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Economists Give Opinions on the Business Outlook

Most of panel of National Industrial Conference Board see no marked change in general level of business activity in 1949. Prof. O. Glenn Saxon expects price decline, but Bradford Smith holds opposite view.

Twelve of the nation's economists discussed the business outlook for 1949 at the latest "Evening with the Economists," held under the sponsorship of the National Industrial Conference Board. Clyde L. Rogers, Secretary of the Board, presided as Chairman.

In general, the participants in the Board's Economic Forum anticipate "no marked change" in the general level of business activity in 1949. The group foresaw a "slight downward drift" in most business indicators next year, "which will be more marked in dollar and price measures than in physical volume."

The members of The Conference Board Economic Forum and guests of the Board were:

Edwin B. George (Discussion Leader), Economist, Dun & Bradstreet.

Louis H. Bean, U. S. Department of Agriculture. (Guest).

Donald H. Davenport, Director, Division of Economic Development, New York State Department of Commerce.

Solomon Fabricant, National Bureau of Economic Research.

Martin R. Gainsbrugh, Chief Economist, National Industrial Conference Board.

Malcolm P. McNair, Professor of

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Business Prospects in 1949

By FRANK D. NEWBURY*

Economic Consultant, Westinghouse Electric Corporation

After analyzing historical relationship between investment expenditures and gross national product, industrial economist concludes there is good reason to believe there will be little change from present high level of business activity, gross national product and employment. Estimates gross national product for 1949 at around $260 billion, provided military expenditure and commodity price levels remain unchanged and enough investment funds are available.

Much of the business forecasting of the past few years has been based on analogy of one sort or another and on the anticipation—possibly only a subconscious anticipation — that the experiences of the years following World War I would be repeated. But we are living under new and unfamiliar conditions affecting our international relationships and obligations, and our domestic business affairs. If we are to chart a safe course in our individual businesses and in our national economy, we need new techniques and better instruments combined with much wisdom.

F. D. Newbury

I can possibly use my time this afternoon to the best advantage if I describe a new approach to the problem of forecasting and make my own predictions a secondary and incidental part of my contribution.

But first let me tell you the general nature of the answer I am going to reach, so that you can

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*A paper by Mr. Newbury read before the American Statistical Association, Cleveland, O., Dec. 29, 1948.

Truman Asks $4 Billion More Taxes

In State of the Union Message, President asks higher rates on corporations, estates, and on incomes in middle and higher brackets, as well as controls on consumer and bank credit and standby allocation and price controls. Advocates repeal of Taft-Hartley Act and reenactment of modified Wagner Act. Calls for strengthening of anti-trust laws and broadening of social security. Wants universal military training.

President Harry S. Truman appeared before Congress on Jan. 5 and delivered his State of the Union Message, in which he asked for $4 billion of additional taxes, to be levied on corporations, estates and individual incomes in the middle and higher brackets. In addition, the President reiterated his recommendations made to the 80th Congress, that social security benefits be broadened and increased, and that standby price and other controls be enacted to combat inflationary trends.

President Truman

As was expected, the President called for immediate repeal of the Taft-Hartley Act and an "improvement" in the national farm program of price supports.

The complete text of the message follows:

Mr. President, Mr. Speaker, Members of Congress:

I am happy to report to this 81st Congress that the state of the Union is good. Our nation is better able than ever before to meet the needs of the American people and to give them their fair

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EDITORIAL

As We See It

At the Other End of the Avenue

President Truman's personal platform—if such it may be termed—in broad outline at least is now before us. It has been known for some time past. Other communications by him to the Congress late this week and early next must be awaited for a full and precise appraisal of what he demands and expects of Congress in this year of our Lord, 1949, but much more was known in advance and certainly much more is now known about that aspect of the current political situation than about the closely related subject of what the 81st Congress will give him. And, after all, Congress, though belittled of late years and pushed aside so far as the occupants of the White House were able to push it aside, is still essential in our scheme of things governmental, and its cooperation is vital to virtually all of the lines of action now proposed by the President.

It has become quite popular to speak of the fact that Mr. Truman is now President "in his own right," and to add that this fact must of necessity give him greatly enhanced prestige and power of leadership. There is, of course, substantial truth in this line of argument, but, to our way of thinking, not as much as seems to be widely supposed. It is true, of course, that President Truman last year conducted a "fighting" cam-

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1949 Federal Tax Outlook

By ROSWELL MAGILL*
Partner, Cravath, Swaine and Moore
Former Under Secretary of the Treasury

Holding an excess profits tax is currently impracticable, and tax increases are uncertain and ill-advised, former Treasury official looks for revisions in present tax laws to correct inequities. Sees need of removal of tax penalty applied to unreasonable accumulation of earnings; a change in methods and standards of allowances for depreciation, and elimination of double taxation of corporate dividends.

There has not been a year out of the last dozen when federal taxes have not been a major item in business calculations. The undistributed profits tax was a feature of the Revenue Act of 1936, 12 years ago; and the excess profits tax returned as part of the federal tax system in 1940, leaving even after its repeal in 1945 a wake of carry-backs and carry-forwards which haunt us to this day.

Roswell Magill

We could smile at our memories of the past if we felt assured that the tax future would be brighter, but we do not and we can not. We can give thanks, however, for one great gain this year, which all of us will appreciate more fully on Jan. 15 and March 15 of 1949. Last spring Congress finally enacted, over the Presidential veto, legislation designed to put taxpayers in all the states on the same basis for federal income, estate and gift tax purposes. In these days of heavy federal taxes, it is certainly manifest in theory, though not always carried out in practice, that taxpayers in like circumstances must be given like treatment; that it is grossly unfair to tax an individual earning $25,000 a year in Ohio $2,278 more than an individual earning the same amount in Texas or California. So long as the Revenue Act of 1948 remains in effect, that particular inequality has been eliminated.

What is the tax outlook for 1949 and the foreseeable future? Can we expect tax reduction or any other form of tax legislation? Have we, as the result of two World Wars, arrived on a plateau of tax inertia; or worse still, have we nothing to anticipate but higher taxes still?

I.

The tax outlook always depends on the expenditure outlook. Nearly all the people want to see the Federal Government pay its way without recurrent deficits, certainly in years of good business. On the record, the President and the Budget Director will have real difficulty in keeping the budget of the next few years down to $35—$40 billion, a figure which allows no substantial tax reduction.

World War I left in its wake a federal budget a little under $3 billion, about four times as large as it had been before that war. The thirties produced expenditures of over $9 billion, three times as large as those of the twenties, and in 1939 we ended with a figure of $8.4 billion. World War II expenditures took us over $100 billion, and today again we face a budget certainly four times and probably five times as great as it was before the war. That prospect is so unattractive that we are bound to review it in detail.

In the fiscal year ended June 30, 1948, the Federal Government spent just over $36 billion, and an added $3 billion was allotted as an advance payment on account of foreign economic cooperation. Of this amount, the major expenditures were for five items:

(1) National defense	$10.6 billion
(2) Veterans' services and benefits	6.6 billion
(3) Interest on the public debt	5.2 billion
(4) International affairs	4.7 billion
(5) Tax refunds	2.3 billion
Subtotal	$29.4 billion

There follow five other lesser items, ranging from $687 million to $2 billion each, which, with the first five items, comprise nearly all the total expenditures:

(6) Social welfare	$1.9 billion
(7) General government	1.4 billion
(8) Transport and communication (highways, aviation, navigation aids, postal service)	1.3 billion
(9) Natural resources (atomic energy, reclamation, forest service)	1.1 billion
(10 Agriculture	.687 bill.
Total	$35.787 billion

Since $36 billion is four or five times the federal expenditures of the thirties, many of us would start with hope and enthusiasm to slash a few billions from the major individual items. What are the chances of anything of the sort? Let us review the list of the ten major categories of expenditures.

What will military and naval expenditures be in 1950? They were $10.6 billion in fiscal 1948. They seem to be running at about $15 billion this year. The military is said to want at least $20 billion, and President Truman has spoken of $14.5 billion. $15 billion is perhaps a likely figure. European relief? Less perhaps than in 1948, as Mr. Hoffman has suggested, but still a likely $5 billion. Interest on the debt is a little over $5 billion and is perhaps more likely to increase than to diminish. Veterans' benefits and services took $6.6 in 1948; how much can the figure be reduced in 1949? With no reductions, the subtotal is about $32 billion, and so far we have provided nothing for the general government.

Certainly it should be possible to prune the Washington payrolls to some extent. Perhaps crop subsidies could be cut a bit; and perhaps other reductions could be made. Nevertheless, with the best will in the world it will be very hard to get the budget down very many billions of dollars. It is perhaps more likely that the President or Congress will add a billion or two. Unhappily and reluctantly we seem for the time being to be stuck with a federal budget of $35 to $40 billion and Congress will show real restraint if the 1950 budget does not climb higher still. If so, we must continue to raise revenues of about the present dimensions. There can be no substantial tax relief. Indeed, there is already Congressional talk of new taxes.

Would this be a good time to increase individual or corporate taxes? Most of us would agree that the expenditure budget must be kept in balance. Individual and corporate taxes are already very high. With an election just over, Congress will not be much interested in tax increases, particularly on individuals. In the corporate field, there is talk of an excess profits tax, and profits defined by law as excessive are always a fair target for heavy taxation. The difficulty is that, in our two experiences with an excess profits tax during two world wars, we have not yet succeeded in devising a law that works at all fairly; and in each case distinguished Secretaries of the Treasury urged repeal of the law at the end of the war. Until we can devise a yardstick of normal profits, applicable to all sorts and conditions of business, we should only resort to the excess profits tax in times of much greater emergency than these.

It behooves us therefore, first, to exercise the greatest restraint with respect to any new expenditures, and, second, to review our tax system very carefully, to make sure that its impact is not damaging or blocking the very business prosperity which is essential to the welfare of the United States Treasury, as well as of all the rest of us. We must not let our enemies win their cold war by destroying our business and our civilization through the taxes Congress has levied in preparation for the fighting war that does not come.

II.

The first order of tax business at the next session of Congress will be a tax revision bill based on H. R. 6712, which passed only the House just before adjournment last June. The bill has no popular appeal, and very little appeal even to businessmen, for it seeks merely to correct a long series of relatively small injustices in the law; and by some provisions, to permit some desirable transactions to go through, which today are blocked by the tax law. Nevertheless, the bill, if passed, will do a great deal of good in numerous cases, and it, therefore, should be revised and adopted.

The bill in its present form is not satisfactory, since it embodies too many compromises between a Republican Ways and Means Committee and a Democratic Treasury that wanted no tax legislation at all. Its most significant provisions are those dealing with stock option and stock purchase plans; and with the penalty applicable to unreasonable accumulations of surplus by corporations. Both sections are an improvement of the present law, but both need

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*Reprinted from the December issue of "The Tax Review," published by the Tax Foundation, 30 Rockefeller Center, New York, N. Y.

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The Business Outlook for 1949

By RUSSELL WEISMAN*
Western Reserve University

Dr. Weisman cites various vital uncertainties, as international situation and government's attitude toward business. Believes postwar boom momentum has spent itself and business is already turning worse and deflation is at hand. Predicts government will refrain from extreme re-inflationary measures, and that when decisive downturn arrives, the available props will prove weak and unavailing.

Forecasting the course of business six months or a year ahead is a precarious undertaking under the most favorable conditions. Conclusions which seem to be sound when they are formulated are rendered invalid by developments which could not reasonably have been seen when the conclusions were arrived at. The most, then, that the forecaster can hope for is that his predictions seemed logical in the light of the facts which were at hand when they were made.

Russell Weisman

By general agreement, many of the facts that would be required for a well considered forecast are not at hand as this is written (Dec. 26). The uncertainties in the outlook are many, the imponderables perplexing in a very high degree.

Uncertainties

There is first of all the highly uncertain international situation. One series of business developments would seem logical if the cold war were to continue at the 1947 temperature for another year or longer. A second set would be in order, of course, if the international situation changed markedly for the worse and it were necessary to restore the principal elements of a wartime economy, while still a third would follow an amicable adjustment of our differences with the Soviet Union and a return to normal commercial and financial relationships.

A second great uncertainty is of the attitude of the government toward business. What will the President recommend to the Congress in his messages on the State of the Union and the budget in such matters as taxation, the level of expenditures and the control of prices and materials? President Truman provided the nation with news that was wholly unexpected, in the first week in November. Will he surprise again in the first week in January?

We in the newspaper fraternity who guessed so badly on the outcome of the national elections must be particularly sensitive to the danger of speculating on what the major policies of the Administration will be in the weeks and months ahead. Will the President go straight down the line and keep commitments which were made and implied in his campaign addresses, or will he take up a position no further to the left of center than he chose for himself when he succeeded to the Presidency in 1945?

The answer to these questions is important because obviously the policy of the government is sure to weigh heavily on the course of business and investment in the months and years ahead. If we have peace and not war, as we all hope and pray, it may easily be the decisive factor in the national economy in 1949.

In the two months which have passed since the national elections, several persons who presumably speak with authority have made public addresses, or have otherwise commented, on the probable attitude of the new Administration toward business, but there seems to have been little agreement among them.

Secretary of Commerce Sawyer, for example, made a speech at the convention of the National Association of Manufacturers which was exceedingly moderate in tone. A spokesman for the Republicans could scarcely have given the business community greater assurance. Senator O'Mahoney, on the other hand, who pretends to speak with great assurance of what the President has in mind, has sounded off on several occasions in the best New Deal fashion, while his colleague Senator Elmer Thomas of Oklahoma, who will be head of the important agricultural committee, threatens to take us back in agricultural policy not only to Henry A. Wallace, but to William Jennings Bryan.

Business Facing Readjustment

As regards the facts of current business, it appears again, as it has appeared on at least three previous occasions since the end of the war, that the forces of readjustment are in the ascendancy and that the government, and probably business also, would be more concerned, in the months immediately ahead, at least, with deflation than inflation. In spite of a high level of business activity throughout the last year (1948) the momentum of the postwar boom seems to have spent most of its force, while most of the conditions which gave rise to, and supported, the boom of the last eight years seem now to have been corrected.

All but a few of the acute shortages for which the war was responsible have been overcome by increased production. The general trend of prices has been toward lower levels for several months. The distributive trades have had difficulty recently in moving their stocks and in maintaining the dollar volumes of a

(Continued on page 46)

*An address by Dr. Weisman before meeting of American Statistical Assn., Cleveland, Ohio, Dec. 29, 1948.

New Credit Controls in France

By DR. M. A. KRIZ*

Dr. Kriz analyzes French credit policy in light of economic and monetary developments in that country. Describes recent qualitative and quantitative credit restrictions, and concludes these create a difficult dilemma in view of inadequate savings to finance private and public reconstruction and urgent credit needs of business to meet tax and wage increases. Says aim of French government is not a general credit contraction but rather temporary stabilization of present credit structure and its eventual expansion with increased production.

French credit policy recently underwent far-reaching changes. The Bank of France discount rates were raised; existing qualitative credit controls were reinforced; and for the first time in the history of French banking, quantitative credit controls were established.

Miroslav A. Kriz

The most spectacular feature of the new credit controls in France was the imposition of special reserve requirements to prevent commercial banks from selling government securities for the purpose of obtaining cash reserves to support expansion of credit to private business. France has thus become, after Belgium and Italy, the third European country to apply this instrument of credit control, which has also been much discussed in the United States. Yet these important developments remained almost unnoticed on this side of the Atlantic.

The purpose of this article is to analyze broadly the new French credit controls. The measures taken must be viewed, however, not in isolation, but rather in the light of France's over-all economic and financial position. In the first half of 1948, industrial production was rising steadily. A Treasury cash surplus, achieved by a compulsory loan and other measures, was exerting deflationary pressure, which was reinforced by the temporary blocking of 5,000-franc notes and the accumulation of the franc counterpart of the United States Interim Aid. Prices and wages meanwhile remained relatively stable following the readjustments at the beginning of the year. The deflationary influence exerted by public finance during this period was only partly neutralized by continuing bank-credit expansion on private account.

In contrast, during the third quarter of 1948 there was a fresh outbreak of inflation, brought about partly by a rise in food prices decided upon by the government in August, partly by the exhaustion of the deflationary influence exerted by public finance. Under these circumstances the continued bank-credit expansion further accentuated the inflationary forces prevailing in the French economy. Toward the end of September, however, after a prolonged political crisis, the budget for the remainder of the fiscal year 1948 was balanced by raising new revenue and cutting some expenditures. Having thus restored a balance in public finance, the French Government deemed it also necessary to impose the further restrictions on commercial-bank credit that we are here considering.

Qualitative Credit Restrictions

The gradual development of French credit controls can best be traced against the background of the Bank of France discount policy. In the last two years there have been several changes in the discount rates, as may be seen from the accompanying table; and in conjunction with these changes, qualitative credit restrictions were established in three stages.

Structure of Bank of France Discount Rates
(Per Cent)

	Present rate (effective 10-1-48)	Rate in force during 9-6-48-9-30-48	10-10-47-9-4-48	1-10-47-10-9-47	1-20-45-1-9-47
Discount rate:					
Treasury bills[1]	3	3½	2½	1¾	1⅝
Commercial bills representing sales[2]	3	3½	2½	1¾	1⅝
Other commercial bills[2]	3	4	3	2¼	1⅝
30-day advances against government securities of fixed maturity not exceeding 2 yrs.	2½	3½	2½	1¾	1⅝
Advances against securities	4½	4½	4¼	3¼	2¾

1 In addition, the Bank of France established, effective Oct. 1, 1948, a special "purchase rate" for Treasury bills and *Credit National* acceptances maturing in less than three months.

2 Between Jan. 10, 1947 and Sept. 30, 1948, the rate for commercial bills was split into a lower rate for commercial paper representing actual sales and a higher rate for the discount of other commercial paper. Effective Oct. 1, 1948, a single discount rate was reestablished for all purposes.

On Jan. 9, 1947, simultaneously with the rise in the discount rate from 1⅝% to 1¾%, the National Credit Council instructed the commercial banks to exercise caution in granting loans and advances, and especially to refuse credits that might be used to finance commodity hoarding. Any advances for amounts exceeding 30 million francs (raised to 50 million in February 1948), or advances by any bank that would bring total advances by all banks to any single enterprise over this amount, were to be made subject to prior authorization by the Bank of France. These restrictions, however, applied only to loans and advances, the discount of commercial paper having been excluded on the ground that the channels between industry and trade should not be obstructed by limitations on such self-liquidating paper.

On Oct. 10, 1947, along with a rise in the discount rate from 1¾% to 2½%, the previous restrictions were tightened, the National Credit Council instructing the banks to grant new credits only where funds were required for essential business that could not be financed otherwise, as by reducing stocks, by cutting operating expenses, or by transferring to his business the personal funds of the individual owner. Preferential consideration was to be given to the credit applications of branches of economic activity designated as essential. In addition to restricting new loans and advances, the banks were required to scrutinize existing credits with a view to cutting down or cancelling the facilities of customers not directly engaged in the production of goods. Credit for non-productive purposes, such as the purchase of securities or property, was prohibited. Finally, the banks were required to supply the Bank of France monthly with a detailed statement of all loans and advances. The maintenance of these restrictions could, if necessary, be enforced by a refusal of the Bank of France to grant rediscount facilities.

In contrast to these restrictions, which applied only to loans and advances, those established on Oct. 1, 1948 also covered discounts other than those of "purely commerical" bills. Furthermore, the selective controls were recast, being in particular made more comprehensive and more severe. However, unlike the previous two occasions when restrictions were imposed simultaneously with the rise in the discount rate, the restrictions established on Oct 1 were accompanied by a cut in the rate from 3½% to 3%. Nevertheless, since the Bank of France had increased its rate from 2½% to 3½% on Sept. 6, the present rate on commercial bills is actually ½ of 1% higher than that prevailing prior to September.

Discounts hold a prominent place in the French banking system. Approximately two-thirds of the aggregate bank-financing of business has recently been made up of discounts. Yet the French authorities are very reluctant to subject discounts to the same restrictions that they have imposed on loans and advances lest, as I have already mentioned, the new restrictions obstruct the flow of merchandise from the manufacturer to the trader. Running for a stated period of time, usually 90 days, the commercial bill is normally considered as self-liquidating and more or less neutral in its monetary effect. This traditional concept, however, it is felt in France, is not applicable in the conditions prevailing today. True enough, the monetary authorities must keep the channels of trade wide open in an economy that has just emerged from a phase of acute scarcity, but it is nonetheless necessary to prevent

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*The author is on the staff of the Federal Reserve Bank of New York. The opinions he expresses are purely personal.

Postwar Commercial Bank Lending Policies

By PROFESSOR WILLIAM E. DUNKMAN*
University of Rochester

Professor Dunkman discusses chief proposals for restricting deposit expansion, as through restrictive legislation, holding reserves constant, and retiring debt. Discounts alarm over increased bank loans, as being widespread throughout economy, paralleled by similar loans by other institutions, and not concentrated as in 1920s. Concludes present inflation is responsibility of fiscal policy; Treasury must retire securities which market will not absorb; interest rate changes should be used; and, above all, budget must be curtailed.

Introduction

Three questions may be identified in the general discussion of postwar bank lending policies: (1) Are they the cause of rising prices in the specific markets affected, e.g., real estate, consumers durable goods, etc.; (2) are they causing a deterioration in the quality of the debt structure; (3) how can they be prevented from causing a generally inflationary expansion of demand deposits? This paper analyzes these three effects of postwar bank lending policies and the proposals to mitigate or eliminate them.

It is found that only the third question is uniquely related to commercial banking. In the present circumstances, there are three methods by which bank loan expansion can be prevented from causing deposit expansion. The first is to prevent the expansion of bank loans through restrictive legislation. For reasons to be discussed later, it is concluded that such a policy is ineffective and otherwise undesirable. The second method is the traditional central bank control of total commercial bank reserves. This method has been used with caution by the Federal Reserve authorities for fear of its effect on the government bond market. Therefore, to the extent that total savings are inadequate to meet the total demand for loans, the only remaining possibility of restricting deposit expansion is a sufficient debt retirement by the Treasury to offset the loan expansion in the commercial banks.

There is nothing novel in this conclusion for the universal experience of war and postwar years teaches that at those times the fate of a nation's currency supply lies in fiscal policy. It is unfortunate that this point has not been emphasized and reiterated by economists and public officials.

The issue has been partly confused by suggestions for changing the structure of bank reserves in the hope that some formula can be devised for controlling deposit expansion without increasing interest rates. These proposals are analyzed and found to be incapable of accomplishing the result.

The Postwar Expansion of Bank Loans

The revival in commercial bank lending has attracted attention for several reasons: (1) It had been assumed by many that the decline in the importance of bank lending since 1920 had become permanent; (2) because the liquid asset holdings of business and individuals were so large at the end of the war, it was believed that there was little need for borrowing (3) the widespread participation in bank borrowing involving business, consumers and home buyers; (4) to some extent, the techniques of making loans to business borrowers has changed.

The chief characteristic of postwar bank lending has been its diffusion throughout the economy. In terms of percentage increases, the changes have been relatively large but in relation to other economic measures, outstanding loans are not great. This is in contrast to the experience during the years 1919-1920 when loan expansion was concentrated in business loans largely associated with increasing inventories and of 1929 when the principal increase was in loans on securities. Between December 1945 and June 30, 1948, the loans of all insured commercial banks increased as follows:

	Amount Outstanding Dec. 31, 1945	Change
	(millions of dollars)	
Commercial	9,461	+8,373
Agricultural	1,314	+ 662
Loans for purchasing or carrying securities:		
To brokers and dealers	3,164	—1,981
To others	3,606	—2,529
On Real Estate	4,677	+5,424
Consumer loans	2,361	+4,051
Other loans	1,181	— 62

Studies by the Division of Research and Statistics of the Board of Governors of the Federal Reserve System indicate that banks of all sizes in all parts of the country participated in this expansion. Borrowers were representative of all types and sizes of business. One of the developments in the field of business loans which has attracted attention has been the practice of making term-loans. In a study of business loans outstanding on Nov. 20, 1946, Albert R. Koch estimated that approximately one-third of the total amount had an initial maturity of over one year.[1] Term loans of this type were found to be popular among small and medium-sized businesses of nearly all types although naturally the larger amount was made to the larger concerns. The important conclusion from these and other studies is that the expansion of bank loans is a result of a widespread demand arising from all sections of the economy. The demand for loans, in turn, is associated with a postwar boom not initially dependent on bank borrowing. This fact is often neglected although it is basic to the understanding of the effects and control of bank loans.

The Role of Bank Loans

Deposit expansion aside, expanding bank loans have no different effect upon the debt structure or individual markets than loans by other institutions. In all types of loans which have increased since 1945, banks are in competition with other lending institutions some of which hold

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1 *Business Loans of Member Banks*, Albert R. Koch, Federal Reserve Bulletin, March, 1947.

*An address by Prof. Dunkman before the Annual Meeting of the American Finance Association, Cleveland, Ohio, Dec. 28, 1948.

The State of Trade and Industry

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

With holiday-shortened work schedules effective in most industries, overall industrial output the past week reflected a noticeable falling off. It continued, however, to be moderately above that of the corresponding week of 1948. A slight dip in employment was noted for the week with much of the decline considered of a seasonal nature.

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The inroads of truck loadings on railroad freight are causing some concern among the rail carriers and well they might when it is, considered that there were 1,668,286 fewer cars loaded in 1948, or a drop of 3.7% under the 1947 level. This includes an estimate for the last week in 1948, according to the Association of American Railroads, which reported a total of 42,833,902 cars loaded for the year 1948.

The Association stated that last year's freight traffic was 43% above the prewar peak in 1929, and that the volume was the greatest for any peacetime year except that of 1947.

Decreases in carloadings during 1948 were reported for the following commodities: livestock, 18.1%; less-than-carload lots of merchandise, 10.1%; grain and grain products, 9.5%; coal, 3.9%; forest products, 2.3% and miscellaneous freight, 1.9%.

An increase of 4.9% in the loadings of ore and of 0.5% in coke loadings was reported.

* * *

Late on Thursday of last week the Interstate Commerce Commission cleared the way for the railroads to increase their rates by amounts ranging from 4% in the West to 6% in the East and South. In petitioning the Commission, the carriers had asked for an 8% interim increase.

The new temporary rates, estimated to return an additional $425,000,000 in freight rates on an annual basis, may become effective five days after rail traffic associations file new tariffs with the ICC. This means the new rate structure will go into effect on Saturday, Jan. 8, or Monday, Jan. 10.

The new increases are to be superimposed on the present rate structure and will remain in effect until the ICC reaches a decision on the carrier's application for a 13% permanent rate boost. This decision probably won't be handed down until the latter half of 1949.

The Commission said Thursday's boost brings the total accumulated increase in freight rate revenue since June, 1946, to $2,900,000,000 a year, or an overall increase of 52% over prewar freight rates.

The additional freight rate increase nationwide will amount to $415,000,000, the ICC said.

To this total should be added about $10,000,000 for increases in charges for loading and unloading freight, diversion or reconsignment and for stopping-in-transit to complete loading, bringing the total additional cost to $425,000,000 a year.

In addition to the freight rate boost for rail carriers, the Commission on last Thursday also permitted the Railway Express Agency to increase its rates in the East and South to the schedule of rates now in effect in the West.

* * *

Numerous post-holiday clearances considerably stimulated the volume of retail sales in the period ended on Wednesday of last week. Although retail volume declined fractionally from the previous week's level, it was well above that of the corresponding week a year ago; the 1947 week did not include two pre-Christmas shopping days Consumers sought good quality merchandise at moderate to low prices.

Wholesale volume in the week continued to decline seasonally from the high levels of previous weeks but remained moderately above the level of the comparable week a year ago. Some Spring bookings together with scattered commitments for replacement stocks helped to counteract the effects of year-end inventory reductions.

STEEL OUTPUT SCHEDULED AT 100% FOR WEEK, HIGHEST CAPACITY ON RECORD FOR START OF YEAR

Record world steel production in the 21 major steel producing countries of 168,000,000 tons during 1948 fell far short of meeting demand. United States participation in this figure totaled 88,500,000 tons of steel ingots, which was short of the demand in this country, according to "The Iron Age," national metalworking weekly.

For the waiting consumer, 1949 will bring more metals. Estimates for 1949 steel production are that 92,000,000 tons of ingots may be produced, the trade paper states. Exports of steel from the United States were sharply curtailed during 1948 and may be further reduced in the coming year. This reduction, plus the increased production, will mean that the most acute period of the steel shortage in this country will be over before the end of 1949.

The political interest in Washington in steel capacity will mount so long as the shortage exists. If the steel industry is right, and existing steel capacity is adequate to take care of this country's long term needs, it will be showing signs of meeting this shortage before the end of 1949. But if the government economists are right and there is a need for 100,000,000 tons plus of capacity for the long pull, another year of tight steel supply is about all that Congress is expected to tolerate.

In Washington, states "The Iron Age," the lines are drawn for a battle on the basing point system of pricing. While the steel industry abandoned it in favor of f.o.b. mill selling last year, steel men have indicated a willingness to go back to it if a clear cut legal decision is available.

Hearings in Washington on the subject, the magazine notes have only confirmed that there is a great deal of confusion on basing points that must be cleared up before judicial wisdom can be obtained. So far, most consumers of steel have been unable to separate f.o.b. mill selling of steel and a price increase on steel that came along at about the same time. As a package, these made a

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Observations . . . .

By A. WILFRED MAY

Protection of Perfume Profits — And Capitalist Hara-Kiri

"They [the great capitalist class] allow themselves to be ruined and altogether undone by their own instruments. . . . Perhaps it is historically true that no order of society ever perishes save by its own hand."—Lord Keynes.

"We [opponents of Socialism] cannot speak our subject any too well. And to be honest about it, we ourselves have inspired about as many anti-enterprise institutions as have our political opponents."—Henry Grady Weaver.

* * *

This column of two weeks ago, under the caption "Not Even the Tories Snub Santa," was devoted to demonstrating that the self-interested, or "pocket book," vote is not confined to the underprivileged. The current behavior of many business leaders in supporting re-imposition of excess profits taxation which would not directly harm them, in lieu of an alternative rise in the flat corporate rate which would immediately hit them, was cited as one of several examples, of the universal operation of human nature. This called forth an elaborately reasoned rebuttal in last week's "Chronicle" from Mr. Philip Cortney, economist and President of Coty, Inc.

A. Wilfred May

Although President Truman's Message to Congress implies postponement of his personal agitation for reenactment of this ruinous tax legislation, it will be introduced for the Administration by Representative Dingell. In any event Mr. Cortney's enthusiastic endorsement of the tax is highly significant because of this Representative and intelligent businessman's statesmanlike attitudes toward our economic problems of the day and his devotion to the social welfare on an international scale, which are well-known to the writer; as well as because of its exemplification of the narrow viewpoint by the industrial community.

Disclaiming self-interest for his preference of excess profits taxation, Mr. Cortney elaborates his argument on the economic merits. He basically reasons since all industries have not benefited from *backlogs* "inherited from" the late war, hence those that have so benefited should be prevented from keeping those "fortuitous" gains by reimposing the excess profits tax. As a specific instance he cites the position of his own company, a leader in the cosmetics and perfumery field:—"Last year more than 60% of the pieces of goods my company (Coty, Inc.) put on the market were sold at 1939 prices, notwithstanding the fact that production and selling costs went up on an average of more than 50% since 1939. Why? Simply because, not having inherited any backlog of demand from the war, competition in our field was so keen that we could not increase our prices to take into account the increase in costs."

A "Backlog" Tax

In other words a levy conceived under the demagogically attractive terminology of attack on "excess" profits is now seriously reincarnated by a leading businessman under the concept of a punitive "wartime backlog" impost.

Such reasoning by American business out-rationalizes both the New Deal and Labor leaders' reasoning for the tax. For New Dealer No. 1—President Truman—even in his "campaign oratory" message to Congress last July limited his argument to the desirability of "a Treasury surplus and to provide a brake on inflation."

Surely it would at any time be most difficult, if not impossible, to legislate a tax correlated with wartime windfall on particular industries. To have done so immediately after the cessation of hostilities, or merely to have continued the wartime excess profits law, was much more justifiable than to re-enact it now. But its inequity and economic fallacies were even then recognized to be absurd by Mr. Truman's then Secretary of the Treasury, Mr. Fred Vinson, who in asking for its repeal in October, 1945, said:

"The excess-profits tax was necessary during the war, not so much as a source of revenue—although the yield has been large—but rather as a control measure to prevent war profiteering.

"My thought was, . . . that of all the taxes on the books the excess-profits tax is the strongest impediment to reconversion. In the first place, it was a wartime tax.

"I think it is abnormal for a peacetime tax.

"Despite its contribution to the successful operation of a wartime economy, the excess-profits tax has been an erratic and in many instances an inequitable tax. The difficulty is that calling profits excessive does not make them excessive. Calling profits normal does not make them normal. Normal profits and excessive profits look alike. There is no chemical reagent to distinguish them. The excess-profits tax, to be sure, has a formula—a very complicated formula in its entirety—for dis-

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Firm Name Now Is John C. Legg & Co.

BALTIMORE, MD.—The banking firm of Mackubin, Legg & Co., 22 Light Street, changed its name to John C. Legg & Co., effective Jan. 1 — the 50th anniversary of its founding, it is announced.

John C. Legg, Jr.

The firm was started in 1899 by Geo. Mackubin, and known as George Mackubin & Co. Today it is one of the oldest and largest investment banking houses in Baltimore. It is a charter member of the Investment Bankers Association and joined the New York Stock Exchange in 1916, which makes it the oldest member house in Baltimore.

