to my mind is less serious because of the relatively short time the particular batch of merchandise or materials remains in the business. Of course where there is a sharp and sustained advance in material costs and costs are absorbed as charges to revenues on the assumption of a first-in, first-out flow, it is fairly obvious that a portion of the reported net earnings period by period will represent funds needed to provide the increased number of dollars that must be devoted to replenishing the same old stock of goods, and will in no sense constitute a basis for dividend distributions.

Readers of 1947 and 1948 corporate statements have been in some cases suggesting that a larger share of reported earnings should be distributed in dividends. One reason, of course, for the retention of earnings in substantial amounts in recent years is the great need for funds for replacement and expansion of facilities coupled with the difficulty of securing new equity capital, but it is fair to say that a partial explanation of the prevailing relation between dividend disbursements and reported earnings in many cases is found in the fact that reported earnings are larger than they would be if all costs were measured in the same kind of dollars as are represented in receipts from customers.

It is to be hoped that in revising the Internal Revenue Code Congress will give serious attention the possibility of authorizing the use of current replacement cost of materials used and the replacement cost of plant facilities expired, as of the end of the taxable year, as deductions in lieu of deductions based on unadjusted book costs. I understand that developments along this line have occurred in the income tax statutes of some foreign countries.

Reported Earning Rates

There's another aspect of this matter of the limitations of corporate accounting methods under present conditions that seems to me to be very important. As I've tried to indicate, corporate earnings are generally overstated nowadays in a significant sense because of the practice of basing certain expenses on recorded dollar costs that are out of line with current prices expressed in a new and cheaper monetary unit. This is bad enough. But the error becomes magnified when the overstated earnings are applied to an understated book value of stockholders' investment. In many cases the dollar book values of corporate resources, particularly in the area of fixed assets, are very much less than the total number of dollars involved stated in terms of present-day prices. Accordingly, a rate of earnings, an earning power, computed in terms of these respectively overstated and understated figures is likely to be grossly improper and misleading. Suppose, for example, that the reported earnings of a particular company for 1948 amount to $10,000,000 and the total of resources employed less liabilities as reported in the statement of financial position is $50,000,000. Relating these figures it appears that the corporation has an earning rate of 20%, a very fine showing indeed. But suppose, further, that if all the costs deducted in arriving at the earnings of $10,000,000 had been converted to 1948 prices, so as to place them on the same basis as revenues received and other costs the resulting net would be only $5,000,000. And suppose, still further, that if all recorded asset costs stated in terms of earlier price levels were converted to a current basis, so as to put them on the same footing as similar assets recently acquired, the total of the resources employed less liabilities would amount to $100,000,000. Evidently earnings of $5,000,000 give only a 5% yield on resources employed of $100,000,000—quite a change from the 20% rate computed on unadjusted book figures. This is an imaginary case but I don't believe it is farfetched. Moreover, I am convinced that in the case of some of our important companies that show an earning power of 5%-6% on book figures the actual return on risk capital calculated consistently in terms of 1948 dollars, both with respect to earnings data and assets involved, does not exceed 3%-4%.

There's another general feature of conventional accounting that tends to aggravate the showing of earning rates higher than true yields. I have in mind the long-cherished tradition of conservatism. For generations it has been second nature to the accountant to minimize recorded assets. This is reflected in various practices and procedures. Small items of capital expenditures may be included in maintenance on the ground of conservatism, and in time the resulting understatement of employed resources may be considerable. The treatment of doubtful items is resolved in favor of exclusion from recognized assets. Assets may have been fully depreciated in the accounts and still have some economic significance. Assets acquired by the process of accretion, such as the case of timber growth, may not be reflected in the accounts. Organization and development costs, and costs of raising capital, are often charged off although their contribution to the value of the going concern has not lapsed. Intangible assets of various types may have been written off as a gesture of conservatism. Marketing costs incurred such as advertising, even when clearly applicable to the future, are seldom included in acknowledged assets. Now, when this general and partially unavoidable tendency to understatement of corporate resources is coupled with the limitations of accounting resulting from the marked change in the level of prices in recent years, we have a situation in which reported earning rates are very generally overstated.

With respect to corporate accounting the conclusion I wish to emphasize is this: Under present conditions, and in the light of certain serious limitations of conventional accounting, corporate earnings as shown in current reports are generally overstated from the standpoint of effective, disposable income, and corporate earning rates computed by applying reported dollar earnings to reported dollar book values are generally much higher than true yield rates.

What to Do About Inflation

(Continued from page 3)

view with deep misgivings a building up to another inflationary blow-off like we had then.

Other dangers of these direct controls were recently stated by Edwin G. Nourse, Chairman of the President's Council of Economic Advisers, when he warned that a return to such controls might become necessary if military expenditures should rise much further. I quote Dr. Nourse: ". . . the return to controls and their continuance for some years would present a two-pronged danger. As a free people, we are always fearful that economic controls may prove habit forming and develop a spirit of acceptance of authority over larger and larger areas of life and weaken the reliance of the people on free bargaining. If that danger is avoided, there is the opposite danger that in avoiding it, we develop evasion or defiance of constituted authority, black markets and a lowering of the moral fiber of our people. In any event, by giving legal sanction to certain structures, procedures and property rights for a period of years, controls build up greater or less vested interests on the part of beneficiaries of these arrangements to have them perpetuated, and vested claims of those who have been hurt by them to secure some offsetting benefit. Either way it complicates the return to smooth operation of the economy."

Increase Taxes

Another way to stop inflation is to jack up taxes. That was one patent remedy for boom prescribed ten or 15 years ago when economists told us that changes in tax rates, rates of government spending, alternate deficit financing and surplus financing, was the way to keep business on an even keel. There are some very definite accomplishments to chalk up since the war in the general area of fiscal policy—and some novel and effective methods of debt retirement from surplus revenues. But when you come to tax increases, you run into difficulties. We still have a messy tax structure hastily concocted during the war. Tax rates are generally very high already. Some may already be beyond the point of diminishing return. And there is the fundamental question how much of a tax load you can put on a free enterprise economy and still expect it to work.

A study by the Committee on Public Debt Policy finds that — and I quote — "the Federal Government is controlling and spending one-fifth of the presently expanded national income." If we add State and local governments the fraction comes to one-fourth. "The capacity of any people to carry a tax load and still remain prosperous and free," the report states, "cannot be determined by precise formula. But a ratio of taxes to income as high as 25% is in the danger zone." This is something to think about. And we should not accept the "solution" of inflating price and income levels to make higher taxes bearable.

Cut Government Expenditures

This takes us to still a third way to put the brakes on boom—again within the area labelled fiscal policy—and that is to cut government expenditures. If you do not think that the $40 billion a year postwar Federal budgets constitute a problem for the American people you will be reminded of the fact when you look at your income tax liability for 1948 and when you further consider that the price of just about everything you buy contains taxes that enter into business costs. If you do not think that there is waste of manpower and materials in government I advise you to take a good look at the report of the Hoover Commission coming out in January. This is not a political document. It is prepared by a bipartisan commission, supported by disinterested experts, authorized by unanimous vote of the Congress.

Our Federal Government has grown like Topsy, new agencies added on top of others without too much attention to how they fit together or to just who is supposed to do what. In the tax bills we are paying for a fatalistic attitude that these things are inevitable, and that this or that high-sounding classification of expenditures "cannot be touched." The time is long passed when we could afford to indulge the feeling that some item or another is sacrosanct just because of the label it carries. We need to see that a better job is done of getting our money's worth out of the national-defense and foreign aid dollars, cutting out the frills. These two headings alone are costing us $19 billion this year and the question posed for next year is how many more billions will be tacked on. Then there is the $18 billion of expenditures for other purposes exclusive of interest on the public debt. Too often the argument has been used that if we can afford to spend $7 billion on foreign aid, we can certainly afford to spend "X" hundreds of millions on some domestic program. The fact is that if we have to spend so much on defense and foreign aid we ought to be cutting back in other areas of government expenditures. We cannot have the government marching out with increased expenditures in all directions and still expect to have a stable economy and a dollar with a stable buying power.

Credit Policy

A fourth way of dealing with inflation is through credit policy. In the present environment credit policy is wrapped up in one bundle with debt management policy. The rise in the national debt—from the interwar bottom of $16 billion in 1930 to $279 billion in February, 1946—has already had consequences which it is difficult to exaggerate—in terms of high taxes and high prices we have to pay. From the inflation angle, there are two parts to the question of handling the public debt. One is the matter of how fast to try to pay down the debt. The other is the matter of its distribution, which is subject to "management" or influence by Treasury and Federal policies.

Just how fast we should try to pay down the debt is a question on which reasonable people differ. There is general agreement that repayments ought to be accelerated in boom times like these, but no responsible official, to my knowledge, has offered a definite figure of what would be the right amount. In Congress minimum figures of around $2½ or $3 billion a year have been favored. The President has repeatedly urged the importance of debt reduction. The surpluses for debt retirement which he has recommended to Congress, in his last two annual budget messages, are $1.8 billion and $4.8 billion respectively. The importance of an annual debt retirement figure is perhaps not so much in what the figure is, as in the determination to see that spending is held down so that an agreed-upon figure for debt retirement is actually realized. The $8 billion surplus for debt retirement in fiscal 1948, we should recognize, was largely the child of accident—underestimation of revenues, efforts of Congress to scale down expenditures to permit a measure of tax relief, and the deferral of the actual tax cut until this year. We should not overlook that flush Treasury revenues, and the existence of a known surplus, themselves give government administrators and legislators a feeling of affluence, invite the practice of adding items onto the budget, and put in jeopardy any surplus for debt retirement.

The matter of public debt retirement has lately been overshadowed by a rising tendency of private indebtedness and in bonded indebtedness of State and local governments. The rise in non-Federal debt has been a strong inflationary factor. Here policies of the Federal Government have played a very vital role. The government itself has been a lender; it has been a guarantor of billions of mortgages; and it has, through the Federal Reserve Banks, maintained an easy money policy which, in today's environment, has the unfortunate consequence of inducing investment institutions and others to sell their government securities to the Federal Reserve Banks and to lend the proceeds elsewhere. This hampers the Federal Reserve in its use of the open market operation technique to control the supply of credit. The stumbling block has been that the authorities have been fearful that a drop in bond prices would involve a stronger dose of deflation than the economy could stand.

Within the limits of the dictum that government bonds shall not sell below par the authorities have taken a succession of moves, over the past 18 months, mainly directed at discouraging commercial bank lending for less essential purposes. The ABA, as you know, has backed up the authorities with a voluntary program toward this end. And Regulation W has been put back on. This year the focal point of the problem of credit expansion has tended to shift to life insurance companies and other nonbank investors which have accelerated their lending as commercial bank lending slowed down. These nonbank investors have an access to Federal Reserve credit through their ability to sell restricted War Loan 2¼s and 2½s to the Reserve Banks at pegged prices of par or better.

There is abundant room for influencing the supply of credit through changes in the terms on which the Reserve Banks will turn marketable government securities into cash. But these powers of the Federal Reserve need to be considered in light of the overall credit policy of the government which is strongly on the side of continued credit expansion. In other words, there is a need for integration of government credit policies and putting them into harmony with the general economic situation.

Summary

In summary we are today in a kind of uneasy resting point in our postwar inflationary boom. We are in a situation where government policies are of overwhelming importance in determining what the 1949 pattern shall be. We are in a situation where private business policies, and to a not inconsiderable measure State and local government policies, are highly responsive to decisions made in Washington. To my mind there is too much at stake for everyone concerned—government, business, the employee and the consumer—and the balance between inflationary and deflationary forces is too nearly equal to warrant the use of roughshod methods of OPA-type regimentation and new tax devices. The most essential task of policy is to put the rein on government expenditures. This is easier to say than to do. But with a budget out of control there is a small hope for arresting inflationary pressures. With a firm hand on the budget, other problems—of upward pressures on prices and wages, of the public debt, and of restraining private credit expansion — become manageable and within the range of sound credit policies and voluntary cooperation.

To you, gentlemen, engaged as you are in evaluating credits and creditworthiness, it is a matter of immense importance how this boom is handled. If brakes are put on and adjusted as conditions dictate you may have a higher percentage of losses and writeoffs. But I think you will agree that that is better than a situation where it is hard to make a bad loan and hard to tell a good credit man from a bad one.

No Danger of Severe Price Declines

(Continued from page 11)

prices, called the index of Consumers' Prices, to which I shall refer later.

The Wholesale Price Index in World War I rose from about 67% of the 1926 average at the beginning of the war in 1914 to a peak of 167 in the summer of 1920. This was a rise of about two and one-half times the prewar level. The prices of farm products rose somewhat earlier and more rapidly during the war than the prices of industrial products, but the two reached the peak at about the same level in the summer of 1920. Then there was a rapid collapse in the speculative markets beginning in May, 1920 (no other word so accurately describes the situation), so that within a year farm prices had fallen to less than one-half the 1920 peak, and industrial prices had fallen almost as far. This was one of the sharpest and deepest price declines in American business history.

There was some recovery in both groups of prices during the prosperity in the 1920s but chiefly that prosperity affected industry, while agriculture suffered a long depression. There was then a further decline in the great depression of the early 1930s affecting all kinds of prices. As a matter of fact, the prices of farm products in 1932-1933 were about 30% below what they had been in 1914. Industrial prices did not drop so far. Even during the recovery in the later 1930s, farm prices lagged behind, so that in 1939-1940 during the early days of the European war, farm prices were still at 1914 levels, with industrial prices considerably higher.

Then in the early months of World War II farm prices shot upward rapidly; the rise was retarded during the period of price control, but price control was applied later to farm products than to such industrial products as copper and steel. Then after the war they rose again to nearly three times prewar levels. In part this was due to the short corn crop of 1947. At the 1949 peak farm prices, were considerably higher than they were in 1920.

On the other hand, industrial prices, which began World War II at about 80% of their 1926 average, had risen by 1948 to about 150. Stated another way, industrial prices have risen much less than farm prices and are at present considerably lower than farm prices, relative to prewar.

Now farm prices have begun to fall. There was a sharp break in February 1948 followed by some recovery. But on the basis of the splendid 1948 crops they began to fall again last summer and autumn. The grains and some vegetables and fruits, as well as cotton, have fallen so far as to reach the price support levels provided by the parity formula under Federal legislation. Livestock products, in general, are still considerably above the support level and could fall further. Others are not covered by support legislation and could also fall further.

On the other hand among industrial prices there has been comparatively little weakening right down to date. There have been declines in some of the industrial commodities which are made from farm products, such as cotton and hides, and there have been additional weaknesses in other lines. At the same time, there has been persistent and continued strengthening in other industrial prices, principally the metals. In fact, it seems likely that some industrial prices could continue to rise, even though prices for farm products and certain other products continue to fall somewhat further.

No Early Price Collapse

Does this mean that we are now in the early stages of a price collapse similar to 1920-1921? I think the answer is, no. It is, of course, conceivable that recent declines could snowball and spread across the whole economy. Nevertheless, it is important to note that there are several economic factors operating at the present time which did not exist in 1920. Let me present to you some contrasts between these two postwar periods.

In 1920 we abruptly stopped our lending to Europe and therefore sharply curtailed our exports at a critical time. Second, in 1920 we virtually stopped our military appropriations. Third, there was a smaller backlog of accumulated demand and of buying power, for the war was shorter; and finally we had no kind of supports for farm prices. The result was that price declines could spiral through the whole economy without significant supporting demands coming into the picture until a floor was reached.

In 1948, on the other hand, we have through the Marshall Plan continued our exports. Second, our military appropriations, while reduced far below war levels, are likely to continue at a high level. Third, we have enacted legislation supporting many farm prices at levels generally not far below where these prices now are. Further, domestic industrial demand is still being maintained at a high level. Finally, there is now a high level of consumer spending based

(Continued on page 36)

No Danger of Severe Price Declines

(Continued from page 35)

on high employment, high wages and liquid savings.

I do not mean to say that the combination of the Marshall Plan, the military appropriations for the United States, prospective military appropriations for western Europe, or even all the other foreign lending and exports which may arise, are, taken altogether, a high proportion of our domestic production. All that I am saying is that these relatively small but significant demands for American products are still continuing in 1948, and will continue in 1949, in contrast to their sharp decline in 1920-1921.

I stress these primary market prices which are of special interest to business, because they are so important in determining the continuation of other important economic factors, such as employment, wages, and incomes. War usually creates unusual demands for products which, in turn, cause "distortion" in the normal price structure. By "distortion" I mean only that the resulting wartime prices are different than they were before the war, and also from what they will be again in a normal postwar peacetime economy. Consequently, in the postwar readjustments of business, many of these high wartime prices must necessarily come down. In fact, such a readjustment is healthy for the economy insofar as it restores normal peacetime price relationships. Therefore, falling prices at a period like this can be a good thing, so long as these declines are confined to individual commodities. Disaster comes when the downward readjustments are permitted to spiral into a general price decline which creates depression and unemployment. Of course, declines in some prices might cause a downward movement in the general price level, this is to be expected. Such a moderate decline in general prices is not the same thing as a general across-the-board price decline leading to a depression.

Retail Prices

Next I want to discuss retail prices as represented by the Consumers' Price Index of the Bureau of Labor Statistics. This was formerly called the Cost of Living Index, but the name was changed some years ago because it does not adequately represent the total cost of living. It is really a measure of price changes for a fixed market basket of goods and services which are priced from month to month, or quarter to quarter.