In 1900 Mr. Mackubin and G. Clem Goodrich formed the successor firm of Mackubin, Goodrich & Co. John C. Legg, Jr., was admitted to partnership in 1905. After the death of Mr. Goodrich, the firm name was changed to Mackubin, Legg & Co. during 1933. George Mackubin retired as a partner in 1942, Auville Eager during 1943 and Laurence M. Simmonds, Jan. 1, 1948, but all three of these former partners continue their association with the firm.

The present partners are John C. Legg, Jr., Howard E. DeMuth, Joseph Ward Sener, C. Gerard Morgan, Jr., Walter C. Pohlhaus and John C. Legg, III. The firm is also a member of the Baltimore Stock Exchange and associate member of the New York Curb Exchange. The firm engages in all the various functions of the investment banking business.

Benesch, Wolff With Steiner, Rouse & Co.

Steiner, Rouse & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, announce that Charles L. Benesch and Frederick O. Wolff, are now associated with the firm in its main office in New York. Both were previously with Ernst & Co., Mr. Benesch as Manager of the Syndicate Dept.

Ball, Burge & Kraus To Admit Four

CLEVELAND, OHIO. — Ball, Burge & Kraus, Union Commerce Building, members of the New York and Cleveland Stock Exchanges, on Jan. 13 will admit Fred W. Hudson, Lewis F. Naegele, James P. Stearns, and A. Russell Treadway to partnership. All have been with the firm for some time.

Pointers on Selling

For clever, helpful hints for selling securities read the "Securities Salesman's Corner," a regular feature in every Thursday's issue of the "Chronicle."

The Inflationary Problem

By SEYMOUR E. HARRIS*

Professor of Economics, Harvard University

Harvard economist, holding inflationary forces still continue, contends, unless authorities are prepared to introduce strong measures, such as allocations, price controls, and other restraining measures, dependence on fiscal policy will be required to restrain inflationary forces. Says Congress is not prepared, because of banker opposition, to impose forced purchases and immobilization of government securities by banks. Advocates high taxes and less government spending as well as limited controls as anti-inflationary measures.

Introduction

Inflation is a worldwide phenomenon; in countries ravaged by war, and in those largely untouched; in countries blessed (?) by overemployment and in those suffering from unemployment; in countries favored by an excess of imports and those "injured" by an excess of exports; in countries with a budgetary surplus and those with large deficits; in countries largely tethered to the principles of free enterprise and those relying on the planned economy and controls.

The Contribution of War

War and its aftermath are, of course, the main causes of the current epidemic of inflation. For it is war that provided high levels of employment and activity and corresponding levels of income, without providing supplies of consumption goods and capital for non-military purposes commensurate with the current flow of income. With the accumulation of cash and of liquid assets convertible into cash, the excess of purchasing power over the flow of wanted goods at the current price level tended to grow. Wartime destruction further upset the balance between demand and supply.

In Great Britain, for example, net non-war capital formation at home in the years 1939-45, inclusive, was minus £1,076 million, whereas in 1938 the positive figure was £300 million. On the basis of the latter, it might be held that the country accumulated a deficit on capital account over the 7 years, 1939-45, of more than £3,000 million. At 1938 prices for capital goods, the relevant deficit in 1948 is at least £4,500 million. This shortage occurred despite borrowing from abroad and sales of assets to foreigners of about £5,000 million in the war years. Sacrifices imposed upon the private sector of the economy are suggested by the reduction of the percentage of national income going to current personal expenditures from 78% in 1938 to 57% in 1945, and net addition to assets from +6% in 1938 to —12% in 1939-45.[1]

Obviously, the greater the deficiency accumulated during the war and the larger the growth of cash and substitutes for cash, the greater the inflationary pressures. A comparison of (1) the amounts likely to be spent out of current income plus the abnormally large outlays out of past income, associated with abnormally low spending relative to income in war, with (2) the flow of goods and services at current prices will suggest the strength of inflationary forces.

Open and Suppressed Inflation

This analysis will not, however, yield the whole explanation. In many countries strong measures were taken to suppress inflation. Late in 1947, for example, the currency circulation in Norway had risen 5-6 times as much as retail prices; and in 9 other European countries inclusive of the United Kingdom (notes and deposits for the last) the rise in circulation was 2 or more times that of retail prices. In these countries, the authorities at any rate had succeeded in keeping overt inflation down. In other countries, and notably France, Italy, Greece, Roumania, Hungary, and Poland, the rise of prices far outstripped that in circulation. The ratio in each case was about 2 to 1.[2]

Making Up Deficiencies

The larger the deficiency inherited from the war, the greater the impatience to catch up, and, therefore, the stronger the inflationary pressures. In many countries of Europe, the shortage of

(Continued on page 32)

*An address by Dr. Harris before the Annual Meeting of the American Economic Association, Cleveland, O., Dec. 29, 1948.

1 *National Income and Expenditure of the United Kingdom, 1938 to 1946*, Cmd. 7099, 1947, pp. 5-6.

2 UN: *A Survey of the Economic Situation and Prospects of Europe*, 1948, p. 79.

The Railroads

By ROGER W. BABSON

In discussing outlook for the rails, Mr. Babson takes a "bearish" attitude. Points out railroads are losing business to competitors, and high wages of employees and other increased costs, not offset by higher rates, will make rail carriers more vulnerable to next depression.

Many friends ask why I do not recommend railroad common stocks. There will, of course, be further periods when railroad stock prices will rise. The hopes of speculators spring eternal. But every rise will, in my opinion, be followed sooner or later by descent to new lows. I predict that in one or two decades either certain railroad common stocks will have disappeared, owing to nationalization, or else they will be quoted at levels one-half or one-quarter of what they are quoted at today, depending on the burden of debt in the case of each road.

Roger W. Babson

Railroads Losing to Competitors

To me, the most "bearish" or discouraging symptom of the ill fate of the railroads is that eminent leaders in the industry are urging the Interstate Commerce Commission to regulate not only the railroads but all other forms of transportation as well. To me this is tantamount to admission by high-placed railroad presidents that the railroad industry can't "lick" its competitors. This also means that the railroads are not profiting as they hoped from their rate increases.

The railroads surely are fated to suffer further heavy losses to airlines, pipelines, inland waterways trucks and busses. Consequently they are not satisfied with higher rates for themselves but wish to manipulate competitive conditions in a manner that would guarantee the rails enough business to maintain solvency. This would not be in the public's interest.

Railroad Labor Greedy

At this time, 16 non-operating railroad labor unions are demanding further changes in wages hours and conditions. To grant these requests would cost the railroads one and one-half billion dollars annually, enough to plunge railroad finances "disastrously" into the red. To judge by precedent, these demands will be granted only in part; but that does not encourage me to recommend railroad common stocks. Railroad labor will not insist on wages that will cause operating deficits for all the roads, but railroad labor will in the future insist on wages that will necessitate reduction or omission of many dividends. Railroad labor, leagued with labor in other industries, is immensely more powerful politically than railroad shareholders.

Railroad employees as a class are as worthy of their hire as laborers in any other industry. I feel nevertheless that railroad treasuries are just as vulnerable to labor greed today as they were vulnerable in former times to the avarice of looting capitalists—such as Jay Gould and Jim Fiske.

Railroads and Next Depression

Advancing costs have lifted to the highest point in history the level of activity that the railroads must maintain to avoid deficits. This implies that the carriers will be more vulnerable than ever during the next depression. A decline of 10% in gross earnings could eliminate all dividends and income bond interest in the case of some roads.

Before the recent Presidential election, the Interstate Commerce Commission showed an inclination to boost rail rates sufficiently to offset successive wage advances. It now seems logical to expect that the ICC will pay some heed to the "mandate" of Nov. 2 and proceed more slowly when authorizing rate boosts that run counter to Mr. Truman's campaign against high prices and further inflation.

Recent Supreme Court Decision

Current plans of many businesses to relocate near sources of supply, or to decentralize in order to cut distance to markets, reveal two more unfavorable influences on railroad traffic volume. This movement will be hastened by the Supreme Court decision on Base Point Pricing.

The railroads will always be with us and will always offer the best means of transportation for bulky heavy freight. But for the sort of traffic they can definitely retain from their competitors, the railroads are overbuilt. Hence, a long period of deflation appears in prospect for their junior securities, with nationalization a possibility.

Reynolds Co. Open New Southern Branch

Reynolds & Co., 120 Broadway, New York City, members of the New York Stock Exchange, announce the opening of a Winston-Salem, N. C., office. Charles H. Babcock will be resident partner at the new office.

From Washington Ahead of the News

By CARLISLE BARGERON

The action of the House of Representatives, on the first day of the session, in defenestrating its Rules Committee is being hailed by the radicals as a great victory for democracy. More likely, it will develop to be the ascendancy of mob rule. That, however, is the ultimate of democracy.

Carlisle Bargeron

No longer, we are told, will a wilful group on the Rules Committee be able to frustrate the will of the majority. It so happens that the committee has never been able to do this. The dear old "peepul" will now be able to get health aids, subsidized housing and the like and no small group of men "serving the selfish interests" will be able to deny them. As to whether the majority of the people want these hand-outs, your correspondent has no way of knowing. He does know that an incessant and vociferous agitation wants them.

The crime of the conservative group on the Rules Committee has been that it protected the rank and file members against this agitation. At no time did it have the power to prevent a vote if the majority of the House really wanted one.

At any time, and this was particularly true of the legislation for subsidized housing and Federal aid legislation which the Committee was blamed for holding up in the 80th Congress, a majority of the members of the House could have brought about a vote by the simple expedient of signing a petition. This, they never did. My recollection is that the housing petition could never muster much more than 100 signatures. Legislation a few years back for the establishment of an FEPC, which got bottled up in the Rules Committee, did not fare even this well.

Through the device of the Rules Committee failing to report out a bill, the members were prevented from being put at the mercy of the radical agitators and pressure groups. They were not sincerely for the legislation that was being bottled up. But the average member of the House, standing for reelection every two years, can't stand up against the hammering and smearing and propaganda which the Leftists have developed to such a high point.

The Rules Committee machinery, incidentally, was considered quite an advance in the "democratic process" when it was created. In the days of Czar Joe Cannon, it was for him and him alone, to decide whether to recognize a member. He could prevent any legislation by simply refusing to recognize the member wanting to deal with it.

It would, perhaps, be beneficial to some of the Leftist commentators who are now writing about the Committee being a dictatorship, to go back and read up on their history. This machinery was created to wrest Boss Cannon's power from him. It was created at the instance of the late George Norris before whose memory the Leftists still genuflect. They should read what he said in the debates about taking the power away from one man of czaristic temperament and spreading it among 12 to 15 members constituting the Rules Committee.

Twelve or 15 members will still be the rulers of the House under the new order. They won't be the same men. They will be the chairmen of the respective committees along with the Speaker and the Majority Leader.

Under the new order, if the Rules Committee has held up a bill for 21 days, the chairman of the Committee having originally reported it out, can, on a specified date, demand recognition of the presiding officer and move that the bill be called up. It then takes a majority vote of the members to call it up. So you are right back where you were—majority rule still determines.

The same result could be obtained and without the waste of 45 minutes or an hour which it takes for a roll call, through the signing of a petition.

But here is the important difference. The members will now be on the spot. They have got to vote in the full glare of the radical propaganda. And they vote in the consciousness that those who oppose the legislation will do nothing to them for voting for it, while the Leftist agitators will crucify them if they vote against it.

The respective Committee chairmen have always been in the leadership group. Invariably the Rules Committee has always acted in accord with the decisions of this group, of which its members constituted a part.

In theory the change means little if anything. Power switches from certain men to others. But in practice, the power switches to the Leftist mobs. They can put the heat on a Committee chairman to call up a bill and then the timid rank and file will vote aye.

Nils Geruldsen V-P. Of Detmer & Co.

CHICAGO, ILL.—Nils S. Geruldsen has been elected Vice-President of Detmer & Co., 105 South La Salle Street, members of the Chicago Stock Exchange. Mr. Geruldsen, who has been with the firm for some time, is manager of the municipal department.

Neergaard, Miller Co. To Be NYSE Member

Neergaard, Miller & Co., 1 Wall Street, New York City, will become a member of the New York Stock Exchange, when Warner G. Cosgrove, Jr., Exchange member, is admitted to partnership on Jan. 17. Mr. Cosgrove has been active as an individual floor broker. Other partners are William B. Neergaard, Royal F. Herdeg, Benjamin L. Prime, and James A. Sebold. Robert C. Albright will retire from partnership.

Parker To Manage Lord, Abbett C'go; Hughes To New York

CHICAGO, ILL.—Lord, Abbett & Co., announced that Albert R. Hughes, Vice-President formerly in charge of the Chicago office, is moving to the New York office in charge of national distribution for Lord, Abbett investment companies.

John G. Parker

His successor as manager of the Chicago office is John G. Parker who has been associated with Lord, Abbett for the past six years.

Philip T. Williams With Southern Investment Co.

(Special to THE FINANCIAL CHRONICLE)

CHARLOTTE, N. C.—Philip T. Williams has become associated with Southern Investment Co., Inc., Johnston Building. Mr. Williams has recently been conducting his own investment business. Prior thereto he was with First Securities Corp.

Business Leaders Optimistic on 1949 Outlook

Symposium of Commerce and Industry Association of New York, Inc., reports opinions of top executives in foreign trade, manufacturing, textiles, foods, hotels and electrical appliances.

Leaders of American business and foreign trade contributing to the annual symposium of the Commerce and Industry Association of New York, Inc., on the outlook for the New Year believe that the brisk pace set by business in the last 12 months will carry over of its momentum through 1949 and insure continuing prosperity, but much will depend, in their opinion, on the attitude toward business of the 81st Congress and the national administration. Of the top executives in the fields of foreign trade, manufacturing, building construction, banking, foreign travel, aviation, textiles, foods, hotels and electrical appliances, who participated in the forecast roundup, all are directors or members of the Association. Here are their views on the outlook for 1949:

Foreign Trade

MR. GERALD LeVINO,
President of Guiterman Co., Inc.

"Foreign traders whose operations have met with difficulties from every side during the past year are hopeful of a better 1949. Unfortunately, there are no definite indications yet that overseas markets will be able to develop in the near future the ability to pay for United States goods they need and are so anxious to obtain.

"Although most foreign traders reluctantly have come to agree that export controls are necessary under present world conditions, the manner in which United States export licensing has been administered placed a greater burden on exporters during the past year than at any time during the war. This situation has been brought to the attention of the Secretary of Commerce on a number of occasions by the Association and other trade groups. It is hoped these efforts will bear fruit during the coming six months and that the subject also will have more effective consideration by Congress.

"The Export Control Act expires Feb. 28, 1949, and undoubtedly will be up for extension by Congress. Administration spokesmen have indicated they will urge a three-year extension to coincide with the duration of the Marshall Plan. However, to assure continued interest and annual review by Congress in the operations of controls, foreign traders should urge their congressional representatives to oppose any extension beyond one year and then only for items in short supply.

"Also coming before the new Congress will be renewal of the Reciprocal Trade Agreements Act. The principles of reciprocal trade agreements should be made a permanent part of our law instead of requiring periodical renewal as at present.

"The revised International Trade Organization Charter, which probably will come before the next Congress, also will affect the future of foreign trade. There is however, considerable division of opinion among exporters and importers on this subject although there is probably little disagreement as to the desirability of the basic principles involved.

"On the whole, 1949 certainly will be a critical year for many exporters and importers. With the supply situation improving, nonproducing exporters who do not have established sources of supply are going to find it more and more difficult to operate.

"A continued increase in United States import trade—dependent in large measure on a break in inflationary conditions abroad—will be the best indication that our international trade is on a sound foundation, as well as that the ECA Program is bringing results."

Manufacturing

MR. NEAL DOW BECKER,
President of the Intertype Corp.

"Manufacturing in general is likely to continue at a brisk rate through 1949, but the probability is that most of the big backlogs will be wiped out and before 1949 is finished the days of fat order books will, generally speaking, be pretty well over. If this happens, manufacturers will begin to sense a real peril; for high manufacturing and selling costs have brought the break-even point so high that in the case of many companies presently prosperous a 20% decline in sales could put them in the red, or so close to it as to present a distressing problem."

Construction

MR. THOMAS S. HOLDEN,
President of F. W. Dodge Corp.

"The construction boom has flattened out in recent months. Moderate decline in physical vol-

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Dealer-Broker Investment Recommendations and Literature

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

Bond Market in 1948 and Prospects for 1949—Analysis—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Also available are leaflets on **Bethlehem Steel, First National Bank of New York, Monsanto Chemical, Richfield Oil** and **Sunshine Mining.**

Long Range Forecasts—Memorandum—Minsch, Monell & Co., 115 Broadway, New York 6, N. Y.

Market in 1949—Outlook—Stanley Heller & Co., 30 Pine Street, New York, N. Y.

Municipal Bonds—Discussion—William R. Staats Co., 640 South Spring Street, Los Angeles 14, Calif.

New York City Bank Stocks—Preliminary indicated earnings for 19 stocks for 1948 in special bulletin—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

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

Railroad Equipment Trust Certificates—Valuation and appraisal as of Dec. 31, 1948—Stroud & Co., Inc., 123 South Broad Street, Philadelphia, 9, Pa.

Also available is a new valuation and appraisal of **City of Philadelphia Bonds.**

1949 Railroad Outlook—Analysis—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Survey—Outlook for the new year—Abraham & Co., 120 Broadway, New York 5, N. Y.

Television—Leaflet—Shields & Co., 44 Wall Street, New York 4, N. Y.

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

Western Canadian Oils — Revised edition of analytical brochure—James Richardson & Sons, 80 King Street, West, Toronto, Ont., Canada.

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American Sugar Refining Company—Study—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Berkshire Fine Spinning Associates—Brief analysis of last annual report — Scherck, Richter Co., Landreth Building, St. Louis 2, Mo.

Book of the Month Club—Circular—Edgerton, Wykoff & Co., 618 South Spring Street, Los Angeles 14, Calif.

Central Arizona Light & Power Co.—Card memorandum — G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

Devoe & Raynolds Co. — Analysis — Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y. Also available is a detailed analysis of **Sprague Electric Co.**

First National Bank of the City of New York — Circular — First Boston Corporation, 100 Broadway, New York 5, N. Y.

Hotels Statler Company, Inc.—Circular—S. C. Parker & Co., Inc., 1031 Ellicott Square, Buffalo 3, N. Y.

Also available is matter on **York Affiliates, Inc.**

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

New England Municipal Notes—Municipal Department, First National Bank of Boston, 45 Milk Street, Boston 6, Mass.

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

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

Also available are memoranda

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NSTA Notes

CINCINNATI STOCK & BOND CLUB

The Cincinnati Stock & Bond Club has elected the following new officers for 1949:

Lloyd W. Shepler Gilbert A. Davis Harry C. O'Brien Harry Hudepohl

President—Lloyd W. Shepler, Merrill Lynch, Pierce, Fenner & Beane, succeeding Jean E. Bennett, J. E. Bennett & Co.

First Vice-President—Gilbert A. Davis, Harrison & Co.

Second Vice-President—Harry C. O'Brien, W. E. Hutton & Co.

Secretary—John Muehlenkamp, Van Lahr, Doll & Isphording.

Treasurer—Harry Hudepohl, Westheimer & Co.

Predicts Record Output in 1949 Of Municipals

Louis S. Lebenthal says volume of State and local financing is likely to exceed figure of 1948, with continuing stable prices.

According to Louis S. Lebenthal, senior partner of Lebenthal & Co., "the year of 1948 was marked primarily by the largest volume of new issues of municipal and State bonds that the market has ever been called upon to place in the hands of the investor." "The year," says Mr. Lebenthal, "became for the States and municipalities the beginning of rehabilitation of existing facilities and building of new ones necessary and demanded by the public and planned for during the war years. This large volume of bonds was absorbed by the investing public without difficulty and without severely affecting price levels."

Louis S. Lebenthal

As to the municipal bond market, Mr. Lebenthal states: "The price level during the year 1948 was as stable as any during the past 20 years, and it was only after the election that a sharp increase in demand caused a drop in yields and an increase in bond prices, so that the year-end came with price levels at their highest point."

"It is generally agreed," he added, "that the volume of new issues for 1948 will be matched or exceeded in 1949. I believe that Federal tax exemption for the individual and corporate investor will continue to be a major factor in providing investment demand for municipal and State bonds; that there will be a sufficient quantity of new issues of bonds to fill the needs and that the level of prices and yields will remain relatively stable."

Donald G. C. Sinclair With White Weld Co.

Donald G. C. Sinclair, associated with Lawrence Turnure & Co.-Blyth & Bonner of New York since 1933, has joined White, Weld & Co., 40 Wall Street, New York City, in their Institutional Securities Department.

Mr. Sinclair was born in Brooklyn in 1905 where he attended public schools. He also attended Harvard Law School.

He is a Vice-President, Trustee and Chairman of the Bond Committee of the Kings County Savings Bank, 539 Eastern Parkway, Brooklyn; President and Trustee of the Caledonian Hospital; Brooklyn; Vice-President and Trustee of the Brooklyn Association for Improving the Condition of the Poor; and Secretary and Trustee of both the Berkeley Institute and the Brooklyn Institute of Arts & Sciences.

Mr. Sinclair is also a member of the Harvard Club of New York, St. Andrews Society, Montauk Lodge F. & A. M., and Sky Top Club of Sky Top, Pa. In Brooklyn he is a member of the Brooklyn Health Council, Rotary Club, Municipal Club, Chamber of Commerce, Rembrandt Club, and the Finance Committee and Official Board of the Hanson Place Central Methodist Church.

Edelmann & Capper Formed in New York

Edelmann & Capper has been formed with offices at 29 Broadway, New York City, to act as specialists in reorganization, and liquidation securities and also underpriced special situations.

Partners are Henry Edelmann and Milton Capper. Mr. Edelmann was formerly a partner in Bittner, Edelmann & Co. and prior thereto conducted his own investment firm of Henry Edelmann & Co. Mr. Capper was also formerly with Bittner, Edelmann & Co.; he is a member of the New York Society of Security Analysts and of the Security Traders Association of New York.

Campbell & Robbins Formed in Portland

PORTLAND, ORE. — Effective Jan. 1 Hemphill, Fenton & Campbell, Inc. and Holt, Robbins & Co. merged to form Campbell & Robbins, Inc. The new firm will have offices in the U. S. National Bank Building. Officers are J. Gilbert Robbins, President and Treasurer and Paul Campbell, Vice-President and Secretary.

With Julien Collins

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Burton J. Vincent has been added to the staff of Julient Collins & Co., 105 South La Salle Street, members of the Chicago Stock Exchange.

Shober, Hogg, Fordham With Sheridan Bogan

PHILADELPHIA, PA.—Edward W. Shober, James G. Hogg and Millis F. Fordham have become associated with Sheridan Bogan Paul & Co., Inc., 1528 Walnut Street, members of the Philadelphia Stock Exchange. Mr. Shober and Mr. Hogg were formerly officers of E. W. Shober & Co., Inc.

George A. McDowell Adds

DETROIT, MICH. — Allan A. Weston has become affiliated with George A. McDowell & Co., Buhl Building, members of the Detroit Stock Exchange.

Arnold, Cassidy & Co. Formed in Los Angeles

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Arnold, Cassidy & Co. is being formed with offices at 448 South Hill Street to engage in the securities business. Partners are Lloyd R. Arnold, John E. Cassidy and Richard H. Hutzler. Mr. Arnold and Mr. Cassidy were both formerly partners in Pearson-Richards & Co.

J. Arthur Warner Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — David A. Barber is now with J. Arthur Warner & Co., Inc., 89 Devonshire Street.

Pennsylvania Brevities

Philadelphia Resists Third Fare Increase

PHILADELPHIA—Mayor Bernard Samuel states that "all the forces of the city administration will be thrown in to oppose the contemplated new increase in fare" proposed in a schedule filed by Philadelphia Transportation Company with the Pennsylvania Public Utility Commission late last month.

The transportation company is asking that the present 10-cent straight fare be increased to 13 cents, or three tokens for 35 cents. The present school and suburban zone fares would not be changed.

Unless blocked or deferred by the P.U.C., the new fares will become effective Jan. 21.

The Mayor's statement adds, "It is not right that the car and bus riders of this city should be subjected to a third increase in rates within the space of less than two years. In my opinion, the move by the transit company is extremely unwise."

In support of the proposed increase, the company, in a public statement, pointed out the necessity for increased revenue to meet the higher cost of providing public transit service, as well as a fair return on the value of the property which makes that service possible.

Aside from wages which have risen sharply and now take 61 cents of every revenue dollar, according to the company, the cost of thousands of supply items and materials have advanced from 70% to 132%. As a result of the higher labor and material costs, less than ⅔ of one cent of each revenue dollar remain after costs of service are met. This, it is maintained, is totally inadequate for further equipment modernization, service expansion or for "even a modest return to the 49,000 stockholders whose money helped to furnish the community's transit lines.

City of Purchase?

While the city administration is committed to fighting the proposed increase by seeking the aid of the P.U.C., consideration is being given an alternative plan proposed by Joseph Sharfsin, former City Solicitor, who asserts that, under an existing agreement, the city could buy the transit company for about $87,000,000.

Through savings in taxes, according to Sharfsin, the city could operate the lines profitably without a further fare increase, including payment of a fee to private interests for the continued operation of the system. It was also pointed out that further savings would be effected by eliminating present payments to P.T.C. bond and shareholders.

State Senator H. Jerome Jaspan has asked city council to appropriate $100,000 for an investigation of Philadelphia Transportation Co. Mr. Jaspan contends that there should be "an independent, thorough investigation of P.T.C. assets and its capital structure, bondholders, investors, plans, equipment and records."

* * *

Phila. Bond Club Elects

At its December meeting, the Bond Club of Philadelphia elected Loring Dam, resident partner of Eastman, Dillon & Co., as President. Others elected were: Willard S. Boothby, E. H. Rollins & Sons, Vice-President; Raymund J. Kerner, Rambo, Close & Kerner, Secretary; Leo M. Dolphin, Dolphin & Co., Treasurer, and H. Gates Lloyd, Norbert W. Markus and R. Conover Miller, members of the Board of Governors.

* * *

Pennsylvania Railroad

Pennsylvania Railroad's modern equipment program, the cost of which is nearing a quarter of a billion dollars, is expected to be completed during 1949. Some of the new equipment is already in service. Total additions include 566 diesel-electric locomotives, 118 overnight coaches, 212 all-room sleeping cars, 40 dining cars, 25 lounge and special-feature cars, 2,100 box cars, 300 covered hopper cars and 2,000 gondolas.

Philco Plans Expansion

Philco Corporation's emphasis in 1949 will be directed toward increased production of television receiving sets, according to William Balderston, President. Output will be stepped up from the less than 200,000 sets manufactured in 1948 to approximately 600,000 in the current year. Plans for plant expansion call for the expenditure of about $5,000,000.

Goal for the industry for 1949 is estimated at between 1,600,000 and 2,000,000 receivers. It is expected that by year-end 106 television broadcasting stations will be in operation in 61 cities.

* * *

Lukens Steel Co.

COATESVILLE—Robt. W. Wolcott, President of Lukens Steel Co., predicts that the demand for steel plate is likely to continue as heavy in 1949 as in 1948. The Philadelphia "Inquirer" reports Mr. Wolcott as saying that he believes the spendable income of consumers will remain at a high level throughout the present year and for some time ahead and that this will lessen the possibility of a general business decline. Lukens Steel will continue its long-range program of capital additions. Expenditures during 1949 are scheduled in excess of $2,500,000.

* * *

PHILADELPHIA—Last week Pennsylvania Salt Manufacturing Co. announced the formation of a subsidiary, Pennsalt International Corp., which will import and export chemicals and raw materials and, in general, assume the operation of the parent company's foreign interests.

President of the new company is Richard L. Davies, former Assistant to the President of Pennsylvania Salt.

* * *

Reading Company

R. W. Brown, President of Reading Company, estimates 1948 net income at between $10,000,000 and $10,500,000. If realized, this will be equivalent to between $5 and $5.50 per common share, compared with net income of $8,215,649, or $3.87 per common share, in 1947.

Reading Company has ordered 750 steel hopper cars from Bethlehem Steel Corp. at a cost of $3,200,000. Construction will take place at Johnstown, Penna., and deliveries are scheduled to begin next June 1.

* * *

Bell Telephone Co. of Penna.

December declaration on Bell Telephone Co. of Pennsylvania common stock was again at the reduced rate of $1.50 per share. F. J. Chesterman, President, stated that the company had failed to earn even the reduced amount by about $700,000, the difference being taken from surplus. Mr. Chesterman commented "the continued failure to earn the regular dividend is disturbing in view of the large amounts of new capital which must be attracted to the business so that the company can finance its extensive construction program."

* * *

Scott Paper Co.

Excellent sales and earnings of Scott Paper Co. have enabled the company prepay $2,000,000 in bank loans which would have matured in 1952 and 1953, according to Raymond C. Mateer, Executive Vice-President. Company still has $2,000,000 in bank loans outstanding.

* * *

Phila.-Baltimore S. E.

The merger of the Philadelphia Stock Exchange and the Baltimore Stock Exchange has been unanimously approved by the boards of both exchanges. Necessary constitutional amendments will be presented to the respective memberships at an early date.

Andrews & Wells, Inc. New Firm Name

Effective Jan. 1, 1949, the firm name of Donald MacKinnon & Co., Inc., dealers in U. S. Government bonds and municipal securities, has been changed to Andrews & Wells, Inc. The new firm will retain the same offices in the General Motors Building, New York City.

Members of the new firm are James A. Andrews, Henry Grady Wells, Jr., Dell H. Stevens and Reginald L. Seligman, all members of the old firm. William H. Moser is associated with the new firm, it was also announced.

Change of the firm's name was previously reported in the "Chronicle" on Dec. 16.

Now Bittner & Co.

The firm name of Bittner, Edelmann & Co., 80 Broad Street, New York City, as of Jan. 1, was changed to Bittner & Co.

Predicts Lower Trade for 1949

David W. McKnight, Research Director and partner of G. H. Walker & Co., says there'll be some business falling off despite heavier government spending.

An analysis of the chief private investment factors that determine the outlook for general business activity suggests that 1949 business will be below that for last year, according to David W. McKnight, Director of Research and partner of G. H. Walker & Co., members New York Stock Exchange.


David W. McKnight

The volume of total new construction should be maintained by increased public works and our net export position is not expected to change greatly, it was stated by Mr. McKnight. Business spending on plant and equipment should be less and inventory accumulation is not expected to play the expansionist role that it did in 1948.

"The prospective lower level of private investment and its effect on business will be mitigated by larger expenditures on the part of Federal, State and local governments which in the third quarter of 1948 were purchasing goods and services at the annual rate of $37.7 billion against $28.7 billion for the full year 1947. Moreover, a $3 billion rise in armament and at least $1 billion more public construction in 1949 seems likely. And consumers may start to buy more freely again. Still, with a tax increase in prospect it is doubtful that a complete balancing out will be achieved by enlarged government activities.

"Nevertheless, the contemplated rate of private and Governmental spending is very high, which is not suggestive of a startling setback in business, but more likely an adjustment to a somewhat lower plateau of production trade and incomes. 'Over-demand' may be expected to give way to a balanced situation in which competitive forces will have greater play. Fewer new businesses will be started and marginal concerns should experience great difficulty as will unqualified management. Because the cost of living will decline, real wages, what one's money will buy in terms of goods and services, may be expected to rise. Therefore wage increases will become more difficult to secure, particularly in lines where demand has slackened."

Thomas Darby With Emanuel, Deetjen Co.

Emanuel, Deetjen & Co., 52 William Street, New York City, members of the New York Stock Exchange, announce that Thomas L. Darby has become associated with the firm in its investment department. Mr. Darby was formerly manager of the investment department of Dreyfus & Co.

Reid, McDowell & Frazier

SPOKANE, WASH.—Reid, McDowell & Frazier has been formed with offices in the Peyton Building to engage in a securities business. Partners are Gordon P. Reid, John B. McDowell and Conrad O. Frazier, all formerly with Murphey-Favre, Inc.

Why Postal Savings?

By FRANCES QUANTIUS, PH. D.

Assistant Professor of Economics, Ohio State University

Maintaining circumstances have changed since Postal Savings System was inaugurated which makes questionable its existence is now justified, Dr. Quantius analyzes origin and growth of postal savings. Contends bank deposit insurance, combined with decline of immigrants ratio in population, makes postal savings useless competitor of private banks. Foresees possibility of loss in operating Postal Savings System.

The need for the postal savings system of the United States has outlived its usefulness. This does not mean that there are no advantages for the individual in holding a postal savings account, nor, possibly, that there are no advantages accruing to the nation; but rather it means that in relative importance and in the degree of seriousness the disadvantages of the postal savings system to the nation as a whole offset the advantages.

Frances Quantius

Of course it is realized that whenever one says that we do not need some government function, one has an argument on his hands. This discussion is not to be construed as advocating that the government stay out of business in general, nor of the banking business in particular. That is a separate question. Instead, the viewpoint held here is that the government should abolish any relatively useless function of whatever type.

Willingness on the part of the government to withdraw from such activities is an uncommon phenomenon, however. Many government departments and their subdivisions are quite notorious at the time that they are organized with the result that department heads become expansion-minded and also vested interest in many positions develops.

For purposes of evaluation, let us look briefly into the background of the postal savings system in this country to observe the character of the reasons urged for its inauguration and the conditions surrounding its growth.

Postal savings systems were common in Europe long before the United States followed suit, but after 40 years of agitation the United States postal savings system was inaugurated in 1910 over the protest of the American Bankers' Association. The chief purpose in establishing the system was to provide adequate savings bank facilities in order to encourage habits of economy and thrift among the middle and lower income brackets and especially among the foreign born who were distrustful of the banks. This, it was hoped, would discourage the hoarding of coins and currency at home. In addition it was alleged that in the South and West in particular existing banking facilities were inadequate, poorly distributed, and unsafe so that government participation was needed.

The issue at the time was whether or not private initiative was furnishing adequate banking facilities, and it was the contention of the American Bankers' Association that the government would become a competitor and that this in itself would be a step toward socialism. On the other hand the Postmaster General argued that the postal savings system would help the private banks by educating people of moderate means to habits of thrift and that existing banks already had the advantages of established clientele, higher interest rates, higher limits or no limits on the size of the deposit, and a close personal advisory relationship to the customer. Also it was pointed out that an arrangement could be provided for under which the government would transfer the funds it received to the private banks where they would be deposited in the name of the government. Thus, the private banks would receive the funds ultimately.

In spite of banker opposition the postal savings system became firmly established and experienced an early period of growth during the World War I period when aliens could not send funds to Europe. This was followed by a period of more or less inactivity. Then came a phase of growth in the late Twenties followed by a rapid increase in the rate of growth during the two emergencies of the depression and of the World War II period.

At present there are approximately 8,000 post offices throughout the United States ready to accept postal savings deposits up to a maximum of $2,500 at 2% interest. Compared to other savings institutions, the Post Office has not been overly active in attempting to attract new business. Yet studies show that, viewed percentagewise, the volume of postal savings accounts advanced more rapidly than did other types of savings accounts in the period between 1939 and 1946. According to the latest figures available, the postal savings system holds depositors' balances of approximately $3,428,000,000, of which 94.16% is invested in government securities. $5,648,290.33 or .15% is on deposit in banks. Recently a bill to change the 2% interest rate came before the Senate twice and was passed over each time. Committee approval has not been given to any bill to change the maximum balance for a depositor, although the Post Office Department has recommended an increase to a maximum of $5,000.

Today there are approximately 4,196,517 depositors, the average principal per depositor being $808.47. Studies of the distribution of deposits by geographical zones show that the number of depositors per 1,000 of the population varies greatly as does the average principal per depositor. This is shown in the accompanying table.

Distribution of Postal Savings Deposits and Average Principal per Depositor by Geographical Zones

Geographical Division	Number of Depositors per 1,000 of the Population	Average Principal per Depositor
New England	13	$833.41
Middle Atlantic	24	599.39
East North Central	45	873.14
West North Central	41	1,043.84
South Atlantic	33	599.82
East South Central	15	781.05
West South Central	23	870.14
Mountain	40	861.57
Pacific	44	908.78
Territorial	31	811.27

Source: Report of the Postal Savings System, 1947, p. 10.

Now let us examine the advantages and disadvantages experienced by the depositors in recent times. Looking backward as far as the National Banking Holiday of the Thirties, we find that the depositor with a postal savings account was the only one who could get cash while the banks were closed. The number of depositors increased from 466,000 in 1930 to 2,342,000 in 1933 mainly because of the confidence of the people in the postal savings system. No Federal deposit insurance scheme was operating at the time. Also, since there was a lack of faith in the banks, postal savings accounts gained popularity. During World War II the 2% interest rate paid on postal savings was above the rates generally paid by the commercial and mutual savings banks. This gave an added impetus. In 1910 at the inauguration of the system the 2% rate was well below the rate that the banks were paying. This was arranged to avoid adverse criticism of the government with regard to competition with the banks. The postal savings rate has remained frozen at 2%, however. Then, too, there are no limits on withdrawals, while deposits as low as $1 are accepted. Interest is paid quarterly.

As to the disadvantages, no effort is made by the postal savings departments to establish personal contact with depositors. This means that credit references cannot be obtained. Also a checking account must be held elsewhere, money must be borrowed elsewhere, and, in general, miscellaneous banking services must be obtained from some other source. Furthermore, there is a limit on the maximum size of a deposit and interest is not compounded automatically. This means that the depositor must withdraw and redeposit his own interest in order to have it compounded. While withdrawals may be made at any time, branch post offices do not have authority to write checks so that unless the account is opened at the main post office, inconvenience is experienced. Thus we see that there are disadvantages as well as advantages in maintaining an account.

Circumstances have changed considerably since the system was inaugurated, and the question arises as to whether or not there is any justification for its continuance. In the first place the system was established chiefly for the foreign born, and in 1916, for example, 60% of the total number of depositors were born outside of the United States and owned three-fourths of all the deposits; analysis of new accounts, however, shows that the alien depositors have been replaced by classes accustomed to the use of ordinary banks. Secondly, in this day the postal savings departments are competing more directly with the banks since the 2% interest rate during recent years has been better in most cases than could be obtained elsewhere for a similar deposit. At the same time deposits in the postal savings system are not being redeposited with banks. In addition only 20% of the postal savings depository offices are located in towns without banks. All of these towns are within 15 miles of other towns which do have banks. Today most commercial banks have savings departments. Thirdly, whereas in 1910 there was no deposit insurance program, the Federal Deposit Insurance Corporation has made the ordinary banks as strong as the postal savings departments. And, finally, it is conceivable that there may come a day when the postal savings system will operate at a loss due to inability to earn enough through investment in government bonds and through the redeposit of funds to cover the interest payments to depositors as well as operating expenses. These points deserve serious consideration.

Dealer-Broker Recommendations

(Continued from page 8)

on **John B. Stetson** and **Warner Company.**

Stromberg-Carlson Co.—Analysis—Amott, Baker & Co., Inc., 150 Broadway, New York 7, N. Y.

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

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

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

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

Yuba Consolidated Gold Fields—Analysis—Stone & Youngberg, Russ Building, San Francisco 4, Calif.

Parker Harrison With R. L. Day & Co.

BOSTON, MASS.—Parker Harrison has become associated with R. L. Day & Co., 111 Devonshire Street, members of the New York and Boston Stock Exchanges. Mr. Harrison formerly conducted his own investment business under the firm name of Parker Harrison & Co.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

Although most of the large New York City banks have published year-end statements of their condition during the current week, few of them have as yet issued reports of operating results for the past year.

With a number of stockholders' annual meetings scheduled over the next several weeks, it is expected that detailed earnings statements will soon be available. Therefore, a complete report on the results of last year will be made at a later date when more complete information on the various banks is obtainable.

Nevertheless, several banks have published operating earnings for last year. Such results compare favorably with previous periods and give a fairly good indication of what to expect from the reports which will follow.

	Per Share Net Op. Earns. 1948	1947		Per Share Net Op. Earns. 1948	1947
Bank of Manhattan	$2.65	$2.06	Manufacturers Trust	$5.19	$4.72
First National	83.99	87.65	National City	3.37	3.25
Irving Trust	1.36	1.26	New York Trust	6.50	6.54

With the exception of the First National Bank, the above figures do not include profits or losses from security transactions. Such profits or losses are usually reported separately and, in some cases, are charged directly to reserves. In the case of National City, the totals include the earnings of City Bank Farmers Trust Company.

Of the six banks which have reported operating results, four are higher and two are fractionally lower than for 1947. In view of the circumstances under which banks have had to operate over the past year, these results are considered very satisfactory.

As yet there have been only scattered reports on security profits for 1948. However, because of conditions existing within the securities market, profits on such transactions are likely to be considerably smaller than in the past two years. During the period of declining yields such profits were abnormally high and recent adjustments in this field are considered a return to more normal conditions.

While the operating earnings figures may show only small variations in year to year comparisons, there have been significant changes in the composition of certain assets and liabilities of some of the institutions. The following table shows three of the principal items in the December 31 statements of condition issued by 12 of the leading banks in New York City.

(000's Omitted)

	Deposits 1948	Deposits 1947	Loans & Discounts 1948	Loans & Discounts 1947	U. S. Govt. Securs. 1948	U. S. Govt. Securs. 1947
Bank of Manhattan	$1,180,772	$1,140,003	$455,974	$426,782	$344,796	$360,916
Bankers Trust	1,325,472	1,483,951	571,153	623,056	441,902	484,535
Central Hanover	1,400,785	1,492,340	425,538	411,395	590,525	718,667
Chemical Bank & Trust	1,435,190	1,284,087	560,579	449,401	415,567	420,749
Corn Exchange	772,123	776,079	80,285	79,963	461,605	508,552
First National	523,323	465,321	110,333	90,510	325,694	433,579
Guaranty Trust	2,330,237	2,451,659	1,034,441	851,405	959,611	1,255,329
Irving Trust	1,113,182	1,072,860	429,049	377,810	395,088	475,483
Manufacturers Trust	2,223,383	2,320,057	605,912	484,036	970,586	1,173,607
National City	4,643,112	4,874,418	1,422,291	1,215,660	1,656,863	2,131,035
New York Trust	642,399	729,182	256,427	241,716	217,199	296,112
Public National	515,991	544,925	140,307	124,181	248,763	310,972

Although all of the banks have been subject to the same general factors and have followed the same general trends, there have been a number of exceptions within the group. Bank of Manhattan, Chemical Bank & Trust, First National and Irving were all successful in showing larger deposits than a year ago against a general decline by most other banks. At the same time, Bankers Trust showed a small decline in loans outstanding as compared with an increase by the others in the above table. In the case of U. S. Government Securities, all of the banks in the tabulation showed a considerable decline in their holdings.

The liquidation of governments was largely the result of higher reserve requirements and the demand for a larger volume of loans. These conditions, along with firmer interest rates on both loans and investments, enabled banks generally to offset the loss of income as a result of reduced earning assets.

Unfavorable Factors in Stock Market Discounted

By DEAN WITTER

Senior Partner, Dean Witter & Co.
Members, New York Stock Exchange

Mr. Witter contends present value of common stocks is inconsistently low in relationship to underlying values and earnings.

My viewpoint is that of an investor and not a speculator. I do think that in the long run market values will come into balance with underlying values and established normal earning power. At the present time I think these are out of balance. The stocks of many good companies can be bought at very much less than book values which disregard the value of trade names, good will and an established and well organized business. Book values are usually very much less than replacement values. Market values in many instances are only four or five or six times earnings for the last three years.

Everyone thinks that we are rapidly shifting from a seller's to a buyer's market and that corporations are threatened with punitive taxation.

I think that all of these factors are fully discounted by the stock market. I do not think that there is any likelihood of a drastic decline in commodity prices such as occurred in 1920 and I know that present conditions are not at all analogous to those of 1929. I think that wages are going to be artificially sustained and if this is done the value of everything else must be correspondingly stabilized. There certainly can't be a very drastic decline in commodity prices as long as we are trying to feed the world and there will not be any serious unemployment as long as our rearmament program continues and total government spending runs at more than $40,000,000,000 per year.

One thing is sure, and that is that we can't afford another great depression.

Apart from my belief that the present value of common stocks is inconsistently low in relationship to underlying values and earnings, it would seem that sound investment policy would dictate the investment of a large portion of one's assets in equities when and as money became available.

I am an optimist and I am proud of it. I never saw a pessimist who was a success or who had any fun living. I believe in the future of this country and I think that it will remain capitalistic.

Rockford Securities Dealers Association Sponsors Visit to Machine Tool Plant

ROCKFORD, ILL.—The Rockford Securities Dealers Association together with investment bankers from Chicago and Northern Illinois and representatives of Rockford banks and firms, were guests of the Rockford Machine Tool Co. at their plant on Dec. 17 to watch a demonstration of a newly developed Hy-Jector molding machine for thermosetting plastics.

Shown in the photograph are Walter Alm and John Arthur, David A. Noyes & Co., Chicago; Garrett Church, Brailsford & Co., Chicago; David L. Heath, Heath & Co., Elgin; J. D. King, Al Surprise, R. G. Olson and A. H. Anderson, King, Olson & Surprise, Rockford; George F. Jilbert and Paul E. Conrads, Paul E. Conrads & Co., Rockford; Jefferson Hoshor, Adams & Co., Chicago; A. J. Cavanaugh and Jerome Marquardt, Wm. A. Fuller & Co., Chicago; Boyd J. Easton, Rockford; and S. A. Sandeen and James M. Hancock, S. A. Sandeen & Co., Rockford.

This machine has been completely engineered by the Rockford Machine Tool Co. after four years of experimentation and testing and is expected to go into full production. This Rockford Hy-Jector molding machine is designed to increase production, up to 400% over that which can be obtained by employing standard equipment and methods. Every step in the molding cycle, from measuring the powder to ejecting the finish part is performed automatically by this machine. All manual operations are eliminated.

Rockford Machine Tool Co. also is the outstanding manufacturer in the United States of hydraulic machine tools. Mr. Harry B. Newton is President of the company.

The meeting was sponsored by the Rockford Securities Dealers Association, which is planning further meetings of this character through the coming year to study new developments in the industrial field. Mr. S. A. Sandeen, of S. A. Sandeen & Co., was in charge of arrangements.

Walston Hoffman Takes Over Maxwell Marshall

SAN FRANCISCO, CALIF.—The business of Maxwell, Marshall & Co. was merged with that of Walston, Hoffman & Goodwin,

Frank O. Maxwell

Oliver B. Scott

William S. Wells

effective Dec. 31, thereby forming one of the largest brokerage and investment firms on the Pacific Coast, Frank O. Maxwell has been admitted to general partnership in the combined firm.

The merger adds three new offices in Southern California—Beverly Hills, Pasadena and San Diego—making a total of 17 offices in California and one in New York City. The Los Angeles, New York and Long Beach offices of Maxwell, Marshall & Co. are being consolidated with the already established Walston, Hoffman & Goodwin offices in those cities. Maxwell, Marshall Co., partners and personnel remaining with the merged businesses in executive capacities include Oliver B. Scott, who will be in charge of the firm's trading account, and William S. Wells, who will be sales manager, Southern California division. Thomas H. Heller will continue as resident manager of the Pasadena office, and Wilbur R. Wittich will continue in New York as syndicate manager. Roger H. Pile will be manager of the research department, Southern California division, Lee E. Arbogast will be floor trader, Los Angeles Stock Exchange, and Raymond A. Passavant, Jr., will be a member of the trading department.

The merged firm has memberships in the New York, Los Angeles and San Francisco stock exchanges and is an associate member of the New York Curb Exchange. Private wire system connects all principal offices.

Gerald H. May With C. A. Alberts & Co.

Gerald H. May, formerly with J. G. White & Co. in charge of the option department, has become associated with C. A. Alberts & Co., 70 Wall Street, New York City.

Public Utility Securities

United Light & Railways—American Light & Traction

United Light & Railways on Dec. 27 filed with the SEC a proposal to sell 634,667 shares of American Light & Traction at $12 to its own stockholders of record on or about Jan. 24, at the rate of one for five. The estimated $7,600,000 proceeds would be applied to reduce the $12,250,000 bank loan. The remaining block of stock will probably be sold sometime in the spring, and United also plans to sell $25 million bonds. Funds from these sales (and from disposal of Detroit Edison and Madison Gas & Electric, received from American) will be used to retire the remaining bank loan and the three classes of preferred stock. Despite these drastic changes, share earnings (around the $3 level) and dividends (about $1.45) are expected to continue substantially unchanged. The stock sells around 21.

American Light & Traction has now distributed or sold its entire holdings of Detroit Edison and Madison Gas & Electric. With cash from a bank loan, all preferred stock tendered at 33 during Nov. 11-Dec. 6 was retired (no court order being required). The company will now continue in existence as a natural gas holding company, controlling Michigan Consolidated Gas, Milwaukee Gas Light and the new Michigan-Wisconsin Pipe Line Company.

The complete pipe line system from Texas and Oklahoma to Michigan and Wisconsin will ultimately cost about $102 million (against an original estimate of around $65 million). Funds for the first phase of the program will be obtained through (1) sale of $66 million 20-year first 3⅝% bonds to the Metropolitan Life Insurance Company and the Mutual Life (to be taken up in several instalments) and (2) $22 million equity capital provided by American Light. Necessary funds have been obtained by American from cash on hand and from sale of part of its large holdings of Detroit Edison (the remainder having been distributed as dividends during 1948).

The company met opposition from three sources in its proposal to sell the big bond issue to the Metropolitan Life Insurance Company and the Mutual Life Insurance Company—a stockholder group (said to have "substantial holdings" in Panhandle Eastern Pipeline), Allied Chemical & Dye, and Otis & Company. Panhandle Eastern supplies gas to Michigan Consolidated, principal subsidiary of American Light & Traction, and hence is a competitor of Michigan-Wisconsin Pipeline. It has consistently opposed the pipe line project before the Federal Power Commission and in the courts. The opposition of Allied Chemical was apparently due merely to doubt regarding the ability of American to retire its preferred stock. Otis & Company opposed the deal as part of their campaign to defend the practice of competitive bidding.

The SEC brushed aside these objections and approved the sale of the bonds. In its findings and opinion dated Oct. 28 the Commission approved the initial capital structure of the new pipe line company, 75% debt and 25% common stock equity. While such a debt ratio seems high it is in line with the financing of other pipe line projects approved by the Federal Power Commission.

Estimated earnings of the new pipe line company for 1950-52 were shown in Appendix B of the SEC release as follows:

	1950	1951	1952
Gross Revenues	$12,035,300	$20,156,300	$28,690,700
Net Operating Income	2,723,100	5,429,000	7,117,800
Net Income	739,800	3,053,400	4,437,000
Estimated Com. Stock Dividends	275,000	1,158,750	2,317,500

Expressed as per share figures on the stock of American Light & Traction, these figures work out as follows (assuming that American Light continues to provide all equity capital):

	1950	1951	1952
American L. & T. Earnings Equity	$0.27	$1.10	$1.60
Dividends Received by American	.10	.42	.84

Over the decade 1938-47 American Light & Traction's earnings remained quite steady between $1.40 and $1.84. Parent earnings fluctuated only between $1.23 and $1.61 and the $1.20 dividend rate remained a fixture. However, due to a combination of factors, interim earnings in 1948 dropped very sharply, amounting in the 12 months ended Sept. 30 to only 62c a share compared with $1.73 in the previous 12 months. During 1948 the company paid six dividends, four being quarterly distributions of Detroit Edison stock, one a distribution of Madison Gas & Electric, and one a cash payment of 6 5/6 cents. The Detroit Edison distributions and cash practically equalled the old $1.20 dividend rate, and the Madison G. & E. distribution was worth about $2.

These generous distributions obviously had little relation to 1948 depleted earning power. The management's action in making the small cash disbursement would seem to indicate a desire to maintain the $1.20 rate. Earnings in 1949 may improve with better operating conditions for Michigan Consolidated Gas; the Company was badly hurt in 1948 by having to manufacture expensive gas (to supplement the inadequate supply from Panhandle Eastern) at a loss of about $6 million. This winter the company may obtain some advantage from the pipe line from Detroit to the Austin Field, where gas stored last summer can now be used to help meet peak demands during the winter. The company applied on Nov. 12 for an increase in gas rates for about 30% of its customers, to be effective until natural gas is obtained.

In 1947 Michigan Consolidated Gas contributed nearly $3 million in equity income and $1,860,000 in dividends to American Light & Traction (respectively $1.08 and $0.67 on American Light stock). The remaining retained subsidiary, Milwaukee Gas Light, is a much smaller contributor; during 1942-46 its common dividend payments were equivalent to 13 cents a share on American's stock, but nothing was paid in 1947.

While American's earnings may show some moderate improvement during 1949, particularly if a rate increase is received by Michigan during the year, it is a little dubious whether American can cover its $1.20 dividend rate. In 1950 some returns from the pipe line will begin to bolster regular earnings, and by 1952 (if the above pipe line estimates work out) earnings should expand sharply. However, Standard & Poor's estimated $3.50 a share for 1952 appears somewhat optimistic. The stock is now around 18.

Edward Ackley Forms Own Firm in Boston

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Edward W. Ackley has formed Edward W. Ackley & Co. with offices at 30 State Street, to engage in a securities business. Mr. Ackley was formerly an officer of Elwell & Co.

With Stone, Moore & Co.

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO.—Nicholas F. Truglio has been added to the staff of Stone, Moore & Co., U. S. National Bank Building.

Ben Jaffe Joins H. Hentz & Co. in Cgo.

CHICAGO, ILL.—Ben Jaffe has become associated with the New York Stock Exchange firm of H. Hentz & Co., in their Chicago office, 120 South La Salle Street. Mr. Jaffe was formerly a partner in Felder & Jaffe and prior thereto was with Link, Gorman & Co.

Alfred A. Stern in NY

Alfred A. Stern, formerly with Abraham & Co., has opened offices at 30 Church Street, New York City, to engage in a securities business.

Austin Rohrbaugh Forms Own Inv. Firm

WASHINGTON, D. C.—Austin B. Rohrbaugh, member of the Washington Stock Exchange, is forming Rohrbaugh and Co. with offices in the Union Trust Building, to conduct a securities business. Mr. Rohrbaugh was formerly a partner in Robinson, Rohrbaugh & Lukens.

Blizzard in New Location

Herbert H. Blizzard & Co. announce the removal of their offices to new quarters at 1421 Chestnut Street, Philadelphia, Pa.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

A new branch office at 245 First Avenue, near 14th Street, is to be opened on Jan. 7 by the **Union Square Savings Bank of New York.** The branch will serve the residents of the Stuyvesant Town area. R. H. Brownell, President of the bank, announced that Albert Sturcke, Secretary, will be in charge of the new branch, with Putnam Browne as his Assistant. Union Square Savings Bank has been serving the community itself since 1867, when it moved to its present quarters at 20 Union Square from 516 Broadway. The bank was first incorporated in 1848, and until 1905 was known as the Institution for the Savings of Merchants Clerks.

S. Sloan Colt, President of **Bankers Trust Co. of New York,** announces that the company has transferred the balance in its general reserve account as of Dec. 31, amounting to approximately $10,291,000, to undivided profits, thereby bringing its capital funds to $164,878,000. Mr. Colt added that the company's directors felt that the adoption of the new method of providing reserves against future loan losses, as permitted by the Treasury Department, would result in a decreased need for a general reserve account, and that it would therefore be advisable to add the general reserve balance to undivided profits.

The **Corn Exchange Bank Trust Co. of New York** announced on Jan. 3 the opening of its Bay Parkway branch, the 75th in its chain of branches in the Greater New York area. Thomas W. Sheridan is Manager and John M. Blake, Assistant Manager, of the new branch, which is located at 6629-33 Bay Parkway, Brooklyn.

* * *

E. C. Gersten, President of **The Public National Bank & Trust Co. of New York,** announced on Dec. 30 that Joseph M. Murray and Kenneth A. Rivera, Assistant Cashiers, Main Office, have been promoted to Assistant Vice-Presidents.

* * *

Daniel A. del Rio, Vice-President of **Central Hanover Bank & Trust Company of New York,** will leave on Jan. 7 for a business trip to Peru, Chile, Argentina, Uruguay and Brazil. A native of Venezuela, Mr. del Rio was educated in Mexico City and at Columbia University. He has been decorated by many foreign countries and recently received the Cross of Boyaca from the President of Colombia and the rank of Commander of the Order of the Sun from the Peruvian Government. He specializes in Latin-American trade and has been associated with Central Hanover since 1925.

* * *

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK

	Dec. 31,'48 $	Sept. 30,'48 $
Total resources	4,631,471,581	4,602,996,41[illegible]
Deposits	4,237,000,105	4,206,943,433
Cash and due from banks	1,415,325,554	1,334,054,54[illegible]
U. S. Govt. security holdg's	1,482,077,657	1,545,408,537
Loans & disc'ts	1,482,834,294	1,449,812,[illegible]01
Undiv'ed profits	62,763,580	60,676,02[illegible]

* * *

J. P. MORGAN & CO., INC., NEW YORK

	Dec. 31,'48 $	Sept. 30,'48 $
Total resources	618,648,847	630,289,467
Deposits	543,306,202	557,112,69[illegible]
Cash and due from banks	187,304,814	178,292,944
U. S. Govt. security holdings	237,450,540	251,945,524
Loans & discounts	153,818,698	157,123,301
Undivided profits	19,412,875	19,113,125

* * *

UNITED STATES TRUST COMPANY OF NEW YORK

	Dec. 31,'48 $	Sept. 30,'48 $
Total resources	165,920,917	147,107,727
Deposits	133,239,094	115,904,705
Cash and due from banks	28,375,863	24,578,203
U. S. Govt. security holdings	81,759,647	66,937,245
Loans and bills discounted	37,944,032	36,524,751
Undivided profits	1,679,226	1,397,121

* * *

MARINE MIDLAND TRUST COMPANY OF NEW YORK

	Dec. 31,'48 $	Sept. 30,'48 $
Total resources	331,239,154	319,804,369
Deposits	305,594,750	294,716,204
Cash and due from banks	108,706,930	97,836,399
U. S. Govt. security holdings	83,051,206	90,162,853
Loans and bills discounted	128,527,155	117,820,042
Undivided profits	4,589,717	4,683,198

* * *

BROWN BROTHERS HARRIMAN & COMPANY, NEW YORK

	Dec. 31,'48 $	Sept. 30,'48 $
Total resources	223,152,803	217,738,551
Deposits	190,668,755	187,115,346
Cash and due from banks	60,059,969	52,849,835
U. S. Govt. security holdings	50,535,865	50,007,600
Loans and disct's	49,136,211	53,359,067
Capital & surplus	13,925,284	13,905,284

Central Hanover Bank & Trust Co. of New York has announced the election to the office of Vice-


Rector K. Fox C. R. Parker, Jr.


Walter F. Thomas J. A. Turnbull

A. C. Thompson

President of Rector K. Fox, C. R. Parker, Jr., Walter F. Thomas, J. A. Turnbull and A. C. Thompson. The following were appointed Assistant Vice-Presidents: G. B. Moran, W. A. Johnston, G. Sealy Newell, Benjamin Spier and William Kardel, Jr.

* * *

STERLING NATIONAL BANK & TRUST COMPANY OF NEW YORK

	Dec. 31,'48 $	Sept. 30,'48 $
Total resources	154,983,225	140,472,3[illegible]
Deposits	147,214,223	132,259,535
Cash and due from banks	50,607,587	40,912,898
U. S. Govt. security holdings	71,279,810	59,362,061
Loans and bills discounted	31,292,575	38,718,394
Undivided profits	733,614	716,080

* * *

FULTON TRUST COMPANY OF NEW YORK

	Dec. 31,'48	June 30,'48
Total resources	$40,435,478	$38,943,900
Deposits	34,720,062	33,218,300
Cash and due from banks	10,641,206	13,804,400
U. S. Govt. security holdings	19,672,629	18,142,600
Loans and bills discounted	1,308,223	1,709,900
Surp. & undivided profits	3,375,886	3,372,200

* * *

CLINTON TRUST COMPANY, NEW YORK

	Dec. 31,'48	Sept. 30,'48
Total resources	$25,586,292	$26,415,624
Deposits	23,728,109	24,556,347
Cash and due from banks	7,717,544	7,510,334
U. S. Govt. & municipal bd. hold'gs	10,530,063	11,839,252
Loans & discounts	5,989,714	5,753,468
Surp. & undivided profits	853,482	847,383

* * *

GRACE NATIONAL BANK, NEW YORK

	Dec. 31,'48 $	Sept. 30,'48 $
Total resources	111,170,456	104,507,390
Deposits	99,072,287	93,514,890
Cash and due from banks	33,648,410	31,657,324
U. S. Govt. security holdings	45,362,231	43,346,859
Loans and bills discounted	25,533,089	21,832,583
Surplus and undivided profits	4,219,295	4,142,166

CENTRAL HANOVER BANK AND TRUST COMPANY, NEW YORK

	Dec. 31,'48 $	Sept. 30,'48 $
Total resources	1,543,948,522	1,510,458,635
Deposits	1,400,785,092	1,367,452,458
Cash and due from banks	448,562,353	421,873,079
U. S. Govt. security hold'gs	590,524,777	560,586,485
Loans and bills discounted	425,538,437	428,464,013
Undiv'ed profits	29,550,435	28,104,456

* * *

NATIONAL CITY BANK OF NEW YORK

	Dec. 31,'48 $	Sept. 30,'48 $
Total resources	5,004,737,618	4,912,440,813
Deposits	4,643,112,364	4,567,484,131
Cash and due from banks	1,532,119,431	1,547,041,050
U. S. Govt. security hold'gs	1,656,863,022	1,584,583,351
Loans and bills discounted	1,422,290,652	1,349,605,149
Undiv'ed profits	41,363,989	36,329,782

* * *

CITY BANK FARMERS TRUST COMPANY NEW YORK

	Dec. 31,'48 $	Sept. 30,'48 $
Total resources	121,180,871	130,485,243
Deposits	88,162,629	96,953,727
Cash and due from banks	24,260,705	23,442,125
U. S. Govt. security holdings	81,048,716	88,992,215
Loans and bills discounted	794,038	742,383
Undivided profits	9,431,201	9,290,955

* * *

GUARANTY TRUST COMPANY OF NEW YORK

	Dec. 31,'48 $	Sept. 30,'48 $
Total resources	2,784,677,095	2,797,782,917
Deposits	2,330,236,749	2,344,107,496
Cash and due from banks	662,439,641	698,319,091
U. S. Govt. security hold'gs	959,610,638	1,026,486,872
Loans and bills discounted	1,034,440,981	977,435,811
Undiv'ed profits	66,890,333	65,330,451

* * *

MANUFACTURERS TRUST COMPANY NEW YORK

	Dec. 31,'48 $	Sept. 30,'48 $
Total resources	2,289,776,620	2,296,092,498
Deposits	2,223,382,873	2,125,898,391
Cash and due from banks	722,470,035	622,104,419
U. S. Govt. security hold'gs	970,586,261	996,786,738
Loans and bills discounted	605,911,891	581,511,934
Undiv'ed profits	28,316,109	26,633,877

* * *

BANKERS TRUST COMPANY, NEW YORK

	Dec. 31,'48 $	Sept. 30,'48 $
Total resources	1,524,962,756	1,523,965,295
Deposits	1,325,471,602	1,323,884,910
Cash and due from banks	439,488,702	396,394,464
U. S. Govt. security hold'gs	441,901,515	436,203,998
Loans & disc'ts	571,153,307	611,254,025
Undiv'ed profits	54,878,686	43,664,754

* * *

BANK OF THE MANHATTAN COMPANY NEW YORK

	Dec. 31,'48 $	Sept. 30,'48 $
Total resources	1,266,915,928	1,287,231,938
Deposits	1,180,772,210	1,204,892,688
Cash and due from banks	390,123,248	378,870,250
U. S. Govt. security hold'gs	344,795,970	412,013,544
Loans & disc'ts	455,974,434	422,091,915
Undiv'ed profits	16,622,900	15,991,200

* * *

CHEMICAL BANK & TRUST COMPANY NEW YORK

	Dec. 31,'48 $	Sept. 30,'48 $
Total resources	1,563,724,456	1,477,246,545
Deposits	1,435,190,392	1,324,085,140
Cash and due from banks	487,514,147	453,763,340
U. S. Govt. security hold'gs	415,567,186	365,209,025
Loans and bills discounted	560,799,246	520,865,372
Undiv'ed profits	10,727,059	10,340,966

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CORN EXCHANGE BANK TRUST COMPANY, NEW YORK

	Dec. 31,'48 $	Sept. 30,'48 $
Total resources	819,960,048	800,176,814
Deposits	772,123,408	752,547,677
Cash and due from banks	252,158,167	237,680,728
U. S. Govt. security holdings	461,604,740	460,851,942
Loans and bills discounted	80,285,297	73,217,002
Undivided profits	5,036,864	4,792,204

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J. HENRY SCHRODER BANKING CORPORATION, NEW YORK

	Dec. 31,'48	Sept. 30,'48
Total resources	$79,879,552	$73,445,074
Deposits	61,559,574	52,900,725
Cash and due from banks	7,354,003	5,904,248
U. S. Govt. security holdings	42,298,483	34,834,930
Loans and bills discounted	13,501,748	14,266,239
Surplus and undivided profits	3,287,087	3,281,932

(Continued on page 42)

What of 1949?

By HON. CHARLES SAWYER
Secretary of Commerce

In year-end review of economic situation, the Commerce Secretary, in pointing out present boom is bolstered by some temporary factors, says so long as inflation is with us, immediate task is to maintain budgetary surplus, reduce National debt and exercise care in expanding expenditures. Lays 1948 high level of building activity to large business investment and increase in government expenditures.

As 1948 draws to a close our economy is operating at a high rate. But what of 1949? An all-important question confronts us—are we in a mounting inflationary spiral or have we reached the ceiling, and are we facing the prospect of a downturn? The answer is not yet clear. In certain critical areas of the economy inflationary pressures are continuous and strong; in others they are easing with the sellers' market becoming a thing of the past. While the general strength of the economy is manifest, we cannot afford to maintain a magnificent indifference to the problems of the future.

Charles Sawyer

It would be folly to forget that the present boom is bolstered by some temporary factors. Now is the time to plan measures that will put prosperity on a stable and continuing basis. So long as inflation is with us, the immediate task is to restrain its dangerous tendencies and to do those things which cannot be done easily, if at all, in a period of depression—maintain a budgetary surplus, reduce the national debt, and exercise care in expanding expenditures.

Economic developments in 1948 were characterized by expansion of production, sales and incomes, and a continued rise in prices.

The gross national product, which measures the market value of goods and services, rose to about $253 billion in 1948, according to preliminary estimates. This figure, an increase of about $21 billion or 9% over 1947 reflects chiefly the higher average in prices but also an increase in physical output.

Sustained large business investment and an increase in government expenditures were major factors in raising the value of the nation's output. Government demand took the form of greater construction expenditures by Federal, State and local governments, increased foreign aid financed by the Federal Government, and mounting outlays for the military program.

Causes of Rising Prices

Among the causes of rising prices were large supplies of purchasing power in the hands of consumers, heavy industrial and commercial demands for new buildings, plant, and equipment, easy financing terms for new housing construction combined with heavy postponed requirements, extensive expenditures by foreign countries both for essential consumers' goods and rehabilitation. Rising costs of raw materials and labor also contributed to the inflationary trend.