During World War I this index approximately doubled, reaching a peak in the summer of 1920. In the price collapse of 1921 it declined by about 25 to 30 points, or 20%. Note that this index is much more "sticky" than the wholesale price index. It rose less during the war, and in the depression it fell back only 20% as against 50% for the other.

During and after World War II, this index has risen from 100 (1935-1939 average) to a peak of 174.5 in August and September 1948. At this level the index was nearly 25 points higher than it was at the peak in 1920. On the other hand, as compared to prewar levels in each case, it has risen less in World War II—about 75% as against 100% in the other war. In one sense, therefore, retail prices today are not as much changed after nine years of war and postwar conditions as they were in six years during and after World War I.

In October 1948 the Consumers' Price Index fell 0.5% to 173.6. This was due wholly to declines in the price of foods, which stemmed primarily from falling farm prices. The Consumers' Price Index is composed of six major groups — Foods, Rent, Apparel, House Furnishings, Fuel and Light, and Miscellaneous. Among these, the food group has risen the most as compared to prewar—to a peak of about 212. It also has the heaviest weight in the index—at present prices a relative importance of more than 40% of the whole index. Consequently, as this group declines, it has a marked influence upon the index as a whole.

Rent, on the other hand, has risen least; it is still less than 120, which means a rise of less than 20% above prewar. This is because rent has been under control, and therefore has not been free to rise as much as it would in a free market. Rents have been steadily rising in recent years and will undoubtedly continue to rise, slowly if tight controls are continued, or rapidly if controls are slackened or taken off. In World War I the rent item, which was not controlled as in World War II, rose steadily throughout the depression of 1921 and finally reached a peak in 1923-1924 of about 150, or 65% above its prewar level. There was a shortage of housing at the end of World War I just as there is now. If rents were wholly uncontrolled, it is possible that they would now rise quite rapidly.

Mixed Consumers' Price Index in 1949

So the trends in the Consumers' Price Index in the next year or so may turn out to be mixed, with some items declining while others are rising. Note, however, that food has roughly three times the importance of rent in the index, so that a 1% decline in food will counterbalance a 3% rise in rent. Some other items in the index, such as apparel and house furnishings, have recently shown some signs of levelling off or declining slightly, but the fuels and miscellaneous items are still creeping upward. For example, the recent rise in street car fares from 10c to 13c in Washington, D. C., will cause a rise in the miscellaneous index in this city.

Concerning the general situation in retail prices, I would like to point out that there is no likely prospect of a decline as sharp as that which occurred after World War I. A 20% decline in the Consumers' Price Index would bring the index back to a level of about 140. In the light of the probable behavior of the wholesale price index, there does not seem to be much likelihood of any such decline in retail prices. At the same time, it is obvious that continued sharp declines in food prices (and they have not yet expressed themselves in full in the index) could bring down the present Consumers' Price Index from 5 to 10 points over a period of time. However, I would not want to guarantee that any such decline will actually take place.

Consumers prices are more than merely business prices which influence the prosperity of the retail trade. They are of vital economic significance because they determine in large measure the purchasing power of wages and salaries. Money wages are what the worker receives in the pay envelope; real wages are what that pay envelope will actually buy in goods and services.

It is also important to distinguish between wage rates and weekly earnings. The former is the time or piece rate for a job; the latter is the amount which the worker earns as a result of a week's work. The latter is influenced, of course, by the number of hours which the worker has been able to put in during the week. It may also be influenced by overtime pay, by production bonuses, or other types of payments.

I should like to present briefly a review of real weekly earnings in manufacturing industries in two world wars. In actual fact, manufacturing represents only about one-fourth of the total labor force in the United States, but it happens that we have much more information on those industries than we do on other parts of the economy. At the beginning of World War I the average weekly earnings of the worker in manufacturing was about $11 per week. This means the average for all manufacturing industries combined, and not for each industry. By 1920 this average had risen to $27 per week—a rise of two and one-half times the prewar level. Then in the depression of 1921, these earnings fell to less than $22 per week, after which they recovered somewhat in the revival of business in 1923.

These were the money earnings. The change in real earnings was very much less. In fact, in only a scattering of months during the whole six-year period from 1914 to 1920 did the real earnings rise more than 20%. That is to say, when the money earnings had been deflated by the rise in the Consumers' Price Index, the purchasing power of the weekly pay envelope never rose more than 20%. To put it still another way, wages and prices paced each other on the rise, with wages gaining comparatively little. It was 1923 before the real value of the weekly pay envelope in manufacturing averaged as much as 25% above 1914.

In World War II the use of price controls operated to strengthen the purchasing power of the weekly earnings, which at the same time rose rapidly. In 1939 the average weekly earnings for all manufacturing was about $24 per week. By early 1945 these earnings had just about doubled —to about $48 per week. But because the cost of living had been held down, the real value of these earnings had risen more than 50%, exclusive of taxes. It must be recognized, of course, that there was something artificial in these rises, because the wage earner could not buy all the things he might have wished to. Many foods were rationed; automobiles and many other types of durable goods were not available to the ordinary consumer. Nevertheless, in terms of the basic commodities in the Consumers' Price Index, the purchasing power of the dollar was better maintained than in World War I, and the weekly earnings of factory workers rose more sharply in terms of command over present and future goods and services.

After V-J Day there was a sharp decline in weekly earnings, not because wage rates were cut, but because hours of work were shortened. There was widespread loss of overtime pay as well as a substantial shift in employment from higher-paid to lower-paid jobs and industries. Then the wage earners attempted to restore their high wartime weekly earnings by increasing wage rates. This effort has continued for the past three years. The net result has been a slight further decline in real purchasing power. The actual weekly earnings of factory workers are in money now nearing $55 per week in manufacturing industries. However, over the whole war period since 1939, the index of real purchasing power is now about 129, which means 29% above prewar, but below the high wartime 1945 peak (exclusive of taxes). In summarizing this development, we can see that wages and prices have both spiraled upward during the last three years without either making a substantial net gain over the other.

If the Consumers' Price Index should decline to any extent during the next year, this would have the effect of improving the wage earners' purchasing power, provided, of course, that reductions in hours or in wage rates did not occur to any substantial extent. If consumers prices increase, then there will be a decline in the purchasing power of the pay envelope, except insofar as this is counterbalanced by wage increases—or by longer hours, if the work week should be increased.

As we look in the longer future, there is one other important economic factor in this picture, namely, productivity. It must be clear that productivity in this sense means the productivity of industry as a whole, including the skill and effort of workers, improved supplies of materials, modernized industrial equipment, and superior management. Low productivity may be due to declines in any or all of these factors, while high productivity is due to effective functioning of all of them.

Over long periods of years productivity in manufacturing industries in the United States has increased at a cumulative rate of about 3% per year. It increases more in some years than in others. It increases more in some industries than in others. This is the general average for all manufacturing.

During both wars productivity, expressed in terms of output per man hour, did not increase at the normal rate; in many industries it declined. This was natural because there was the induction of millions of the best workers in the labor force into armed services, and a further widespread shifting from peacetime work to war industries. Then at the end of the war there was a tremendous reconversion with more shifting and labor turnover, accompanied by materials shortages and lack of machine equipment.

The productivity studies of the Bureau of Labor Statistics indicate some postwar improvement in productivity in some industries in 1947. Indications are that there will be some further improvement recorded in 1948. However, it is abundantly clear that we are far below the cumulative 3% rate of increase which would have been normal under peacetime conditions. As raw materials come into better supply, as new machinery and equipment is introduced into the plants and as the labor force gradually readjusts itself in peacetime employment, there could be and should be a marked improvement in output per man hour in many industries. The measurements now being made in the Bureau of Labor Statistics will indicate this year and next year to what extent this is actually taking place.

Productivity has a direct relationship to wages and prices. The effect of productivity is to make it possible to produce the same output with less labor; it reduces labor costs per unit of output. This could be given to the workers in higher wages, to consumers generally in lower prices, to business owners in increased profits, or in some combination of these ways. At any rate, over the long run the real purchasing power of the worker's weekly pay envelope will depend upon the increase in productivity. This is the rate at which wages can advance over a long period of years without increasing prices. It is on production and productivity that a rising standard of living depends. In our short run discussions of wages and prices from year to year, we often lose sight of this fundamental fact. It is my conviction that in the years ahead there will be much more discussion of productivity as a factor than there has been during the recent war and postwar periods. That is why it is important to measure changes in productivity as best we can, and also why it is necessary for both management and labor to devote increasing attention to the achievement of higher productivity in American industry.

How Administration Agencies Tick

(Continued from page 9)

common pattern. They are addressed to evils and abuses which the Congress thought needed remedial action. In general, these abuses relate to the overreaching and misuse of power of those entrusted with the public's investments. The statutes outline the abuses and, within varying limits, empower the Commission to take action to correct them.

The moral premise behind these laws is that the possession of power over the savings and investments of others implies concomitant obligations to treat investors fairly.

SEC No Dangerous Interference in Business

There were many who feared these laws because they seemed to point the way to a dangerous interference by government in the conduct of business. These fears, by now, have generally subsided. Those who would oppose the continuation of these laws at present comprise a very small minority. Certainly, it is true that laws of this type restrict and restrain individuals in their business transactions and practices but they merely impose by law the duties of honesty and fairness which exist in the moral code. So long as these laws remain within such bounds and are administered reasonably the public welfare is served and individual liberties are not endangered.

In all this, the task of the administrator is a vital one. He is the keystone in the law's enforcement. Unsound, ill-considered and weak administration on his part can destroy even the best law. Too stringent or vindictive administrative policies, on the other hand, can serve only to substitute the evils of unrestrained government for that of unrestrained government for that of unrestrained individualism. To my mind, in the middle course of sound, temperate, reasonable regulation lies the path of the ideal administrator. It is only on this level that good laws may achieve their proper ends. Such an administrator will recognize the rights of individuals but in each case will weigh in the balance their corresponding duties to others.

These are the standards which we have attempted to follow in our adminstration of the law. We have found from long experience that the true measure of the Commission's success is not in the number of prosecutions and penalties it has obtained, but in the degree to which it has educated business and financial people into an acceptance of the spirit of these laws as part of their own working code.

Appoint G. F. Rothschild

George F. Rothschild, formerly Executive Vice-President of Continental Factors, has been appointed special representative for Standard Factors Corp., New York. Before the war Mr. Rothschild was a partner in Duryea & Co., members of the New York Stock Exchange.

First New Mexico Co.

ROSWELL, NEW MEXICO—John M. Holley, Jr., has formed the First New Mexico Co. with offices at 103 W. Fourth Street, to engage in the securities business. Mr. Holley was previously a partner in Holley, Dayton Gernon in charge of their Roswell office.

With Chace, Whiteside

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Herbert J. Cronin, Jr., is connected with Chace, Whiteside. Warren & Sears, Inc., 24 Federal Street.

Indications of Business Current Activity

The following statistical tabulations cover production and other figures for the latest week or month available (dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date):

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Dec. 19	100.0	100.0	99.0	97.8
Equivalent to—					
Steel ingots and castings (net tons)	Dec. 19	1,802,500	1,802,500	1,784,500	1,711,40[illegible]
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Dec. 4	5,615,150	5,617,050	5,626,700	5,264,78[illegible]
Crude runs to stills—daily average (bbls.)	Dec. 4	‡5,698,000	5,721,000	5,600,000	5,269,00[illegible]
Gasoline output (bbls.)	Dec. 4	18,216,000	17,317,000	17,213,000	16,051,00[illegible]
Kerosene output (bbls.)	Dec. 4	2,490,000	2,630,000	2,387,000	2,113,00[illegible]
Gas oil and distillate fuel oil output (bbls.)	Dec. 4	7,269,000	7,476,000	7,549,000	6,525,00[illegible]
Residual fuel oil output (bbls.)	Dec. 4	8,897,000	9,477,000	8,902,000	8,749,00[illegible]
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Dec. 4	95,235,000	93,802,000	91,377,000	86,968,00[illegible]
Kerosene (bbls.) at	Dec. 4	26,537,000	26,569,000	26,740,000	19,273,00[illegible]
Gas oil and distillate fuel oil (bbls.) at	Dec. 4	83,993,000	85,151,000	83,150,000	58,241,00[illegible]
Residual fuel oil (bbls.) at	Dec. 4	86,381,000	86,192,000	81,947,000	55,556,00[illegible]
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Dec. 4	804,183	723,090	843,166	878,588
Revenue freight rec'd from connections (number of cars)	Dec. 4	642,663	661,165	700,182	700,145
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Dec. 9	$83,693,000	$362,329,000	$137,751,000	$95,623,00[illegible]
Private construction	Dec. 9	30,500,000	287,841,000	63,561,000	29,589,00[illegible]
Public construction	Dec. 9	53,193,000	74,488,000	74,190,000	66,034,00[illegible]
State and municipal	Dec. 9	46,968,000	63,023,000	51,724,000	37,226,00[illegible]
Federal	Dec. 9	6,225,000	11,465,000	22,466,000	28,808,00[illegible]
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Dec. 4	11,350,000	*10,130,000	10,425,000	13,120,00[illegible]
Pennsylvania anthracite (tons)	Dec. 4	1,137,000	1,039,000	863,000	1,185,00[illegible]
Beehive coke (tons)	Dec. 4	152,900	*151,300	133,300	147,600
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Dec. 4	485	347	320	508
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Dec. 11	5,704,823	5,645,686	5,570,767	5,327,470
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Dec. 9	122	126	96	87
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Dec. 7	3.75628c	3.75628c	3.75628c	3.19541c
Pig iron (per gross ton)	Dec. 7	$46.82	$46.82	$46.82	$37.06
Scrap steel (per gross ton)	Dec. 7	$43.00	$43.00	$43.00	$40.25
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Dec. 8	23.200c	23.200c	23.200c	21.200c
Export refinery at	Dec. 8	23.425c	23.425c	23.425c	21.550c
Straits tin (New York) at	Dec. 8	103.000c	103.000c	103.000c	80.000c
Lead (New York) at	Dec. 8	21.500c	21.500c	21.500c	15.000c
Lead (St. Louis) at	Dec. 8	21.300c	21.300c	21.300c	14.800c
Zinc (East St. Louis) at	Dec. 8	17.500c	17.500c	15.500c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Dec. 14	100.84	100.86	100.72	101.8[illegible]
Average corporate	Dec. 14	111.25	111.25	110.70	110.8[illegible]
Aaa	Dec. 14	117.00	117.00	115.82	115.8[illegible]
Aa	Dec. 14	115.24	115.04	114.08	114.4[illegible]
A	Dec. 14	109.97	109.97	109.60	110.1[illegible]
Baa	Dec. 14	103.47	103.47	103.64	103.8[illegible]
Railroad Group	Dec. 14	106.39	106.39	106.21	105.5[illegible]
Public Utilities Group	Dec. 14	111.62	111.62	111.25	112.7[illegible]
Industrials Group	Dec. 14	115.82	115.82	114.66	114.8[illegible]
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Dec. 14	2.44	2.44	2.45	2.3[illegible]
Average corporate	Dec. 14	3.10	3.10	3.13	3.1[illegible]
Aaa	Dec. 14	2.80	2.80	2.86	2.8[illegible]
Aa	Dec. 14	2.89	2.90	2.95	2.9[illegible]
A	Dec. 14	3.17	3.17	3.19	3.1[illegible]
Baa	Dec. 14	3.54	3.54	3.53	3.5[illegible]
Railroad Group	Dec. 14	3.37	3.37	3.38	3.4[illegible]
Public Utilities Group	Dec. 14	3.08	3.08	3.10	3.0[illegible]
Industrials Group	Dec. 14	2.86	2.86	2.92	2.9[illegible]
MOODY'S COMMODITY INDEX	Dec. 14	392.0	398.4	399.0	455.[illegible]
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	Dec. 11	227.5	231.9	235.2	237.[illegible]
Fats and oils	Dec. 11	205.7	206.8	212.0	275.6
Farm products	Dec. 11	244.3	250.8	251.8	274.[illegible]
Cotton	Dec. 11	294.9	304.2	297.1	342.4
Grains	Dec. 11	210.2	211.7	208.7	315.[illegible]
Livestock	Dec. 11	250.0	258.1	261.9	260.1
Fuels	Dec. 11	242.3	242.3	244.1	198.2
Miscellaneous commodities	Dec. 11	172.1	172.4	171.6	178.1
Textiles	Dec. 11	194.1	195.5	193.9	226.0
Metals	Dec. 11	190.6	190.6	189.5	159.[illegible]
Building materials	Dec. 11	225.9	225.9	229.0	236.[illegible]
Chemicals and drugs	Dec. 11	149.7	150.3	152.2	156.[illegible]
Fertilizer materials	Dec. 11	142.9	142.9	142.5	135.0
Fertilizers	Dec. 11	150.1	150.1	150.1	140.6
Farm machinery	Dec. 11	153.7	153.7	151.3	129.3
All groups combined	Dec. 11	217.6	219.7	220.8	219.4
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Dec. 4	218,071	150,890	244,488	229,23[illegible]
Production (tons)	Dec. 4	190,868	183,311	189,639	179,58[illegible]
Percentage of activity	Dec. 4	93	89	95	9[illegible]
Unfilled orders (tons) at	Dec. 4	362,854	338,720	419,248	466,62[illegible]
OIL, PAINT AND DRUG REPORTER PRICE INDEX — 1926-36 AVERAGE=100	Dec. 10	144.3	144.6	144.4	150.[illegible]
WHOLESALE PRICES NEW SERIES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Dec. 7	163.7	165.1	164.2	162.[illegible]
Farm products	Dec. 7	175.5	179.4	176.3	196.[illegible]
Foods	Dec. 7	173.7	177.0	176.1	179.[illegible]
All commodities other than farm and foods	Dec. 7	153.4	153.4	153.2	144.[illegible]
Textile products	Dec. 7	146.1	147.0	146.8	146.[illegible]
Fuel & lighting materials	Dec. 7	136.9	136.8	136.6	122.[illegible]
Metals & metal products	Dec. 7	173.8	173.8	172.6	151.[illegible]
Building materials	Dec. 7	203.2	203.2	203.0	188.8
All other	Dec. 7	134.5	134.5	134.8	137.5
Special indexes—					
Grains	Dec. 7	173.3	171.8	171.1	255.[illegible]
Livestock	Dec. 7	227.6	233.1	240.4	234.[illegible]
Meats	Dec. 7	235.4	237.3	242.4	225.[illegible]
Hides and skins	Dec. 7	206.3	207.3	203.1	262.4