Figures for the year are of necessity only preliminary estimates. They can, however, be cited in summarizing the highlights of 1948.

National income as distinguished from gross product rose to about $224 billion from $202 billion in 1947. Wages and salary income rose as a result of higher employment and rising wage rates, while corporate and proprietors' incomes were augmented by advances in both production and prices.

Personal income approximated $211 billion, a rise of about 8% from 1947. Disposable personal income was about one-tenth higher than the 1947 total of $174 billion as a result of the mid-1948 reduction in individual income taxes. In contrast to previous postwar years, the advance in consumer expenditures was moderate—up about 7% from 1947.

Civilian employment averaged close to 60 million persons, an advance of about 1⅓ million over 1947. With employment in agriculture about the same as in 1947, all of the increase was in nonagricultural employment, with the major part in manufacturing and trade. The number of hours worked, however, showed some decline in the final quarter of the year.

Output of goods was moderately higher than in 1947, with postwar peak rates established in the production of steel, petroleum, automobiles, refrigerators, and paper. Output of commodities as measured by the Federal Reserve Board index of industrial production (1935-39=100) rose to an estimated 192 as compared with 187 in 1947. In contrast to previous postwar years, production of some durable consumer goods items declined.

In the case of some metal manufactures, shortages of some basic materials, principally steel, continued to limit output below demand. Automobiles are the outstanding example among consumer goods of a large backlog of demand carried over into 1949.

The advance in physical output consisted mainly in significant increases in construction and in capital goods industries, while production schedules in a growing number of industries were adjusted to reduced demands. Notably affected by this downward trend were textiles and shoes among the soft-goods lines; and vacuum cleaners, automobile tires, and radios (excluding television receivers) among the consumer durable goods.

1948 Construction $17.8 Billion

The value of construction put in place was $17.8 billion, one-fourth higher than in 1947. The number of housing units started was one-tenth higher than in 1947 and approximately reached the 1925 record high.

With crop production establishing a new record in 1948, the wholesale price of farm products is lower today than a year ago when the postwar peak was established and there were reduced yields in this country and abnormally large requirements for Europe.

Business spending for new plant and equipment continued to increase, but outlays for manufacturing and mining represented a smaller part of the total than in 1947. Investment in inventories was considerably less than in the previous year.

Total new capital requirements of United States corporations declined from $28 billion in 1947 to $26 billion in 1948, primarily as a result of smaller requirements for customer financing and for additions of inventories. Requirements for investment in plant and equipment, however, reached a new high.

New capital requirements were financed through internal financing to a larger extent than in 1947. In external financing, there was much less reliance on bank credit and an increased use of bond flotations in the capital markets.

Less New Firms Entering Business

The rate of increase in the business population slackened in 1948, after a sharp increase during the early postwar years. The total business population rose by less than 100,000 to 3,900,000 firms during 1948, compared with net gain of more than 600.000 in the two preceding years. This decline in the rate of increase resulted in part from a rise in the number of discontinuances and in part from a decline in the number of new firms entering business. Both these factors indicated that earlier advances had brought the business population in line with the level of business activity, and that the principal gaps left by the war were closed.

The rise in economic activity was not uniform throughout the year, since nearly all of the advance in the gross national product occurred after a period of hesitation in the first quarter. During that period, there was a tapering off of consumer purchasing, a high volume of inventory accumulation, and a temporary flattening in the level of industrial prices. Improved crop prospects resulted in a sharp drop in crop prices during February.

During the second and third quarters industrial production and prices moved upward and wage rates rose, increasing the total flow of income of business and consumers. Chief factors in this general expansion were reduction of individual income taxes, passage of the Foreign Assistance Act, and the prospect of increased military expenditures.

In the final quarter of the year, there was an easing of inflationary pressures as production and prices flattened out at the level reached during the summer expansion.

Allan H. Church, Jr. Joins Courts & Co.

Allan H. Church, Jr., formerly with Bear, Stearns & Co., has become associated with the New York Stock Exchange firm of Courts & Co. in the municipal bond department of the New York office, 52 Broadway.

Canadian Securities

By WILLIAM J. McKAY

For Canada 1948 was a year of momentous achievement. The necessity for extraordinary effort to meet the foreign exchange crisis of late 1947 proved to be a blessing in disguise. Long overdue steps were taken to correct the chronic imbalance of U. S.-Canadian trade and the results have been truly remarkable. As the end of the year approached previously alarming deficits were drastically reduced and on occasion even surpluses were registered. Meanwhile the overall favorable balance with all countries continued to mount. In addition during the year there were many economic developments of major significance for the future.

Labrador iron, previously a subject of romantic speculation, became an economic reality with promise of becoming eventually the world's principal source of supply. Spectacular oil developments in Alberta provoked world-wide interest and there are now confident predictions that Canada will shortly become an exporter in place of a major importer of petroleum products. During the year it was announced that Canada possessed the largest known deposit in the world of ilmenite ore, the source of the new wonder metal, titanium. Elsewhere new discoveries were made within the mineral-rich Laurentian Shield of uranium, gold, lithium, nickel, silver, lead, and zinc.

Canadian prospects were further enhanced during the year following the announcement of the North Atlantic Pact and renewed discussion concerning the St. Lawrence Seaway project. As a result, despite previous doubts and misgivings, the trend towards ever closer U. S.-Canadian economic cooperation is strongly accentuated. Thus within the system of security for the democratic nations of the world, the strategic and economic importance of Canada is becoming increasingly recognized.

There still remains, however, a glaring defect in the U. S.-Canadian economic relationship concerning which the Canadian Minister of Trade and Commerce recently commented that "if Canadian-American trade is to continue at its present high level, it is of fundamental importance to Canada and also to the United States to establish a lower tariff and a more flexible administration of tariffs."

Although the Geneva trade agreements and the Havana ITO Charter are designed to accomplish this purpose, they are not sufficient in themselves to solve the particular U. S.-Canadian problem. Canadian reluctance to press immediately for an all-embracing trade and financial pact is probably induced by memories of the ill-fated Taft-Laurier reciprocity agreement of 1911. On this side of the border however, apart from the customary opposition of minority interests, both security and economic considerations weigh strongly in favor of the closest integration of the U. S. and Canadian economies. At this stage of this country's development, with the first appearance of possible future shortages of industrial requirements, a rapidly growing population, and the increasing difficulty of maintaining the world's highest standard of living, a greater facility of recourse to the vast undeveloped natural resources of Canada is clearly indicated. Also for reasons of national security, a fuller utilization of Canadian resources, a railroad link to Alaska, and the opening up to civilization of Canada's empty northern Empire, are of paramount importance.

During the week the external section of the bond market remained quiet but firm, but there was a slight decline in internal Dominion as a result of switching into the cheaper corporate issues. Stocks were irregular and mostly lower with the paper and utility issues leading the downward trend. Western oils also weakened after earlier firmness when Anglo-Canadian touched a new peak at $4.75 following news of the successful completion of a well in the oil-rich Redwater field; this well is the first of eight to be drilled in this area in conjunction with Home Oil. The ferrous and base-metal group likewise reacted after showing earlier strength with Canadian Vickers at a new 1948 peak and Labrador Mining in active demand.

York Affiliates Open Office in New York

York Affiliates, Inc. of Buffalo have opened a branch office at 120 Broadway, New York City. The firm, which acts as dealer in over-the-counter securities, is associated with a number of upstate New York dealers.

Resident manager of the New York office will be E. Michael Growney, formerly of Growney & Co., Inc. Manager of the Trading Department is R. Victor Reid, also previously with Growney & Co. Henry De Meester, Vice-President of the firm, who is also in business for himself in Fairlawn, N. J., will be in charge of the wholesale department.

Military Government and Foreign Policy

By ARTHUR THOMPSON, JR.
With H. M. Byllesby & Co., New York City

Mr. Thompson recites the failures and weaknesses of the U. S. Military Government in Germany and ascribes these to both incompetence of army officers to administer economic and monetary matters and to split responsibility of Army and State Department in civil administration of occupied territory. Foresees further currency difficulties in occupied Germany and failure of occupying Powers to agree on economic and political restoration of Germany. Favors strengthening power of France in Europe.

As the policy of our Military Government in Germany steadily approaches a state of bankruptcy the writer discerns more and more an increasing tendency to ask the question, "Who is responsible for this fiasco, and why?", thereby treating a situation wherein a "witch hunt" might afford very attractive entertainment to a large number of readers. The information as to who is responsible is not at present of as much importance as is an understanding of the system whereby apparently untrained and incompetent or opinionated and dictatorial persons have been able to assume direction and control of the philosophy and actions of the American Military Government in occupied Germany in a manner whereby the governmental officials who are properly charged by the American people with the responsibility of directing foreign affairs have been by-passed, or if consulted or informed, it has been at too late a period for their opinions or decisions to be of any use or even to be possible of consideration. Until recently the situation has been that the decision has been made and acted upon and the American people have been stuck with it.

Arthur Thompson, Jr.

In a broad sense the Army is primarily responsible for most of the predicament in which we find ourselves in Germany. Having no liking for the Specialist Reserve Corps which was established in the early days of our preparation for war, and which should quite properly have handled the government of occupied territories, except in areas actually engaged in active combat, it absorbed that organization and thus became responsible for its potential functions. The Army had two obvious weaknesses in this field: (1) It can't talk back; (2) it is difficult to correlate military rank with ability to handle governmental affairs. West Point and Annapolis have not been noted for their courses in economics, finance, law or political science.

For Military Government the directives the Army received came from the Administration, and in spite of the fact that Mr. Stimson, a Republican, as the Secretary of War, was the Cabinet member most concerned, they were largely New Deal in philosophy and vindictive in character. These directives were sent to the joint chiefs of staff on which Secretary Marshall was the American representative and who was advised on these matters by Major General John Hillding. Thence the Army accepted responsibility for the directives, implemented and forwarded them to the Theatre Commander concerned. In England, where the European Military Government division was assembled, General Eisenhower, acting on advice of his G5, implemented the directives and passed them on to the commanding officers of the various functional branches of civil affairs M/G. The directives now specifically implemented were passed on to the CA/MG Division, which in the European theatre was administrative in regard to personnel, organization and supply but not operational, and thence to the detachment commanders who in turn passed them on to their functional specialists. After combat ended, the M.G. Division was abolished and orders traveled from Administration to Defense Secretary, to Chief of Staff to U.S.F.E.T., to Army, to Senior Regional Detachments, and to subsidiary regional detachments.

After the war most of the trained and experienced Military Government officers took advantage of the point system to obtain their return home and separation from the Army, yet this was the time when they were most needed. Most of these men were successful in civilian life and had sacrificed much, and would have sacrificed more, had not the Army been so stupid in handling them. From the first experience at Camp Custer, where they had been treated like inductees, to their reporting at Universities under improperly drawn orders whereby it cost each one from $400 to $500 from his own funds because no messing or living facilities were provided—while no per diem was paid although the designation was for temporary duty — to stupid military training at Shrivenham, England, through service in France, Italy, Germany and Austria as members of the Military Government division and attached to other units for service with no promotional possibilities provided and often equipped with second and third hand material—much of it worn out and broken—operating under almost impossible directives and suspect by the tactical commanders until many of these latter were actually overwhelmed by their civilian relation problems, these Military Government officers had endured much and acquired a vast fund of experience. But when at the end of hostilities the Army started to transfer into Military Government all its old Colonels and younger officers who had attained such rank that a return to civilian life was unattractive, plus a horde of civilian governmental employees from agencies being closed in Washington, plus many unsuccessful political candidates of the 1944 elections, it became too much for this group of trained technicians and they returned home in droves. The Army made a half-hearted attempt to have these men stay in civilian capacities but the attempt was so half-hearted, and the organization to implement it so obviously inefficient, that officers and men of Military Government completely ignored it. So it was that Military Government in Europe became staffed with untrained personnel operating under almost impossible directives. When it was decided in Washington to keep this organization under the direction of the Department for Defense rather than the State Department, and furthermore to allow a good deal of discretion to the Military Governor, General Clay, our actions in middle Europe got all mixed up with our Western European policy because the persons placed in charge didn't understand the situation either soon enough or clearly enough to prevent the present muddle.

The Monetary Problem

The question of money has been one of extreme vexation for Military Government. It is today the most apparent excuse for the Berlin crisis. One of the main reasons for this has been the failure of the Army to understand monetary problems and their importance; and worse yet, not to have had in the position of this responsibility a man whose primary business was money and economics. For some reason or other, officers or civilians associated with the law business have been responsible for most financial decisions, and to the writer there appears to have been a considerable element of politics in their appointments.

When the American Army enters an Allied country it pays damages, hires local services, rents local facilities, purchases some local supplies and needs local currency to pay its soldiers, some of which is spent in that country and some of which is reconverted into dollars at an established rate and sent home. Because of these factors the local government accumulates a very considerable amount of dollars as the bills are paid in the local currency which our government purchases for dollars. If, of course, the exchange rate is artificially high as it was in France and England, we give up a lot of dollars, particularly if we have had to pay internally inflated prices, for what we have received. The exact opposite is, of course, true in Germany. We in conjunction with Russia, France, England, Belgium and other United Nations deliberately undervalued the Military Mark by establishing a rate of 10 such Marks for one dollar against a previous valuation of about 30 cents per Civilian Mark. In addition instead of buying local currency we printed these new military government marks for our soldiers. The fact that the Russians used the same plates and a considerable sum of this worthless money got in our soldiers' hands and had to be taken by our Army in exchange for dollars, thus causing the American taxpayer a big loss, is not important now as the type of our Military currency was changed some time ago; but what is important, is that the old civilian mark was continued in use at a depreciating values, as it was being turned off the printing presses at a pretty fast rate, while factories were dismantled and production of goods was almost stopped. However, the German price control system is very thorough and has been continued in force, severe penalties by military government or German Courts being imposed for violations, so that the internal inflation in prices to be expected, due to the Military exchange rate and printing press currency, was kept at a minimum. These conditions made it possible for any occupying country to easily loot Germany if it so desired, in an apparently legal manner and made black markets, barter and force the mediums of facilitating trade. This was one of the main reasons for walling off each zone. This devaluation of currency and continued imposition of previous commodity values also will have a bearing on the future, because, with a continued inflation of the currency, if reparations are determined in quantities of specific goods or services and Germany is only credited with the value of the old mark, any replacement allowed later in her industrial

(Continued on page 38)

Says Present Stock Prices Can Stand Against Lower Earnings

Hugh Bullock, President of investment firm of Calvin Bullock, contends, because corporate equities are priced low, a considerable decline in earnings could occur without reducing stock price level.

In his year-end statement, Hugh Bullock, President of the investment firm of Calvin Bullock, expressed the view due to existing inflationary forces and the low current market prices of equities in relation to earnings, a considerable decline in corporate profits could occur in 1949 without unduly affecting stock prices.

Hugh Bullock

"As we face 1949," Mr. Bullock stated, "our thinking runs as follows:

"Business is booming. Corporations are reporting record profits. There is full employment. Certain of the country's most fundamental industries are continuing to experience tremendous demand for their products. Steel, obviously, is an example.

"In the due course, however, supply will catch up with demand in many lines. This has happened already in coal, lumber, textiles, shoes, household equipment and numerous luxury goods. It is logical that the trend should spread. That distant day should come when there will even be enough steel—although the date of this milestone is far from imminent.

"As supply exceeds demand, sales volume will waver. Competition will soften prices. The weight of the largest inventories in history will be felt.

"Probably, prior to such events, wages will be raised and heavier taxes imposed. But the threat of price controls will prevent price rises until a decline in demand does. So profit margins are in for a squeeze because of higher costs and effective price ceilings.

"Meanwhile, however, we have the inflationary implications of a quarter of a trillion dollar debt, a trebled money supply since before the war, large government spending ahead.

"The probability of war may be some years away, but the sad fact of tension exists. Our defense expenditures, therefore, can be counted on to equal a minimum of $15 billion; E.C.A. should add several billion and a billion or so for lend-lease is probable.

"If farm prices are soft, a great deal of government money is available for support. If interest rates stiffen, if high-grade long-term bonds tend to decline, billions, if necessary, are probably ready to stabilize long-term governments in the vicinity of par. In any event, large government expenditures for social measures are in the offing.

"Inflationary forces, therefore should counter the impact of lower earnings in influencing the prices of common stocks. In this connection it is important to note that among all the major elements in our economy today common stocks alone do not reflect the degree of inflation that has taken place since pre-war. Although money supply has trebled wholesale commodity prices and factory wages doubled, Dow-Jones industrial averages are scarcely above their average level of 1936-39.

"Historically, of course, earnings have always been the major determinant of price. Corporate equities are so very low today in relation to present earnings, however, that even the most thoughtful person would presume that a considerable decline in earnings could occur without unduly affecting their price. At this time more than a moderate decline in earnings in 1949 does not seem probable."

Chicago Exchange Reports Increased Business

Homer P. Hargrave, Chairman of the Board, tells members both share and dollar volume of transactions in 1948 exceeded previous year's. Looks for favorable results from consolidation with other Mid-West exchanges.

In a statement made to members of the Chicago Stock Exchange at the close of the year, Homer P. Hargrave, Chairman of the Board, reported that during the year 1948, a year in which the volume of brokerage and investment transactions has been at a relatively low level, both the share and dollar volume of the Chicago Stock Exchange has increased approximately 16% over the totals for the year 1947. The total dollar volume of tranasactions exceeded $200 million. The share volume showed an increase over 1947 of approximately one million shares.

Homer P. Hargrave

Seventeen memberships changed hands during the year within a price range of $3,600 to $2,000, with the last sale at $2,700. This compares with the closing sale of 1947 at $2,000. All of these 17 memberships were purchased from estates or from inactive members and have gone into the hands of active member firms located in 10 cities and 6 states. Only four of these memberships were bought by Chicago investment firms the other 13 firms were located in Texas, Missouri, Michigan, Iowa, Ohio and Indiana.

Out of the total of 300 memberships, 172 represent member firms as compared with 157 at the close of business last year. Ninety-eight of these firms operate in Chicago, while the remaining 74 are located in 35 cities and 21 states.

The Exchange, Mr. Hargrave stated, is in excellent financial condition and has, at the present time, $1,290,000 in cash and government securities, no liabilities, and the budget is balanced.

Two principal projects, outside of the ordinary routine stock exchange procedure, have occupied the attention of the Board of Governors and the staff of the Exchange this year, one of which is now an accomplished fact and has been in operation several months; the other still under study and research investigation.

The first of these was the inauguration of a plan called "Clearing by Mail," which is a method whereby members not having a Chicago office can deal directly on the Exchange without the necessity of maintaining a Chicago correspondent house to act for them physically on the Exchange. At present, 16 of our out-of-town member firms have availed themselves of this system and several others have it under consideration. They have found the new procedure of great benefit to them, and the Exchange considers it a successful forward step in the modernization of a central marketing place for securities.

The second project, and the one at present under active study, is a proposal for the consolidation of several Midwestern Stock Exchanges into a new Exchange which would have its headquarters in Chicago. Stock Exchange markets improve and expand in direct proportion to the number of orders flowing into one central place. The consolidation, if effected, would bring to one central Exchange in the Middle West the presently listed securities of five or six exchanges and an additional concentration of interest and strength of a broad segment of security brokers and dealers.

"Your Board of Governors and Staff have under consideration other new ideas and plans for broadening markets and improving operating methods which, it is believed, will provide additional services to the investing public and to the members of the Chicago Stock Exchange," Mr. Hargrave concluded.

Mutual Funds

By HENRY HUNT

There Is No Santa Claus!

"There is no 'Santa Claus' who brings huge profits to the foolish speculator. By the same token—there is no Santa Claus for the fearful who hide their money in their 'sock'—or put it in very low income paying institutions or securities.

"There is no Santa Claus in the investment business anywhere, but it is possible to obtain safety and better income through the medium of good well managed mutual investment funds. Careful selection, broad diversification and intelligent management makes the investment safer—keeps it safer. It gives the investor a reasonable dependable income—with freedom from worry.

"This is not to say that people should not speculate . . . if they can afford to do it and are fully aware of the risk involved. Also, this is not to say that people who are victims of excessive fear psychology should not hide their money in a safe deposit box or put it in low interest paying building and loan or savings accounts.

"It is every man's privilege to choose what he will do with his capital or his net income, but it is our sacred obligation as investment men to counsel our clients wisely—help them to accomplish a sound middle of the road INVESTMENT POLICY which will give them a fair and reasonable income with reasonable safety.

"Therefore, let us resolve for the new year that we will continue to recommend moderation to help our clients avoid the excessive risk of improper speculation as well as the low return suggested by propaganda based upon fear psychology."—Written by **L. L. Moorman**, Wholesale Distributor of **National Securities Series.**

"D. G." Has New Program

Distributors Group has announced the launching of its Personal Investment Program for its 22 classes of Group Securities.

While Group was originally formed in 1934 with programing in mind, heretofore the program methods employed have been on an informal basis; that is, specific suggestions have been made but the dealer has had to work out the mechanics himself.

Now, a complete plan and kit embracing a folder for obtaining Basic Data on the customer's objectives and a complete form for adapting this basic data to a specifically recommended program for handling the customer's entire account are available. In addition, supplementary material in the kit includes three sample programs, a booklet on "Managing Other People's Money" and essential data on specialized mutual funds and other functions in programing.

Major emphasis will be placed on this Personal Investment Program by Distributors Group and its national representatives since it is felt that the present times call for handling customers' entire accounts, whether small or large, on an overall basis. At the same time, the flexible Group vehicle with 22 classes, including horizontal and vertical specialty funds, makes it possible to carry out a specific investment program for any investor whether his investable capital is $2,000 or $200,000.

Do You Need a New Year's Resolution?

"A lot of people make New Year's resolutions having to do with their own personal affairs and in all probability a great deal 'comes of it.' A little less personal, but by far more practical, might be a few New Year's resolutions having to do with one's investment account.

"Perhaps our readers are not in need of New Year's resolutions, but it might not be a bad idea to see how some of the following thoughts fit into one's investment program for 1949.

"(1) I will at the first opportunity have my entire investment account reviewed by my investment dealer or by someone else who is qualified to do the job.

"(2) Whatever carefully arrived at decisions as to 'investment changes' I may make, I will carry out without delay; and I will not let sentiment, prejudice or any other emotional influence affect my decisions in any way.

"(3) I will check my account to see that the quality of my investments affords the kind of protection I want for my savings, plus a prudent measure of opportunity for growth of principal and income.

"(4) If in trying to maintain a generous income return on my bond investments I have in effect 'traded down' in quality, then I will revise my holdings to afford the protection for which the bonds were originally purchased.

"(5) Whatever else I may do, I will see that I have broad diversification of securities, not only by individual issues, but by industries as well. I will make sure that I do not have a disproportionate amount of money in any one stock or bond.

"(6) I will have my account continuously supervised throughout the year to see that it is kept in line with my investment objectives.—Quoted from **Vance, Sanders'** 'Brevits'."

"A. B. S." Reports

In his annual report to stockholders Harry I. Prankard II, President of **American Business Shares, Inc.,** states in part:

"For the time being we intend to keep the company's portfolio balanced about 60% in common stocks, and appreciation-type preferred stocks and bonds, in the industries which we believe will do well during the next few years, and about 40% in high-grade bonds and preferred stocks for capital stability. We want to be cautious at all times, but we believe that the outlook for business and earnings continues good. There is still a considerable shortage in durable goods, and we believe that commodity prices will continue at a high level for some time to come. We will continue to watch conditions carefully and, if they appear to us to be greatly improving, we will increase the aggressive portion of our portfolio, while, if they appear to us to be showing signs of deterioration, we will quickly increase the defensive portion of our portfolio. This is our policy in managing the company's investments as a balanced fund."

Dividends Up 33% on New York Stocks

Annual report of **New York Stocks, Inc.** for year ended Nov. 30 shows total net assets on that date of $31,032,167 with 3,725,236 shares outstanding and 17,005 shareholders. Largest Series was Diversified Investment Fund, accounting for $12,387,406 or almost 40% of total net assets of the company.

The generally higher level of earnings and dividends in 1948 was reflected in disbursements by New York Stocks, Inc. During the year ordinary dividends amounted to $1,980,512 or 33% more than in 1947.

Of the Industry Series of New York Stocks, those into which investors placed most new money during the year were Aviation, Steel, Railroad and Oil Industry Series.

Reports Little Expansion in Business Loans

Federal Reserve Bulletin for December, in analyzing credit developments, says most striking feature has been modest expansion in bank loans to business.

A leading article in the December issue of the "Federal Reserve Bulletin," published by the Board of Governors of the Federal Reserve System, analyzes both credit developments and the government security market during the third quarter of 1948. The article concludes that the "most striking of recent bank credit developments, however, has been the relatively modest expansion in bank loans to businesses. Over the postwar period most of the very large growth in business loans has been concentrated in the second half of each year. In the third quarter of 1948, this pattern appeared again to be repeating; although the expansion was not as rapid as in the same period in previous years, business loans increased nearly $1 billion at banks in leading cities. Subsequently, in October and November, the increase in business loans was less than one-third that shown in the same months in previous postwar years."

Commenting further on banks' loans, the Reserve Board states:

"At banks in New York City, loans to businesses expanded less than $100 million in October and November, as compared with over $600 million last year. Last year the loan growth in these months reflected credit extended broadly to manufacturers in all major lines and to the trade, public utility, service, finance, and construction industries. This year the bulk of the loan expansion at New York banks was to the petroleum and apparel industries and to public utilities and retailers. Loans to sales finance companies declined somewhat.

"Business demand for commercial bank credit has been less active, in part as a result of the increased volume of funds obtained from other sources. Businesses, because of record high profits, have been able to finance a greater portion of their large capital expansion programs out of retained earnings. In addition, a substantial amount of funds has been obtained from flotations of securities and loans from nonbank lenders. Included in these were large private placements of securities with, and long-term loans from, insurance companies. These investors in turn obtained funds by selling government securities to the Federal Reserve Banks. This has increased the money supply, like direct business borrowings from commercial banks."

Geo. M. Gregory Pres. Of Gregory & Son

George M. Gregory has been elected President of Gregory & Son., Inc., 40 Wall Street, New York City, succeeding his father, the late William H. Gregory, Sr., deceased.

George M. Gregory

Mr. Gregory has been associated with the firm since it was founded in 1935, recently as Executive Vice-President. Before 1935 he was connected with Kountze Bros., and prior thereto with Theodore Prince & Co.

Griffiths Partner In Hall & Company

Hall & Co., 70 Pine Street, New York City, dealers in state and municipal bonds, announce that Richard S. Griffiths has been admitted to general partnership in the firm. Mr. Griffiths was formerly with Tilney & Co.

Undervalued Sterling

By PAUL EINZIG

Dr. Einzig holds, because of currency depreciation in other countries, the sterling exchange rate results in undervaluation of sterling and prevents Britain from competing for supplies, such as meat, from soft money nations. Recommends as remedy restoration of the old parity of $4.86 to pound, but admits it would meet with opposition in the United States and Western Europe.

LONDON, ENGLAND.—During recent months the consequences of the undervaluation of sterling have made themselves felt to an increasing extent in Britain. In particular the meat position has come to be affected by it to a considerable degree. It is largely because of the undervaluation of sterling that meat deliveries both from the Argentine and from Eire have fallen considerably short of the amounts undertaken to be delivered during the current year.

Dr. Paul Einzig

In the Argentine the government-controlled export organization has been unable to purchase from cattle breeders a sufficient number of cattle to meet its liabilities arising from the Anglo-Argentine trade agreement. This was because domestic consumers were prepared to pay a much higher price than the one stipulated in that agreement. When the price was negotiated at the beginning of 1948 it corresponded to the then prevailing inland price in the Argentine. Meanwhile, however, inflation continued in the Argentine unabated, and inland prices in general are much higher than they were a year ago. There was no corresponding adjustment of the sterling-peso exchange rate, so that at present the peso is grossly overvalued and sterling is grossly undervalued. As a result Britain is unable to bid against domestic Argentine buyers of meat.

Nor is this all. Even part of the exportable supplies is diverted from Britain to Western European countries, owing to the fact that the latter are bidding much higher prices than those stipulated in the Anglo-Argentine pact. They are in a position to outbid Britain because their currencies are overvalued in relation to the pound. On the basis of the prevailing exchange rates the price level in France and other continental countries is much higher than in Britain. Continental buyers can therefore secure meat supplies which would find their way to Britain but for the handicap of an undervalued currency.

The same is the position in respect of Eire. There too, importers of Western Europe, who are in a position to sell the meat in the black markets at fancy prices, outbid Britain, and Irish meat deliveries to Britain have fallen considerably short of the quantity fixed in the trade agreement. This is one of the main reasons why during the first 10 months of 1948 Eire had an adverse trade balance of some £34,000,000 with Britain.

The remedy would be an upward revaluation of sterling. If the sterling-dollar rate were to be restored to the old parity of 4.86 Britain would be in a position to compete on an equal footing with other buyers for the limited exportable supplies of meat and other foodstuffs and raw materials. The meat situation is only one of the instances illustrating the consequences of the undervaluation of sterling. The position is more or less the same regarding the import of various other essential goods. In order to increase the supplies it would be necessary either to raise British internal prices or to increase further the already excessive amounts spent on food subsidies

The alternative solution would be to raise the exchange value of the pound. This was advocated by the writer of this article nearly two years ago, and more recently Professor R. G. Hawtrey, one of the most prominent British economists, has declared himself in favor of that solution. Unfortunately, it is considered impracticable, as it would encounter the utmost opposition in the United States and in Western Europe.

It is bad enough to have to cope with the consequences of the undervaluation of sterling at its present parity of $4.03. Should the British Government yield, American pressure in favor of a devaluation of sterling the food position would become further aggravated. Sterling would become even more undervalued than it is now. Britain would be handicapped in competing for the purchase of meat and other food and raw material supplies to an even larger extent than she is now. Deliveries from the Argentine, Eire and other countries would become even more inadequate.

This is one of the reasons why the British Government is unwilling to devalue sterling. There are many others. There are, of course, weighty arguments also on the other side. But it is essential that those who are urging Britain that she should devalue should be made to realize the full consequences of such a decision in accentuating a tendency which is already affecting the standard of living to a considerable degree. What is important to realize that the handicap under which British is suffering through the undervaluation of the pound is additional to the handicap she is suffering through lack of hard currencies. If sterling were to be devalued further Britian's imports from the sterling area and from soft currency countries would be affected. And Britain could ill afford the loss of those imports.

Paul Cohen Partner Of Herzfeld & Stern

Herzfeld & Stern, 30 Broad Street, New York City, members of the New York Stock Exchange, announce that Paul A. Cohen became a general partner of that firm on Jan. 3. A graduate of Williams College, Mr. Cohen began his business career at Bloomingdale Bros., Inc., with whom he was associated for a number of years. He resigned to join the U. S. Navy in which he served as a lieutenant. After his release from service Mr. Cohen became associated with Gimbel Bros. from which organization he has just resigned. Mr. Cohen's admission to the firm was previously reported in the "Chronicle" of Dec. 23.

Paul A. Cohen

Firm Name Now Bradley, Gammons

The firm name of Carret, Gammons & Co., Inc., securities dealers, has been changed to Bradley, Gammons & Co., Inc., effective Jan. 1, 1949. The new firm will retain the same offices at 120, Broadway, New York City.

Members of the new firm are Paul A. Gammons, Clifton N. Bradley and Luke L. Benz.

A. C. Allyn & Co., Inc. Elects Officers

CHICAGO, ILL.—The Board of Directors of A. C. Allyn and Co., Inc., announce the election of Arthur C. Allyn as Chairman, J. Douglas Casey as President and John H. Riley as Executive Vice-President.

Erling Hansen Pres. Of Howard Industries.

CHICAGO, ILL.—Effective Jan. 1, 1949, Erling J. Hansen will retire as partner of Comstock & Co. to assume the office of President of Howard Industries, Inc., maintaining offices in Chicago and in Racine, Wisconsin.

Erling J. Hansen

Paul deGive With Dominick & Dominick

Dominick & Dominick, 14 Wall Street, New York City, members of the New York Stock Exchange, announce that Paul deGive has become associated with that firm. Mr. deGive was formerly resident manager for Courts & Co.

Harbison & Henderson

LOS ANGELES, CALIF. — The firm name of Harbison & Gregory, 210 West Seventh Street, member of the Los Angeles Stock Exchange, has been changed to Harbison & Henderson. R. N. Gregory has withdrawn from the firm and John G. Henderson has been admitted to partnership with McClarty Harbison.

Helen Boe in Suffern

SUFFERN, N. Y.—Helen Boe is engaging in a securities business from offices on Lafayette Avenue.

Securities Salesman's Corner

By JOHN DUTTON

The other day I heard a Red Cap at Grand Central station talking on the radio. He was being interviewed on one of those "Joe Doakes Meets the Public" programs. As I started to turn the dial and cut him off I was suddenly compelled to listen further. There was something in the tone of his voice that encouraged me to hear more. Then the things he said began to register. Here was a fellow who was actually getting a kick out of a job that hardly anyone would ever consider even worth discussing. He said he liked to help people. He didn't see each day as just so many bags to carry, instead he related that he met more people in a week than most people do in a year. He told how tense and nervous many are when they travel, especially when they enter that great sea of humanity known as Grand Central for the very first time. He said he tries to help them relax, to feel at ease and erase their anxieties. The man was a salesman. He held my interest because he spoke sincerely and with conviction.

I thought about the people I have met who have allowed their jobs to become humdrum and monotonous. Here was a humble porter who could make something uplifting out of his day's toil. Then I thought of those few I have met who have made their own jobs important. I know some securities men who believe their work approximates the most highly skilled professions. Their approach to their work is not how much can I take out in money, in ease, in things, but how much can I PUT INTO MY JOB IN HELPFULNESS TO OTHERS. These men study their business. They plan their selling activities. They follow up their contacts. They remember the little things—the phone calls—the service calls—the letters and notes and clippings about news items of interest to their customers. They know what is going on in the world, in the securities markets and they don't talk unless they know what they are talking about. These are the men whose earnings in the year 1948, which was favorable for securities men, still produced a sizable income from their efforts. To them, obstacles are problems to solve, not something to worry about.

Selling it not talking. It is not story telling. It is not knowing thousands of facts and relating them. It is not just making ten calls a day—or even 15. It is inner drive. It is believing. It is having controlled impetus that coordinates the planning functions of an orderly, experienced mind with ACTION. Every new customer you add—every sale you make—every portfolio you bring in for analysis—every planned campaign you put into effect—every advertisement you place before your public that brings a favorable reaction toward you is the direct result of POSITIVE, CREATIVE DRIVE. It is the end result of believing that you have something worthwhile to offer to another. I mean that literally. You cannot belittle your job—think negatively about the future—or become a pessimist and do anything worthwhile. Somebody noticed that Red Cap in Grand Central. They saw he was making a career out of carrying bags. That is why he was asked to go on the radio.

It is entirely within the powers of each one of us to make the year 1949 much better than we had in 1948. In fact, if the entire securities industry could get together on the project we could go out and actually turn the tide of depression, and the absence of confidence, which has existed among investors for over two years, into a wave of confidence. The other day I read a bulletin put out by a well known middle western securities firm that described the value that existed in a seasoned textile stock which was selling below net quick, that had a substantial past record of consistent growth, and that could be bought today at about twice net earnings, to yield approximately 10%, without considering extras paid in the past several years. The seasoned securities in industry after industry that are available today at similar attractive levels, are only there because people don't have confidence in the future. When you can buy cash for 80 cents on the dollar, when you can buy skillful, able, management; when you can buy reserves and hidden values in plant and property for absolutely zero, YOU HAVE A BUYING OPPORTUNITY THAT DOESN'T COME AROUND EVERY DAY. And these opportunities are available in many industries besides the overly depressed textiles. AND THEY WON'T ALWAYS BE AROUND FOR THOSE WHO PASS THEM BY NOW. What an opportunity for us to go out and give people some BARGAINS for a change—what a REAL SALES EFFORT COULD DO NOW TO CREATE GOOD WILL AND BUILD UP FUTURE BUSINESS IS ALMOST INCALCULABLE.

There are BULLS and BEARS in Wall Street. If you are BEAR minded become a trader, you just can't afford it if you are a securities salesman — ESPECIALLY TODAY WITH THE BARGAINS WE HAVE AROUND US. The Red Cap in Grand Central is an optimist and he is making it pay in happiness and a healthy outlook on life . . . we can take a lesson from him.

Now Corporation

JACKSON, MISS.—Kingsbury & Alvis, Lamar Life Building, is now doing business as a corporation. Officers are J. W. Kingsbury, President and A. L. Alvis, Vice-President and Secretary-Treasurer. Both were members in the predecessor partnership.

Robert J. Graf, Dead

Robert J. Graf, chairman of the board of H. M. Byllesby and Company, Incorporated, Chicago, died at his home of a heart attack at the age of 66.

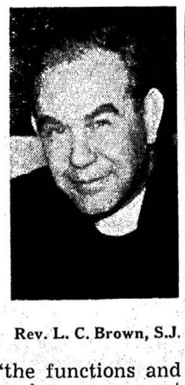
Labor's Encroachment on Management

By REV. LEO C. BROWN, S.J.*
St. Louis University

Father Brown, reporting on a survey of opinions of union leaders and business executives on labor's encroachments into field of management, points out, through expanding area of collective bargaining, management's freedom is being restricted, without placing responsibility for results on labor unions. Says union challenge to management, though largely negative and extrinsic, has limited both management's freedom and flexibility, and sees solution in system of industrial democracy which will release both unrealized inventive capacities and capabilities of work force, as well as leading to loyalty to the business.

I.

The views of top labor and business representatives on management's right to manage were sharply contrasted at the President's National Labor-Management Conference in 1945. They had been asked to consider the extent to which industrial disputes can be minimized by full and genuine acceptance by organized labor of the inherent right and responsibilities of management to direct the operation of an enterprise.



Rev. L. C. Brown, S.J.

It was readily agreed that management must manage. Union members of the Committee conceded that "the functions and responsibilities of management must be preserved if business and industry is to be efficient and progressive." But disagreement appeared when management tried to define the right to manage. Labor members would not agree to a specification and classification of the functions and responsibilities of management. They said: It would be extremely unwise to build a fence around the rights and responsibilities of management on the one hand and the unions on the other. The experience of many years shows that with the growth of mutual understanding the responsibilities of one of the parties today may well become the joint responsibility of both parties tomorrow.

Management members concluded that "the labor members are convinced that the field of collective bargaining will, in all probability, continue to expand into the field of management."

In this paper we shall ask three sets of questions and by way of answer shall express our own views. The questions are:

(1) To what extent does the attitude of top representatives at the President's National Labor-Management Conference reflect the thinking of the parties themselves? Does business generally think that unions' and managements' rights and prerogatives can and must be surveyed and posted? Does it feel that invasion by one party into the territory of the other will lead only to confusion and chaos? Is labor, in general, convinced that collective bargaining will gradually include more and more of the areas in which management is now sovereign?

(2) As a matter of fact, will unions continue to encroach upon the management function?

(3) Should public policy attempt to define and limit the areas of collective bargaining and the respective rights and responsibilities of unions and management?

Discussion of these questions may be clarified by distinguishing two types of union challenge to management control: (1) extension of the collective agreement, (2) actual participation in management. The expansion of the collective bargaining by including more matters in the collective agreement is essentially an extrinsic and negative encroachment on management. The process of contracting about more items leaves to management fewer matters to decide independently. However, when the union increases its control over industry by expanding the agreement, it does not automatically increase its positive responsibility for the conduct of business. The union exercises its control as an agency which is external and largely foreign to the enterprise.

By participation in management, we mean a situation in which the union shares a continuing and positive responsibility with management for policy formation or execution. We mean an arrangement where the union has citizenship and representation within the business municipality, and where an increase in its influence is accompanied by an increase of positive responsibility for business. Such formal participation by unions in management has been and continues to be exceedingly rare. Up to the present time the union challenge to management has been a kind of encirclement which, by expanding the area of collective bargaining, narrows management's freedom. In this process labor's demands may be the determining factors of important business policies, but they remain merely external conditions. The union shares no positive responsibility for the decisions which result.

II.

The remarks that I am about to make represent the result of more than 200 interviews during the past year divided about equally among representatives of business and labor and extending from the midwest to the Atlantic seaboard. The universe of industrial relationships is not homogeneous or static. It includes the operators of strip mills and sewing machines. It is changing, growing, shifting. Views of the individuals interviewed reflected widely diverse experiences. Obviously this report distorts these views by compression and oversimplification.

III.

By and large, however, labor leaders at all levels of authority and in a wide variety of organizations expect the area of collective bargaining gradually to increase. Typical responses were:

(1) We do not want to manage business. But we must protect the interest of our members. If the interest of our membership requires us to bargain with a company about closing down plants, we will bargain about shut-downs.

(2) The interests of union members are not limited to wages or the length of the working day or the hours when work will be performed. We can't draw a line and say we will bargain about these things and leave all other things to management. If the interest of our membership requires us to bargain about price policies, we will have to bargain about prices.

(3) Unions are just 10 years from the period when they had to struggle for existence and recognition. They first turned their attention to the obvious interest of their members in wages and working conditions. It is inevitable that as the unions grow in strength and maturity they will try to control more of the economic decisions which affect their welfare. Unions which are genuinely interested in the welfare of their members will manifest increasing interest in a wider area of management's decisions.

In general, these same representatives revealed little enthusiasm for union participation in management. The following are responses typical of the large majority:

(1) No responsible union official wants to inject unions into the management of business. The direction of an enterprise requires authority and authority cannot be divided. Management can't become a debating society.

(2) Unions have succeeded, in the past, because they left management free to run the business. By increasing their demands on management they made management more efficient. That is really the union's function. Keep the pressure on and you keep management efficient.

(3) Union participation or union cooperation or whatever you may call it is dangerous for the union. Should unemployment or any other adverse situation occur, union members will blame union officials for the result if they had cooperated with the management. Union participation in management is a good program of cooperating with the union which wants to take over your membership.

(4) The participation of union officials in management tends to develop management-mindedness. Union officers who become management-minded don't last as union officers.

Two exceptions to the above statement should be noted: (1) a few officials think that unions should have greater control over the efficiency of plants; (2) another few want unions to participate in decisions which affect whole industries. The view that unions should have greater control of efficiency appears chiefly among officials of those unions which have better technical resources than many of the plants which they have organized. All of us are familiar with garment workers' contracts which give the unions much control over efficiency. But a similar sentiment appears in some large establishments. At one large plant on the eastern seaboard the local union's officers are prepared to force introduction of union-management cooperation and sharing of efficiency earnings. They are convinced that operations are wasteful. They think that they can make substantial contributions to efficiency. For more than a year they have been gathering ideas from workmen about improvements in operations and recently presented management with the outline of a share-the-production plan. The issue is likely to be introduced at the next contract negotiations.

The second exception to the general conclusion stated earlier, that union officials do not want to share in the management of business, is perhaps more significant. A small but influential minority of union officers, especially in the mass production industries, are searching for some means by

(Continued on page 28)

*A paper by Father Brown before the Annual Meeting of the American Economic Association, Cleveland, O., Dec. 30, 1948.

The ECA—Good or Bad For American Export Trade?

By WILLIAM S. SWINGLE*
Executive Vice-President, National Foreign Trade Council, Inc.

Foreign trade specialist traces history and development of the Economic Cooperation Administration, particularly as it has affected or may affect U. S. export markets. Says ECA is not a subsidy to exporters and may even endanger export markets through diversion of shipments into new areas and new channels. Sees ECA aiding U. S. Western Hemisphere markets and a force in increasing production of strategic materials and other imports into the dollar area, which will, in turn, result in greater American exports. Looks for more stability and more freedom of trade and investment.

The relationship of the Economic Cooperation Administration and the export trade is but one phase of the impact of this program on our own economy and that of the world at large. The whole subject is so broad that, even on this specific aspect and without reference to the China aid program, time will not permit full treatment of both the current and long-range relationship between the ECA and our export business. Comment on any of the corollary political and military considerations covering either the necessity for ECA or its operation will be omitted although it is obvious that these factors do have indirect and frequently direct influence. There are certain important developments which stand out and the effects of which can be foreseen with some clarity. On the other hand, the influence of ECA is bringing about continual changes in trade and world economy on which it is difficult to know what the ultimate result may be.

William S. Swingle

On the overall, the dollars supplied to foreign governments by ECA, either in the form of grants or loans, must provide a corresponding increase in American export business. The money may not necessarily be spent directly or immediately for shipments to Europe although a large percentage is so utilized. In off-short purchases or in any operations which immediately or eventually place dollars at the disposal of foreign countries, we create additional purchasing power for markets not only in Europe but in other parts of the world which look to the United States as a source of supply.

In undertaking an examination of the relationship between the ECA and our export trade, it is worthwhile to understand clearly the concept of the program in which we have engaged as the medium for implementing what is generally known as the Marshall Plan.

ECA No Subsidy to Exporters

The European Recovery Program, in both its original proposal and as authorized by Congress, did not envisage a subsidy to American exporters or a method of getting rid of burdensome surpluses which might overhang American production. The demands for American goods were greater than we could meet and we have ample use here for American production in most commodities, so that many of the shipments under ECA represent a burden on our production rather than a means of clearing up surpluses.

There have been misconceptions of ECA operations. It is not a lend-lease procurement program wherein our government enters the American market, buys up supplies, and ships them abroad. Rather, it is a financing medium to provide payment for purchases conceived and made by buyers in the recipient country. Its relationship to our export trade, therefore, is different from many wartime operations in that the desire for and selection of American goods is made in the buying country and not by our government. Further, the initiative for purchases comes from abroad and not from some government agency here buying goods and shipping them overseas.

It might be well to recall the original proposal made by Secretary of State Marshall in 1947 on which this whole operation is based. Up to that time, we operated or participated in several aid programs of one type or another in which there was basically no question of self-help or production in the recipient countries but rather a largess given to feed, clothe, and help rebuild devastated countries. The proposal made by Secretary Marshall was one to provide dollars for purchases largely in the Western Hemisphere beyond the amounts which the European nations could obtain through their own efforts. When we fully realize this concept, we understand why the recipient nations initiate the plans for recovery, decide what goods they need both for substance and for recovery, determine how much they can supply one to another and then, beyond that, look to the ECA for approval and provision of dollar aid translated into goods and services.

With regard to consideration of the amount to be supplied for carrying out the European Recovery Program, the requirements were first brought forward in the report of the Sixteen-Nations Committee, later checked and revised. The sums which have been appropriated and probably will be appropriated under this plan were the minimum amount to do a trade deficit financing operation. Outside of aid to China, Congress did no more, and probably will do no more, strictly within the ECA plan, than to provide the essential dollar requirements of the Western European participating nations.

In line with the basic plan of cooperation and self-help, funds are to be provided to purchase commodities which the European countries cannot finance for trade among themselves or obtain from sources in the dollar or other areas. This requires dollar exchange for goods and services beyond what they could supply from their own diminishing reserves or can presently create through exports. Under this program, scheduled imports, financed through ECA, cover requirements for only essential goods. There is, therefore, a limited area for free choice of commodities or for purchases of goods and services beyond restricted requirements. Substitutions wherever possible, and obtained from other than the dollar area, would be utilized by the recipient countries in reestablishing their economies and developing a higher level of industry and a better standard of living.

There was no indicated intention by Congress to provide funds to finance our export of non-essential items or for luxury goods. The emphasis on self-help and on the necessity for limiting dollar aid to the essential requirements has been frequently lost sight of as the program has gotten under way. In authorizing funds for ECA, Congress evidently intended to provide for an effective job but with the expenditure of as little money and drain on our economy as may be required. Therefore, unless the concept of ECA is changed, valid criticism can hardly be made of the action of the recipient countries in utilizing their dollar expenditures to take care of their essential needs first. There is always a field for disagreement as to what constitutes essentiality but we must realize that the program may adversely affect shipments of certain American products in traditional, historical markets while purchases are being made elsewhere, at least for the time being. Our total aid sacrifice under ECA on a long-range basis requires not only goods and money but, in addition, American business probably is being called upon to sacrifice at least temporarily certain of its export markets in Europe until the overall worth of that area can be built up as a greater potential buyer of American goods. This may constitute, or lead to, discrimination if not carefully guarded against by ECA and the Department of State. Such selection of imports, if only for the short-range and in order to accomplish the immediate requirements of the program, probably cannot be avoided but these must be carefully handled to prevent excessive or permanent loss of American export markets.

The recent Thirty-Fifth National Foreign Trade Convention recognized this situation and, in its Final Declaration, pointed out that there might be involved "a temporary diversion of international trade from normal channels to stimulate the greater use of productive facilities abroad, and to relieve unnecessary drains on American production." The Convention recommended that "the ECA obtain assurance from participating countries that American producers will be given the opportunity to again enter the markets involved, on the basis of equal competition with producers of other exporting nations, when the immediate purposes in view have been served." Further, it urged "that shipments of American products temporarily excluded from such competition by the operation of the program be admitted into beneficiary countries in sufficient volume to assure the

(Continued on page 37)

*An address by Mr. Swingle before the American Marketing Association Convention, Cleveland, O., Dec. 28, 1948.

Colombia's Plan for Refunding Announced

In response to inquiries respecting the resumption of payment on the dollar bonds of certain of the Departments and Municipalities of the Republic of Colombia, Dr. Gonzalo Restrepo-Jaramillo, the Colombian Ambassador at Washington, and James Grafton Rogers, President of the Foreign Bondholders Protective Council, Inc., made a statement on Dec. 31 announcing that agreement has been reached on the terms for the issue of new dollar bonds in exchange for the old bonds and unpaid coupons of the following issues: 7% issues of Department of Antioquia due 1945 and 1957; Caldas 7½% due 1946; Cauca Valley 7½% due 1946 and 7% due 1948; Cundinamarca 6½% due 1959; Santander 7% due 1948; Tolima 7% due 1947. Also Municipalities of Cali 7% due 1947; Medellin 7% due 1951 and 6½% due 1954.

It is also announced that the new bonds will be dated July 1, 1948, will mature July 1, 1978, and will bear interest at 3% per annum. For each $1,000 principal amount of old bonds surrendered, with all unpaid coupons, new bonds in the principal amount of $1,200 will be issued. Payment of principal, interest and sinking fund installments of the new bonds will be guaranteed by the Republic of Colombia. By reason of this guarantee, the proposed offer must be registered with the Securities and Exchange Commission.

Spahr Scores Our "Liability Currency"

In "Monetary Notes," Executive Vice-President of the Economists' National Committee on Monetary Policy contends because of our monetary system, people have lost control over use and abuse of public purse.

Writing in the January issue of "Monetary Notes," published by the Economists' National Committee on Monetary Policy, Dr. Walter E. Spahr, Executive Vice-President of the organization and Professor of Economics at New York University, renews his attacks on our present "liability currency" monetary system and again calls for gold redeemable money.

Walter E. Spahr

The full text of Dr. Spahr's statement follows:

Today the United States is running on liability currency—on the liabilities of the Treasury and banks, particularly Federal Reserve banks.

We have reached this condition of affairs in subtle ways, chiefly by a steady loosening of the bonds of integrity.

Before the Federal Reserve System was established, the Indianapolis Monetary Commission (in its report of 1898, which prepared the way for the Gold Standard Act of 1900), the National Monetary Commission (1908-1911), and the investigations during the drafting of the Federal Reserve Act in 1913 all pointed to the evils of a government bond-secured currency and recommended a paper money secured by gold reserves, to be paid out on demand, and by short-term liquid paper growing out of self-liquidating transactions in commerce, agriculture, and industry.

The original Federal Reserve Act, consequently, and appropriately, provided that the Federal Reserve notes would be issued against such reserve and security. Federal Reserve bank notes were authorized as a means of retiring bond-secured national bank notes and of simplifying our monetary structure.

By the Glass-Steagall Act of Feb. 27, 1932, we took our first step toward the violation of the principle on which the Federal Reserve notes were built. As an emergency measure, which was not to last beyond one year, the Reserve banks were permitted to issue Federal Reserve notes against government securities, while retaining the same gold reserve requirements. This "emergency" measure was renewed year after year (Feb. 3, 1933, March 6, 1934, March 1, 1937, June 30, 1939, June 30, 1941, and May 25, 1943) and on June 12, 1945, it was finally made permanent.

From March 6, 1933, to Jan. 30, 1934, the Federal Reserve banks were not able to pay out gold to redeem their Federal Reserve notes, and, since the passage of the Gold Reserve Act of Jan. 30, 1934, they have not been permitted to pay out the gold certificates held as "reserve" against these notes.

Thus we arrived at a state of affairs in which the collateral security held against Federal Reserve notes can all be illiquid government securities instead of a self-liquidating commercial paper and the reserves cannot be paid out domestically.

The reserves of the Federal Reserve banks against their deposits have had a closely parallel history. Since June 12, 1945, these reserves have been confined to gold certificates which cannot be utilized in payment of the deposits against which they are ostensibly held. (The only exception is in the case of foreign central banks which can exact payment of their claims in gold.) Thus reserves of Federal Reserve banks against both their deposits and notes became frozen and nonusable (foreign claimants excepted).

The only asset cash which Federal Reserve banks can pay out against their note and deposit liabilities is composed of silver, silver certificates, United States notes, and minor coin. Such cash is not lawful for reserve in the Federal Reserve banks; it is simply a non-reserve cash asset. In other words, the money that is lawful for reserve in Federal Reserve banks cannot be paid out; and the only asset cash that can be paid out — relatively a very small item—is not lawful for reserve in the Federal Reserve banks (though, as a Treasury currency, it is deemed to be good enough for the people of the United States).

On Dec. 8, 1948, the Federal Reserve banks held $227,781,000 of this non-reserve cash. That is all they had to pay out against their liabilities of $24,238,160,000 in the form of Federal Reserve notes and their liabilities of $22,252,387,000 in the form of deposits—liabilities of $46,490,547,000. The ratio of the Federal Reserve banks' asset cash against their deposit and note liabilities was less than half of 1%.

If, on that date, the United States had been on a gold coin system under which the Federal Reserve banks would have been able, and required, to pay out their gold reserves on demand against their demand liabilities, they would have had at their disposal $22,960,691,000. This is a reserve ratio of 49.4%, as contrasted with the less than 0.5% of asset cash, against their notes and deposits.

The gold coin system would have provided the Federal Reserve banks, in gold, with over 100 times as much in asset cash to pay out against their note and deposit liabilities as they were able to pay out in the form of an inferior money.

In so far as this author has been able to observe, no one has even discussed, much less become excited about, the fact that on Dec. 8, 1948, for example, the Federal Reserve banks had less than .5% of asset cash against their liabilities. But when it is suggested that it is desirable for the United States to return to a gold coin system, which would on that date have provided the Federal Reserve banks with over 100 times more cash assets, or a cash reserve ratio of 49.4% against their notes and deposits, there is much excitement and vigorous protesting and shaking of heads. The common argument is that the reserve would be inadequate; there would not be enough to go around. The fact that the only asset cash that these banks could pay out was less than 1/100 as large is not mentioned.

This is a phenomenon that has received relatively little attention. It reveals how the people of the United States have slipped into a system of liability currency and are not only accepting it without much protest or concern but are actually defending it.

When a people reach a state of affairs in which they are ready to permit their Treasury and central banking system to issue promises to pay which they are not required to redeem in a money having universal acceptability (gold or silver), that nation has slipped into a scheme of things that carries within itself the seeds of a catastrophe. Next to war, probably no device created by man has caused humanity more suffering than irredeemable paper money. We are now employing that device. We like its intoxicating effects although we are showing some concern about our high prices and the various bloated and painful areas in our economic structure. Nevertheless, we continue to hang on to our dope and, when a proposal is made to rid ourselves of it, all sorts of protests — confused, often irrational, and generally based upon a variety of fears, much like those of the dope fiend—arise. The matter of integrity as to the fulfillment of promises is generally pushed to one side. We grow silent on that point; we do not wish to discuss it.

As matters stand, control of the people's money is in the hands of the Treasury and Reserve banks. Since they are not required to meet their liabilities with good cash assets they are apparently satisfied with the situation. It is an easy, but not the proper, way to escape the problems inherent in a fractional reserve system and the fears of gold hoarding. Nevertheless most of the Treasury and Reserve bank officials, but not all, seem disposed to defend this situation.

The Reserve banks are in the grip of the Treasury; the Treasury must respond to the appropriations of Congress; the majority of Congress have permitted themselves to be responsive to pressure groups which have ceased to be domestic only but now reach to the four corners of the world. This responsiveness to pressure groups arises in large part from the realization on the part of these Congressmen that they can easily obtain the money for their appropriations since all the Treasury and Reserve banks need do is to print and issue more irredeemable promises.

As a consequence of this system, the people of the United States have lost control over the use and abuse of the public purse. They lost this control when they lost a gold coin system and an irredeemable paper money was thrust upon them.

If the people of this country could demand redemption of their money, they could then put a brake on the over-issuance of promises to pay and thus regain control over the public purse. At the same time they would free Congressmen from the pressures of vote-delivering groups seeking favors at the expense of the taxpayer since Congressmen then could point to the increase in currency redemption, to falling reserve ratios, and possibly to falling bond prices as reasons why they could not acquiesce in further appropriations.[1]

1 A return to a redeemable currency should have three basic benefits: (1) it should put a brake on further depreciation of our currency; (2) it should act as an important factor in restoring confidence in our currency and therefore enable businessmen to make long term commitments and perhaps encourage great advance in our productive activity, in so far as a good currency can ever contribute to confidence and to production; and (3) it will permit people engaged in foreign trade to utilize gold with the consequence that private enterprise should be able to open up foreign trade and to go to the four corners of the world with a good money that would enable them to buy and to make investments. Today foreign trade in practically all nations of the world is controlled by governments and governmental institutions. As a consequence, foreign trade is tied in knots. Apparently, there is no way to free foreign trade and to restore foreign currencies to a sound basis until we let gold flow freely into and out of this country and permit private traders a free hand in the use of a good money.

Correction

In the "Financial Chronicle" of Dec. 31 in reporting partnership changes in the firm of Abraham & Co., New York City, it was indicated that Robert B. Hollander and Henry B. Gersten were withdrawing from the firm. Mr. Hollander and Mr. Gersten are retiring from partnership in Hettleman & Co., Mr. Gersten to form Young & Gersten.

N. Y. Banking Superintendent Points to Shift From Government Securities to Private Loans

Elliott V. Bell, in annual report reports reduction in government security holdings of State banks totaled $1.8 billion. Consumer credit transactions fell, but were offset by new mortgage lending.

A shift from government securities into private loans of various kinds and into cash dominated operations in 1948 at institutions under the Banking Department's supervision, Elliott V. Bell, New York State Superintendent of Banks, states in his annual report to the Governor and the Legislature. The expansion in commercial loans and in consumer credit in the 12 months ended Sept. 30, 1948 was less than in the previous year, but new mortgage lending, amounting to more than $900 million, was about a third more.

Elliott V. Bell

The reduction in government security holdings of the various types of banking organizations totaled $1.8 billion. Part of this decline was traceable to sales by institutions seeking funds to meet private credit needs. Special factors were also involved, including Treasury debt retirement operations and higher reserve requirements for commercial banks that made sales of government issues necessary. The latter factor was primarily responsible for the $870 million increase in cash holdings of commercial banks.

Banking institutions in New York reflected the progress of the third year of the postwar boom and the efforts of public authorities to moderate it, the Superintendent says. Despite the fact that banks bore the brunt of the government's anti-inflation control program, the lending activities of New York State banks and trust companies continued to expand in response to demands generated by the high level of business activity, he said.

All major types of lending to individuals and business at commercial banks, except loans on securities, expanded, although the total gain of $544 million in the year ended Sept. 30 was slightly below that of the year before. This development was due chiefly to the fact that the increase in loans to business of some $500 million was only about 70% as much as in that earlier period, largely as a result of the marked contraction in such loans in the first quarter of 1948. This first quarter decline in the volume of commercial and industrial loans coincided with the accumulation of the record-breaking Treasury cash surplus, which was chiefly utilized for anti-inflationary retirement of bank-held debt, and a decline in business demand for bank credit largely as a result of increased financing through the securities markets.

The increase of $112 million in consumer credit by institutions under the supervision of the Department was $33 million less than during the preceding 12 months. This slowing down developed, the report points out, in spite of the fact that decontrolled instalment loans grew at a more rapid rate than a year ago, because of the negligible gain in single-payment loans at commercial banks, the largest providers of consumer credit.

Expansion of New Mortgage Lending

The expansion of $920 million in new mortgage lending at commercial and savings banks and savings and loan associations was in contrast to the retarded rate of growth in business and consumer credit. This gain of one-third over the previous 12-month period reflected chiefly a sharp rise in FHA loans, principally on new housing units, the Superintendent explains. The moderate increase of $8 million in GI mortgage loans is in contrast to the nine-fold greater rise in that type of mortgage lending a year ago.

While deposits remained virtually unchanged at $17.8 billion in commercial banks in the year ended last Sept. 30, private demand deposits declined $243 million and private time deposits continued to rise, gaining $101 million. Treasury deposits now make up only about 3% of all deposits in these institutions.

Savings and loan association share capital increased $44 million, or 11%, slightly below the gain of a year ago. Because their postwar record increase of new mortgage lending, amounting to $127 million, exceeded the increase in share capital, the associations were forced to sell some of their government securities and increase their borrowed funds.

Savings Deposits Increase

Notwithstanding a lessened rate of growth, deposits in mutual savings banks passed the $10 billion mark during the year. In the third quarter of 1948 the rate of growth underwent a noticeable slowing down. Concern over this slackening in deposit expansion has led to consideration of higher dividend rates and additional branch facilities as a solution. During the year a number of banks in New York City changed their rates of dividend paid to depositors.

Higher dividends for savings banks should not be adopted at the expense of appropriate loss reserves, Superintendent Bell points out. This need for establishing adequate reserves out of operating earnings has been brought into particular emphasis by reason of the substantial portion of savings bank mortgage portfolios represented by loans made in the postwar years. As a measure of financial protection, the Banking Department has recommended generally to the savings banks the establishment of mortgage reserves on the basis of an annual provision of ½ of 1% of portfolio. Such a policy has the object of drawing periodically from earnings a reasonable contribution toward losses which occur with the swings in the economic cycle.

The problem of branch facilities today exists primarily in Manhattan, and to a slightly lesser extent in Brooklyn, the Superintendent states. A static population coupled with an already well developed savings bank system is characteristic of both boroughs. Some regroupings of population occasionally are made when, for example, a big housing development is completed. These may well afford some opportunities for additional branch offices. But for the most part any new branches in central areas would more likely result in a redistribution of existing business rather than in any generating of new customers for the savings banks, he said.

"A policy of granting additional offices primarily to meet the problems of individual banks would tend to result in an increase of overall costs of savings bank operation to the detriment of the earnings of the savings banks as a whole," the Superintendent explains. "It would result in an increase in cost of overhead involved in supplying savings bank facilities without any commensurate increase in savings bank deposits or in public convenience."

LaFarge Partner In Clark, Dodge Co.

Francis W. LaFarge has been admitted to general partnership in Clark, Dodge & Co., 61 Wall Street, New York City, members of the New York Stock Exchange, it is announced. Prior to joining the firm in 1946, Mr. LaFarge was associated with Tri-Continental Corporation for 15 years, part of which time he served as market analyst for the corporation and as Vice-President of its affiliate, Capital Administration, Ltd.

Francis W. La Farge

Admission of Mr. LaFarge to the firm was previously reported in the "Chronicle" of Dec. 16.

Jared C. Aiken With Dempsey Tegeler & Co.

LOS ANGELES, CALIF.—Jared C. Aiken has become associated with Dempsey-Tegeler & Co., 210 West Seventh Street. Mr. Aiken who has been in the investment business for many years was previously with Morgan & Co.

Chile Gets $20 Million More From U. S. Agency

Export-Import Bank supplements original credit of $28 million to the Fomento Corporation of Chile to finance equipment purchases for steel mills.

The Board of Directors of the Export-Import Bank has authorized an additional credit of $20 million to the Fomento Corporation of Chile to assist in financing the purchase of United States equipment, materials, and services required for completion of the steel mill now under construction by Compania Acero del Pacifico at San Vicente Bay near Concepcion, Chile.

An original credit of $28 million was authorized by the Bank for this project in September 1945. Thereafter, the Fomento Corporation of Chile proceeded to organize the new steel company, to engage United States engineers to execute the detailed designs, to secure satisfactory United States management services, to conclude contracts for the supply of raw materials and to arrange for local financing. These preliminary negotiations, all of which were required under the terms of the Bank's loan agreement, could not be completed until the latter part of 1947. In the meantime, sharp increases in the costs of United States equipment, materials, and services, together with certain necessary modifications in the original project, have resulted in a substantial upward revision of the total estimated cost of the plant.

It is now estimated that the total investment required will be in the neighborhood of $83 million, of which approximately $60 million will be devoted to the purchase of United States materials, equipment, and services. With the supplemental authorization, the Export-Import Bank is increasing its financing to cover $48 million of these purchases in the United States. Chile Fomento Corporation has secured an additional $4 million in credits from United States suppliers. The balance of the dollar costs and all of the local costs in Chile are being defrayed from Chilean funds. A review of the data with respect to costs and markets has confirmed the original judgment that the project represents a sound economic development for Chile.

Haiti Bonds and Ctfs. Called

Banque Nationale de la Republique d'Haiti, as Fiscal Agent, is notifying holders of Republic of Haiti Internal Loan (5%) Series A Bonds and Bond Certificates due July 15, 1957, that $227,120 aggregate principal amount of these bonds and bond certificates will be redeemed on January 15, at a redemption price equivalent to 100% of the principal amount and interest to the redemption date, through operation of the sinking fund. Payment of the bonds and bond certificates will be made at the Head Office of the Fiscal Agent, Banque Nationale de la Republique d'Haiti, Port-au-Prince, Haiti, and at the Head Office of its New York Agent, the National City Bank of New York.

Looks for Stable Bond Market

Halsey, Stuart & Co. Inc., in year-end survey, see continuing availability of investment funds and support of government bonds at present levels, but with diminished supply of investment offerings. Total financing in 1948 exceeded $8½ billion, bulk representing new money.

Bond prices should remain reasonably stable and possibly strengthen in 1949, Halsey, Stuart & Co. Inc. have announced in the firm's annual year-end bond survey.

An expected lessening in the issuance of municipal and industrial offerings, a continuing supply of funds available for investment purposes, and the likelihood that prices of long-term government securities will be supported near present levels were cited by the company as factors supporting its prediction of a stable over-all market.

"The supply of investment offerings in 1949 may be expected to show an over-all decline from volumes registered in the first postwar years," the survey said.

"Continuation by the utilities of their huge expansion programs will create a need for additional financing in this field, and utility offerings should remain at a high level. Municipals, too, will be a source of substantial offerings, although there is a probability that the volume will not come up to record totals of 1947 and 1948. All expectations point to a lessening in industrial offerings, since the pent-up demand created by wartime shortages has been satisfied in a number of industries and many programs of plant expansion have been completed or moderated, with a resultant decrease in the demand for funds to do these jobs."