*Revised figure. ‡Includes 371,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
ALUMINUM WROUGHT PRODUCTS (DEPT. OF COMMERCE)—Month of October:			
Total shipments (thousands of pounds)	141,144	130,786	146,860
AMERICAN IRON AND STEEL INSTITUTE:			
Steel ingots and steel for castings produced (net tons)—Month of November	7,763,216	*7,987,112	7,242,427
Shipments of steel products, including alloy and stainless (net tons)—Month of Oct.	5,952,008	5,511,474	5,681,597
AMERICAN PETROLEUM INSTITUTE—Month of September:			
Total domestic production (bbls. of 42 gallons each)	174,580,000	185,043,000	168,626,000
Domestic crude oil output (bbls.)	163,037,000	172,886,000	157,530,000
Natural gasoline output (bbls.)	11,515,000	12,129,000	11,046,000
Benzol output (bbls.)	28,000	28,000	50,000
Crude oil imports (bbls.)	11,428,000	10,883,000	8,658,000
Refined products imports (bbls.)	4,402,000	4,597,000	3,902,000
Indicated consumption—domestic and export (bbls.)	175,120,000	185,588,000	178,521,000
Increase—all stock (bbls.)	15,290,000	14,935,000	2,665,000
AMERICAN ZINC INSTITUTE, INC.—Month of November:			
Slab zinc smelter output, all grades (tons of 2,000 lbs.)	71,195	70,716	69,682
Shipment (tons of 2,000 lbs.)	96,142	67,402	79,789
Stocks at end of period (tons)	19,484	44,431	69,166
Unfilled orders at end of period (tons)	43,788	43,130	43,250
CONSUMER CREDIT OUTSTANDING—BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—Estimated short-term credit in millions as of Sept. 30:			
Total consumer credit	$14,650	$14,382	$11,708
Instalment credit	7,717	*7,533	5,314
Sale credit	3,769	*3,725	2,257
Automobile	1,854	*1,781	1,004
Other	1,915	*1,944	1,253
Loan credit	3,948	*3,908	3,057
Noninstallment credit	6,933	*6,818	6,394
Charge accounts	3,241	*3,130	2,864
Single payment loans	2,723	*2,724	2,609
Service credit	969	964	921
COTTON ACREAGE AND PRODUCTION U. S. DEPT. OF AGRICULTURE—As of Dec. 1:			
Acreage	23,003,000	23,323,000	21,269,000
Production 500-lb. gross bales	14,937,000	15,166,000	11,857,000
COTTON GINNING (DEPT. OF COMMERCE):			
Running bales (exclusive of linters) prior to Dec. 1	12,762,089	------	10,040,613
DEPARTMENT STORE SALES (FEDERAL RESERVE SYSTEM)—(1935-39 Average=100) Month of November:			
Adjusted for seasonal variation	288	*307	302
Without seasonal adjustment	357	*327	376
INTERSTATE COMMERCE COMMISSION — Index of Railway Employment at middle of November (1935-39 average=100)	†129.1	†127.5	130.2
MALLEABLE IRON CASTINGS (DEPT. OF COMMERCE)—Month of October:			
Shipments (short tons)	81,761	77,824	83,976
For sale (short tons)	44,305	43,881	47,706
For producers' own use (short tons)	37,456	33,943	36,270
Orders booked, less cancellation, for sale (short tons)	38,654	31,059	40,105
Unfilled orders, end of month, for sale (short tons)	158,351	164,002	210,675
MONEY IN CIRCULATION—TREASURY DEPT. As of Oct. 31 (000's omitted)	$28,175,868	$28,117,874	$28,551,870
MOODY'S WEIGHTED AVERAGE YIELD OF 200 COMMON STOCKS—Month of Nov.:			
Industrials (125)	6.72	5.82	5.54
Railroads (25)	6.98	5.93	5.48
Utilities (25)	7.42	6.20	6.34
Banks (15)	6.08	5.80	6.02
Insurance (10)	4.87	4.45	4.68
Average yield (200)	3.30	3.16	3.57
NEW CAPITAL ISSUES IN GREAT BRITAIN— Midland Bank, Ltd.—Month of November	£14,372,000	£104,779,000	£8,837,000
NEW YORK STOCK EXCHANGE—As of Nov. 30 (000's omitted):			
Member firms carrying margin accounts—			
Total of customers' net debit balances	$551,101	$579,535	$592,890
Credit extended to customers	49,183	44,639	75,982
Cash on hand and in banks in U. S.	361,412	325,657	409,007
Total of customers' free credit balances	563,441	539,563	615,248
Market value of listed shares	65,466,288	72,185,619	67,026,355
Market value of listed bonds	131,233,680	130,944,936	137,509,338
Stock price index, 12-31-24=100	------	78.8%	75.8%
Member borrowings on U. S. Govt. issues	$118,085	$50,841	$98,752
Member borrowings on other collateral	228,614	252,386	214,697
PAPER AND PAPERBOARD (DEPT. OF COMMERCE)—Month of October:			
Output of all types of paper (tons of 2,000 pounds)	1,943,399	*1,812,343	1,898,161
Paper output (tons of 2,000 pounds)	975,614	*916,314	955,990
Paperboard output (tons of 2,000 pounds)	828,456	*766,159	814,678
Wet machine board output (tons of 2,000 pounds)	10,867	*10,682	12,641
Building board output (tons of 2,000 pounds)	128,462	*119,188	114,852
Mill receipts of pulpwood (cords of 128 cu. ft.)	2,042,434	2,063,321	------
Softwood (in cords)	1,776,021	1,796,317	------
Hardwood (in cords)	266,413	267,004	------
PORTLAND CEMENT (BUREAU OF MINES)—Month of October:			
Production (bbls.)	19,349,000	18,605,000	18,300,000
Shipments from mills (bbls.)	20,324,000	19,938,000	20,562,000
Stocks (at end of month) (bbls.)	6,086,000	*7,061,000	5,668,000
Capacity used	93%	93%	90%
SHOES AND SLIPPERS (DEPT. OF COMMERCE)—Month of September:			
Production (number of pairs)	41,990,000	*41,357,000	40,826,000
Shipments (number of pairs)	43,280,000	43,055,000	------
Shipments (value of)	$162,660,000	*$162,658,000	------
STEEL CASTINGS (DEPT. OF COMMERCE)—Month of October:			
Shipments (short tons)	153,845	149,222	148,358
For sale (short tons)	114,925	112,551	111,288
For producers' own use (short tons)	38,920	36,671	37,070
Unfilled orders for sale at end of month (short tons)	424,352	447,972	497,344
UNITED STATES EXPORTS AND IMPORTS—BUREAU OF CENSUS—Month of October: (000's omitted):			
Exports	$1,020,800	$926,100	$1,305,000
Imports	597,200	558,100	491,618
UNITED STATES GROSS DEBT DIRECT AND GUARANTEED—(000's omitted):			
As of Nov. 30	$252,562,994	$252,512,609	$258,301,069
General fund balance	4,385,070	4,802,239	3,935,084
Net debt	$248,177,924	$247,710,370	$254,365,985
Computed annual interest rate	2.214%	2.211%	2.136%

*Revised figure. †Preliminary figure.

The Automobile and The American Economy

(Continued from page 6)

alive by the automobile. Rubber, gasoline, glass, steel, nickel, lead —all depend upon it.

The domestic tourist business is now one of our largest. Without the automobile, vacation trips would still be a luxury of the wealthy few. Since 1920 we have increased the mileage of surfaced rural roads from 350,000 to 1,530,000 miles. Our big cities have "exploded" as people have discovered the pleasures of living in the country. Hundreds of factories have moved away from centers of population and new communities have been built up around them. Farmers have increased their productivity, and have changed their living and spending habits. All business has speeded up. What these changes mean in terms of dollar value, no one will ever compute. The value is tremendous and the automobile industry is responsible.

Business Organization Healthy

I stated earlier that the continued production of automobiles would depend upon what American workmen and managers would be able to do as well as what they wanted to do. Will social and economic changes make this task difficult or impossible? The answer involves an inquiry into the health and vigor of a great and infinitely complex organism, our democratic capitalist society. Is that organism healthy? Can it be kept healthy? What discipline, what foresight, what cooperative effort, may be required to keep it healthy?

Our economy has expanded beyond the fondest dreams of our fathers. Today we are producing more than ever before, either in war or peace; but we are not producing enough to supply the demand. We are faced with the need to plan our future. To drift aimlessly would be the height of folly.

We must examine the craft in which we have embarked, and we must carefully chart our course. That craft must be staunch and seaworthy; it will without doubt be called upon to weather many storms. We are all in this boat together — labor, farmers, businessmen, housewives, scientists and professors, teachers and technicians,—all groups, classes and races. The future of the whole world depends upon the hope, which we should make a certainty, that it will hold its course and will safely come to land.

Now Being Put to Severe Test

At the moment our nation is being put to a severe test. Parts of the world are not too friendly and we must spend vast sums on our military establishment. Parts of the world are not too strong and we are spending vast sums to restore their strength.

Presently we are threatened with increasing inflation. At a later date we may be faced with appalling depression. In order that Americans may make progress we should undertake to avoid each of these calamities.

One may ask as to the prospects of markets for automobiles at home and abroad. The answer will depend upon the opportunities for steady growth of our own economy and that of other friendly nations. If this sound growth occurs, the demand for automobiles will be heavy for an indefinite period. Automobile registrations are now at 33 million and there is still a large unsatisfied demand.

We have a rapidly growing population and a rising standard of living. With full employment a larger number of people will build their homes in suburban areas. Many families will own more than one or two cars. The shift of population to the West—where cars are even more necessary than in the East—will be a contributing factor. New models, more economical in the use of fuel, possibly more attractive in design, will increase the rate of obsolescence.

If world conditions become stable, the foreign demand will be greatly increased. Last year we exported one billion three million dollars worth of automotive products. While this year's total will undoubtedly be lower, the world still wants these products, although many nations are short of the dollars required to buy them.

The destruction and dislocation caused by the war have increased the foreign demand for our products; but at the same time have made it harder for foreign countries to produce for export—especially to the United States.

Stability and Investment Abroad

One of the more effective ways of increasing purchasing power abroad is to invest capital in foreign productive facilities. This the automobile industry has been doing for several decades in its world-wide network of assembly plants and factories. This type of investment is continuing, in spite of many difficulties; we have estimated that American industries placed abroad over 600 million dollars in direct investments in 1947. An even greater decentralization of the manufacturing process by the automobile industry, wherever it is economically feasible, will make a significant contribution to the solution of the dollar problem — the more so since the foreign demand for automobiles seems to be almost insatiable.

You of the auto trade can help by assisting the government in its attempts to stimulate foreign travel. One of our biggest imports is the money spent abroad by Americans. In 1947 we spent 597 million dollars, excluding the fares on American ships and planes. In 1948 this figure will be much higher. I have established a Travel Advisory Committee, on which the American Automobile Association is formally represented, to stimulate travel abroad. An increasing number of American travellers take their cars abroad and others rent American automobiles for travel once they arrive at their foreign destinations.

The Automobile Manufacturers Association has helped to stimulate foreign travel in another way —by encouraging foreign countries to improve their transportation facilities. You have teamed up with the American oil and rubber industries to sponsor and finance are International Road Federation, an organization that has stimulated cooperative planning among nations for the improving of road facilities throughout the world. In giving your support to this organization you are combining sound business practice with an enlightened interest economic development.

In connection with all of these matters the Department of Commerce is willing and eager to help. We are at all times anxious to have your comments, suggestions—and for that matter, your criticism. We believe American business is sound, and we want to keep it that way.

It is the duty of the Department of Commerce to try to keep the domestic economy strong. At a time when unprecedented stresses and strains are being placed upon us, we must do what we can to locate the source of the pressures and relieve them if possible. The Department carries out its duty in two ways — first by gathering facts and analyzing them; second by carrying out programs, voluntary and compulsory, for distributing scarce goods at home and abroad where they will do the most good. In constant cooperation and consultation with business we try to do these jobs well and to find ways of doing them better.

Nothing to Be Afraid of

I have been questioned about the fears of some people with reference to the future. I have been asked to explain why stocks have sold off since the election. I shall not undertake any explanation, but am willing to comment. What is there to be afraid of? By a fair and open vote, the people chose as their President for the next four years the same man who has been and is now our President. None can deny that we are very well off. The farmer is prosperous, labor is well paid, and business profits are the highest in history. Could the fearful ones by any chance be afraid of four more years of prosperity?

Some discipline and some restraint, and even sacrifice, may be required of all of us. Business will be asked to make its contribution, but will not be asked to contribute everything. To deal with the inflationary problems which confront us, to avoid a disastrous depression, requires delicate handling of our entire situation and careful consideration of the interests of all—including farmers, laborers, and businessmen. Your government is well aware of that necessity. Business should face the future with confidence, determination and hope. Let us not be afraid of shadows. Our shadows fall behind us when we face the light.

Preservation of a Free Economy

(Continued from page 7)

that the concentration of political power in totalitarian governments has always been preceded by concentration of economic power. The rise of Hitler would have been utterly impossible if there had not already been erected in Germany a concentrated economic structure that he was able to take over by a wave of the hand. The concentrated arbitrary power of Lenin and Stalin was erected only upon the foundations of the old concentrated economic power of the czars and their nobles. The people of Russia did not direct the old regime, so that the change from the czars to the communists was merely an exchange of dictators.

War Was Won for Freedom

World War II was a struggle between the peoples of the democratic nations of the world who believe that the people should control their own destiny, and totalitarian dictators who wanted to turn back the clock of reaction and re-establish arbitrary power. As a matter of self preservation, the communist dictators alinged themselves in that struggle with the democracies. We thought during the war that after victory they would see the value of democracy, but we are now learning they are quite as steeped in their totalitarian ideologies as when, before they were attacked, they had made common cause with Hitler. The war was won for democracy because the habits of freedom had made our armies and navies and air fighters more resourceful, more competent, more effective as individuals than were the regimented hordes of the dictators We know perfectly well that the capacities of the fighting men of America were not measured by the fact of whether they were recruited from the ranks of labor or the ranks of management or from the ranks of agriculture, from the ranks of business or the professions, their abilities were the result of the fact that they were the products of free institutions and certainly we have seen enough to know that the future progress of the peoples of the world depends wholly upon the degree to which the opportunities of freedom are extended to the peoples of all nations.

This, then, is the background against which we must view the economic problem in America. This is the background against which we must examine the plans and purposes of business as well as the plans and purposes of government.

No One in Washington Wants Police State

I undertake to say to this group that despite all the slogans of the political campaign, there is no purpose among the members of your government, whether they are in the executive or the legislative branches, to establish in the United States a police state. The time has come to take off the blinders of mere partisanship, of mere factionalism, and to look at facts exactly as they are. When this is done we shall have much better eyes to appraise our problem and to see precisely where we want to go. I feel very strongly that it ought to be possible to recruit among the members of this organization a group of militant evangelists dedicated to the preservation of a free economy without any thought or purpose of hostile action against any group or any individual so long as such group or individual remains loyal to the American tradition of freedom and opportunity for the people. We shall find the solution of our difficulties, not in punitive action, but in constructive action, not in the punishment of alleged or indeed of real offenses, but in the framing of an economic structure that will protect an expanding economy of opportunity against the restrictive and deadening influences of economic concentration. I undertake to say that the difficulties in which the security dealers find themselves at the present moment are not due to any deliberate plan upon the part of any person or any group to create such a situation, but solely to the fact that we have not understood the forces which have been drying up the flow of investment capital and making difficult the establishment of new free, competitive enterprise.