Real estate mortgage financing should continue in large volume, the survey continued. The railroads undoubtedly will need more financing, it said, but offerings will be inconsequential unless a sudden improvement occurs in the promptness with which rate increases are granted to offset wage increases. Rail equipment financing, however, may be expected to continue at a volume limited only by the availability of materials.

"There has been much talk about a lowering of prices at which the monetary authorities support the market for government securities," the survey pointed out. "There are many complicated aspects to this problem, and while it is possible that some further adjustments may take place in rates for the short-term securities, in our opinion the long-term rate of approximately 2½% seems likely to continue."

In 1948, Halsey, Stuart said, total corporate, municipal and foreign financing was more than $8.5 billions, of which about $8 billions represented new money. Both of these figures exceeded totals in any year since 1929. Only about $850 millions represented stock financing.

Enormous borrowing took place in the industrial field, most of it through private placement; but much of the money for expansion and improvement came from corporate earnings and reserves, the survey pointed out. There was little stock financing. Of approximately $2.5 billions of publicly offered new financing, about 80% was represented by bonds and 20% by stocks.

"While part of the needed equity was provided by retained corporate earnings," it continued, "it becomes obvious that there was—and is—a need for additional equity financing to retain a proper relationship between ownership and debt. It is apparent that to effect this equity financing, two things are necessary, (1) greater confidence on the part of the investor in the future welfare of American industry and (2) relief from double taxation which taxes the same dollar when earned by a corporation and when distributed as a dividend."

The big underwriting house warned that the nation's economy may be facing a period of stress. "During the year it became obvious that the Marshall Plan would not forestall the need for its alternative — rearmament," it said. "We must face the fact that continued European recovery payments, coupled with U. S. rearmament and perhaps the rearming of Western Europe by American dollars and goods, will place a distressing load on this country's economy. A consequence is likely to be even higher taxes with effects extending far beyond the tax burden itself.

"To soften the tax burden, there is urgent need for the Federal administration, states and municipalities to make every effort to avoid all unnecessary expenditures and guard against extravagances usually bred by inflation. It is time for each individual to measure the cost of what he demands from his government or authorizes his government to spend."

Pointing out that the demand for corporate bonds and to an increasing extent for municipal bonds is coming largely from institutional buyers, Halsey, Stuart said that "the accumulation of such huge amounts of debt securities in insurance company portfolios, representing the savings of millions of policy holders, could have an important effect on the entire economic system."

In the first nine months of 1948, life insurance companies alone accounted for approximately $3.4 billions of bond purchases and close to $2.5 billions of mortgages, the survey said. "Part of this activity was reinvestment of funds received through liquidation of government bonds, but insurance company investments still showed a net increase of approximately $3.5 billions during the nine months," it went on.

Debt obligations held by life insurance companies, it said, are now estimated at close to $50 billions, and the total continues to grow rapidly.

Harvey Burton Opens

ONACOCK, VA. — Harvey L. Burton is engaging in a securities business. Mr. Burton was in the past a partner in Jenks, Kirkland & Co.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government bond market continues on the constructive side, with a firm-to-buoyant tone in evidence. . . . The New Year investment demand is taking securities out of the market, with an extension of maturities still very much in evidence. . . . Savings banks along with the smaller insurance companies have been fairly sizable buyers of all of the tap issues. . . . The bank obligations, taxables as well as the partially-exempts, are being bought by both the large and small institutions, with the demand for the latter securities coming strongly from mid-west and Pacific Coast areas. . . .

WORLD BANK BONDS IN DEMAND

The World Bank bonds appear to be regaining some of their previous investment merit, because there is good buying in these securities by commercial banks as well as non-bank investors. . . . The 2¼s are being acquired by certain deposit institutions because of the substantial yield that is available for an issue that has less than nine years to run. . . . The 3s are being bought by those institutions that can use the longer maturity. . . .

Non-bank investors as well as some of the commercial banks have been buyers of the longer maturing World Bank issue. . . . Both of these securities are looked upon now as being more attractive than comparable maturities of corporate bonds. . . .

COURSE OF GOVERNMENTS IN 1948

The year 1948 showed the eligible taxables made some progress on the up side, with the last three maturities making the most progress. . . . The record is as follows:

Eligible Taxable Bonds

Issue		12-31-47 Closing Bid Price	12-31-47 Closing Yield %	Price Range 1948 High	Price Range 1948 Low	12-31-48 Closing Bid Price	12-31-48 Closing Yield %	Price Change 32nds	Yield Chge. %
2%	6-15-49/51	101.4	1.17	101.10	100.12	100.12	1.01	—24.0	—.16
2%	9-15-49/51	101.4	1.29	101.12	100.17	100.17	1.14	—19.0	—.15
2%	12-15-49/51	101.8	1.31	101.16	100.21	100.22	1.20	—18.0	—.11
2%	3-15-50/52	101.14	1.32	101.20	100.25	100.25	1.28	—21.0	—.04
2%	9-15-50/52	101.15	1.44	101.23	100.29	101.00	1.36	—15.0	—.08
1½%	12-15-50	100.11	1.36	100.21	100.3	100.8	1.34	— 3.0	—.02
2%	9-15-51/53	101.12	1.60	101.29	101.2	101.8	1.50	— 4.0	—.10
2%	12-15-51/55	101.12	1.62	101.29	100.29	101.10	1.52	— 2.0	—.10
2½%	3-15-52/54	103.4	1.71	103.25	102.16	102.28	1.55	— 8.0	—.16
2%	6-15-52/54	101.8	1.69	102.00	101.00	101.11	1.58	+ 3.0	—.11
2¼%	6-15-52/55	102.4	1.74	102.27	101.22	102.1	1.62	— 3.0	—.12
2%	12-15-52/54	101.4	1.75	102.1	100.31	101.12	1.62	+ 8.0	—.13
2½%	3-15-56/58	102.24	2.13	104.29	102.23	103.27	1.91	+ 1.3	—.22
2¼%	9-15-56/59	101.8	2.08	103.12	101.7	102.10	1.92	+ 1.2	—.16
2½%	9-15-67/72	101.0	2.43	103.1	101.00	101.29	2.37	+29.0	—.06

The partially-exempts were among the more favored government issue in 1948 and the results as shown by the following tabulation were on the constructive side:

Eligible Partially-Exempts

Issue		12-31-47 Closing Bid Price	12-31-47 Closing Tax Free Yield %	Price Range 1948 High	Price Range 1948 Low	12-31-48 Closing Bid Price	12-31-48 Closing Tax Free Yield %	Price Chge. 32nds	Yield Chge. %
3⅛%	12-15-49/52	103.28	.91	103.30	102.2	102.2	.74	—1.26	—.17
2½%	12-15-49/53	102.20	.93	102.15	101.14	101.14	.77	—1.6	—.16
2½%	9-15-50/52	103.10	1.03	103.20	102.15	102.15	.85	— .27	—.18
2¾%	6-15-51/54	104.26	1.10	105.5	103.23	103.28	.96	— .30	—.14
3%	9-15-51/55	105.26	1.14	106.8	104.23	104.28	.97	— .30	—.17
2¼%	12-15-51/53	103.14	1.14	104.5	102.24	103.6	.97	—8.00	—.17
2%	6-15-53/55	102.14	1.29	104.12	102.13	103.16	1.01	+1.2	—.28
2¼%	6-15-54/56	103.24	1.37	105,30	103.14	104.28	1.11	+1.4	—.26
2⅞%	3-15-55/60	106.10	1.63	109.18	106.12	108.8	1.25	+1.30	—.38
2¾%	9-15-56/59	106.04	1.68	110.6	106.4	108.28	1.29	+2.24	—.39
2¾%	6-15-58/63	107.04	1.71	110.18	106.10	109.0	1.46	+1.28	—.25
2¾%	12-15-60/65	108.00	1.74	111.00	106.24	109.20	1.57	+1.20	—.17

The restricted obligations ended the year 1948 on the buoyant side with minor price improvement being shown in each issue. . . . All of these securities were selling above support prices, when the year ended. . . . Results were as follows:

Restricted Taxable Bonds

Issue		12-31-47 Closing Bid Price	12-31-47 Closing Yield %	Price Range 1948 High	Price Range 1948 Low	12-31-48 Closing Bid Price	12-31-48 Closing Yield %	Price Change 32nds	Yield Chge. %
2¼%	6-15-59/62	100.00	2.25	100.22	100.00	100.5	2.22	+ 5.0	—.03
2¼%	12-15-59/62	100.00	2.25	100.22	100.00	100.5	2.22	+ 5.0	—.03
2½%	6-15-62/67	101.8	2.39	102.29	101.8	101.27	2.34	+19.0	—.05
2½%	12-15-63/68	101.00	2.42	101.30	101.00	101.15	2.38	+15.0	—.04
2½%	6-15-64/69	100.24	2.44	101.18	100.24	101.3	2.40	+11.0	—.04
2½%	12-15-64/69	100.24	2.44	101.16	100.24	101.00	2.42	+ 8.0	—.02
2½%	3-15-65/70	100.24	2.45	101.15	100.24	100.31	2.42	+ 7.0	—.03
2½%	3-15-66/71	100.16	2.46	101.14	100.16	100.27	2.43	+11.0	—.03
2½%	6-15-67/72	100.8	2.47	100.30	100.8	100.15	2.46	+ 7.0	—.01
2½%	12-15-67/72	100.8	2.48	100.30	100.8	100.15	2.47	+ 7.0	—.01

Marketable government bonds eliminated from the list during 1948 aggregated $6,422,000,000 consisting of $4,177,000,000 of taxable bonds and $2,245,000,000 of partially-exempt bonds. . . . It has been more than three years since the Treasury has offered marketable bonds, because they have retired due or callable securities mainly through the issuance of short-term obligations. . . . This policy has sharply increased the floating debt, which is not always a good procedure to follow. . . . The year 1949 brings with it sizable maturities of government bonds, which should not be refunded through an increase in the floating debt. . . . It is hoped that longer-term marketable obligations will be used to take care of at least a part of this year's bond maturities.

Sees Elements of Strength in Business

National City Bank of New York, in discussion of prospective developments, holds it is hard to find evidence that active deflation or liquidation is setting in. Says business structure is supported by sound financial situation.

The January "Monthly Bank Letter" of the National City Bank of New York contains a short review of general business conditions as indicated by developments through 1948 and prospects for 1949, and concludes, despite complexity of present situation, there are signs of stability and strength and that adjustments now taking place are inevitable and salutary.

"It would be hard to find evidence that an active deflation or liquidation is setting in," says the "Monthly Bank Letter." "In many and very important lines backlogs of orders are still heavy. Buyers are still crying for more steel and more of the non-ferrous metals. If demand for the latter should ease, the government would fill the void by purchases for its stockpile. By all signs the producers of at least the lower-priced automobiles will be able to sell in 1949 all the cars they can make; and they plan to make more than they did in 1948, which signifies that they will want more materials and take up slack which may develop from other buyers.

"Uncertainty is expressed about the outlook for business expenditures on plant and equipment. But a survey made by the Department of Commerce and the Securities and Exchange Commission, which in the past has proved a reliable indicator, places the total for the first quarter of 1949 at $4,390 million. This is a drop from the $5,010 million in the fourth quarter of 1948, as would be expected because of the influence of the winter on construction. But it is an increase of $220 million or 5% over the first quarter of 1948, and gets the year off to a good start. State and local governments are virtually certain to do more building than last year.

"The export outlook is for a continuation of shipments around the current level of about a billion dollars a month, or very little below it, because of the stabilizing influence of the Marshall plan shipments. Only about 40% of the $2.2 billion of American goods authorized for purchase under ECA through November had then been shipped. The percentage of industrial goods, compared to agricultural products, in the authorizations continues to rise.

"Underneath the business structure is the supporting influence of a strong financial situation. Corporate and personal debts rose further during the year, but it seems correct to say, as was the case a year ago, that ratios of debt to net worth are not in general a cause of concern. There is no money stringency, such as has heralded previous periods of liquidation and depression. On the contrary, the unprecedented liquid assets in the form of cash, short-term government securities and redeemable savings bonds are a source of strength. The rate of savings has risen.

"In 1949 the government will be pouring out more money into the hands of people, and taking less away from them. In the first half of 1948 the Federal Treasury took in $7.6 billion more than it paid out, and used the money principally to pay off government debt held in the banking system. This was deflationary, although it caused no business setback. In the first half of 1949 it is doubtful that the cash surplus will be as much as one-third of the 1948 figure. The difference in part is lower taxes, in part larger Treasury expenditures, of which the armament orders reaching various industries are visible evidence.

"To many it will seem that the net of the possible minus change from 1948 in business expenditures, construction and the export surplus, and the plus change in government transactions, will show no considerable balance on either side. This leaves open the question of inventory changes and consumer expenditures, in which psychology, or the will to spend, enters largely. The influential factor is what people think of the future, and government policies and unpredictable events will affect their feelings.

"On one aspect of the outlook general agreement may be reached. It is that buyers' markets and competitive conditions will prevail in 1949 over a greater part of the economy than in any year since the war began. Such a change, although it implies a test of weaker enterprises, is inevitable and salutary. It will promote efficiency in the economic organization and give some relief to the people hard pressed by inflation. It is altogether desirable that some of the fever which has characterized business at times during 1948 should pass out of the situation, and that adjustments should take place while the supporting factors are so strong."

Holds New Appraisals of Municipals Needed

Guaranty Trust Company of New York points out current tendencies in state and municipal debt, due to inflated prices and costs, require different methods of selection and appraisal by investors in municipal securities. Sees municipal financial problems becoming complex and difficult.

A leading article in the current issue of "The Guaranty Survey," published by the Guaranty Trust Company of New York and entitled "Municipal Finances in a Period of Inflation," calls attention to recent developments in state and local finances, in which changes from prewar conditions point to new methods of selection and appraisal of municipal securities. Commenting on the situation, the "Survey" states:

"The broad change in the composition of revenues due to the growing dependence on new forms of local taxation has complicated the task of appraising municipal credit. Several convenient yardsticks of long-established usage in this field have lost enough of their former significance to become almost valueless for their intended purposes in many cases. In prewar years, for example, the ratio of current tax collections to the total real-estate tax levy of a municipality usually furnished a ready and reasonably accurate indication of whether the city was meeting its budgeted expenses, because the great bulk of income on which expense appropriations were based was derived from the levy. Under present conditions, with property-tax revenue often producing considerably less than half of the total income needed to balance budgets, this ratio can seldom be relied on as a criterion of over-all financial operations, for it provides no clue as to the relation between revenue actually realized from the remaining tax sources and the estimates of their yield, often prepared long in advance, on which budgets of expenditure are based. Revenue accounts, therefore, must now be scrutinized more critically than heretofore with a view to ascertaining the degree of dependence on various tax sources that are liable to be quickly affected by adverse economic trends. This dependence is difficult to measure precisely but may be roughly gauged by the ratio of property taxation to total revenue.

"The changed composition of municipal revenues has made it necessary also to revise established ideas as to what constitutes a supportable ratio between funded debt and assessed valuations. This ratio was formerly of considerable importance, because it stated the debt burden in terms of available income within reasonable limits of accuracy. It is now a less reliable indicator, as it gives no consideration to the large amounts of new revenue that often supplement the property-tax levy. A more accurate gauge of the relative burden of debt under present conditions would be the ratio of interest and amortization requirements to the total revenues available to meet them.

"A third credit indicator that needs re-examination in the light of recent trends is the amount of debt per capita. The significance of this figure is rather indefinite under any conditions, because it depends on wealth per capita or debt-supporting capacity, which varies widely among communities and cannot be accurately measured. The usefulness of accepted norms has been further impaired by the substantial increase in municipal debt due to inflated construction costs and the filling of deferred needs for capital improvements; the general rise in incomes, as illustrated by the increase in the national average per capita to 2.3 times the 1940 figure, with the implication of a roughly proportional increase in the capacity to carry debt loads; and the relatively low rates of interest on municipal borrowing at present and in the recent past. Under these altered conditions, the amount of total municipal revenue per capita, which can be ascertained with reasonable accuracy, is useful as an indicator of the relative amount of income contributed to support local governmental functions, and hence of basic wealth. Total municipal revenue per capita, considered in connection with the amount of debt per capita, provides a more significant measure of the debt burden than the per-capita debt figure alone.

"The new problems arising from the current tendencies in local finance are of particular importance in view of the fact that State and municipal debt, while still about 7% lower than before the war, is rising rapidly. Not only are the altered conditions a matter of concern to municipal administrators and taxpayers, but investors in municipal securities need methods of appraisal and selection quite different from those used during the prewar period of uninflated prices and costs."

Brewster To Head F. S. Moseley Dept.

F. S. Moseley & Co., 14 Wall Street, New York City, members of the New York Stock Exchange, announce the appointment of Gerald W. Brewster as manager of the firm's municipal bond department. Mr. Brewster has been with the firm for some time.

Instal Texas Wire

Bear, Stearns & Co., New York Stock Exchange members, announce the installation of a private wire to Dallas Rupe & Son, Dallas, Texas.

Holds Working Capital Expansion Not Unduly Inflationary

Federal Reserve Bank of New York, in review of developments, points out postwar expansion of corporate working capital came chiefly from need of funds to restore business to normal peacetime channels and that financing of large inventories and trade receivables has been inflationary only to moderate degree.

The January issue of the "Monthly Review of Credit and Business Conditions," published by the Federal Reserve Bank of New York, contains an analysis of the working capital position of American business corporations with a view to determining the extent that enlarged inventories and credit expansion through heavier volume of receivables have contributed to current inflationary trends.

Concerning this topic, the "Monthly Review" states:

Despite their exceptionally liquid position at the end of the war and the retention since then of large amounts from current earnings, American business corporations have had to seek unprecedented amounts of working capital funds from banks and from institutional and other investors during the past three years.

At the end of the war, corporate enterprises in the aggregate probably enjoyed the most liquid financial position in history. Working capital[1] of all business corporations (exclusive of banks and insurance companies) totaled $97.8 billion at the end of 1945, exceeding current liabilities by $51.6 billion. Cash on hand and in the banks plus government security holdings comprised 44% of total quick assets, reflecting in large part limited investment opportunities during the war and the fact that the Treasury had financed a large part of the wartime working capital needs of industry. These liquid assets, amounting to $42.8 billion, were sufficient to pay off all but $3.4 billion of total corporate obligations due within one year. Inventories and accounts receivable, while considerably above the 1939 figures, were unusually low in relation to total working capital.

Working balances of 1,122 corporations which are registered on national security exchanges and for which there is a break-down by industry showed no significant deviation, industry by industry, from working capital patterns of all business corporations, other than such deviations as are characteristic of the operations of individual industries. For the most part, at the end of 1945 each of the major industries showed substantial accumulations of liquid assets, a low level of inventories and receivables, and a wide margin of quick assets over liabilities.

With industry in such strong financial condition, it appeared as though a very considerable expansion of business activity could be financed with funds on hand and with retained current profits. Indeed, toward the close of 1945, prospects for an increase in commercial loans and security issues seemed remote. Within two short years (in fact within the very next year), however, it was necessary for business to seek additional funds. The very large volume of liquid assets proved insufficient to meet the heavy needs for working capital and other funds that developed after the war. In the aggregate, business corporations except banks and insurance companies increased their total current assets to $118.4 billion on June 30, 1948, a gain of over 20% from the 1945 year-end total. The increase in working capital came primarily in inventories and receivables, the two components which had grown least during the war. In the 2½-year period corporations added $16.7 billion to their inventories—$8.5 billion in 1946 and $5.8 billion in 1947. According to preliminary indications, nearly $5 billion more was added in 1948 ($2.4 billion in the first six months). Between the end of 1945 and June 30, 1948, customer financing rose $12.4 billion, practically all of which was in the first two years.

The postwar expansion of working capital stemmed principally from the need for funds to reorient production and distribution into normal peacetime channels after several years of military production. During the reconversion period certain industries required additional cash because sales were low and expenditures comparatively high. Inventories increased at all levels of the productive and distributive system. Since the national output was no longer directed preponderantly toward meeting the needs of a single buyer (the Federal Government) with known requirements and delivery schedules, a peacetime variety and balance in stocks had to be reestablished, and depleted "pipelines" had to be filled. As private buyers, unlike the Federal Government, did not make payments in advance of delivery, credit to customers expanded sharply. Financing of American export trade gradually shifted back to private channels, although the government still plays a very important role in this field.

On top of these needs for funds arising from the return to peacetime patterns of production and channels of distribution, working capital was required to meet the steadily rising cost of goods and services. Three rounds of postwar wage increases raised the cash requirements for payrolls, while the upsurge prices which followed the removal of price controls raised inventory costs. Higher prices of industrial materials reflected wage increases as well as acute demand and shortages of supply, the latter resulting in part from the presence of production bottlenecks. Since one concern's selling price is another's cost, a rise in prices tends to become cumulative throughout the various stages of production and distribution. Thus the need for additional working capital arose from the price element as well as from the physical accumulation of inventories.

How was this growth of working capital financed, and did the methods of financing used contribute to the process of inflation?

The very process of inventory accumulation, of course, tends to be inflationary since it creates incomes without making goods available for immediate consumption. The inflationary significance of the growth of working capital depends, however, on the manner in which the larger working capital needs have been financed. To the extent that the additional funds come from nonbank investors, no new income is generated in the inventory accumulation process except when idle balances are activated. In the main, postwar needs of American business for expanding working capital have been met through (1) the sale of government security holdings, (2) increased short-term borrowings from the banks, (3) an increase in trade payables, and, (4) long-term borrowings, sales of securities in the capital market, and, most important, retained earnings and other internal funds (designated "all other sources" in the accompanying table).

On the whole, it appears that the financing of enlarged inventories and corporate trade receivables has been inflationary to a moderate degree only. As shown in the accompanying table, corporate sales of government securities ($8.5 billion in the 2½ years ended June 30, 1948) accounted for over a fourth of the total funds required. About three-fourths of these sales were made during the first postwar year, when the Treasury retired large amounts of maturing or called issues with funds which had been raised through the sale of government obligations to non-bank investors in the Victory Loan drive. Thus, it is probable that the bulk of the Treasury securities which corporations liquidated did not find their way into bank portfolios. However, Government War Loan deposits which might otherwise have lain idle were put into more active use as a result of such liquidation.

Uses and Sources of New Working Capital Funds of Business Corporations*

(In billions of dollars)

	1946	1947	First half of 1948	1946-first half of 1948‡
USES—				
Increase in cash	0.0	1.2	0.0	0.7
Increase in customer financing	6.0	5.9	0.5	12.4
Inventory accumulation	8.5	5.8	2.4	16.7
Repayment of bank and trade debt	0.0	0.0	1.5	0.0
Reduction in taxes due Federal Government	2.5	0.0	0.0	0.2
Decrease in other liabilities	0.0	0.0	0.3	0.0
Total	17.0	12.9	4.7	30.0
SOURCES—				
Decrease in cash	0.3	0.0	0.2	0.0
Liquidation of Government securities	6.2	1.5	0.8	8.5
Decrease in other assets	0.7	0.1	0.0	0.8
Increase in bank and trade debt	5.2	4.0	0.0	7.7
Increase in taxes due Federal Government	0.0	2.1	0.2	0.0
Increase in other liabilities	0.0	1.1	0.0	0.8
†All other sources	4.6	4.1	3.5	12.2
Total	17.0	12.9	4.7	30.0

*All corporations other than banks and insurance companies.

‡Data in this column show net changes in asset or liability items for the 2½-year period and are not summations of the items in the preceding columns.

†Retained profits, increases in reserves, long-term loans, and sales of new security issues.

Source: Securities and Exchange Commission.

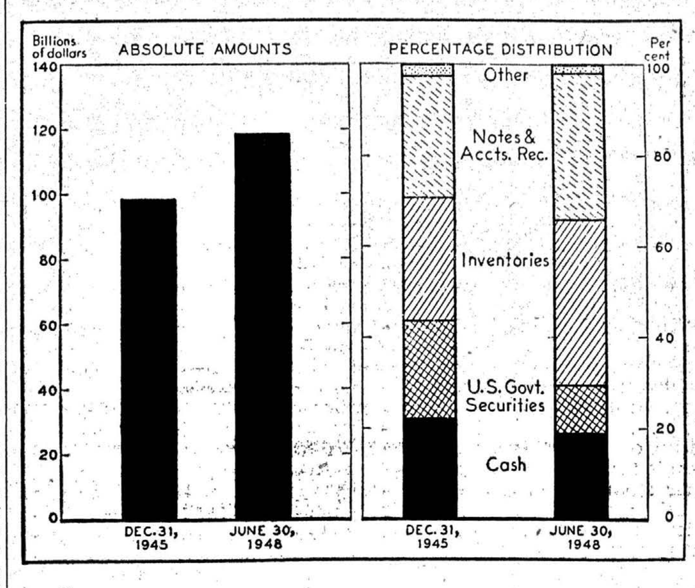
More than one-fourth of the postwar needs for working capital funds were obtained through the expansion of notes and accounts payable. Unfortunately, no breakdown between short-term bank borrowings and indebtedness to suppliers is available. However, it is known that business loans of the banks rose sharply in 1946 and 1947 and accounted for a sizable part of the total expansion of corporate payables, which amounted to $7.7 billion in the period under review. The decline in business loans during the first half of 1948 was largely seasonal. Probably more than half the postwar expansion of corporate payables was indebtedness to suppliers. Corporate trade receivables expanded much more than corporate trade payables, however, so that credit extended by corporations to individuals and unincorporated business increased substantially. This together with the rise in intercorporate indebtedness (that part of the increase in the volume of corporate trade receivables financed by a rise in corporate trade payables)[2] resulted in a larger volume of sales being carried on without any change in the money supply, thus causing the velocity or turnover of money to increase somewhat. The extension of trade credit by corporations to individuals and unincorporated business has tended to reduce the need of the latter groups for additional outside financing, including bank loans. However, such outside financing may not otherwise have been available, in whole or in part, to small business and others.

Equity funds and long-term borrowing (including retained earnings, other internal funds set aside in various reserves, and the proceeds of new security issues in the capital market) provided most of the remaining working capital needs. In the 2½ years ended in mid-1948, $12.2 billion of new working capital were received from these sources by American corporations. In addition, of course, a substantial part of corporations' internal funds and of the proceeds of their security issues was used to finance the unprecedented expansion of plant and equipment.

1 The sum total of current assets, sometimes known as gross working capital.

2 In the data for all corporations, *intercorporate* accounts receivable and payable are necessarily equal; the difference between total accounts receivable and total accounts payable (almost always an excess of receivables) represents credit extended by corporations to individuals and unincorporated business or indebtedness of the former to the latter.

Total Current Assets of U. S. Corporations*
(December 31, 1945 and June 30, 1948)



* All U. S. corporations except banks and insurance companies.
Source: Securities and Exchange Commission.

Although a clear-cut answer cannot be given, it appears that on the whole the increase in corporate working balances has not been one of the main factors exerting inflationary pressures on the pricing system during the postwar years.

What is the present position of industry with respect to working capital and what are the prospects for further expansion of working capital needs?

In spite of the large volume of expenditures made, corporations have actually added $700 million to their holdings of cash since the end of 1945 (an increase of 3%). The liquidation of government security holdings has continued, but on a sharply diminished scale. Thus, desipte a 40% decline in government securities since the end of 1945, corporate liquid assets still totaled $35 billion on June 30, 1948, when they accounted for 30% of total working capital. Current assets are still more than twice quick liabilities. They should provide an ample cushion against the contingency of substantial losses through shrinkage of inventory values.

While it is apparent that in the aggregate corporate working capital is ample and liquidity high, the position of individual industries and of individual enterprises is not uniformly favorable. For the 1,122 large corporations registered on national security exchanges, it appears that ample working capital margins prevail in all of the major industries and that liquidity remains high (except among trade corporations and sales finance and personal loan companies, where there is less need for liquidity). This is not necessarily true for the smaller corporations.

The expansion of corporate working capital was most rapid during 1946 and 1947. Preliminary data for 1948 indicate considerable reduction in additional working capital needs, reflecting the filling of "pipelines" and the lessened impact of price increases on inventories. With the return of buyers' markets in more and more industries and the continuation of selective price declines, it appears likely that there will be some further lessening of demands for working capital funds for the further accumulation of inventories and for customer financing.

Riter Elected By Thomas Edison Inc.

Thomas A. Edison, Inc., of West Orange, New Jersey, have announced the election of Henry G. Riter, 3rd, effective Jan. 1, 1949, as Chairman of the Executive Committee. Mr. Riter has been a director of the company since Oct. 1, 1946.


Henry G. Riter, 3rd

His other corporate affiliations include those of senior partner of Riter & Co., New York investment banking firm, and Chairman of the Board of Directors of the Copperweld Steel Co. of Glassport, Pa., and Warren, Ohio.

Mr. Riter has served as Chairman of the Board of Governors of National Association of Securities Dealers, Inc., and President of the Bond Club of New York.

Henry Krieger & Co. Opens

Henry Krieger has formed Henry Krieger and Co. with offices at 115 Broadway, New York City, to engage in the securities business.

Inability of Corporations to Plough Back Earnings Into Business Decried

First National Bank of Boston says battle for survival is being fought on the financial front, and it is time to take stock of effects of trends toward heavy government spending and mounting taxes.

"Unsound fiscal policies not only threaten our form of Government but also imperil our national security," says The First National Bank of Boston in its current "New England Letter." Continuing, the Bank says, "Heavy corporate taxes are diverting funds that should be ploughed back into business to provide for the estimated $50 billion capital expenditures needed to restore a healthy and vigorous economy, our cihef bulwark of strength in the last war. It is vital that this strength be unimpaired in view of the tense international situation. The Communist strategy, according to the Hoover Commission on the Reorganization of the Executive Branch of the Government, is to win its victory by forcing this country to spend itself into bankruptcy. In the face of this knowledge, the military leaders have, according to the Hoover Commission, '. . . no sense of cost consciousness or general realization of conservation of our resources. . . .'

"With the nation placed in such a perilous position, from within the country by pressure groups and from without by an aggressor bent on world conquest, it is to be hoped that the Administration in submitting its budget for the coming fiscal year will be mindful of the crucial test confronting our fiscal policies. The battle for survival is being fought on the financial front. With stakes so high, no item of the budget, except interest on the public debt is 'untouchable.' Extravagance and waste of public funds are a menace to our national defense. We should not risk placing further strain on our narrow margin of safety and endangering our solvency, which is the last prop of Western civilization.

"As we come to the end of another year it is timely to take stock of the trend of government which has become such a dominating influence and touches all segments of our daily lives. Is it serving the purpose of maintaining law and order, and fostering and protecting the traditions and ideals upon which the nation was founded and which two world wars were fought to defend? Or, has it become an instrument for the bestowal of gifts upon the people through funds collected from the people?

"The two objectives are fundamentally incompatible as government aid is inseparably linked with government control. Unless checked, this system of control inevitably creates a Frankenstein bureaucracy that saps the vitality of the country, and while marching forward under the banner of liberty and democracy leads the people into bondage, and the servants become the masters. This is the invariable record of all countries that have embarked upon a program of 'providing for the people.'

"As a consequence of a prolonged depression, two wars, and pressure groups, the government has become gargantua-like, with tremendous powers extending over practically all segments of American life. The government is the largest employer in the land. Federal civilian employees now exceed 2.1 million, and with the addition of state and local government employees the total aggregates more than 6 million persons, or about one-tenth of the total number employed. In the last two decades the number of government employees has increased by 100%, while the population of the entire country has shown a gain of only 20%. The payrolls of government workers aggregate over $14 billion, or about $350 for every family in the land. The annual expenditures of government in this country for the 1948 fiscal year were almost $55 billion, or an average of $1,330 for every family, as compared with $390 per family in 1929. Moreover, the Federal Government has invaded many tax fields originally belonging to state and local governments, and now absorbs about three-fourths of all taxes collected in the country.

"The government maintains the largest financial institution in the world. It has about 45 lending agencies, with aggregate loans outstanding in excess of $10 billion, or more than 40% as much as the aggregate loans of all the reporting member banks of the Federal Reserve System. About one-third of the urban and one-fourth of the rural mortgages are held by the Federal Government. In addition, the government supports the prices of Federal bonds and major farm crops, and finances a large part of the export trade. Beyond that, it has launched upon a program designed eventually to protect all of the people against the vicissitudes of life from the 'crade to the grave.'

"To carry out the role of paternalism, the administration in power for the past decade and a half have glamorized public spending and under sugar-coated slogans have hypnotized the people into believing that the vast outpouring of money was evidence of great wealth and the key to abundance, ease, and security, and that the long-looked for formula of getting something for nothing had at last been found. Along with this formula there developed a national theory that we need not worry about the debt since we owe it to one another. But we are faced with the startling fact that these staggering outlays of public funds have brought us into the danger zone. Taxes of all kinds currently take more than one-fourth of national income. Past experience has shown that whenever taxes absorb more than 25% of national income over a period, the strain is so great on the economy as to cause a drastic change in government."

Fiftieth Anniversary For Jas. Oliphant Co.

Jas. H. Oliphant & Co., 61 Broadway, New York City, are celebrating their Fiftieth Anniversary. Donald D. Graham, who became a partner in 1919, has been with the firm since its beginning. The partners at that time were Jas. H. Oliphant, whose name has since been carried on in the continuing partnership, and Alfred L. Norris, both of whom died years ago. Seven of the present partners have been associated with the firm over 25 years.

In 1898, Jas. H. Oliphant & Co. became one of the 382 member firms of the New York Stock Exchange. It is interesting that a half century later, they are one of 36 of these firms still doing business under the same name. In 1909, the firm opened its branch office in Chicago and this is one of five of the 27 branches of New York Stock Exchange houses now operating in that city under the same firm name.

Wm. S. Hunter With Lee Higginson Corp.

CHICAGO, ILL. — William S. Hunter has become associated


William S. Hunter

with Lee Higginson Corp., 231 South La Salle Street, in the trading department. Mr. Hunter was formerly with E. H. Rollins & Sons, Inc.

Barnes Bodell Goodwin Formed in New Haven

NEW HAVEN, CONN.—Barnes, Bodell & Goodwin, Inc. has been formed with offices at 257 Church Street to act as brokers and dealers in railroad, public utility, industrial and municipal securities and bank and insurance stocks. Officers are Avery W. Barnes, President; David W. Bodell, Vice-President and Secretary; and R. Schuyler Goodwin, Vice-President and Treasurer. All were previously officers of Day, Stoddard & Williams, Inc. Associated with the new firm as manager of the trading department is W. Hale Palmer.

Railroad Securities

A lot of good news has been wasted on the rail market in the past few months. Numerous year-end dividends, increased dividend rates, and extra distributions have been largely, if not entirely, ignored. No attention has been paid to the generally high rate of current earnings nor to the continuing excellent traffic prospects over the course of this year at least. The final blow to the bulls on railroad securities came when even the granting of a generous interim freight rate increase failed to generate any speculative enthusiasm in the closing days of 1948 or in the opening session of 1949.

As measured by the Dow-Jones average, the rail stock market improved somewhat during the past year. The gain, however, was nominal. As of the close of the market on Dec. 31, 1948, the Dow-Jones rail average stood at 52.86. A year earlier it had been at 52.48. As usual, the performances of individual stocks varied widely. Taking a list of 52 rail stocks, including speculative preferreds, on the New York Stock Exchange 27 were up in 1948 and 25 were down. Of the 27 that were up during the period, six showed net gains for the year of a point or less. Of the 25 that were down, eight showed losses of a point or less. There were 21 that showed more than nominal gains and 17 that showed significant declines.

By far the most spectacular performance was that of Central Railroad of New Jersey which advanced from 7¼ to 33½ during the year, a rise of 362%. This was naturally a special situation with the price movement further influenced by the thinness of the market for the particular issue. Next in line on the up side were New York, Chicago & St. Louis common and Chicago Great Western common which had net gains for the year 63.4% and 55.3%, respectively. There were three others in the rail stock group that advanced more than 40% in price. They were Chicago Great Western preferred, Denver & Rio Grande Western common and Bangor Aroostook common.

While the six stocks mentioned above were by far the best performers in the group, there were quite a few others that were able to make worthwhile progress during the desultory year just ended. Missouri-Kansas-Texas and Denver & Rio Grande Western preferred stocks and the common stocks of Erie and Kansas City Southern were all about a third higher at the end of the year than they had been at the 1947 close. The low priced Chicago & Eastern Illinois "A" stock was up more than 20% and St. Louis-San Francisco common was not far behind.

On the down side, Chesapeake & Ohio led the procession with a decline from 43½ to 31⅛ or 28.4%. Another stock giving a poor performance was Virginian, off 18.4% from 36¾ to 30. The extent of the market's selectivity is highlighted by the fact that the common stock of the other Pocahontas road, Norfolk & Western, was up slightly, from 26 to 27, during the same period. It appears significant that the two roads whose stocks were among the poorest acting last year were two of the very few that found it necessary to resort to new term debt financing in 1948. Action of these stocks can hardly be traced to any general pessimism toward the coal roads inasmuch as the stock of the Norfolk & Western, which road did not have to do any new financing, was up slightly.

Aside from Chesapeake & Ohio, there were only two of the 52 stocks that declined as much as 20%. They were Minneapolis & St. Louis and Minneapolis, St. Paul & Sault Ste. Marie. Among the larger roads, Baltimore & Ohio common, Northern Pacific and New York Central were off from 15% to 19%. That dividends have little market significance is indicated by the fact that Northern Pacific increased its dividend declaration by 50% last year while N. Y. Central resumed dividends after having paid nothing in 1947.

Once again it has been convincingly demonstrated that railroad securities can not reasonably be considered as a single group. They are individually subject to different traffic, expense and earnings influences and these in turn are reflected in the market action of the specific stocks. Regardless of what the current year has in store for the market as a whole, there can be little question but that when the final prices are posted selectivity will again pay off.

Labor's Encroachment on Management

(Continued from page 20)

which unions may participate immediately and directly in decisions which affect whole industries. They point out that the present system of collective bargaining is wholly inadequate to cope with many basic economic problems. They point out that neither local unions nor management of individual enterprises have any real control over important elements which affect their common welfare: each local union and each company is somewhat in the position of the plasterer with respect to the whole building. The market for the product is determined by the cost of the building; but the plasterer, who controls only his own wage rate, has no control over the cost of the edifice, which is a joint product of many factors. Because they lack control over the cost of the final product each of the many co-factors, in his isolated bargain, may decide as though his own action had no effect upon the cost. At its best, the present method of bargaining merely keeps unions at the fringes of basic problems; at its worst, the cumulative result of the isolated independent bargains may run counter to the interests of all the bargainers.

Because industrial relationships are complex and varied, the views of labor men on this matter differed considerably from industry to industry. Several proposed industry councils but no two described them in exactly the same way. Some conceived them as devices through which the unions and managements of one industry could jointly discuss problems of that industry. Others thought of them as arrangements by which the unions and managements of several related industries could arrive at common decisions. Others want national collective bargaining, by which they mean joint meetings at which labor, management, and the farmers could achieve areas of agreement about national economic problems. In general, these officials seem to be suggesting a two-level union activity. In addition to normal collective bargaining at plant levels, they want collective policy determination at the industry or even inter-industry level. They are seeking some mechanism by which union members can participate more immediately and more effectively in the control of decisions and forces which affect the welfare of union members.

IV.

Conversations with management representatives yielded less easily summarized responses. In general, they would limit collective bargaining to wages, hours, job tenure, and job conditions. In all matters not subject to contract, or in which review of initial decisions is not established, they feel that management should be unfettered.

Likewise, practically all executives of large corporations and most executives of small corporations oppose any **formal** participation by the union in management. "The local labor officials," they say, "would be the men most likely to engage in any participation program. By and large, such men are largely uninformed about industrial economics and unskilled in management techniques. They could contribute little toward policy formation or its execution. They would introduce elements of discord and delay. Their objectives generally would be opposed to those of management."

However, if we speak of **informal** participation by labor in management, attitudes of executives, even of large corporations, differed widely. Many executives have been influenced directly or indirectly by the wartime success of labor-management committees and by the studies of Elton Mayo and similar writers. There is a growing realization among management people that the workman is both a person and a social being and that the "whole man" comes to work. They realize that the job must yield both personal and social satisfaction to the whole man. They are coming to look upon workmen as experts about their own jobs. There is increased effort to tap the knowledge and inventive capacities of these experts and to let them share in the planning of their work. However, many business executives draw a sharp line between the union and their employees. For them the union is a foreigner within the gates. Employees are part of the family. While striving to develop or improve two-way communication with employees, these executives try to make it a strictly family affair. The union is not merely ignored; it is deliberately and studiously bypassed.

Other executives are convinced that the union must be fitted into any successful communication system. They keep the union informed about changes in policy. When possible, they give it advance notice about new processes or machinery, changes in production schedules, and shifts of operation from one plant to another. They seek the union's aid in eliminating waste, absenteeism, and general inefficiency. They encourage joint discussion of mutual problems beyond the scope of the contract. Theoretically, the union's function in such discussions is advisory. But the line between consultation and participation is indistinct. If the discussions are not pointless, the union's arguments influence decisions. How great the influence is may go unrecognized by management itself.

At the lower levels of a few organizations this informal participation by the union is well established. One executive said: "Why should I fight with the union over the selection of supervisory personnel? For the past four years I have put the question of promotions strictly up to the stewards' committee of the plant. I have accepted every nomination they made and all were excellent." Another said: "Recently we had to curtail operations. The fact was as obvious to the men as to us. In working out revised schedules, we called the stewards' committee into consultation. The plan they suggested was better than any we had thought of. It had the added advantage of being acceptable to the union because it incorporated their ideas of fair work distribution." At another plant a union official makes the time studies, and management rarely uses its right of review. At another, the union has practically complete control over disciplinary sanctions. Penalties are imposed by management, but union recommendations are normally followed. In both cases just mentioned the union owes its influence less to bargaining strength than to consistent good judgment.

We said earlier that practically all executives of large organizations and most executives of smaller organizations are opposed to any formal participation in management by unions. Exceptions among smaller companies are of some importance. A small minority of companies whose managers are also major stockholders are not opposed to formal and organized employee participation in management. In fact, some companies with successful profit-sharing or employee-participation plans insist that labor-management cooperation is not only their larger objective, it is a prime condition and essential explanation of the success which they enjoy. Cooperation, they maintain, cannot be achieved through an arbitrary division of rights, interests, or authority; it requires a far-reaching employee participation — participation in profits, in management, and by degrees in ownership. One such manager said: "Labor pays for the mistakes of management. Why shouldn't it have a voice in determining policies?" Some of these companies had independent unions; some had unions with international affiliations. In all cases emphasis was on **employee** participation rather than **union** participation. But all the managers in this group to whom I spoke were careful to point out that this emphasis did not mean union exclusion. They recognize that successful employee participation must have its channel of expression and means of representation, and that the employees must be left completely free to choose whatever means or agency of representation they wish. Any attempt to introduce conflict between the employee and his union would destroy the complete confidence which is necessary for successful cooperation.

I do not want to be misunderstood. The managers who would welcome an increase of labor participation in management probably employ no more than 1% of all employees in manufacturing, but they are important because they represent within the ranks of management a group which insists that production is a cooperative process and that successful cooperation requires the elimination of all artificial barriers between the rights and responsibilities of management and the rights and responsibilities of labor.

V.

In reflecting upon the interviews with labor and management representatives, impressions rather than logical conclusions result. Very few labor representatives want any share in management. They are sincere in their statements that management must be left free to direct enterprise. The overwhelming majority of management people, for their part, are ready to resist further encroachment upon the management function. If we look merely at the expressions of representatives, we might conclude that the present division of responsibilities between union and management would change but slowly, if at all. However, if we look at the dynamics of collective bargaining, that conclusion is wholly unwarranted. Labor unions are ready in the pursuit of the interests of their members to expand the area of collective bargaining. They are becoming increasingly conscious that the interests of labor cannot be confined to fixing wages, hours, and working conditions. They are becoming more interested in a wide variety of management policies. This widening interest will inevitably tend to expansion of the area of collective bargaining. As this external pressure grows, management, partly in defense of its sovereignty, will strive to convince unions that employees' interests are fully considered in the formulation of its policies. This will lead to increased informal contacts with unions and an expansion of the area in which the union holds an advisory position. While participation in management through the device of consultation is wholly informal, it will become increasingly more effective participation.

Moreover, there exists in many organizations a wide variety of arrangements by which unions now exert considerable influence upon management decisions. These arrangements are giving an increasing number of union representatives both knowledge of and sympathy towards management's problems. As their experience grows, union representatives will be able to make increasingly important contributions. On the one hand, habit and custom will of itself tend to formalize the union's participation. On the other hand, the development of labor representatives better informed about and more skilled in the problems of business will make management less apprehensive about formalizing well-established informal participation.

Further, more top union leaders are becoming convinced that they have a contribution to make in the determination of policies which affect individual industries and relationships between industries. As this conviction continues to grow, some means will be found for giving it effective expression.

VI.

If these impressions correctly reflect the tendencies and trends in labor-management relations, are they cause for public concern? Should public policy attempt to arrest their development by defining what are the rights and responsibilities which belong to management? Should limits be set to collective bargaining?

Affirmative responses to these questions reflect two types of thinking: (1) considerations which are drawn from ethical convictions, (2) reactions to concrete business experience. Many of those who argue affirmatively from an ethical viewpoint identify management with ownership or with the interests of ownership, and assert an inherent right of ownership to determine the policies of an enterprise. They tend to reduce the employer-employee relationship to barter or exchange. The relationship between a railroad company and its employees, for example, is considered in about the same fashion as the relationship between the company and a passenger. For service, the company pays the employees money; for money, the company gives the passenger service. The two relations are equally transient and equally complete.

When the comparison is put in such simple terms, it is obviously a caricature of the employer-employee relationship. A business enterprise is a continuing association in which many interests—the interests of labor, the interests of management, the interests of the investor, and the interests of the community—are intertwined. If a society may be defined as a stable union of two or more persons for a common purpose attainable by cooperative activity, then a business enterprise is a society. Employees normally expect to be associated with an enterprise for long and indefinite periods of time. Insofar as circumstances permit, they regard the enterprise as their company; they certainly regard the jobs as their property. Part of their feeling against strikebreakers is resentment against intrusion on their jobs, and the public sympathy which strikers are able to evoke is an indication that the public itself recognizes the continuing nature of the employment relationship.

While the interests of owners, of management, and of employees may at times diverge, they are nevertheless joined in a common purpose. A business enterprise exists because it performs a service for the community. Whether the fact is recognized or not, responsibility for performance of that service is as much the employees' as it is the management's. How seriously the public regards this common responsibility becomes apparent when a work-stoppage occurs in an industry which vitally affects the public welfare.

Production itself is essentially a cooperative effort. Labor, no matter how skilled, produces little without complicated machines made available by investors. The best locomotive engineer transports little without his locomotive. The investors with their machines are equally helpless without the cooperation of the work force. The engine will not go far without a competent hand at the throttle. The cooperative nature of production is only emphasized when we attempt to appraise the value of the contributions of the economic factors. We use complicated marginal analysis and introduce homogenous marginal units which cannot be identified on the production line. In the final product the contributions of the factors are always indistinguishable. Cooperation begins at the receiving dock of the factory and continues until the product is delivered to the consumer. Whenever the cooperation of one factor ceases, production ceases. Production requires the continuing association and constant cooperation of all factors. A business enterprise is an industrial society; a group of related industrial enterprises is an industrial municipality.

The proposition that the right to govern any society is inherent in any one element of that society is difficult to defend. The arrangements which give ownership exclusive direction of enterprise are fundamentally contractual and grew out of the domestic economy of the past. The name of our science (oikonomia) reminds us that the household about which Aristotle wrote was the unit of production as well as consumption. Throughout large segments of industry it remained the unit of production until well into the past century. The structures of domestic economy and domestic society were identical, and the control of production rested with the head of the household. The statute law of master and servant, with its emphasis on control by the employer and corresponding subservience of the employee, grew out of this domestic economy with its familial relationships. It preserved many of the correlative obligations of *famulatus* for centuries after the breakdown of feudalism; it restricted the freedom of the servant in quitting the master, and the freedom of the master in discharging the servant. But today the household is merely the unit of consumption. Modern productive society was long ago stripped of all of the elements of *famulatus*. The responsibility which management admits for the welfare of employees has no relationship to the paternalism of the domestic economy. In fact, it is an extra-legal responsibility. Law obliges management to seek only the interests of the stockholders. Labor now is not a domestic or apprentice within the household or an occasional journeyman employed by a village master. It is a mature and organized partner in production. It rivals management both in economic and political power. The change in the structure of the economy has perhaps made it not only right but even inevitable that some corresponding change will occur in the structure of the government of industry.

Business practice itself emphasizes the fact that the present control of industry by the representatives of the common stockholders is a contractual arrangement. The capital which makes a modern business possible may be supplied by bondholders, preferred stockholders, common stockholders, or banks. The bondholders and preferred stockholders normally have no voice in the direction of a business. Contractual relationships, apparently satisfactory to all concerned, have placed control with the common stockholders. There is nothing unreasonable in assuming that other contractual relationships might be devised which would give bondholders and preferred stockholders some participation in governing the business in which they invest.

A bank, like a union, theoretically has no part in the government of a business to which it lends its funds, but, like a union, it can exert an external and contractual influence upon the business by dictating the conditions under which its association with the enterprise will continue. When its stake in a particular enterprise appears to be endangered, a bank, like a union, may insist upon participation in the actual government of a business. Rarely has the effort of the bank to protect its interests been challenged as an unreasonable encroachment upon the rights of enterprise. Yet the bank is much less an immediate member of the industrial society than is the union. By analogy, the attempt of labor to safeguard its interests in the enterprise cannot be challenged on the grounds of unreasonableness or injustice.

Perhaps it is somewhat late to be asking whether public policy should fix the limits of labor's encroachment upon the traditional functions of management. Social decisions are not easily reversible; social institutions are not changed by fiat. The union has been made by Federal law an official instrument of the public policy of collective bargaining. Up to the present the union challenge to management has been largely negative and extrinsic. By regulating more matters by contract it has limited both management's freedom and flexibility. The important question is whether a better social result would be obtained by permitting labor to assume a more immediate and continuing responsibility for the decisions of business—by permitting labor in some way to participate immediately and directly in the decisions of business.

There is a strong and respectable body of opinion which says that labor cannot in any real sense participate immediately in business decisions. This opinion is supported by two types of thinking: (1) By and large, labor representatives, especially those local officials who have closest association with enterprises, lack the experience and training which would qualify them to make business decisions. (2) The management function, by its very nature, is indivisible. Labor representatives attempting to participate not only would have objectives which differ from those of existing management, but by their presence would destroy that unity which is essential to authority and execution.

If we are thinking of an abrupt change which tomorrow would make local union officials responsible for business decisions, it is obviously true that most of them would be unprepared and unqualified. But social change, rapid as it has been, does not occur that way. Most local labor officials are men of extremely limited business experience, but most of them are well informed in those areas in which labor's participation in management would normally originate. They know or have ready access to information about plant operations and methods. The very process itself of widening labor's responsibility might develop talents which, because now latent, are wholly unsuspected. It is obviously true that many managers were themselves recruited from the ranks. There is no reason for believing that their selection exhausted all potential executive ability. The gradual widening of opportunity for labor to participate either in the formulation or in the execution of business policies would develop among labor representatives better information about and sympathy toward as well as experience in dealing with a wider range of business policies.

It is unquestionably true that management as a function requires unified authority. If labor's participation is viewed as creating or requiring joint councils which would engage in debate on decisions at all levels of authority only chaos would result. But labor's responsibility for business decisions need not take this form. It might consist of some representation in the choice of top management personnel; it might consist of representation in the group which formulates the broader policies of management. Labor participation in management in this, or any form, might be narrow in outlook, selfish in purpose and wholly destructive in result; but there is nothing in the nature of things that requires it to be such. When a bank protects its interests in an enterprise, its participation may be equally selfish and equally narrow and equally damaging. But when a bank nominates capable people to boards of directors their suggestions may be highly constructive and highly beneficial to all interests concerned. Conceivably a union's participation might be equally constructive.

Labor-management relations are changing, shifting and evolving. The change has been more rapid in the past ten years than in the previous thirty. It has been more rapid in that thirty than in the previous century. Effort to arrest this development by erecting arbitrary barriers to the respective rights and functions of management on the one hand and labor on the other might be futile and unsound. Equally futile and unsound are attempts carefully to blueprint the forms and shape the moulds into which industrial relationships will be forced. We cannot prefabricate dynamic structures any more than we can shrink a growing boy to fit his trousers. We can, however, try to insist upon the basically cooperative and social aspects of enterprise. We can recognize the philosophy of class conflict whatever its source. Management can assert the necessity of class conflict by erecting an arbitrary wall between the interests and responsibilities of labor. Unions can affirm the necessity of class conflict by acting as though interest in and loyalty to the individual enterprise is incompatible with loyalty to the union. We can try to create a system of industrial democracy which gives the ordinary workman—the whole man who comes to work—opportunity for that fuller participation on the job, which will release the unrealized inventive capacities and underutilized capabilities of the work force, and which gives to the organized work force an opportunity to participate more directly and to assume more immediately responsibilities for the enterprise and for its relations to the economy.

Postwar Commercial Bank Lending Policies

(Continued from page 4)

larger amounts of specialized debt than do the banks. Hence all lenders have responsibility for any deterioration in the quality of the debt structure and any proposal to regulate bank loans in order to improve the quality of the debt structure or to influence prices must consider non-bank lenders as well as banks. Further, prices are also affected by buyers who do not need to borrow as well as by those who do.

The role of bank loans may be made clear by reference to certain studies. For example, an estimate of the sources of funds used by business to expand fixed and working capital in loans.[2] Security issues accounted for 10 to 18% in 1946 and 1947 respectively. Approximately 60% of the $27,000,000,000 of new funds used each year came from internal sources. It is significant that during 1946, when the postwar expansion was just starting, 24% of the funds were obtained by a reduction in liquid assets but in 1947, only 2% were thus obtained. Another study indicates that the business loans of weekly reporting member banks increased during the first 10 months of 1947 by $2,249,000,000 and the securities of business and industry held by life insurance companies increased by $1,881,000,000.[3] Both this and the Federal Reserve study indicate that financing through security issues became relatively more important after 1946. During the first 10 months of 1948, business loans of weekly reporting member banks increased by $584,000,000, while securities of business and industry held by life insurance companies increased by $2,563,000,000. The latter figures also indicate that the relative position of banks and insurance companies as suppliers of business funds was reversed between 1947 and 1948.

2 *Recent Developments in Business Finance*, Federal Reserve Bulletin, June, 1948.

3 *Monthly Letter, National City Bank*, November, 1948.

It is evident that bank loans play only a part in determining the soundness of the debt structure or the prices of materials. How is one to know that a debenture sold in the open market is of better quality than a loan made directly by a bank or an insurance company? Or why is a bank loan of more significance in raising prices of scarce materials than other borrowed funds or funds obtained from internal sources.

The same is true of other loans and other markets. Much has been said in recent years of real estate loans. Yet so far as the banks are concerned the real estate loans of all commercial banks increased $5,424,000,000 between Dec. 31, 1945 and June 30, 1948, which was but little more than the increase in time deposits of individuals, partnerships and corporations. Why is the investment of time deposits of commercial banks in real estate loans any more detrimental to the economy than a similar investment by savings banks, savings and loan associations or life insurance companies?

The third field of bank loan expansion which has attracted attention is that of consumer borrowing. There has been an unprecedented growth in personal loans by banks. This is the culmination of a 21-year evolution from the first experiments with this type of business by banks. Prior to the outbreak of the war only a few banks had ventured into this field. It has been only since 1936, for example, that legislation in New York State made this type of loan possible. During the war, individuals had little reason to borrow. Hence, after the war a wider interest by banks and increased consumer demand combined to raise the proportion of consumer loans outstanding in all insured commercial banks from 35% at the end of 1945 to 46% of total consumer credit in June, 1948.[4]

Controlling Loans to Improve the Quality of the Debt Structure

It is clear from the foregoing analysis of the role of bank loans, that any concern for the quality of the debt structure occasioned by the expansion of bank loans must extend to all lenders. Banks have been warned by supervisory agencies and the American Bankers' Association to curtail speculative loans, to avoid the over-extension of consumer credit and avoid over-appraisal of real estate. Regulation W has been revived by curb consumer loans. Although advice and some regulation may assist in improving lending practices, the soundness of a loan is fundamentally the responsibility of the lender and the borrower who are the immediate sufferers from unsound practices.

At best, regulations can have only limited effectiveness. They are easier to apply where a down-payment or a maturity is involved. Even such regulation may be largely formal. For example, the limitation of real estate loans to 60% of appraised value does not control either the appraisal or the borrower. It in no way assures that only borrowers who have the ability to repay the resulting obligations will get into debt. Further, whatever loan requirements may be set by regulation, there is no assurance that the individual borrower will not undertake more installment contracts than he can carry and unsecured loans to business and consumers are not touched at all. This is necessarily so unless every borrower is to have a maximum loan limit set by regulation. Thus, the larger questions of lending policy remain the responsibility of banks and other agencies.

All lenders have a further responsibility which is related to the general economic effects of lending policies. This is the responsibility to use their loan policies in the interest of economic stability. A period of laxity followed by a sudden change to firmness is to be avoided. There is some evidence that policies may be undergoing such a change even now. The effects of such actions are particularly serious in markets customarily patronized by borrowers such as housing and automobiles.

Controlling Loans to Control Specific Markets

It is this potential effect of loans on specific prices which has led to the currently popular proposal to limit loans in order to control prices. In addition to the limitations of loan regulation discussed above, there are additional aspects of regulation for the sake of price effect which make such regulation undesirable and probably unsuccessful.

In the first place markets are made by three groups of buyers; those who borrow from banks, those who borrow from other lenders, and those who do not borrow at all. It is possible for rising prices not to be associated with borrowing. The farm real estate market is a good example. Although the price of farm products and farm lands have risen, there has been no suggestion among present proposals that these have been caused by borrowers. Farm loans, actually, have been reduced. In other words, non-borrowed money can have the same effect on prices as that which is borrowed.

4 See, Federal Reserve Bulletin, November, 1948.

Secondly, it is difficult to justify the exclusion of borrowers from a market in the interest of a reduction in a specific demand. So long as the terms of credit are sound, the field should be open to all. In the field of business loans, for example, restriction would favor existing firms over new ones. It would not distinguish between the progressive or efficient and others. Furthermore, there is no assurance that the firm which can plow back earnings is making any more economic allocation of resources than the one which borrows.

Thirdly, the quantitative effects of loan regulation on demand are very uncertain. If the regulation of lending practices is only as restrictive as sound credit policy would dictate, than a larger number of borrowers could meet the regulation in prosperous times than in depression. This effect could be partially offset by altering the regulation with the times. While this might seem to be the correct policy, its implementation is confronted by two difficulties; (1) a hesitation to increase the severity of the regulation when necessary, (2) the difficulty of setting appropriate terms. The FHA regulation of home loans illustrates the first difficulty. During the 1930s terms were so set as to stimulate home buying. It is reasonable to assume that this change had the desired result. However, the terms were not altered during the postwar boom although many admonitions were given against over-lending and over-appraising.

The second difficulty is illustrated by margin requirements on security loans. We may assume that a 75% margin is higher than necessary for a conservative loan. But, by what means has it been determined that 75% is the "right" margin and what price change would be caused by dropping the requirement to 50%? One can only wonder how agricultural prices would be affected by the adoption of the proposal to set margin requirements in commodity markets. It is only necessary to ask these questions in order to estimate the efficacy of loan regulations as a means of influencing specific markets.

Finally, in markets where lenders other than commercial banks play important roles, effective quantitative restrictions would have to apply to all lenders. The cases of real estate, consumer and business loans are in this category. The total of consumer loans could not be limited by restricting only bank loans, for personal loan companies or sales finance companies could meet the demand by obtaining funds through the sale of debentures. To the extent that these were bought by commercial banks, the result would be the same as an expansion of bank loans in the first place. Or again, savings banks, life insurance companies, savings and loan associations, etc. could meet the demand for real estate loans by selling government securities. To the extent that these were bought by commercial banks, the effect on the real estate market would be the same as if the banks had made the loans in the first place.

Over-all quantitative restriction of loans, market by market, would pose serious questions: (1) What loan total will accomplish the desired price effect in each market? (2) How is this total to be allocated to lenders? (3) How is it to be allocated to borrowers? Rather than attempt to answer these questions, those who prefer a dictatorial, to a free economy would find direct price control, rationing and allocation more simple. The latter program would at least have the virtue of offering the possibility of greater equity as between buyers who must borrow and those who do not.

To summarize the discussion to this point, we have concluded that bank loan policies in the postwar period have had no different effect on the economy or present no different problems from the loans of other agencies. It is always necessary to bear in mind the quality of debts during any period of loan expansion. To the extent that regulations can set minimum quality standards for specific types of debt, they may be helpful. This is especially true when large amounts of funds seeking loans tend to reduce loan standards. Such regulations should apply uniformly to all lenders in the same market. Regulation, however, is not likely to be completely successful because all phases of debt cannot be covered. Fundamentally, then, the soundness of the debt structure is the responsibility of lenders and borrowers.

The effect of loan expansion on prices is indeterminate and attempts to secure price effects through loan regulation will probably meet with failure.

Effect of Bank Loans on Deposits

We must conclude, therefore, that the chief cause for concern over bank lending policies is their effect on deposits. Aside from the fact that bank deposits can increase as a result of increasing loans, commercial banking is only a part of the mechanism through which savings are made available to borrowers. When the demand for loans exceeds the supply of savings at a given level of interest rates, rates will rise, deposits expand, or both. It is evident that during the postwar years, the total loan demand has exceeded savings. This has come as a surprise to many who were sure that savings practically always exceed the demand for loans in the modern economy.

It was pointed out above that in these circumstances, deposits could be prevented from rising by three methods: (1) By control of loan expansion; (2) by holding total bank reserves constant; (3) in the special circumstances of the postwar years, by a retirement of a sufficient amount of public debt to equate total new loan demand and new savings.

The undesirability of the first policy has been discussed above. If undertaken, it should be applied to all lenders. Specific restriction of bank loans might bear especially heavily on those borrowers for whom banks are the most logical source of funds. These are chiefly local business concerns of medium and small size.

The Federal Reserve authorities have held that the second policy cannot be pursued without causing an increase in the interest cost on the government debt. Hoping that a change in the reserve structure might make possible the accomplishment of both objectives (i.e. restraint of deposit expansion without rising interest rates) several proposals have been made by Federal Reserve officials and others. These are not likely to be successful, as will be shown later.

The third policy, then is the only one which holds the possibility of restraining deposit growth without causing a rise in interest rates. The Treasury has been partially successful in accomplishing this objective during the postwar years. Between Dec. 31, 1945 and June 30, 1948, the government securities held by all insured commercial banks decreased by $25,422,000,000. Most of this reduction, $21,688,000,000, was accomplished by a reduction of war loan account in commercial banks which represented un-needed deposits acquired by the Treasury in the last war loan drive. Since one government retired bank held debt by a larger amount than the reduction in war loan deposits, banks were enabled to acquire additional assets totaling $3,734,000,000 without increasing deposits. However, loans and securities other than those of the United States Government increased by $15,407,000,000. Some of this increase represented the investment of additional time deposits and capital funds so that the net increase in demand deposits other than United States Government was $7,272,000,000.

To what extent a further increase in deposits will be a problem is uncertain. There is some evidence that the upward trend ceased during the latter half of 1948. The outlook for government finance suggests however that it is not certain that further retirement of Federal debt will be possible in the next year. Yet, should loan demand continue to increase the prevention of further deposit expansion without rising interest rates can only be accomplished through fiscal policy.

Bank Lending and the Reserve Structure

That this is so can be shown by an analysis of the relation of bank lending to reserves.

It must first be made clear that increased bank lending **per se**, need not automatically increase deposits. If reserves are held constant, the banks will dispose of other assets (government securities) in order to meet the increased demand for loans. The types of loans which are increasing may be those which banks are especially experienced and equipped to make, or borrowers may find banks more convenient or otherwise preferable. To restrict or prevent them may cause unnecessary hardship to borrowers. If total current savings are at least equal to total current demands of borrowers, the assets sold by banks will find their way into hands other than those of the Federal Reserve banks. Flexibility of interest rates is essential to accomplish such redistribution. Hence deposit expansion becomes a problem only when total borrowing demand exceeds current savings.

That there was any need for an expansion in the nation's money supply after December, 1945, can hardly be defended. Demand deposits adjusted, plus currency outside of banks, nearly doubled between June, 1942, and the end of 1945. Rather than being stabilized at this high level, to say nothing of a possible contraction, the money supply increased by another 10% during the next two years.

Federal Reserve officials have maintained that they have been powerless to prevent this increase without causing a rise in interest rates on government securities. This being so, there was only one method by which the deposit rise could have been prevented. This was through additional debt retirement by the Treasury as has been concluded above. However, the issue has been clouded by assertions that the loan and deposit expansion could be prevented without rising interest rates (at least on government securites) through an alteration of the commercial bank reserve structure.

Three separate but inter-related ideas have been associated with recent proposals to change the reserve structure of commercial banks: (1) by freezing government securities in commercial banks, access to additional reserve funds can be denied; (2) by increasing the percentage of required reserves to deposits, multiple deposit expansion can be prevented; (3) by separating the deposits and loan functions of commercial banks, the Federal Reserve banks will have a more certain control over deposits. To obtain this latter result, it has been suggested that reserve requirements be raised to 100%.

Fundamental to all three proposals is the question whether loan expansion can be curtailed without rising interest rates. If the demand for loans exceeds the supply of savings so that the total demand can be satisfied only by an expansion of bank deposits, any method of restricting this expansion through reserve manipulation will cause interest rates to rise. This rise could be avoided only by direct control of loans as discussed in the first part of this paper. But a general rationing of loans is a high price to pay for bank deposit stability.

Also fundamental to all reserve proposals is the question: "Can the government securities market be insulated against rising interest rates in other markets?" It is quite probable that interest rates could be fixed on any government bonds which are frozen in the hands of present holders who are also required to replace maturing obligations by equal amounts of new issues. Sales or redemptions would have to be entirely at government discretion. Any marketable issues which were not frozen would follow the general trend in interest rates. Hence, a simple requirement that commercial banks must hold an amount of government securities equal to a prescribed percentage of deposits would fix the interest rate on only those securities which are frozen provided that the same type of security was not held by others. If the regulation were effective and the satisfaction of loans demands through deposit expansion is prevented, interest rates on private debt would rise. Other lenders seeking to employ their resources more profitably would sell any unfrozen government securities whose yields would respond to the general market.

It should be noted that to be effective in preventing reserve and deposit expansion, the freezing of government securities in commercial banks would have to be supplemented by restrictions on reserve creation through rediscounting or borrowing at Federal Reserve banks.

Had bank deposit expansion during the postwar years been restrained through reserve control, recent financial history would have been considerably different. While the full effects of such a policy cannot be predicted or reconstructed, **ex post facto**, they probably would not have been so serious as to cause "the bottom to drop out of the government bond market." At least, a less dogmatic attitude during the early postwar years toward the yields on government securities would have permitted some experimentation earlier in the period to learn what could be accomplished. The risks involved in reserve control could only have been avoided through adequate retirements of government debt. It is fortunate that some funds were available to the Treasury for debt retirement. The effects of fiscal policy are more gentle since they are spread throughout the economy whereas reserve control operates with full force on loan markets only.