No one knows better than the members of this organization that comparatively few investment houses have for years been doing the bulk of the security business This was made clear during the study of the Temporary National Economic Committee. It is equally clear now. During the period from January, 1934, to June, 1939 six New York City firms handled more than 57% of all security issues. During the period from January, 1938, to April 30, 1947 the percentage fell off slightly There were far more issues, but the same six firms managed more than 51% of the total. The fact that the percentage of concentration fell off in the more recent period and that the number of issues increased shows that there has been a slight gain and that all the talk in Washington during the past 16 years about economic freedom has not been wholly without avail. At the same time, there has undoubtedly been a steady increase in the area of private placement by financial and insurance institutions. I do not cite these figures as any evidence of any direct purpose among investment bankers to promote or to retard concentration. I cite them only to illustrate the cold facts and to indicate that if it is desirable to bring about a broader distribution of this type of business, the time has come for us to understand the forces which of themselves promote concentration without any planned purpose on the part of any group.

In saying this, I do not wish to be understood as meaning that concentration has not been actively promoted in some instances. I know, for example, that many mergers of industrial companies have been promoted by investment houses for the purpose of issuing new securities. Industrial engineers and investment bankers have been known to look over the field seeking to discover firms which, for a fee or a commission, could be brought together in corporate merger. The result inevitably is to narrow rather than to expand the field of competition, to increase concentration of economic power and, therefore, to some extent to reduce the number of security issues. The practice also results in denying to the far reaches of the country, to the extent to which the mergers are carried out, the normal development of a free, competitive economy.

All that, however, I believe is only an incident to the progress of concentration although, of course, in the early days of this century industrial mergers, out of which came some of our well-known industrial giants, were promoted by those who were primarily concerned in the fiscal phases of the transaction.

Growth of Federal Government

What I desire to call to the attention of this group is that neither in business nor in government has there been a clear appraisal of the differences between Little Business and Big Business, nor is it understood by the public the degree to which Big Business has come to dominate the entire economic and social scene. The government in Washington has expanded, not because of any plot upon the part of any member of Congress or of the executive to increase Federal powers, but because the progress of economic concentration in the field of Big Business has turned the attention of little and local businessmen all over the country to Washington and to the government as a source of protection and of necessary capital. It was clearly shown during the studies of the Temporary National Economic Committee that the savings of the people through banks and insurance companies flow into the financial centers where, under central management, they are available, practically exclusively, for the use of Big Business. The president of a great insurance company with its offices here in New York, testified at one of the committee hearings that his company was not interested in a loan of less than $250,000, and, as I recall that it would prefer not to be bothered by loan applications for less than one-half million dollars. That is understandable, of course, when one considers the annoyances of the detailed work necessary to serve the small loans which Little Business wants, but it also illustrates why the demand is continually rising from all parts of the country to authorize government loans to Little Business. The people turn to government for action only when the service they need is not provided for them by the institutions which exist. So, Congress is constantly under pressure, not from any radical group, not on the part of any state planners, not upon the part of any advocates of a police state, but upon the part of the people themselves to provide, through RFC or otherwise, sources of government capital to supply the need which the expanding economy of the country demands, but which is not met by the loaning institutions we have.

The dispatches from Hollywood, Florida, tell us that at the meeting of the Investment Bankers' Association there this week, the retiring President, Mr. Julian H. Collins, declared that there is still opportunity for a thriving private business for resourceful and aggressive firms in spite of what he called the persisting drift toward socialism in the United States. I say to you that if there be a drift toward socialism it is due to the fact that industrial and business statesmanship has not yet looked at facts as they are and has not clearly appraised the conditions which are promoting the drift toward centralism. More than that, industrial and financial leaders sometimes seem to give more concern and attention to things they fear may happen rather than to the things which are taking place under their own noses. Only the day before yesterday, for example, the Washington correspondent of a well-known insurance journal came to me during the hearings on business profits and showed me a telegram from his editor directing him to interview me and get a good story on the legislation to provide Federal regulation of insurance which, it had been reported on good authority, I was busily engaged in preparing. There was not even the slightest basis for the report and the message was the first and only knowledge I had had about my alleged activity.

If, instead of planning defenses against things that are not happening in government, business and financial leaders would devote their attention to the things that are happening in business, better progress would be made all along the line both in government and in business This would be particularly true if business leadership would devote itself to a constructive campaign for the preservation of the free enterprise system, in which it professes to believe, from internal dangers.

Big Business Dominance

Now let me turn to the amazing fact that out of a total of 3,316,000 business firms and persons engaged in business in the United States in 1939 employing 28,707,500 persons, 26,900 firms, less than 1% of the total, in fact only eight-tenths of 1% of the total, employed 15,955,700 workers, or 56.6% of all. In others words, all of the business firms in the United States employing less than 100 persons constitute 99.2% of the total and employ only 44.4% of all the workers More than that, the 4,900 firms, each of which employs 500 of more workers, though they constitute one-tenth of 1% of the total, employ 40% of all workers.

These are not my figures. They are not the figures of any New Deal propagandist. I have taken them from page 25 of the study of "Small Business: Its Place and Problems," written by Dr. A. D. H. Kaplan of the Brookings Institute for the businessmen's Committee for Economic Development and published by McGraw Hill, the New York publishers who, by no strain of imagination, can be called propagandists for the police state.

This is the most significant social and economic fact of our time. The little firms, the little business see the savings of the communities in which they live siphoned off into the big city reservoirs of capital where they are available, not for the free, independent development of the communities in which these savings were earned, but for distribution to the big business enterprises which finance their capital needs neither by loans from the huge fiscal institutions of New York or from some government agency.

So I say to the investment fraternity, don't blame the politicians for the growth of Big Government. Blame yourselves, because you have not taken the initiative to provide the capital which a growing free economy demands, and if you permit the free economy to starve for lack of private capital, don't complain if the people turn to government for what they want.

Now, I do not pretend to say that business leaders alone are responsible for this condition Government leaders, too, must share the responsibility. The Reconstruction Finance Corporation in announcing its willingness to act upon small business applications for loans, has made it a practice of asking local bank participation but local banks are reluctant to participate for two reasons: first, perhaps because they would like a better rate of interest than proposed, but primarily because the banking arm of the government frowns on long-term loans by commercial banks. So there are many cases of businesses throughout the country who, because they cannot get their capital needs from the RFC because of Federal Reserve or Comptroller of the Currency regulations, turn to the insurance companies of New York or sell out to Big Business, thus affording an opportunity for big investment bankers to issue new securities for a new merger.

What Is the Remedy?

Well, you say, what are we going to do about it? First, we must recognize not only the difference between Little Business and Big Business, but the difference between individual business and organized corporate business. We must recognize the fact that in present circumstances corporations with unlimited charters are permitted to set up any number of subsidiaries and affiliates and engage in any number of businesses their directors desire. Accumulated earnings in the hands of the big corporations seek new avenues for investment, and so they go into non-related lines as well as into actual subsidiary lines. They expand out geographically into a dozen, a score or even more states, and business institutions in localities far from the central office of the mother corporation, and are under the supervisory direction of the central managers who sit at the top of vast industrial empires which are in fact governed not by the real owners, the stockholders, but by *employed* experts. Thus, local economic independence is broken down and in its place is built a managerial economy which sets the pattern for the managerial state.

If local economic independence is broken down, how can you expect to escape the expanding power of the government in Washington? The growth of the Federal Government and the undermining of local ecomonic independence are two aspects of the same thing. There can be no cure by merely railing against the growth of government if we pay no attention to the preservation of local economic independence. It is idle to talk about states' rights in the political field when we abandon states' rights in the economic field.

The security dealer of a big city like New York is just as much a victim of this drift as are the little businesses of the country and as are the localities which are turning to Washington for aid and assistance.

Let no one forget that the government has expanded steadily ever since the close of the Civil War, no matter what political party was in power. Business has clamored against every extension of government activity. It denounced the establishment of the parcel post system under the administration of President William Howard Taft just as vigorously as it denounced any of the legislation of the Roosevelt era which it unthinkingly characterized as the fantastic aberrations of a socialistic [illegible]. Let no one forget that it was President Harding who signed his name as Chief Executive to the Packers and Stockyards Act which gave the Secretary of Agriculture more power to regulate the packers and stockyards industry than was ever granted by any administration to any government agency.

We are in the hands of events and if we do not control the events, the events will control us. I have no hesitation in saying to you that neither President Truman or any responsible leader of the Democratic Party in Congress, nor, for that matter, any member of Congress, wants to expand the power of government for the mere sake of building up an all-powerful state. The Federal power grows merely because we have been unwilling to face the fact that in the modern world with modern technology the modern corporation drifts inevitably toward the concentration of economic power and unless we learn the solemn fact that economic concentration is but the prelude to political concentration, we must be prepared for that eventuality.

The Preservation of Capitalism

Over and over again during the past 15 years I have expressed the personal opinion that the preservation of the capitalistic system depends wholly upon our recognition of the characteristics of the modern corporate system as it has developed. I talk about the degree to which economic power has been concentrated in the hands of a few managers, but by that I do not mean and never have suggested that Big Business should be broken up, but I do say that we shall not be able to prevent this continued drift toward centralism in business and in government unless we make up our minds definitely to define by Federal law the powers, the authority and the social responsibilities of the corporation that does business in the field of interstate and foreign commerce, the regulation of which, by the Constitution of the United States was committed to the Congress of the United States.

Though I have introduced a bill in Congress after Congress to provide for Federal charters, I do not pretend to say that any single person is competent to define all these powers and responsibilities I feel that it is highly desirable that there should be a conference of business experts, of corporate law experts, of consumers, of farmers and of workers, called by authority of law, to study this problem and to present to Congress its recommendations for a national charter law.

Labor and management have already made great progress in developing a better relationship. Universities have established seminars in which labor and management leaders confer and study their problems with most beneficial results. I am convinced that there is a much greater degree of agreement among all affected by this problem than there is disagreement. but it is the disagreements that get into the headlines, thus cultivating the fears which hold business leaders back from the cooperation which is essential to a sensible solution of the problem before us.

Security dealers have so vital an interest in this problem of concentrated economic power, they have so vital an interest in the free flow of capital, that they could well take the lead in promoting this basic understanding of the meaning and effects of continued concentration, so that our capitalistic economy can demonstrate to all the people of the world that freedom makes for stability and progress far better than any system of arbitrary central power.

Housing Costs in Gradual Decline

(Continued from page 11)

the cost of living. While salaries and wages have risen, rents have for the most part, except for new construction, remained frozen, thereby permitting people to stay spread out, reducing the number of persons per suite, and increasing the number of rooms per person. With no genuine attempt in 1948 to work out a program of gradual, step-by-step decontrol, there has been no pressure for proper utilization of space; and there does not appear to be any in the offing for 1949.

(3) Individual income has been running at an amazingly high average. Falling incomes could rapidly and effectively reduce demands for housing arising out of current higher income. There are signs, such as the decline in department store sales, that, although personal incomes have not been reduced, higher living costs have been soaking up any excess.

(4) Individual savings, which ran at 15% of the national income during the war, against a normal of 3.5%, have been steadily falling off and are continuing to do so at present. Figures compiled by the Mutual Savings Banks for October, 1948, while representing but a segment of the national savings, show a decline in regular deposits of $4 million for the month.

(5) Credit, which until early in 1948 was available as mortgage money in greater amounts at higher ratios to value for longer terms and at the lowest rates in years, has been a major factor in making effective the demand for housing. A certain amount of liberalization of the FHA, most especially the introduction of the G.I. loans guaranty, and a concomitant relaxing of state laws on mortgage lending have made possible sales with little or no equity.

The net result of the changes which have taken place during 1948 in the principal factors bearing on the demand for housing has therefore been that with fewer new families needing space as a result of fewer marriages with individuals having more urgent calls on their income due to higher living costs, with the rate of savings slowing down and holders of existing savings more cautious in their use, and with mortgage credit stiffening, there has been a rather definite turn in the real estate market.

There are as many suggestions for a solution of the housing problem as there are people who think seriously on the on the subject, but there can be no single answer, and the problem will have to be attacked on many fronts. The broad approaches, however, can be easily narrowed down Over the years, the job will be done largely either (1) on a completely private basis, (2) almost entirely by public authorities, or (3) by a combination of both.

The private basis is the conventional approach. In the field of the single house, there is more prospect of this continuing to be the prevailing procedure than in multiple or apartment house construction.

The excuse for public housing in this country only 15 years ago was that it would be used beneficially in a make-work program —that it would help take up slack in employment—that it would be used for those needing public aid, otherwise described as the underprivileged. There was then no other logical point at which to draw the line, nor is there now. There is now no problem of unemployment which a program of public works would aid, and there is but a half-hearted attempt to remove tenants ineligible for public housing by virtue of their high incomes in order that the space may be turned over to those in real need of cheap subsidized housing.

A better approach to the problem would seem to lie along the lines of a real combination of private and public effort, each assuming the role for which it is best equipped. There is already good precedence for this—private construction and operation, with the government acting in the role of insurer.

There are but two ways to provide for the person unable to pay the full cost of housing: one is to grant a subsidy in one form or another; the second is to lower the costs themselves. The latter is the harder way; but with the techniques that have been recently coming into the business, there is every reason to believe that there will be a partial answer in this direction—given a little more time, and more pressure for reduction in costs.

Lowering of cost and subsidy together could be very important.

The builders have learned much in the past ten years; and although the following examples may not be applicable to all sections of the country, they illustrate the point. A basic 4½-room, 24 ft. x 32 ft. house, with tile bath, automatic heat, stairway to second floor with room for expansion, and located on a good lot in an average residential area, can be produced and sold singly for about $11,000. If built by an operative builder, say five to 15 at a time, for about $9,500 to $10,000; and if built in mass production of 100 units or more, by on-site prefabrication methods, for about $8,500 to $9,000. To obtain low costs, it is therefore going to be necessary that a great many of the houses be produced by the large-scale builder.

The key to control of inflation in the mortgage field is to have housing built privately—not publicly. Control of inflation in this field does not lie in the reimposition of controls and restrictions.

Missouri Brevities

(Continued from page 12)

ing the subscription period, the underwriters sold 160,975 shares so there remained for public offering 174,682 shares.

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American Zinc, Lead & Smelting Co., St. Louis, for the third quarter of 1948 reports a consolidated net loss of $63,130, which includes a nonrecurring net income of $150,839 representing the net realization on the disposition made of its No. 7 mine in Oklahoma. These results compare with net earnings during the third quarter of 1947 of $88,855, after provision for Federal income taxes. The company has outstanding 67,955 shares of prior preferred stock and 673,100 shares of common stock. Net after taxes for the first nine months totaled $658,420, equal to 47 cents per common share, as against $1,211,349, or $1.29 per common share, in the corresponding period last year.

* * *

Net profit of Illinois Terminal RR. Co., St. Louis(after charges and Federal taxes, amounted to $1,238,769, or $2.48 per common share, for the first ten months of 1948, compared with $1,028,379, or $2.06 per common share, for the same period of 1947.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

• **Aberdeen Idaho Mining Co., Wallace, Idaho**
Dec. 3 (letter of notification) 400,000 shares of common stock. **Price**—40 cents per share. No underwriting. For prospecting and development.

Affiliated Gas Equipment, Inc., Cleveland, O.
Dec. 6 filed 40,000 shares of $3 cumulative preferred stock (par $50) and 1,000,000 shares common stock (par $1). **Underwriter**—Reynolds & Co., New York. **Purpose**—To purchase all of the assets of three subsidiaries of Dresser Industries, Inc., viz: Bryant Heater Co., Cleveland; Day & Night Manufacturing Co., Monrovia, Calif. and Payne Furnace Co., Beverly Hills, Calif. [Affiliated will obtain an additional $4,000,000 the private sale of 15-year 3¾% notes to insurance companies.] Expected early in January.

All States Life Insurance Co., Montgomery, Alabama
Nov. 24 filed 30,000 shares of capital stock. No underwriting. **Offering**—To be offered to stockholders at $10 per share. **Proceeds**—To complete company's purchase of Eureka-Maryland Assurance Corp. of Baltimore, and to keep surplus intact.

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.

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., Chicago. **Proceeds**—For working capital.

• **Bates Manufacturing Co., Lewiston, Me.**
Dec. 8 (letter of notification) 1,000 shares of common stock (par $10). **Price**—About $32.50 per share. No underwriting.

• **Beryllium Mining Co., Inc., Seattle, Wash.**
Nov. 29 (letter of notification) 100,000 shares common stock (par 10c). **Price**—15 cents per share. No underwriting. For purchase of equipment and working capital.

Bradshaw Mining Co., Tonopah, Nev.
Oct. 8 (letter of notification) 1,500,000 shares (5c par) common stock. **Price**—20 cents per share. **Underwriter**—Batkin & Co., New York. To repair and renovate mine of company and to exercise option to purchase processing mill and move and erect such mill on the company's property and for working capital.

• **Bryant Air Conditioning Corp., Philadelphia**
Dec. 13 (letter of notification) 150 shares of capital stock. **Price**—$220 per share. No underwriting. Additional working capital.

Central Illinois Electric & Gas Co.
Dec. 3 filed 80,000 shares of common stock (par $15). **Offering**—To be offered common stockholders for subscription at par in ratio of one-sixth of a share for each share of common held. No underwriting. **Proceeds**—For construction costs.

Central Maine Power Co.
Nov. 1 filed 303,330 shares ($10 par) common stock. **Underwriter**—Coffin & Burr, Inc. **Offering**—To be offered initially to existing stockholders both preferred and common. **Proceeds** — To reduce outstanding short-term bank notes payable to The First National Bank of Boston.

Central Power & Light Co.
Nov. 21, 1947, filed 40,000 shares ($100 par) cumulative preferred. **Underwriters**—Lehman Brothers; Glore, Forgan & Co.; Dewar, Robertson & Pancoast negotiated a purchase contract in April, 1948, but the SEC on July 27, 1948, concluded that financing by the proposed preferred stock issue is not necessary.

• **Century Food Markets Co., Youngstown, Ohio**
Dec. 6 (letter of notification) 6,000 shares of common (par $2.50) and 3,000 shares of 5% sinking fund cumulative preferred (par $20). Price, par for both. No underwriting. To pay off current bank loans and for operating capital.

Clarostat Mfg. Co., Inc., Brooklyn, N. Y.
Aug. 26 (letter of notification) 37,400 shares of 50¢ cumulative convertible preferred stock. **Underwriter**—Cantor, Fitzgerald & Co., Inc., New York. **Price**—$8 per share. Working capital, etc.

Cobalt Mines Corp., Newark, N. J.
July 26 (letter of notification) 290,000 shares of common stock. **Price**—$1 per share. **Underwriter**—Charles W. Warshoff & Co., Newark, N. J. To meet obligations.

Coleraine Asbestos Co. Ltd., Montreal, Canada
Aug. 16 filed 200,000 shares of capital stock. **Price**—50 cents per share in Canadian Currency. **Underwriter**—P. E. Frechette. **Proceeds**—For drilling operations.

• **Copper Canyon Mining Co., New York**
Dec. 10 (letter of notification) 342,350 shares of capital stock (par 10¢), of which 42,350 shares covers offer of recession, 150,000 shares and options for 150,000 shares are to be offered at 43¢ per unit of one share and one option. No underwriting. Repay RFC loan, meet current obligations, etc.

• **Duxbury (Mass.) Playhouse, Inc**
Dec. 8 (letter of notification) 2,000 shares ($25 par) 6% non-cumulative preferred stock. Price, par. No underwriting. For expenses of organization and working capital as well as purchase of real estate.

• **Eastern Rock Products, Inc., Utica, N. Y. (12/17)**
Dec. 10 (letter of notification) $295,000 15-year sinking fund first mortgage bonds. Price, par. **Underwriter**—Mohawk Valley Investing Co., Inc., Utica, N. Y. **Purpose**—Refund of $295,000 first and refunding mtge. bonds.

Electrical Products Securities Corp., Houston, Texas
Nov. 29 (letter of notification) 100 shares of preferred (par $100), $50,000 of 9-year enhancement bonds, $35,000 of 10-year 8% convertible bonds and 500 shares of common stock (price $10). **Underwriter**—Trustee Securities Co.

• **Erndale Mines Ltd., Toronto, Canada**
Dec. 14 filed $100,000 5-year 6% first mortgage bonds (convertible into common shares at rate of four shares to dollar, or at a price of 25 cents per share). **Underwriter**—James T. Dewitt Co. **Price**—95. **Proceeds**—To pay off, in part or in full, outstanding indebtedness and for general working capital.

Ferro Enamel Corp., Cleveland, Ohio
Sept. 17 filed 79,080 common shares ($1 par). **Offering**—To be offered for subscription by stockholders in ratio of one additional shares for each four shares held. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—Company and subsidiaries will use the funds for general corporate purposes. Offering postponed.

Front Range Mines, Inc., Denver, Colo.
Nov. 29 (letter of notification) 150,000 shares of common stock. **Price**—$2. **Underwriter**—John R. Marple & Co., Westfield, N. J. For development construction and pay bank loans.

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.

• **Glasgow Supply Co., Charlotte, N. C.**
Dec. 9 (letter of notification) 2,000 shares of preferred stock (par $50). Price, par. No underwriting. For additional working capital.

• **Grammes (L. F.) & Sons, Inc., Allentown, Pa.**
Dec. 8 (letter of notification) 1,200 shares of common stock. **Price**—$36 per share. No underwriting. Working capital, etc.

Gulf Insurance Co., Dallas, Texas
Nov. 15 (letter of notification) 10,000 shares of common stock (par $10). Offered for subscription by stockholders of record Dec. 4 in ratio of one new share for each 12 shares held. Rights expire Dec. 20. **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.

• **Gulf States Utilities Co. (1/11/49)**
Dec. 9 filed competitive bidding of $15,000,000 20-year debentures and a maximum of 280,000 shares of common stock (no par). **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc. (debentures); Stone & Webster Securities Corp. (both); Lehman Brothers (debentures); Merrill Lynch, Pierce Fenner & Beane and White, Weld & Co. (jointly on debentures); Merrill Lynch, Pierce, Fenner & Beane and Lehman Brothers (jointly on stock); Salomon Bros. & Hutzler and Union Securities Corp. (jointly on debentures). **Proceeds**—For general corporate purposes, including the payment of present short-term notes of $6,000,000 and the financing of a portion of its 1949 construction costs. Expected about Jan. 11.

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.

Heidelberg Sports Enterprises, Inc., Pittsburgh, Pa.
June 25 filed 5,000 shares of class B common stock (par $100). **Price**—$100 per share. **Underwriter**—None. **Proceeds**—$600,000 to be used for spectator grandstand and balance for related purposes.

• **Hendricks (C. W.) Co., Billings, Mont.**
Dec. 9 (letter of notification) 1,500 shares of common stock and 1,000 shares of preferred. **Price**—$100 per share. No underwriting. To provide cash with which to discount purchases of merchandise and to enable the corporation to keep on hand a larger stock of merchandise.

Heyden Chemical Corp., New York, N. Y.
June 29 filed 59,579 shares of cumulative convertible preferred stock (no par) to be offered common stockholders in the ratio of one share of preferred for each 20 shares of common stock held. **Price**—By amendment. **Underwriter**—A. G. Becker & Co. will acquire the unsubscribed shares. **Proceeds**—To be used in part for improvement and expansion of manufacturing facilities. Offering postponed.

Hotelevision, Inc., L. I. City, N. Y. (1/3-6/49)
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.

• **Hudson & Manhattan RR. Co., N. Y.**
Dec. 8 (letter of notification) 4,000 shares of common stock (par $100). **Price**—$7⅛ per share. **Underwriters**—J. W. Sparks & Co.; Parrish & Co.; B. H. Roth & Co., New York. Proceeds to selling stockholder.

Idaho-Montana Pulp & Paper Co., Polson, Mont.
Nov. 23 (by amendment) 258,675 shares ($10 par) common stock. **Underwriter** — Tom G. Taylor & Co., Missoula, Mont. **Price**—$10 per share. **Proceeds**—To erect and operate a bleached sulphate pulp mill with a 200-ton per day capacity.

• **Intermountain Fire Insurance Co., Helena, Montana**
Dec. 6 (letter of notification) 1,342 shares of capital stock. **Price**—$150 per share. No underwriting. To operate a fire insurance company.

• **Intermountain Indemnity Insurance Co., Helena, Mont.**
Dec. 6 (letter of notification) 1,342 shares of capital stock. **Price**—$150 per share. No underwriting. For business operations.

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., Cleveland. Indefinitely postponed.

• **Kaslo Silver-Lead Co., Inc., Seattle, Wash.**
Nov. 29 (letter of notification) 200,000 shares (par 1c). **Price**—10 cents per share. No underwriting. For exploration, development and purchase of equipment.

Kendall Co., Boston, Mass.
Dec. 2 (letter of notification) 4,000 shares of common stock (no par). Price, at market. **Underwriter**—The First Boston Corp.

• **Kerite Co., New York**
Dec. 13 (letter of notification) 4,300 shares of common stock (par $10). **Price**—$23 per share. **Underwriter**—Lee Higginson Corp., New York. Proceeds to underwriter as selling stockholder.

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.

NEW ISSUE CALENDAR

December 28, 1948
Chicago Milwaukee St. Paul & Pacific
Noon (CST)----------------Equip. Trust Ctfs.

January 3, 1949
Hotelevision Inc.----------------Class A Stock

January 4, 1949
Illinois Central RR.--------Equip. Trust Ctfs.

January 5, 1949
Chesapeake & Ohio Ry.--------Equip. Trust Ctfs.

January 11, 1949
Chicago Burlington & Quincy RR.--Eqp. Trust Ctfs.
Gulf States Utilities Co.------Debentures, Common

January 17, 1949
Rohm & Haas Co., 3:30 p.m. (EST)---------Stocks

● **Kreamer Veneer Co., Louisville, Ky.**
Dec. 6 (letter of notification) 400 shares of 6% cumulative preferred stock (par $100) and 200 shares of common stock (par $100). Price, par for both. No underwriting. For construction of factory building.

● **Merry Mites, Inc., Columbus, Ohio**
Dec. 8 (letter of notification) 19,000 shares of 6% cumulative preferred stock (par $12.50) and 19,000 shares of common (par $1). **Offering**—To be offered in units of one share each. **Price**—$13.50 per unit. **Underwriter**—The Ohio Co. **Proceeds**—To retire bank loans, purchase additional equipment and provide additional working capital.

Mississippi Power & Light Co.
Nov. 30 filed $7,500,000 first mortgage bonds, due 1979. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & Co.; Equitable Securities Corp. and Shields & Co. (jointly). **Proceeds**—To finance in part company's construction program and other corporate purposes.

Monarch Machine Tool Co.
Sept. 13 filed 26,000 shares of common stock (no par). **Underwriters**—F. Eberstadt & Co., Inc. and Prescott, Hawley, Shepard & Co., Inc. **Proceeds**—Stock being sold by certain stockholders. Offering indefinitely postponed.

National Battery Co.
July 14 filed 65,000 shares ($50 par) convertible preferred stock. Price and dividend, by amendment. **Underwriters**—Goldman, Sachs & Co., New York; Piper, Jaffray & Hopwood, Minneapolis. **Proceeds**—To retire $3,000,000 of bank loans and general corporate purposes Temporarily deferred.

National Tuna Clippers, Inc., San Diego, Calif.
Nov. 30 (letter of notification) 30,000 shares ($10 par) 6% cumulative preferred stock, nonassessable and nonconvertible. Price, par. No underwriting. For general corporate purposes. **Underwriters**—Buckley Brothers; Hope & Co., San Diego, Calif.; G. Brashears & Co., and First California Co., Los Angeles, Calif.

● **O'Brien Dicer, Inc., Los Angeles, Calif.**
Dec. 7 (letter of notification) 6,999 shares of common stock (par $5). Price, par. No underwriting.

Orangeburg (N. Y.) Manufacturing Co., Inc.
Oct. 29 (letter of notification) 2,000 shares of common stock (par $10). **Price**—$16 per share. **Underwriter**—Kebbon, McCormick & Co., Chicago. Proceeds to selling stockholders.

Public Service Electric & Gas Co.
June 11 filed 200,000 shares ($100 par) cumulative preferred stock. **Proceeds**—For property additions and improvements. **Underwriting**—The company rejected bids submitted Aug. 4. The SEC on Aug. 23 exempted the proposed sale from the competitive bidding rule. Sale on agency basis being discussed.

● **Rahr's, Inc., Manitowoc, Wis.**
Dec. 9 (letter of notification) 500 shares of preferred stock (par $100). Price, par. No underwriting. For additional working capital.

Renaissance Films Distribution, Inc., Montreal, Que.
Oct. 29 filed 40,000 shares (par $25) 5% cumulative convertible class B preferred stock and 10,000 shares of C stock (no par). **Underwriting**—None. **Offering**—Class B preferred will be offered at $25 per share with one share of class C given as a bonus with each 4 shares of class B purchased. **Proceeds**—To pay balance of current liabilities and working capital.

● **Ridd Laboratories, Inc., Edmonds, Wash.**
Dec. 3 (letter of notification) 18,000 shares of common stock. **Price**—$5 per share. No underwriting. To pay debts and provide operating and general overhead funds.

River Valley Finance Co., Davenport, Ia.
Nov. 22 (letter of notification) 1,000 shares of 6% preferred stock (par $100). Price, par. **Underwriter**—Quail & Co., Davenport, Ia. To increase 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. Indefinitely postponed.

Rohm & Haas Co., Philadelphia, Pa. (1/17/49)
Dec. 2 filed 15,816 shares of 4% cumulative preferred stock, series "A" (par $100) and 197,697 shares of common (par $20). Offering being proposed by U. S. Attorney General, Office of Alien Property Custodian. **Underwriters**—Names to be determined through competitive bidding. Probable bidders include Kuhn, Loeb & Co.; Lehman Brothers, and Glore, Forgan & Co. (jointly); Kidder, Peabody & Co., and Drexel & Co. (jointly); A. G. Becker & Co., and Union Securities Corp. (jointly). An additional 5,410 shares of preferred and 67,627 shares of common are included in the registration but they are not being offered at this time because of a pending suit for return of these shares under the Trading with the Enemy Act. **Bids**—Bids for purchase of stocks will be received at Department of Justice, Office of Alien Property, 120 Broadway, New York, up to 3:30 p.m. (EST) Jan. 17.

● **Rotary Drilling Corp., Tulsa, Okla.**
Dec. 7 (letter of notification) 300,000 shares of common stock (par $1). Price, par. No underwriting. To purchase drilling equipment and pay expenses.

● **San Juan Glove Corp., Hato Rey, Puerto Rico**
Dec. 10 (letter of notification) 60,000 shares of Class A common stock. **Price** — $5 per share. **Underwriter** — Lawrence Turnure & Co.; Blyth & Bonner, New York. For corporate purposes and working capital.

St. Anthony Mines Ltd., Toronto, Can.
Aug. 6 filed 1,088,843 common shares (par $1). **Price**, 40 cents per share. **Underwriter**—Old Colony Securities Ltd. of Toronto. Proceeds for gold mining operations

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. Expected early next year.

Smith (C. D.) Co., Grand Junction, Colo.
Nov. 22 (letter of notification) 1,500 shares ($50 par) 5½% cumulative preferred stock. **Price**—$51 per share. **Underwriter**—Peters, Writer & Christensen, Inc., Denver, Colo. For additional working capital and to reduce amount of short-term bank loans.

● **South Bend (Ind.) Bait Co.**
Dec. 10 (letter of notification) 7,500 shares ($20 par) common. **Price**—$40 per share. No underwriting. For additional working capital.

Southern Indiana Gas & Electric Co.
Oct. 20 filed 600,000 shares (no par) common stock owned by the Commonwealth & Southern Corp. and 75,000 additional shares of stock for the benefit of the company. **Underwriter** — Smith, Barney & Co. Price, by amendment. **Proceeds**—Commonwealth will use its proceeds to reduce indebtedness and Southern Indiana will use its proceeds for property additions and betterments Offering deferred.

Southern Oil Corp., Jackson, Miss.
Oct. 8 filed 1,500,000 shares of common stock (par 1c) of which 1,350,000 shares will be sold by company and 150,000 shares by W. G. Nelson Exploration Co. **Price**—$1 per share. **Underwriter**—J. J. Le Done Co.; Petroleum Equities Corp., New York. **Proceeds**—For working capital and general corporate purposes.

Southwestern Associated Telephone Co.
Aug. 24 filed 22,000 shares of $2.60 cumulative (no par) preferred stock. **Underwriters** — Paine, Webber, Jackson & Curtis; Stone & Webster Securities Corp.; Rauscher, Pierce & Co. Price by amendment. **Proceeds**—To pay, in part, bank loans used for construction purposes. Indefinite.

Southwestern Investment Co.
Nov. 12 filed 33,880 shares (no par) common stock. **Underwriters**—Schneider, Bernet & Hickman; G. H. Walker & Co.; Dewar, Robertson & Pancoast; Underwood, Neuhaus & Co. **Offering**—Offered for subscription by stockholders at $16.75 per share in ratio of one new share for each two shares held. Rights expire Dec. 24. **Proceeds**—To increase working capital.

● **Spartan Grocers, Inc., Los Angeles, Calif.**
Dec. 8 (letter of notification) 9 shares of preferred (par $100) and 29,775 common shares. Price, preferred par, common, $10 par. No underwriting. For reductions of long-term obligations.

● **Springfield (Ill.) Instrument Bearing Co.**
Dec. 8 (letter of notification) 4,000 shares of common stock (no par). **Price**—$50 per share. No underwriting. For plant expansion.

● **Sterling Insurance Co., Chicago, Ill.**
Dec. 10 filed 25,000 shares ($2.50 par) capital stock. Underwriting, none. **Offering**—Stock being sold by three stockholders who will grant a discount of $1 per share to brokers and dealers on original sale. **Price**—$12.50 per share.

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.

Mrs. Tucker's Foods, Inc., Sherman, Texas
Nov. 26 filed 200,000 shares of common stock (par $2.50) of which 80,000 will be sold by the company and 120,000 shares by certain stockholders. **Underwriter**—Rauscher, Pierce & Co., Inc. **Proceeds**—For general corporate purposes.

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 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 Peninsula 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.

● **Washington (D. C.) Cab Co., Inc.**
Dec. 10 (letter of notification) 490 shares of common stock. **Price**—$25 per share. No underwriter. For working capital.

Waukesha (Wis.) Motor Co.
Dec. 7 filed 200,000 shares of common stock ($5 par). **Offering**—To be offered to stockholders of record Jan. 3, at rate of one new for each two shares held. **Underwriting**—Company will pay fees to selected investment dealers for securing the exercise of subscription warrants. Robert W. Baird & Co. Inc. will be dealer-manager. **Proceeds**—To carry possible increase of accounts receivable and inventories and to provide for plant improvement.

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.

Prospective Offerings

● **Chesapeake & Ohio Ry. (1/5-6/49)**
Company, it is reported, plans the sale of $8,900,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc., The First Boston Corp., Harriman Ripley & Co. and Lehman Brothers (jointly); Salomon Bros. & Hutzler. Sale expected about Jan. 5-6.

● **Chicago Burlington & Quincy RR. (1/11/49)**
Company expected to sell $4,320,000 equipment trust certificates early in January. Probable bidders: Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.), Salomon Bros. & Hutzler, Harriman Ripley & Co. and Lehman Brothers (jointly). Sale expected about Jan. 11.

● **Chicago Milwaukee St. Paul & Pacific RR. (12/28)**
Bids for purchase of $4,540,000 equipment trust certificates, series GG, will be received at office of J. W. Severs, Vice-President, Room 744, Union Station Building, Chicago, up to noon (CST) Dec. 28. Certificates will be dated Jan. 1, 1949, and will mature $227,000 semi-annually July 1, 1949 to Jan. 1, 1959. Probable bidders: Halsey, Stuart & Co. Inc., Salomon Bros. & Hutzler, Harris, Hall & Co. (Inc.), Harriman Ripley & Co. and Lehman Brothers (jointly).

● **Florida East Coast Ry.**
The company has asked the ICC for permission to sell $2,060,000 equipment trust certificates, the proceeds to be used for the purchase of 10 new diesel electric locomotives, costing about 2,761,846. Probable bidders: Halsey, Stuart & Co. Inc., Salomon Bros. & Hutzler, Harris, Hall & Co. (Inc.), Harriman Ripley & Co. and Lehman Brothers (jointly).

● **Illinois Central RR. (1/4/49)**
Dec. 9 company asked ICC for authority to issue $6,400,000 of equipment trust certificates, series BB. Probable bidders: Halsey, Stuart & Co. Inc., Harriman Ripley & Co. and Lehman Brothers (jointly); Salomon Bros. & Hutzler.

● **Long Island RR.**
Dec. 6 D. E. Smucker, General Manager, announced company plans to refund $40,000,000 refunding mortgage 4% bonds due March 1, 1949. Pennsylvania RR. holds $8,000,000 of the issue. Probable bidders: Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co.

● **Nashville Chattanooga & St. Louis RR.**
Dec. 13 reported company plans the sale of $4,320,000 equipment trust certificates, series E, maturing serially in 1 to 15 years. Probable bidders: Halsey, Stuart & Co. Inc., Harriman Ripley & Co. and Lehman Brothers (jointly); Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.).

● **New England Electric System**
Dec. 9 Irwin L. Moore, President, stated there is a likelihood that additional common shares may have to be sold prior to the time benefits of the construction program are fully realized.

● **Public Service Co. of Indiana, Inc.**
The company has asked the Public Service Commission of Indiana for authority to issue and sell $12,000,000 of first mortgage bonds, proceeds to be applied on construc-

(Continued on page 42)

(Continued from page 41)

tion costs. Probable bidders: Blyth & Co., Inc.; Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co.; Glore, Forgan & Co.

● Tennessee Gas Transmission Co.

Dec. 9 the FPC authorized the company to increase its natural gas delivery capacity by 111,000,000 cubic feet a day by increasing pipe line and other facilities. The Commission ordered that a contemplated $50,000,000 issue of first mortgage bonds be sold on a competitive basis. Bidding on the proposed bond issue follow the intervention of Halsey, Stuart & Co. Inc. in the Commission hearings. Company contended that continuation of financing on a negotiation basis would result in a lower cost for the financing. Probable bidders include Stone & Webster Securities Corp. and White, Weld & Co. (jointly); Halsey, Stuart & Co. Inc.

● Texas Electric Service Co.

Dec. 15 reported company has plans under consideration for sale, probably in April, of $8,000,000 bonds. Probable bidders: Halsey, Stuart & Co. Inc., The First Boston Corp., Salomon Brothers & Hutzler, Harriman Ripley & Co., Inc., Hemphill, Noyes & Co. and Drexel & Co. (jointly); Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); Union Securities Corp.

● Texas Gas Transmission Corp.

Dec. 15 corporation's proposed $66,000,000 20-year first mortgage bonds may be thrown open to competitive bidding. Corporation's original plan was to place the bonds privately with a group of institutional investors. The FPC on Dec. 9 directed Tennessee Gas Transmission Co. (which see) to adopt the principle of competitive bidding with respect to its debt financing. Halsey, Stuart & Co. Inc. has asked the FPC to take similar action in connection with debt financing by Texas Gas Transmission Corp.

● Wheeler, Osgood Co., Tacoma, Wash.

Dec. 9 it was announced company plans shortly to publicly offer a new class of cumulative convertible preferred stock to provide approximately $1,500,000 additional working capital. Sills, Minton & Co., Inc., is expected to underwrite the issue.

Fiscal Consequences Of Defense Program

(Continued from page 4)

by no means desperate in the sense that extraordinary over-all sacrifices must be made in the standard of living which we have known in recent years.

Tests of Public Expenditure

All public expenditure should be forced to meet severe tests of necessity, urgency and efficiency. Since defense expenditures are likely to be more than half the budget, it is reasonable and essential that they also must meet these tests.

This is a new situation that requires new approaches. Both the interests of efficiency and of public confidence would be served by some new safeguard on such large expenditures in a time when we are not at war. Last May I made the suggestion that a civilian commission might well be established to be charged with the responsibility of scrutinizing and commenting upon general matters of defense policy and upon the efficiency of the carrying-on of the program. Such a civilian commission should be in continuous session. Its personnel should be highly competent and informed on all phases of defense strategy and tactics. It should be nonpartisan and it should be nonrepresentative. In other words, it should consist of between five and nine patriotic citizens who would drop their ordinary business and sacrifice their private interests to perform a new public service, namely to provide informed and judicial civilian scrutiny over defense programs and expenditures at a time when the country is not at war.

This suggestion was well received in many quarters, and accordingly a small committee was formed to explore the possibilities and to make a report. This committe was *ad hoc* and unsponsored. Its modest but adequate finances were supplied by the Spelman Fund of New York. Its membership consisted of Hiland G. Batcheller. Herbert Emmerich, William Tudor Gardiner, Harry Scherman and myself. In the meantime a Sub-Committee of the Committee for Economic Development. under the Chairmanship of Fred Lazarus, was organized to look into the more general question of how we can protect in greatest measure our traditional freedoms while we are undertaking extensive and unprecedented defense programs. Since the field of the *ad hoc* committee to which I have referred, the study of the possibility of a Civilian Commission on Defense Expenditures lies well within the field of the Sub-Committee under Fred Lazarus' Chairmanship, the work of the *ad hoc* committee has been transferred to the Sub-Committee of the Committee for Economic Development; and at an appropriate time it will make such recommendations as seem to it wise.

CED in Field of Agriculture

Speaking of the Committee for Economic Development, I have often thought that an organization similar to the CED in the field of agriculture would serve a useful national purpose. In the field of commerce and industry, the CED does not duplicate the work of the American Retail Federation, the National Association of Manufacturers or the innumerable trade associations. These latter organizations have as their purpose the forwarding of the legitimate interests of their membership groups. The Committee for Economic Development on the other hands studies and reports on national problems from the standpoint of the national interest as seen in the setting of businessmen's experience. For this reason, among others, CED policy statements are widely read in official and private circles and are cordially received by educational institutions of all kinds. Public understanding of important national problems is helpfully advanced; but I think that there would be a further gain if agriculture, and labor too, would create agencies of research and education, looking at national problems from the standpoint of the national interest. The continuance and improvement of special organizations working for special objectives would be entirely consistent with such an effort, just as it has proved to be in the field of business.

Aggressive Program for Sale of U. S. Bonds

Another current problem of fiscal policy is what to do about savings bonds.

An aggressive program for the sale of United States Savings Bonds to the public is an essential part of a program for financing defense and economic recovery programs that contribute to defense.

During the war we knew that the sale of war bonds to private individuals, particularly those with small and moderate incomes, was an alternative to taxation as a means of withdrawing purchasing power from the hands of the people. We knew that sales of bonds to the commercial banks had different effects. But in spite of the fact that we made these distinctions in wartime, we do not seem to have carried a parallel conception over to the long-term problem of managing a $250 billion debt, and of meeting the financial requirements of the years immediately ahead.

Those portions of our aid to Europe and elsewhere that go into plant and equipment, into inventory, into the rebuilding of tools and facilities are productive loans and given a fair chance will build up the level of productivity. Productive loans abroad for world reconstruction should be financed, not by taxes, but by the sale of government savings bonds to the public. The sale of these government savings bonds should be by nation-wide intensive campaigns associated with care and restraint in consumption.

Such a program of sales of savings bonds to the public picks up purchasing power that would otherwise have to be withdrawn by taxation. It has the great advantage over taxation in that it is selective and that it therefore does not impose on those who cannot afford it, as taxation might, the direct costs of reconstruction of productive plants. The sale of savings bonds to the public would also afford an occasion for making people aware of their personal association with the overall program of world reconstruction. Also, a savings bond program is much more flexible than a tax program both in timing and in intensity of impact. In days such as these when we are uncertain as to whether inflation or deflation lies ahead, we need in our fiscal planning the kind of flexibility that a well organized saving bond program can provide.

In principle I think it can be said that we shall be on sounder ground if our international commitments that are directed to the reconstruction of world productivity, productive loans as distinguished from grants for emergency relief, are covered by sales of bonds to the public rather than by taxation. The tax burden will be lower if savings bonds are sold to meet budgetary expenditures of a constructive nature.

Preserving Freedom Under Fiscal Policy

If the tools of fiscal policy are well managed, whether in a period of expansion or contraction they will contribute much to the prevention of interference in the specific decisions of businesses and private individuals. For the consequences of action at the level of fiscal policy are general, impersonal and appropriate to the development of the economy as a whole. The individual's specific decisions may then be taken within a general frame of reference, a frame of reference established in the public interest and not distorted by private greed nor destroyed by the blind whirlwinds of economic collapse.

The instruments of fiscal policy give us hope that we can preserve our economic freedom to buy and to sell, to borrow and to invest, to move from place to place, to employ and to be employed, and to receive for our own private use wages, rents and profits as a reward for skill in the application of efforts in supplying what others need. We must find in the democratic processes of our government the organizational arrangements that will make sure these tools of fiscal policy are managed in the public interest and that they will thereby strengthen the national defense and at the same time help protect the economic freedoms we are committed to preserve.

The defense of the United States, particularly the moral, political and economic aspects of defense, cannot be carried on by the Federal Government alone. The waging of war is a Federal responsibility to be sure, but then we have emergency Federal laws, wartime restrictions and controls and military priorities in all the ways of life.

But in the waging of defense, much as the Federal Government can do, it must be supported by the activities of state and local governments. Private organizations have their part to play, businesses and business groups, trade unions, churches, educational institutions, and of course farm organizations, such as your own. Even the individual in his own life has his part to play on the economic, the political, and moral front. Only by working together, with a clear understanding of our dangers and a clear acceptance of our duties, can the defenses of the United States be brought to their maximum strength to resist the world wide forces which today and in the days to come threaten our freedom and our free institutions.

Profit and Its Functions

(Continued from page 10)

cial capital as "capital funds" and to physical capital as "plant and facilities."

Capital originates out of savings—production in excess of consumption. There is no other source. Savings may be made by productive units, such as corporations, and by individuals; and through the intervention of credit, future savings can be transferred to the present.

Capital formation is the process whereby capital funds are accumulated and converted into physical capital. Economic progress depends largely upon the rate of capital formation and therefore the process is indispensable to our standard of living. Measures which interfere with capital formation are harmful.

Let us examine the bearing of oil company "profits" upon capital formation in the petroleum industry. We shall use the record of 30 oil companies for the illustrative figures.

In 1947, this group of oil companies generated cash out of its own operations to the extent of $2,160 million. This sum was segregated by conventional accounting procedure into $1,219 million of net income and $941 million of depreciation, depletion, etc. The latter item represents an estimate of the capital worn out and used up during the year, but was inadequate to replace this capital because costs had gone up. In addition, the group obtained $743 million of outside funds, as follows: long-term debt issued, $476 million; sales of common and preferred stock, $206 million; and sales of assets, etc., $61 million. Thus the group in 1947 generated and obtained $2,903 million of funds.

What became of these funds?

By far the larger part, $2,076 million, or 71%, went into capital expenditures. Therefore, this amount represented physical capital formed. The remainder of the funds was disposed of as follows: $175 million to working capital;[3] $197 million to the retirement and refunding of debt; and $455 million to stockholders and minority interests.

This analysis of the source and disposition of funds reveals the anatomy of capital formation in the petroleum industry. And the figures are all expressed in dollars of like vintage—1947 dollars—with one exception. The item of capital extinguishments is estimated on the basis of past dollars and therefore part of the net income dollars must be allocated to this item when it becomes converted into physical replacement of the capital worn out and used up.

Some additional relationships are striking. The $2,076 million dollars of capital expenditures match closely the $2,160 million of cash internally generated; and the same is true of the $455 million of payments to stockholders and minority interests and the $476 million of money borrowed. Does this mean that the group had to borrow the money to pay dividends? The accountant would certainly not admit this, for dividends can only be paid from surplus, but capital expenditures can be made from borrowed funds. But it is certain that without borrowings there would have been hardly any funds for dividends if capital expenditures had remained unchanged. And if capital expenditures had been less, the oil "shortage" would have been prolonged.

In view of these circumstances, it can scarcely be claimed that the earnings of the oil industry were "too great." The earnings played an essential role in the process of capital formation. Nor was too much capital formed in 1947. It can be stated with assurance that it was the magnitude of capital formation in 1947, and again in 1948, which has converted the petroleum situation from one of scarcity into one of abundance. What could be more important?

3 The additions to working capital also represented capital formation, at least in large part.

Michigan Brevities

(Continued from page 12)

1948. The plan is subject to stockholder approval at a meeting to be held on that date.

* * *

The directors of Detroit Aluminum & Brass Corp., manufacturers of bearings and bushings for engine using industries, have declared an extra dividend of 12½ cents per share and the usual quarterly dividend of 12½ cents per share, both payable Dec. 24, 1948 to stockholders of record Dec. 10, 1948. On Dec. 24, last year, an extra of 25 cents was paid.

* * *

An issue of $2,500,000 Sutherland Paper Co. (Kalamazoo) 3.10% serial notes due semiannually Nov. 1, 1954 to Nov. 1, 1963, was placed privately through Harris, Hall & Co. (Inc.) of Chicago, Ill., according to an announcement made on Nov. 23.

* * *

The common stock of the Capital City Products Co., Columbus, Ohio, which is listed on the Detroit Stock Exchange, has been split-up on the basis of two new shares of $5 par value each in exchange for each outstanding share of no par value. This two-for-one split-up was ratified by the stockholders on Nov. 30, and the new stock will receive a quarterly dividend of 12½ cents per share on Dec. 20, which is equivalent to the 25 cents paid quarterly on the no par stock.

* * *

Packard Motor Car Co., Detroit, turned out 11,124 units in November, setting a new postwar production peak, exceeding the previous monthly high of 10,547 units established last October. For the 11 months of this year, output totaled 86,991 units, which compares with the company's all-time production peak of 109,518 cars reached in 1937. November shipments of 11,193 units also registered a new postwar peak, surpassing October's shipments by 641 cars.

The Packard Company, for the nine months ended Sept. 30, 1948, reported consolidated net income of $9,488,336, or slightly over 63 cents per common share, after provision of $5,814,000 for estimated income taxes. For the corresponding nine months of 1947, the company listed a net loss of $131,478. Consolidated net sales of $164,325,977 was the highest peacetime volume for any comparable period in the company's history. For the 1947 nine-month period, sales volume was $94,494,102. At Sept. 30, 1948 current assets totaled $65,035,225 and current liabilities were $26,139,957.

* * *

Cunningham Drug Stores, Inc., Detroit, for the year ended Sept. 30, 1948 reported a net income after Federal income taxes of $1,417,096, equal to $3.71 per common share, compared with $1,292,526, or $3.39 per common share, for the preceding year, and $1,197,077, or $3.14 per common share, for the year ended Sept. 30, 1946. Current assets at Sept. 30, 1948 amounted to $7,430,329, and current liabilities $3,349,780. At the close of the last fiscal year, there were 106 Cunningham and Shapero stores in operation.

* * *

The American Forging & Socket Co., Pontiac, for the year ended Aug. 31, 1948 reported a net income after charges and Federal income taxes of $383,184, compared with $204,830 for the preceding year, and $97,776 (after an income tax credit of $285,000) for the year ended Aug. 31, 1946. Current assets at Aug. 31, 1948 amounted to $1,617,875, and current liabilities totaled $578,444. The company's stock is widely distributed from coast to coast among more than 1,200 stockholders.

* * *

Wayne Screw Products Co., Detroit for the year ended Sept. 30, 1948 reports income after taxes of $82,897, or 21 cents per share, compared to $121,020, or 32 cents per share in the previous year. Cash dividends of 16 cents per share were paid in both years. An extra dividend of six cents per share has been declared, payable Dec. 27 to stockholders of record Dec. 7, in addition to the usual quarterly dividend of 2½ cents per share which will be payable Jan. 3, 1949 to stockholders of record Dec. 14, 1948. This was the same action as taken a year ago.

* * *

L. A. Young Spring & Wire Corp., Detroit, reports a consolidated net profit, after income taxes of $847,064, equal to $2.07 per common share, as against $534,133, or $1.31 per common share, for the corresponding period of last year.

Our Reporter's Report

Rousing success of last week's vast American Telephone & Telegraph Co. offering has provided a much needed lift for sentiment in the underwriting field, judging from the more cheerful atmosphere which prevails.

And sponsors of the big undertaking naturally are among the most elated, confident that the issue has been solidly placed. A check of distributors the end of last week disclosed that only about $800,000 of the $150,000,000 offering remained in dealers' hands.

Offers to repurchase brought in only about 200 debentures out of the 800 and dealers around who endeavored to pick up small lots, "less ⅛," this week found themselves "shut-out." They just couldn't find any one with the issue for sale.

In fact there were indications that it might cost the underwriters a little of their realized fees to clear up the "short position" incurred in the process of flotation.

Until this operation came along and was completed the underwriting world was none too cheerful and it looked as though the investment market outlook in general provided little to rouse the Christmas spirit. But even though the balance of the year is unlikely to produce more than a handful of secondary deals, mostly in equities, those who market new securities are feeling better about things.

Treasury Stands By "Pegs"

Secretary of the Treasury Snyder's comments this week, before the credit parley of the American Bankers Assn., made it clear that the government counting-house has no intention of letting its bonds find their own level in the open market.

He declared Federal support, achieved through the Federal Reserve open market committee, is necessary to facilitate the handling of the government's debt.

The head of the Treasury contended that the support operations are not inflationary, stating that "actually there has been no net increase in Federal Reserve holdings of government securities attributable to the support program."

Up For Competitive Bids?

Feeling in investment banking quarters seems to be that the Texas Gas Transmission Corp.'s big $66,000,000 issue of 20-year first mortgage bonds will be ordered up for competitive bids.

The issue had been slated originally for placement privately with a group of institutional buyers. But one of the larger underwriting firms, staunchest advocate of competitive bidding, has raised the question before the Federal Power Commission and is reported forming a group to enter a bid.

The likelihood that bidding will be ordered is seen in SEC's recent action in directing Tennessee Gas Transmission to carry out its debt financing via the competitive route.

Railroad Equipment Notes

Equipment trust issues by many of the leading carriers have been providing a substantial fill-in during lulls in corporate financing, and it appears this trend will continue through the ensuing fortnight.

Time was when only a handful of houses, specializing in this business, sought out such issues. But application of the competitive bidding rule more or less generally, appears to have whetted the appetites of houses which hitherto paid little attention to such offerings.

This broadening interest is manifest in the increasing number of bids which appear for such issues. Yesterday's offering of Southern Pacific's $15,740,000 of one-to-ten year serials was a case in point. Interest was spurred even more by the fact that the road is financing only 66% of the cost of the equipment and holding an equity of 33% itself. Ordinarily the division ranges from a 15 to 20% equity.

DIVIDEND NOTICES

Allied Chemical & Dye Corporation

61 Broadway, New York

December 10, 1948

Allied Chemical & Dye Corporation has declared a special dividend of Three Dollars ($3.00) per share on the Common Stock of the Company, payable December 28, 1948, to common stockholders of record at the close of business December 20, 1948.

W. C. KING, Secretary

Dividend Notice

THE ARUNDEL CORPORATION BALTIMORE MARYLAND

The Board of Directors of The Arundel Corporation has this day declared 25 cents per share as the regular quarterly dividend, on the no par value stock of the corporation issued and outstanding, payable on and after December 28, 1948, to the stockholders of record on the corporation's books at the close of business December 20, 1948.

MARSHALL G. NORRIS, *Secretary*

December 14, 1948.

Beneficial Industrial Loan Corporation

DIVIDEND NOTICE

Dividends have been declared by the Board of Directors, as follows:

CUMULATIVE PREFERRED STOCK

$3.25 Dividend Series of 1946

$.81¼ per share

$4 Dividend Series of 1948

$1 per share

(for quarterly period ending December 31, 1948)

COMMON STOCK

$.37½ per share

The dividends are payable December 29, 1948 to stockholders of record at close of business December 18, 1948.

PHILIP KAPINAS, Treasurer

December 7, 1948

DIVIDEND NOTICES

THE GARLOCK PACKING COMPANY

December 8, 1948

COMMON DIVIDEND No. 290

At a meeting of the Board of Directors, held this day, a quarterly dividend of 25¢ per share and an *extra* dividend of 25¢ per share were declared on the common stock of the Company, payable December 27, 1948, to stockholders of record at the close of business December 17, 1948.

H. B. PIERCE, *Secretary*

National Shares Corporation

14 Wall Street, New York

A special dividend of one dollar and fifty cents ($1.50) per share has been declared this day on the Corporation's capital stock payable December 24, 1948 to stockholders of record at the close of business December 17, 1948. It is expected that approximately ninety-nine and four-tenths cents (99.4c) per share of this special dividend will be designated as a "capital gain dividend", pursuant to the provisions of the Internal Revenue Code.

The Directors have also declared a dividend of fifteen cents (15c) per share payable January 15, 1949 to stockholders of record at the close of business December 31, 1948.

JOSEPH S. STOUT, *Secretary.*

December 10, 1948

Exide BATTERIES

THE ELECTRIC STORAGE BATTERY COMPANY

193rd Consecutive Quarterly Dividend

The Directors have declared from the Accumulated Surplus of the Company a final dividend for the year 1948 of seventy five cents ($.75) per share on the Common Stock, payable December 31, 1948, to stockholders of record at the close of business on December 20, 1948. Checks will be mailed.

H. C. ALLAN, *Secretary and Treasurer*

Philadelphia 32, December 10, 1948.

Suffolk Downs

EASTERN RACING ASSOCIATION, INC.

Preferred and Common Stock Dividend Notice

The Board of Directors of Eastern Racing Association, Inc., declared a quarterly dividend of 25c per share on the outstanding shares of preferred stock of the Association payable January 3, 1949 to stockholders of record December 20, 1948. The Board of Directors of Eastern Racing Association, Inc., have also declared a quarterly dividend of 15c per share upon the outstanding shares of common stock of the Association (both no par and $2.00 par) payable January 3, 1949 to stockholders of record December 20, 1948.

JOHN C. PAPPAS, President

December 8, 1948

SEABOARD FINANCE COMPANY

COMMON STOCK DIVIDEND

55th Consecutive Quarterly Payment

The Board of Directors of Seaboard Finance Co. declared a regular quarterly dividend of 45 cents a share on Common Stock payable Jan. 10, 1949 to stockholders of record Dec. 23, 1948.

PREFERRED STOCK DIVIDEND

6th Consecutive Quarterly Payment

The directors also declared a regular quarterly dividend of 65 cents a share on Convertible Preferred Stock, payable Jan. 10, 1949 to stockholders of record Dec. 23, 1948.

A. E. WEIDMAN, Treasurer

November 29, 1948

DIVIDEND NOTICES

The Singer Manufacturing Company

The Board of Directors has declared a special dividend of $4.00 per share payable on December 29, 1948 to stockholders of record at the close of business on December 17, 1948.

D. H. ALEXANDER, Secretary.

December 13, 1948.

United Shoe Machinery Corporation

The Directors of this Corporation have declared a dividend of 37½c per share on the Preferred capital stock. They have also declared a dividend of 62½c per share on the Common capital stock. The dividends on both Preferred and Common stock are payable January 5, 1949, to stockholders of record at the close of business December 14, 1948.

WALLACE M. KEMP, Treasurer.

WESTERN TABLET & STATIONERY CORPORATION

Notice is hereby given that a dividend at the rate of $.50 per share on the issued and outstanding shares without par value of the Common Stock of Western Tablet & Stationery Corporation has been declared payable on January 10, 1949, to the holders of record of such shares at the close of business on December 22.

E. H. BACH, Treasurer.

YALE

THE YALE & TOWNE MFG. CO.

On December 13, 1948, a stock dividend of 5%, was declared by the Board of Directors, payable December 31, 1948, to stockholders of record at the close of business December 23, 1948.

F. DUNNING

Executive Vice President and Secretary

Old Town

OLD TOWN RIBBON & CARBON COMPANY, INC.

DIVIDENDS No. 24 and No. 25

The Board of Directors has declared an extra dividend of 10 cents and a dividend of 30 cents per share on the Common Stock of the Company, payable on December 31, 1948 to stockholders of record at the close of business on December 23, 1948.

JEROME A. EATON, *Treasurer*

December 9, 1948

THE TEXAS COMPANY

185th Consecutive Dividend paid by The Texas Company and its predecessor.

A dividend of 75¢ per share or three per cent (3%) on par value of the shares of The Texas Company has been declared this day, payable on January 3, 1949, to stockholders of record as shown by the books of the company at the close of business on December 10, 1948. The stock transfer books will remain open.

L. H. LINDEMAN, *Treasurer*

November 19, 1948

DIVIDEND NOTICE

The board of directors has declared a dividend of 15¢ per share payable on December 21, 1948, to stockholders of record December 15, 1948.

G. H. Westby, President

SEISMOGRAPH SERVICE CORPORATION

TULSA, OKLAHOMA, U.S.A.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—If you want to get a slant on how Harry Truman is going to work out as an administrator of the biggest government in the world now that he has a full presidential term in his own right, keep an eye out to see what he does with the National Security Resources Board.

Already Mr. Truman has allowed Arthur Hill to resign as Chairman of the NSRB, just as NSRB was about to pull the curtain away from a year and one-half of planning how to mobilize the civilian economy for war. Furthermore, Mr. Truman has temporarily replaced Mr. Hill with his personal henchman, John R. Steelman, and under circumstances which raise the possibility that NSRB's work is being repudiated before it has been reviewed by the White House.

* * *

National Security Resources Board is the top civilian mobilization planning agency of the government. It stands between the Armed Services and the American people. It determines, subject to White House approval, how much of all food, metals, manufactures, manpower, transportation, and so on, must be given up by the civilian economy to make possible fighting the next war, should one break out. It also blue-prints the agencies which will administer the controls over the economy.

During the past war the prewar mobilization planning of the government was ignored. As a consequence, mobilization planning was during the greater part of the war in a constant stew, with everybody tugging against everybody else. In particular the agencies for administering the controls were in constant ferment, with heads of agencies all scrapping with one another over who should have authority to do what with which.

It was to prevent these conflicts and these disorders that war mobilization planning was begun in earnest even before the expiration of World War II.

The former Army-Navy Munitions Board also spent more than a year and one-half of its time studying the mistakes of the recent war and proposing a scheme for mobilization. Then along came President Truman's pet project, the "unified" Defense Department. The creature of that "unification" was NSRB. It junked all the mobilization planning of the Army-Navy Munitions Board, which was reduced to a lesser role of being the planner for the Armed Services only. Coincidentally the word was spread around that A-N Board planning was only "preliminary" and "not very good."

* * *

So along came the NSRB, and started it all over again. Now NSRB is ready with an outline of its offerings. These consist of a proposed mobilization statute to be enacted by Congress on a standby basis and a program of government war organization. That is to say, Congress would pass the bill granting vast powers to the government to mobilize men, money, and machines, this law to lay on the shelf until the emergency or near-emergency of war.

What is said to make war mobilization planning of some pertinence is the widespread belief throughout government that war with Russia is entirely possible, even if it is not probable in the near future. The general appraisal is that Russia does not want war and will stop her pushing of the western world around just short of war. On the other hand, there are many highly-placed officials who are believed to feel that war could break out and that its avoidance is far from sure.

So the question is whether all planning for mobilization of the civilian economy having been junked before the last war and A-N Munitions Board planning having been junked after this war, will NSRB planning, in turn, also be junked? If this develops as the outcome of the shift in NSRB heads, then a war would find the U. S. again in a mess with no planning for war.

* * *

What NSRB proposed to do was to set up four all-embracing agencies to manage, respectively, the production, manpower, transportation and economic stabilization phases of war mobilization.

Under this scheme the war agencies would have definite and broad powers. It would eliminate at the outset the perennial tussle of the Offices of Hangovers from the Good Old Spending Days to get a share of the war business so they could "keep in the picture," as happened during the past war.

On the other hand, it is just this jealousy of government agencies which gives the appearance of being responsible for the passing of Mr. Hill and his replacement by the White House functionary.

Commerce Department was reported, for instance, to the disappointed over its small share of the proposed production control operation. Labor Department wanted to have a top voice in manpower mobilization policies. The Services, according to reports, were dissatisfied with the shake they would get from NSRB, which is natural, of course, since NSRB has to be a restraining force upon the demands of the services.

NSRB was not so concerned with how many existing government agencies could get a piece of the war business, as with the idea that the agencies to administer the civilian control job are well, efficiently, and expertly organized, and work smoothly.

* * *

Of course the official explanations are that Mr. Hill "wanted to leave Washington anyway, and had been planning to for some months." However, an official seldom gets a yen to go home just when his job is about to be completed. Likewise, Mr. Truman, in naming Mr. Steelman temporary NSRB Chairman, hinted that he was listening to all the bureau boys who wanted a piece of the war business, like millions of potential draftees in the last war who realized what good officers they would make in the forces.

* * *

Friends of NSRB are hopeful that their plans will not be junked. Perhaps in talking about integrating NSRB planning with other government agencies, Mr. Truman may have had something better in mind than merely protecting the interests of existing agencies. Within three months, or less, when Mr. Steelman is supposed to give way to a "permanent" Chairman of NSRB, this story may become known. It is the story of whether government Administration must break down on an important front in the face of inter-agency jealousies.

* * *

There has been a decided cooling off in Federal Reserve Board sentiment for the boosting of required commercial bank reserves, during the past few weeks.

During the early fall the Board went barnstorming around the country with speeches preaching the necessity for holding down bank credit to fight the inflationary spiral. Now all that is changed. A number of factors account for the change.

One is the election. The election of a left-wing Congress will go a long way to guarantee that if the Administration as a whole wants bank credit restriction, the Congress will write it. The new Congress will not be one to hesitate to throw the onus on to banks for any further inflation that may arise.

The election is responsible in another respect. One result is likely to be a demand for more liberal home mortgage lending. If Congress were to enact a law curbing the total lending capacity of banks and at the same time were to admonish banks to make more home mortgage loans, banks would be under a double pressure to reduce business loans.

Of course the Federal Reserve Board is acutely conscious of the danger that a restriction on bank credit, if accompanied by reduced business activity and unemployment, would put it in the doghouse of public opinion. Yet business capital expenditures at a record rate are an important prop to the inflationary boom. Term loans are a factor in business financing. If they were hit at the same time Congress was threatening an excess profits tax, to release labor from the mild inhibitions of the Taft-Hartley Act, and Congress was generally snarling at business, then business expansion plans just might evaporate. That is what the Board probably fears.

* * *

There is an even more parochial reason, however, why the Reserve Board now hesitates to step out with a demand for power to raise required reserves still further. As required reserves of member banks rise, the advantages of belonging to the Reserve System diminish. Member banks, faced with a contraction of their earning capacities, are going to make eyes at the state banking departments, where required reserves often are much less.

The Board, it is now said, feels that if it goes ahead with its "sales program" of the fall season on higher reserves, it might as well face the fact that membership in the Reserve System will drop. Then the System's capacity to play any part on any future monetary situation would diminish.

* * *

While it may be that when the show-down comes, the Board will be forced to appear consistent and ask for authority to boost required reserves, the fact is that enthusiasm has diminished markedly. This is surprising, for only a few weeks ago the whole FR Board team was racing for all it was worth toward the goal of bank credit curbing.

As a matter of fact, within the Administration as a whole, there is a decided hesitancy to monkey with bank credit curbs at this time. The President, however, has the final say as to what he will recommend to Congress. If he recommends once again the curbing of bank credit, he will do it virtually without the private backing of his advisers, it is believed.

(This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.)

BUSINESS BUZZ

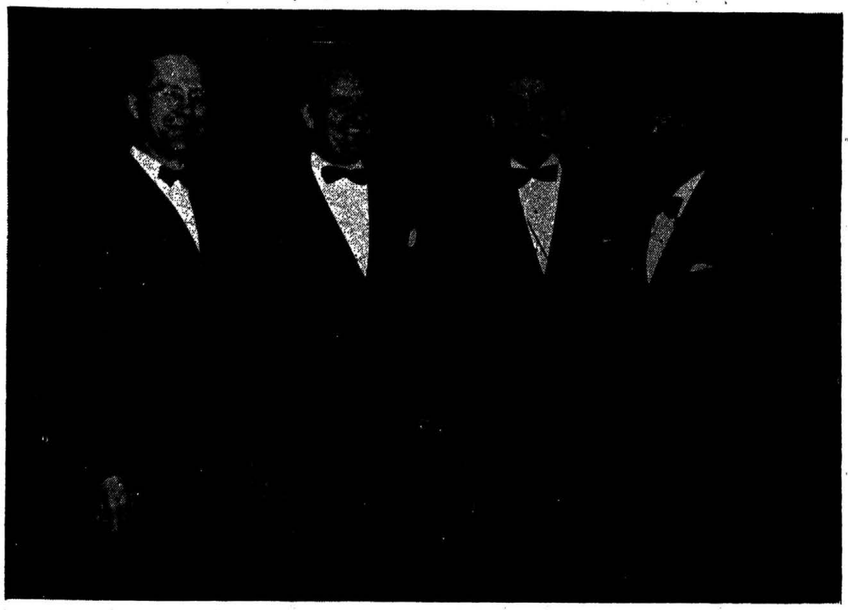
"A fine TRUST co.—when you won't even TRUST me for a LOAN!"

"Can You Spare Thirty-Five Seconds?"

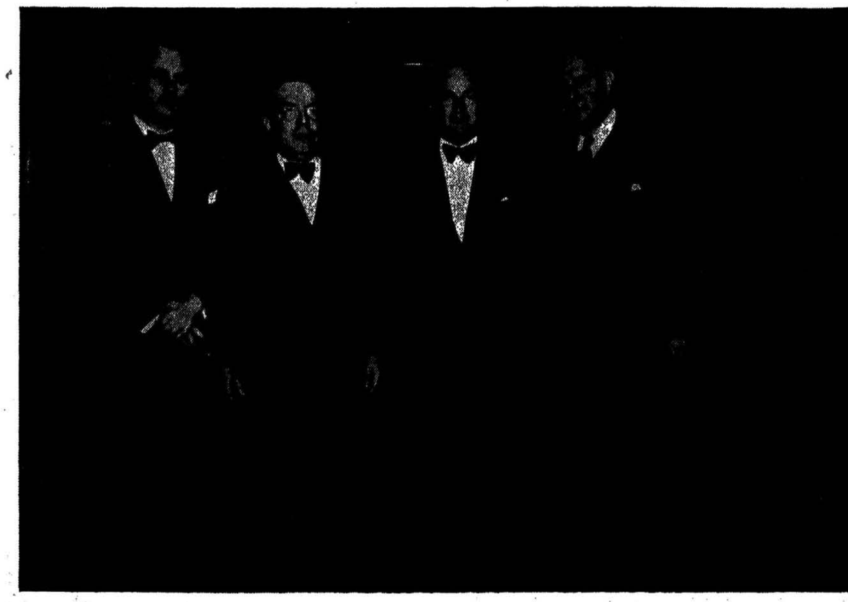
Col. Oliver J. Troster, of Troster, Currie & Summers, 74 Trinity Place, New York City, has a new slogan. He has become a camera enthusiast and is going around with his Polaroid camera model 95 snapping pictures of all the boys and in 35 seconds giving them the finished print, about 3¼ inches by 4¼ inches in an attractive sepia tone.

For a sample you might try the Colonel!

New York Security Dealers Association



George Searight, *Aetna Securities Corp.;* Frank Dunne, *Dunne & Co.;* Hon. Joseph C. O'Mahoney, George Geyer, *Geyer & Co., Inc.*



H. E. Kuehner, *Joyce, Kuehner & Co.;* Edward A. Kole, guest; Edmond M. Hanrahan, Chairman of the Board of the SEC; Emil Schram, President of the New York Stock Exchange

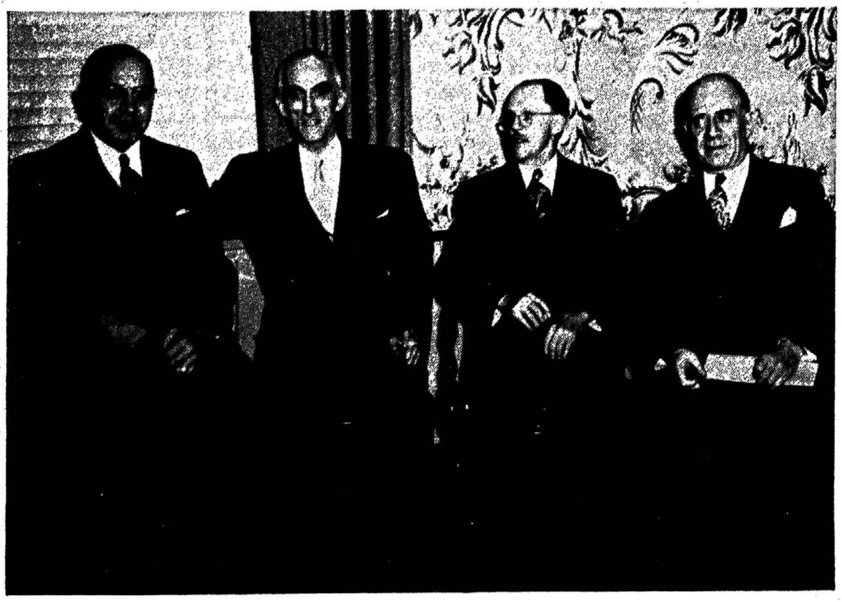
John J. O'Kane, Jr., *John J. O'Kane, Jr. & Co.;* Herman D. Meyer, *Stern & Co.;* Bill H. Doerr, *Reynolds & Co.*, Philadelphia; Harry D. Miller, *Nugent & Igoe*, East Orange, N. J.

Frank T. Harrington, *H. D. Knox & Co., Inc.*, Boston; H. D. Knox, *H. D. Knox & Co., Inc.*, New York City

Erwin Stugard, *Bond & Goodwin, Inc.;* Wm. C. Orton, *Gude, Winmill & Co.;* Mrs. Jule Feeney, Waldorf-Astoria check room

Mrs. Marguerite I. O'Keefe, Executive Secretary, *New York Security Dealers Association;* Miss Margaret O'Keefe; Joseph Flanagan, *John J. O'Kane, Jr. & Co.*

Twenty-Third Annual Dinner

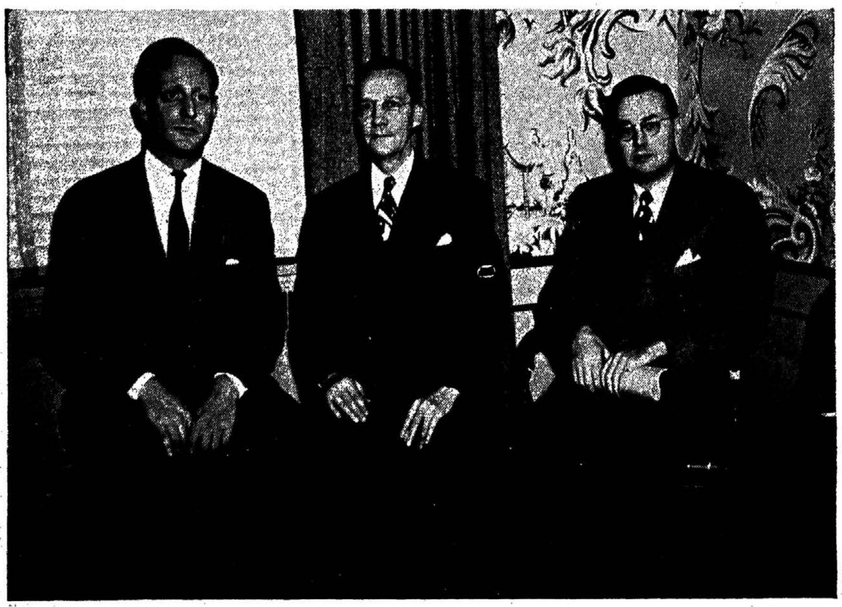


P. C. Kullman, Jr., *John J. O'Kane, Jr. & Co.;* "Duke" Hunter, *Hunter & Co.;* Charles H. Dowd, *Hodson & Co., Inc.;* Otto H. Steindecker, *New York Hanseatic Corp.*

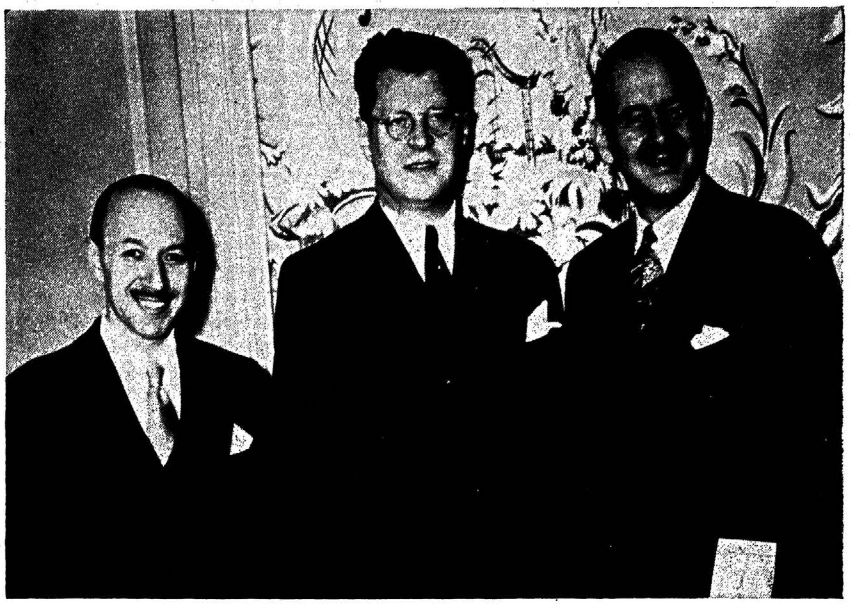
John Cusack, *Amott, Baker & Co., Inc.;* Melville Wien, *M. S. Wien & Co.;* Sam Weinberg, *Weinberg, Frank & Co.*

Anthony Becker, *Securities and Exchange Commission;* Lee Sherman, *L. D. Sherman & Co.;* Irving A. Greene, *Greene & Company*

Edwin L. Beck, *Commercial & Financial Chronicle;* Frank Scheffey, *Geo. R. Cooley & Co.*, New York; Lou Walker, *National Quotation Bureau*

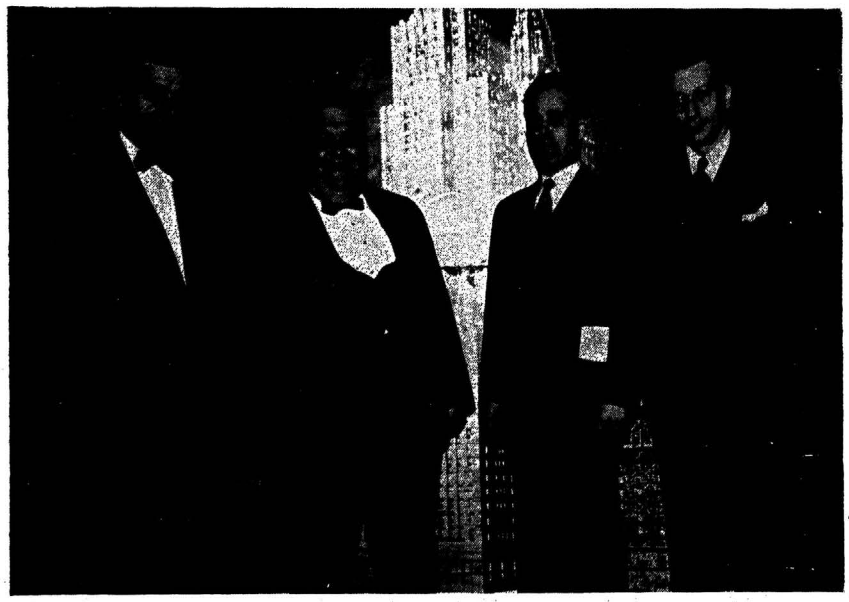


C. W. Hotchkiss, *Sterling Oil of Oklahoma*, Tulsa, Okla.; R. M. Wright, *Greenfield, Lax & Co.;* Walter Kruge, *James D. Cleland & Co.*



Maurice Hart and Kurt H. Grunebaum, *New York Hanseatic Corp.;* Earl H. Newbery, *Chilson, Newbery & Co.*, Kingston, N. Y.

Held at the Waldorf-Astoria

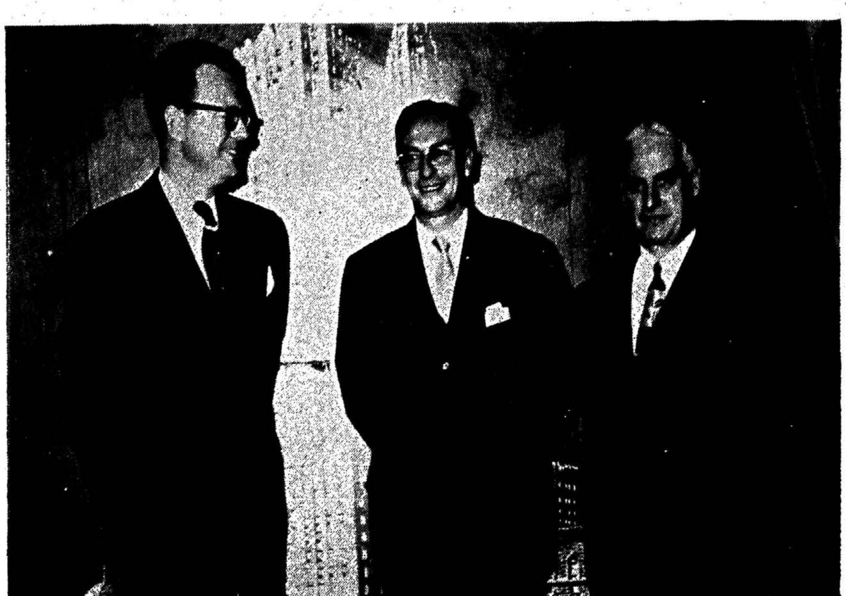


William D. Moran, *Securities & Exchange Commission;* Richard B. McEntire, *Securities & Exchange Commission;* Bert Seligman, *Townsend, Graff & Co.;* Louis Loss, *Securities & Exchange Commission*

Philip L. Carret, *Gammack & Co.;* Shelly Pierce, *New York Journal of Commerce;* Walter Murphy, Jr., *Walter Murphy, Jr. & Co.;* Edward T. McCormick, Assistant Director, *Securities & Exchange Commission*

John F. O'Mahoney, guest; David Morris, *David Morris & Co.;* D. J. St. Germain, *D. J. St. Germain & Co.*, Springfield, Mass.

Vic Reid, *Growney & Co.;* Mike Growney, *Growney & Co.*



Graham Walker, *National Quotation Bureau;* Louis P. Singer, *Troster, Currie & Summers;* Eugene J. Callahan, Jr., guest

Belmont Towbin, *C. E. Unterberg & Co.;* Meyer Willett, *C. E. Unterberg & Co.;* Allen MacDuffie, guest; Homer D. Wheaton, guest

Friday, December 10th, 1948

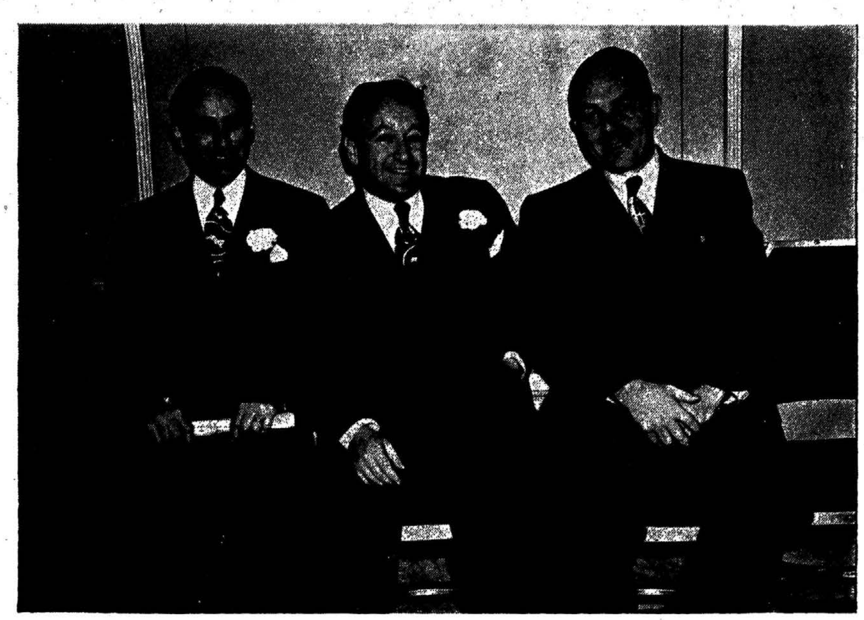
Arnold G. Hyman, *Newborg & Co.;* Louis C. Lerner, *Lerner & Co.,* Boston; Clermont Cartwright, *Hill, Thompson & Co.*

Kurt Wechsler. *Heimerdinger & Straus;* Barney Nieman, *Carl Marks & Co.;* Franz Bachman, *M. Schloss;* Curtiss J. Straus, *Heimerdinger & Straus*

Harry Revits, guest; Ed Caughlin, *Edward J. Caughlin & Co.,* Philadelphia; Joe McDonough, *Cohu & Co.*

William F. Goulet; D. Raymond Kenney, *Kenney & Powell;* Nat Krumholz. *Siegel & Co.*

Edward S. Ladin, *E. S. Ladin & Co.;* Joseph E. Owens; Robert F. C. Benkiser, *Grace National Bank & Trust Co. of N. Y.*



Dave Magid, *Hill, Thompson & Co.;* Sam Magid, *Hill, Thompson & Co;* Ralph Dimpel, *Edward A. Purcell & Co.*