Multiple Deposit Expansion

The problem of deposit control has been confused by the claim that a fractional reserve system results in multiple deposit expansion. Hence proposals have been advanced to raise reserve requirement on demand deposits even to 100%, to reduce the multiple expansion. This confusion has been unfortunate, for the percentage reserve requirement has no bearing upon the amount of deposit expansion. The amount of deposit expansion depends upon the loan demand and the willingness of the Federal Reserve banks to permit the banks to meet it.

The arithmetic is simple. If bank loans expand and the banks sell government bonds, deposit expansion can be avoided by Federal Reserve refusal to purchase the bonds. It makes no difference whether reserve requirements are 20% or 100%. If the total amount of current savings are adequate to meet total current loan demands, the government securities will be bought by others without pressure on yields.

If, however, there is a loan demand which the Federal Reserve feels must be met by deposit expansion in order to keep the government bond market stable, deposit expansion can easily be held to the amount which has been determined to be "right." Let us suppose that insurance companies sell $100 of government securities in order to make loans to business. Further, suppose that $100 is the full increment of loan demand. The Federal Reserve decides that bank deposits must increase by $100 in order to stabilize government bond prices. The Federal Reserve banks buy $100 of government securities, thus increasing bank deposits and reserves by $100. At this point the banks would have $80 of excess reserves if a 20% ratio were required. Critics of fractional reserve requirements assert that deposits can now be expanded to $500. But this will only occur if there is an additional demand for loans of $400. The expansion is not automatic. If there is a total demand for $500 in loans, then the first assumption above is incorrect and the additional demand for loans is not $100 but $500, and the Federal Reserve simply faces a different problem.

Returning, then, to the $80 of excess reserves created by the original purchase of $100 of securities, it is only necessary for the Federal Reserve banks to resell $80 to absorb them. The banks, having $80 of excess reserves and no additional loan demand, will purchase the $80 of securities offered by the Federal Reserve, thus retaining only sufficient reserves to meet the requirements for the $100 increase in deposits. The problem, thus, is seen to be the amount of deposit creation (inflation) necessary to stabilize the government bond market. This in turn depends upon the loan demand and not on the reserve ratio.

One Hundred Per Cent Reserves

Bank loan policy cannot be discussed without facing the fundamental question of divorcing deposits from loans. The proposal to require 100% reserves has this purpose.

Although such a requirement appears to accomplish the purpose of making changes in the money supply independent of changes in bank loans, it would, in fact, not eliminate any fundamental banking or monetary problem. As indicated above, given an increase in the demand for loans, the fundamental question facing the central banking authorities is the amount of such loan demand to be met by an expansion of deposits. The reserve ratio simply determines the amount of increased reserves needed to support any level of deposits. If the requirement of 100% reserves were accomplished by freezing government securities in the banks, commercial banks would become branch offices for the Federal Reserve banks for any increased lending which the Federal Reserve banks decided to permit.[5]

Some advocates of the 100% reserve plan emphasize its supposed benefits during a period of recession. In their view, it is a defect of the monetary system that the money supply (bank deposits) decrease in recession. The contraction of deposits is believed to aggravate the depression, principally through a resulting decline in prices. Deposit contraction, it is held, could not occur with 100% reserves except by action of the central bank.

Unfortunately prices and depressions are not so simply determined. They are determined by decisions to spend or not to spend in many fields by many buyers. Business buyers are influenced by a complex interrelation of costs and prices as well as government policies. Consumers are influenced by their state of want—satisfaction, incomes and prices. Borrowers are similarly influenced. If total borrowing declines, repayments increase or both, the effectiveness of savings as a demand for goods is reduced. If bank loans decline in a fractional reserve system, so will deposits. The reserve ratio is raised and the banks are in a position to restore loans to their original amount if borrowers are forthcoming. Under the 100% system, loan repayments in excess of new lending would also inactivate money. Similarly, if savings bank loan repayments exceed new loans, cash balances will increase. In technical terms, it makes little difference whether M or V declines, the important change is in the attitude and actions of all buyers. Borrowers are after all only a part of national markets.

Conclusion

A substantial increase in bank loans during postwar years has attracted wide attention. Concern has been expressed that these loans have over-stimulated certain markets. However, careful studies reveal that the increase in bank loans has been widespread throughout the economy and has been paralleled by increases in similar types of loans by other institutions. That is, bank loans are not different from other loans and are not highly concentrated as to market as was true of security loans during the latter '20s. They are related to a general postwar boom one aspect of which is rising prices caused by backlogs of demand support by extremely liquid positions.

The unique aspect of bank lending is its effect on deposits. Postwar expansion following a doubling of the money supply during the war, has been considered inflationary. Vigorous efforts to control this expansion through control of reserves has been rejected by the Federal Reserve banks in an effort to avoid rising interest rates on government securities. Other possibilities of controlling the deposit increase have been found in direct control of loan expansion, alteration of the reserve structure and retirement of government debt.

Direct control of bank loans has been found to be inequitable to banks and borrowers. It would also be ineffective unless regulation were extended almost to the point of rationing loans.

Alterations in the reserve structure, while holding the possibility of insulating some government securities against general increases in interest rates, do not deal with the major issue of meeting an increased loan demand by expanding deposits. It is found that the problem is as difficult to cope with under one set of reserve requirements as another.

We must conclude, then, that inflation in the present era is a responsibility of fiscal policy. The Treasury must be in a position to retire securities which the markets will not absorb. To the extent that interest rate changes will assist in accomplishing this purpose, they should be used.

From present indications, it appears that the problem of deposit expansion may continue to plague the economy. Economists will have an opportunity to render a useful service by focusing the attention of the public on the Federal budget as the chief monetary problem.

5 For a more detailed discussion of the use of government securities as bank reserves, see *J. Brooke Willison Bank Secondary Reserve Requirements*, Journal of Finance.

Evans Nominated as Chairman of National Association of Securities Dealers

WASHINGTON, D. C.—Nomination of Clement A. Evans, Atlanta, as Chairman of the Board of Governors of the National Association of Securities Dealers, Inc., has been announced at the offices of the Association here. Mr. Evans is President of the investment banking firm of Clement A. Evans & Company, Inc. Present Chairman of NASD is L. Raymond Billett of Kebbon, McCormick & Co., Chicago.

Other officers nominated for 1949 follow: Vice-Chairmen, G. M. Phillips, of Caldwell, Phillips Co., St. Paul; John J. Sullivan, of Bosworth, Sullivan & Company, Denver; and Treasurer, Wilbur G. Hoye, of Charles W. Scranton & Co., New Haven. Wallace H. Fulton, Washington, was nominated Executive Director.

Election of officers will take place at a meeting of the Board of Governors Jan. 17-18 at Sea Island, Ga.

The nominating committee, all retiring Governors of the Association, follows: Walter E. Kistner, Chairman, A. C. Allyn and Company, Chicago; L. Raymond Billett, Kebbon, McCormick & Co., Chicago; Herbert F. Boynton, Laird, Bissel & Meeds, New York; W. Rex Cromwell, Dallas Rupe & Son, Dallas; Harlan Herrick, The Lathrop-Hawk-Herrick Company, Wichita; Robert C. Kirchofer, Kirchofer & Arnold, Inc., Raleigh; and Joseph L. Ryons, Pacific Company of California, Los Angeles.

Mr. Evans, a native of Augusta, Ga., served in the Marine Corps in World War I. After the war he entered Georgia School of Technology. Upon his graduation he became identified with the investment securities business by joining the Security Sales Corporation of Atlanta. He later became associated with the Robinson-Humphrey Corporation in Atlanta.

In 1924, he joined the Atlanta office of the Hibernia Bank & Trust Company of New Orleans, later becoming manager. Three years later he went with the Fourth National Bank of Atlanta and organized and managed the bond department. Through consolidation, that bank became the First National of Atlanta and its investment business was trans-Georgia. Mr. Evans became Vice-President of the trust company and served in that capacity until February, 1932, when he formed Clement A. Evans & Co., a sole proprietorship. He became President of Clement A. Evans & Company, Inc., when that corporation was formed in May, 1941.

Mr. Evans is a Director of the Georgia Marble Company, Columbus Transportation Company and Atlanta Laundries, Inc.; a trustee of the Georgia Tech Alumni Foundation, and a member of the Chi Phi Fraternity—Georgia Tech Chapter, Piedmont Driving Club, Capital City Club and Peach Tree Country Club. He is a member of the NASD Committee District No. 9 and has been Chairman for two terms. He has been serving as a member of the board of governors of the NASD.

The Inflationary Problem

(Continued from page 6)

capital, inclusive of housing, spawned ambitious investment programs. In Great Britain, the result of an ambitious investment program, coalesced with a vigorous export expansion, was far from disastrous on the price level, and in part because of the measures taken to restrain consumption. And in the totalitarian states, it was possible to contend with inflation despite the large investment programs, first, by keeping consumption down through comprehensive controls, and second, by dealing with the residue of excess cash bequeathed by the war, by monetary purges. In other countries (e.g., France), where governments were weak and did not dare reduce consumption further from a low level, and yet acquiesced in large investment programs, the inflationary effects were serious.

Pressure on Resources

In our country, there is also a danger that we are trying to do too much. As the Joint Economic Report says:

"Just as England has been criticized for proceeding too rapidly with her housing program instead of devoting more time to production for export, so our people and our government, both executive and legislative, may well be criticized for trying to carry on at the same time so many huge programs as those represented in our expansion of business transactions, our expansion of residential housing, our support of veterans' education and rehabilitation, our government public-works program, our huge military establishment and our economic support of free people throughout the entire world.[3]

War and Postwar Patterns of Spending

In this country, the government had to rely on borrowing to a substantial degree. Thus, in the 5 years ending June 30, 1945, the Federal Government spent $323 billion and raised $133 billion, or 42%, from taxes. At the end of the war, the commercial and reserve banks held $107 billion of government securities, or about 40% of the amount outstanding. At the peak of the war (in 1944), the government required $99 billion: about $44 billion came from taxes, $33 billion from relatively non-inflationary sales of public securities, and $22 billion from inflationary sales to banks. This rise of government securities outstanding and the accompanying expansion of bank deposits account for the growth of liquid assets which were to remain a constant threat in the years 1946-49. From the end of 1939 to the end of 1945, liquid assets belonging to individuals and business rose from $6 to $225 billion, or $160 billion, and in addition liquid assets of government, foreigners, insurance companies, etc., increased from $22 to $80 billion in the years 1939 to 1944. It is clear that the amount of cash and other liquid assets had grown by about 200%; but the consumers' price level by 1945 had risen by but 25%. Money and close substitutes were excessive at the going price level even if allowance were made for a rise in the gross national product in 1939 dollars of about 90%.[4]

In the war years, the American economy improved its consumption standards and, compared to British developments, the gross private domestic investment in 1940-45 of $59 billion seems large. Indeed, consumption expenditures in this country declined from 69.6% of GNP in 1939 to 49.1% in 1944; and private gross capital formation from 12.3% in 1939 to 0.9% in 1944; nevertheless, consumption continued to rise. Thus an estimate of 1943 relative to 1939 yields $109 billion of additional resources for the year 1943, of which $94 billion were out of additional output and $15 billion out of a reduction of private investment; $77 billion went for war; $28 billion for additional consumption; and $4 billion for additional depreciation and depletion.[5]

In the years 1941-45, personal savings were about $125 billion, or almost 20% of the disposable income of the period. In the 2½ years ending June 30, 1948, the public saved but $26 billion of a disposable personal income of $400 billion, or 6⅓%. Here is an important part of the explanation of the inflationary pressures.[6]

Another approach is to examine the **Nation's Budget.** In the 2½ years ending June 30, 1948, consumers' receipts exceeded their expenditures by $29.4 billion, and government receipts were $14 billion in excess of their expenditures. These surpluses (i.e., deflationary factors) were more than matched by excesses of expenditures on business and international account: deficits on business accounted for $29.8 billion (excess of expenditures over income available for investment out of undistributed profits and reserves), and $15.7 billion on international account (excess of investments). Whereas the accounts were balanced at $203.7 billion in 1946, the relevant figure was $231.6 billion in 1947, and $246.5 billion (annual rate) in the first half of 1948. A combination of a large volume of investment (running at the rate of $37 billion in the first half of 1948), a high propensity to consume, a low propensity to save, and the large drains on foreign account tended to bring a balance only at a high money value of GNP.

These inflationary pressures are evident in the following:[7]

From 1945 to First Half of 1948:	Per Cent
1. Rise of consumers' price index	32
2. Rise of gross national product	16
3. Decline of Federal Reserve index of production (unadj.)	7½
4. Insured commercial banks:*	$ Billion
Loans and investments, all	—13.0
Deposits	—11.8

*Dec. 31, 1945 to June 30, 1948.

It is well to note that a significant rise in prices occurred despite a reduction in the earning assets and deposits of banks. In these 2½ years, the government paid off about $25 billion of securities, matched by a corresponding decline in the holdings of government securities by all banks. But loans of **all** banks actually increased by $14.7 billion, or by about 50%.

Government fiscal policy in the years 1946-48 contributed toward the fight against inflation, though the net gains would have been much larger had not the government enacted two unfortunate tax reduction bills. The government might easily have paid off $10-$15 billion additional of debt in these 2½ years and thus have moderated the rise of prices.

Unfortunately, the latest estimates for fiscal year 1949 suggest a virtual balancing in the accounts of the Federal Government. The budget shows a surplus of $1.4 billion; actually there is a deficit of $1.5 billion on a budgetary (not cash) basis; and this is converted into a surplus only by the use of the Ponsi-like method of transferring $3 billion from the 1948 surplus to the ECA Trust Fund for 1949. Actually, the estimated change for fiscal year 1949 in relation to the results for the first 6 months of calendar year 1948 is a reduction of receipts of $6 billion and a rise of payments of $5 billion and, therefore, a reduction in the contribution of the Federal Government toward checking inflation of $11 billion.[8] For the fiscal year 1950, much will depend upon how much expenditures rise for armaments, ERP, and social legislation, and upon the yield of new tax measures. Should 1949 be a year of balance, or (let us assume) even one of declining prices, then the immediate inflationary threat would be over; and the Treasury with an increased deficit would contribute toward stopping any decline.

Short-Run Problems: the Budget, Savings and Investments

Consider the immediate difficulties. Undoubtedly, the major explanation of the inflationary pressures of the years 1946-48 lies in the attempt to burden overemployed economies with an excessive task of replenishing business and consumer inventories, replacing destroyed plant and equipment and making up for other deficiencies resulting from the war. On top of all of this, the failure of the world to return to a peaceful status imposes large additional burdens on the economy. Three and a half years after the end of the war, the British, for example, have to consume about 10% of their income for military purposes and the United States, inclusive of ERP, about 10%.

Under conditions of 1946-48, inflation is a serious threat unless governments are prepared to take strong measures. But Western Europe and the United States are not ready to support a controlled economy which might yield price stability despite these pressures on the economy. Nor are they prepared to impose the fiscal and monetary policies which will adjust demand for consumption and private investment to the resources available, given the requirements of their international position.

The result is that there generally is an excess of investment over the sum of savings and net import surplus, and hence inflationary pressure for Europe; and an excess of investment and export balance over savings in the United States. Even where the budgetary situation is in balance (e.g., the United Kingdom) or where there has been a surplus (e.g., the United States) inflationary pressures continue. It is indeed symptomatic of the new economics that we now understand why substantial inflations are compatible with a balanced or even surplus account for the Treasury. The emphasis is upon the outlays by the Treasury and by the private economy, jointly.

In Sweden and the United Kingdom, the budget situation in 1947-1948 was under control, but inflation continued despite recourse to controls. In 1947-48, estimated expenditures in the United Kingdom were £3.44 billion and receipts £3.84 billion, and for 1948-1949 the budget calls for revenue of £3.76 and expenditures of £2.97 billion. Yet from September, 1947 to June, 1948, the cost of living in the United Kingdom rose by 9%. Even the large surplus for 1948-49 may not be enough to ward off inflation; for whereas there was a deficit of £675 million in 1947 on international account (the equivalent of a corresponding supply of savings), the anticipated deficit for 1948 is but £250 million. This decline is an inflationary factor to the extent of £400 million and roughly balances the rise of the government surplus for the fiscal year ending March 31, 1949. In the calendar year 1947, gross capital formation amounted to £2,020 million, of which £675 million were accounted for by borrowing abroad and sales of assets abroad. Domestic sources of savings had to be large enough to offset £441 million of negative savings by public authorities and £1,345 million of domestic savings required for investment (£2,020—£675).[9]

It is clear that the peculiar situation arising from the war and its aftermath accounts for a large part of the inflationary developments. Savings are inadequate given the budgetary situation, the excess of imports, and the investment programs in Western Europe; and in the light of the heavy investment and foreign aid program, they are inadequate in the United States despite a substantial budgetary surplus of about $15 billion in 2½ postwar years.

Long-Run Institutional Factors

a. Government Activities: But there are also long-run institutional changes that tend to bring about inflation, and are likely to strengthen the inflationary pressures once the domestic investment program peters out and recovery in Europe is well on its way. A continuance of the present state of political uncertainty in itself makes an important contribution towards the support of inflationary pressures.

On balance, the following factors are likely to strengthen inflationary forces over the next generation: the increased importance of government in economic life; the growing influence of special interest groups, inclusive of labor, agriculture, and business; the further development of techniques for expanding monetary supplies.

First, let us consider government. With the increased role played by government, the pressure on markets tends to increase: in part the importance of government results from the unstable political, economic, and military situation. Its task increasingly is to mobilize resources, keep them at work, and thus to assure minimum demand and equitable distribution. This is a world-wide appraisal applying in varying degrees to all countries.

Total government expenditures are a much larger part of the national income than they were in earlier years. Thus in the United States tax collections were about 4% of national income in 1860, 6.5% in 1913, 11.6% in 1928, and fluctuated around 25% in the last few years.[10] Perhaps the most useful comparison for recent years is that of gross national product and government purchases of goods and services—other government expenditures, and notably duplication of expenditures by government at various levels, and transfer payments are excluded. It should be observed that in 1947 total Federal expenditures were $41.5 billion.

Gross National Product and Government Purchases of Goods and Services

(In billions of dollars)

	1929	1939	1947
1. Gross Natl. Prod.	103.8	90.4	231.6
2. Govt. purchases of goods & serv.	8.47	13.1	28.0
3. Per cent (2) to (1)	8.2	14.5	12.1

It is clear that government spending plays a much larger part

3 *Joint Economic Report: Report of the Joint Committee in the January 1948 Economic Report of the President*, Senate Report No. 1358, May, 1948, p. 3.

4 *Treasury Bulletin*, December, 1948, pp. A, 1-17, 48, and my *National Debt and the New Economics*, p. 120, and my *Inflation and the American Economy*, p. 241.

5 *Survey of Current Business*, July, 1946, p. 19; *Inflation and the American Economy*, pp. 96, 105.

6 *National Income, Supplement to Survey of Current Business*, July, 1947, p. 19

7 Figures in last few paragraphs: *Federal Reserve Bulletin*, October, 1948, p. 1277; *National Income*, p. 19; *The Economic Report of the President*, January, 1948, p. 92; *Mid-Year Report of the President*, July, 1948, p. 52.

8 *Survey of Current Business*, October, 1948, pp. 8-9.

9 U. K.: *Financial Statement* (1948-49), pp. 4-5, 46-47; U. N.: *A Survey of the Economic Situation and Prospects of Europe*, p. 79; U. K.: *An Economic Survey for 1948*, Cmd. 7344, p. 14; British Information Service: *Britain's Economic Outlook*, June 21, 1948, p. 4; *National Income and Expenditures of the United Kingdom*, 1947, Cmd. 7371, pp. 18-19.

10 Kuznets, "National Income and Taxable Capacity," *A. E. A. Proceedings*, 1942, p. 63, and my estimates for later years.

in the economic life of the country than in the 20's. Total government expenditures rose much more than the item "purchases of goods and services" would suggest: totals are up by more than 4 times.[11]

Government's contribution to demand over good and bad periods taken together is likely to be greater than in the past: it not only spends more but its activities result increasingly in transfers from non-spenders to spenders. This is evident, for example, in the increased importance of income and corporate income taxes. Thus here is a comparison of effective rates of individual income taxes under Revenue Acts from 1913 to 1945, married persons—2 dependents:

Revenue Act	Net Income $5,000	$10,000	$100,000	$5,000,000
1913	0.2	0.6	2.5	6.8
1936	1.0	3.4	32.0	75.8
1945	11.8	18.6	62.3	85.5

Adapted from "Treasury Bulletin," February, 1947, p. A-7.

In 1902, property taxes and consumption taxes accounted for 98% of all taxes in this country; by 1938, income, inheritance, and corporation taxes accounted for 28%. In the fiscal years 1939 to 1946, Federal receipts rose by about $40 billion; of this increase, direct taxes on individuals and corporations accounted for about three-quarters.[12]

Government will make even larger contributions toward keeping demand up as its expenditures increasingly are on the progressive principle. As the government relies increasingly on direct taxes with fairly heavy progressive rates and uses the proceeds to finance education, social security, farm subsidies, large payments to military personnel, and the like, the effect will be an over-all rise in spending. Undoubtedly heavy taxes tend to discourage investment. It should be observed, however, that any rise of consumption tends to stimulate investment; and, furthermore, that government expenditures are in part for investment. In European countries the contribution of government to investment either through direct investment or by control or allocation of economic resources is very significant. Five important ERP countries, even under the pressures of 1947, used 27% of their gross product for investment in 1947, as compared with 18% in 1938.[13] Indeed, the disappointments of 1947 were reflected in adverse effects on investments. Thus, the French under the Monnet Plan in 1947 substantially failed to meet even its minimum goals in coal, steel, cement, agricultural machinery, and transport.[14] In the United States there will also be a tendency to increase public investments, and notably as resource development becomes of increasing importance.

It is then my contention that the magnitude and pattern of government taxation and spending will intensify inflationary pressures. In periods of inflation, however, the government will tend to neutralize inflationary pressures automatically to some extent, because the tax system is one that responds to rising incomes much better than that in vogue in 1938 or *a fortiori* in 1913. As income rises, the yield of income and corporation taxes increases even more; and they are the major sources of revenue. This net deflationary effect in periods of exuberance will happily be matched by inflationary effects of reduced tax yields in periods of depression.

b. Labor Policy: A second institutional factor likely to have long-run inflationary effects is the position of labor. Favored by government and an improvement in bargaining power resulting from the spread of trade unionism, high employment and social security, labor's political influence has grown greatly in recent years. Few can dispute the large gains made by labor in recent years, nor their contribution to inflation. In the war period labor made large gains through increased employment, a rise in the working week, up-grading, an increased importance of overtime pay, and through the elimination of "inequities."[15] Their gains were not so large as they seemed; for the rise in real wages was in part fictitious: it could be sustained only as increased savings, associated in part with forced restraints on spending and the like, kept prices from rising. In the postwar period the reduction of overtime and down-grading and the rapid rise in the cost of living, though probably matched by a corresponding increase in basic wage rates, eliminated a small part of the gains achieved in war.[16] (Note, however, the large rise in real hourly earnings for bituminous coal.) Yet the net effect of wage movements in the years 1939-48 was inflationary. Higher wages rates tended to raise prices; and higher prices to stimulate wage increases.

CONSUMERS' PRICES AND HOURLY WAGES, 1939 TO 1945, AND 1945 TO 1948

	Consumers' Prices	Hourly Earnings Mfg.	Bitum. Coal	Class I Steam Railroads	Wholesale Trade
Percentage rise from 1939 to 1945	29	62	40	32	44
Percentage rise from 1945 to first half of 1948	32	27	49	*29	30

*Second half of 1947.
Based on "Midyear Economic Report of the President," July, 1948, pp. 86, 92.

c. Farmers and Business: It is scarcely necessary to add that labor alone was not responsible for the inflationary pressures of the last 10 years. It is only necessary to point to the great political strength of farmers which enabled them to atrophy price control measures to some extent in war and continue support programs in peace. Actually, the major explanation of higher prices for farmers up to the present has been the supply and demand situation, not the interference of government. Prices received were 205% higher in the first half of 1948 than in 1939; and the parity ratio rose from 77 to 117, or 52% (1910-14=100.)[17]

Business also has to share part of the responsibility. Even granting (with reservations) that incomes are a result of prices, not a cause—as the orthodox theory claims — nevertheless, the high profits of business were inflationary for two important reasons: the stimulus to investments and the part played in supporting the position of trade unions seeking higher wages. Corporate profits before taxes were $5.4 billion and $29.8 billion in 1936-39 and 1947, respectively; after taxes the respective figures were $4.1 billion and $18.1 billion. Income of unincorporated business and in the professions rose from $6.5 billion in 1936-39 to $23.2 billion in 1947.[18]

Anti-Inflationary Policy

By the latter part of 1948, there were signs of a weakening of the inflationary pressures. From January to August, 1948, consumer prices rose by but 3½% and wholesale prices by but 2½%. In 1947, the respective rises had been 19% and 26%, respectively. The threat of agricultural surpluses and the pressure of large outputs in soft-goods industries were already apparent; and on top of that, there were signs of a slowing down of investment programs for 1949. In fact, it is unlikely that business will invest nearly as much more than its savings as it did in 1948, although preliminary figures for the first quarter of 1949 are not reassuring. Indeed, the government promises to contribute $11 billion less to the anti-inflationary program in the fiscal year 1949 than in the first six months (annual rate) of 1948; and there is always the possibility of an acceleration of European aid and rearmament. Should the international situation not deteriorate further, the inflationary forces may well be contained in 1949, despite the reduced support of government.

Despite the improved prospects for the near future, the country requires a comprehensive and well-integrated anti-inflationary policy. That the institutional changes strengthen these forces over the years and that a worsening of the international situation will make matters worse, are strong reasons for nurturing such a policy.

An adequate attack encompasses treatment of both supply and demand. Insofar as more goods are made available to satisfy the demand of consumers and investors, so far there will result a reduction of inflationary pressures. But it is well to be clear that the provision of more goods matched by a corresponding rise of spending will do little to check inflation. Businessmen who predicted in 1945 that the return of the economy to private enterprise would assure a rise of output and hence lower prices, failed to take account of the demand aspects of rising supplies. Hence, what is required is an increase in supplies not matched by a corresponding demand. Thus a reduction in the interruptions to work would help; for when output is reduced through strikes, demand is not cut correspondingly. A rise of productivity generally might help if not matched by a corresponding rise of wage rates or if a substantial part of the resulting rise of income is saved.

Conservation and economy measures would also be helpful; but these might require government controls not particularly popular in peacetimes; or else a reduction in armament or foreign aid program, which would be incompatible with security policy. An allocation program directed to assuring essential uses might well make deficient supplies serve the nation with increased effectiveness. The resulting attack would make increased supplies available for essential markets, and also would be a manner of regulating demand. Thus reducing the allocation of steel for automobiles would make steel available for more essential products and might curtail the demand for automobiles. Unfortunately, the net effects may not be anti-inflationary unless supplementary measures are taken to allocate automobiles and introduce a measure of price control. Similarly, allocation of lumber may require licensing of home building and similar measures. Furthermore, there is the difficulty that money saved on automobiles and housing will spill over into other scarce markets.

This leads to the problem of over-all control of demand, the major attack on inflation. Obviously, all policies which preclude wage increases not justified by rises in productivity to be associated with the contribution of labor, or policies which keep farm incomes and business or professional profits under control, will make an important contribution to moderating inflation.

In practice, the largest contribution will have to be made by fiscal policy. Economies of public expenditures, consistent with broad objectives of policy, and a high level of taxation are sepecially important. A strong case can be made out for heavy taxes on low-income groups, since they account for the largest part of total consumption; but since anti-inflationary policy is but one facet of policy, the correct policy from the viewpoint of stability will have to yield to some extent to the requirements of equity. Where stability yields to equity is a matter of judgment.

A vigorous tax program will also contribute to the containment of investments, which in the first half of 1948 were running at the unprecedented annual rate of $37 billion. Heavy corporation, income, and possibly an excess profits tax, will discourage demand and depress investment. Since monetary policy, the traditional means of curbing inflation, will necessarily play a reduced role, the restraint on investment will have to stem from tax and allocation policy.

Now as regards monetary policy. The large national debt is the greatest barrier to the employment of monetary policy as a vigorous anti-inflationary policy. It is not, however, the only barrier. Earlier attempts to use monetary policy to contain inflation have not been particularly successful: instead of roasting the pig, the house may be burnt down. A policy of restraint once introduced continues far beyond the desired point: consider the experiences of 1920, 1929, and 1937. Furthermore, we now have at our disposal much more precise and effective tools. These include especially fiscal policy, and adequate control of supply and demand.

An attempt to restrain the banking system by open-market operations or a large rise in reserve requirements will bring about higher interest rates and a cumulative decline in government securities. Investors in government securities tend to sell with a significant drop, and even if ultimately interested in holding public securities, will, frequently sell, awaiting minimum prices to repurchase. With a national debt of $250 billion and with the country facing an international crisis, the government cannot risk a demoralization of the bond market; and particularly since about $50 billion of refunding overhangs the market within a year, and about $95 billion in five years. Government's responsibilities are too serious to countenance an excessively uncertain cost of new money. We may add that the qualitative monetary controls—e.g., limits on mortgage and consumer financing —are still available.

In view of the restraints put upon monetary policy by the large

(Continued on page 34)

11 *Survey of Current Business*, October, 1948, pp. 16-18; *Treasury Bulletin*, October, 1948, p. 1; *Midyear Economic Report of the President*, July, 1948, pp. 57-58; and Tax Foundation, *Facts and Figures on Government Finance*, 1944, p. 13.

12 My *National Debt and the New Economics*, pp. 203, 218-219.

13 My *European Recovery Program*, 1948, p. 298.

14 General Commission for the Modernization and Equipment Plan: *Second Half-Yearly Report on the Achievements of the Modernization and Equipment Plan*, 1948, p. 13.

15 S. E. Harris, *Inflation and the American Economy*, Chs. 19-22.

16 Average hourly earnings are far from an ideal measure for studying the relation of wage rates and inflation. Fluctuations in this measure stem from varying amounts of over-time, from changes in the importance of high and low paying occupations, and the like.

17 *Midyear Economic Report*, July, 1947, p. 95.

18 *Survey of Current Business*, July, 1948, p. 16.

The Inflationary Problem

(Continued from page 33)

Federal debt, it would be well to dwell on debt policy temporarily. Despite the usual predictions, the government bond market improved in 1946. Rates on long-term taxable bonds averaged 2.19%, as compared with 2.48% in 1944 and 2.57% in 1945. But from a low of 2.09 in March, 1946, the rate rose to 2.45% in August, 1948. (Actually, the market was fairly stabilized in 1948, for the yield of taxable bonds was 2.45% in January, a low of 2.41% in June, and 2.45% in September.) As might be expected, short-term rates rose more than long-term. The 3-month Treasury Bill yielded .375% in 1945 and 1946, .604% in 1947 and 1.09% in September, 1948; the 9-12 month certificate, .81% and .82% in 1945 and 1946, .88% in 1947 and 1.18% in September, 1948; the 3-5 year taxable bonds, 1.18% and 1.16% in 1945 and 1946, 1.32% in 1947 and 1.69% in September, 1948. It is no secret that the Federal Reserve plumped for even higher rates on short-term securities, contending that a rise in short-term rates would compensate for higher reserve requirements and would deter banks from expanding speculative and inflationary loans.[19]

It is interesting that the short-term rates rose sharply despite the fact that the relevant securities became a much smaller part of the national debt. From February, 1946, when the national debt reached its peak, to September, 1948, the Treasury bills outstanding declined by $4.4 billion, or 26%; certificates by $19.1 billion, or 46%; notes by $8.3 billion, or 43%; and Treasury marketable bonds by $9.6 billion, or but 8%. Non-marketable issues (largely U. S. savings bonds) actually rose by $3.8 billion, or 7%, and special issues by $10.3 billion, or 49%. Treasury bills, certificates and notes, which had accounted for 24% of all interest-bearing debt in February, 1946, had fallen to but 18% in September, 1948.

As the government used cash balances and Treasury surpluses to repay debt, it largely concentrated on the banks which held the major outstanding Treasury bills and certificates. In the period February, 1946 to August, 1948, the commercial banks' portfolio of government securities declined by $28.5 billion, or more than 30%. The only other large changes were a reduction of $7.1 billion, or one-quarter, by other corporations and associations, a decline of $2.2 billion, or one-tenth, by insurance companies, and a rise of $8.5 billion, or 30%, for U. S. government agencies and trust funds. In short, the net decline for all issues outstanding was matched by a corresponding reduction of issues by commercial banks; and substantial net sales by business and financial institutions, inclusive of insurance companies, were offset by large purchases by government agencies and trust funds, and by a small rise of portfolios held by individuals. In the year ending June, 1948, selected savings institutions acquired $8.6 billion of new assets; but they had to dispose of $2.2 billion of government securities to achieve this goal.[20]

Perhaps the major support given by the market, exclusive of the excess of ordinary budgetary receipts over expenditures, was the inflow of cash to government agencies and trust funds used to purchase public securities, and bolstering of the market by the Federal Reserve.

The net contribution of the Federal Reserve banks was not large. For example, in the period May, 1946 to August, 1948, the portfolio of the Reserve banks declined from $22.7 billion to $21.6 billion. In a sense, they contributed greatly, however, to the depression of short-term issues, for their holdings of bills and certificates declined from $20.1 billion to $2.0 billion; but the adverse effects on prices were largely neutralized by the liquidation of these issues out of surplus cash or receipts. They are not prepared to remove all supports of the short-term market. Reserve banks sustained the long-term market by raising their portfolio of other public issues from $2.6 to $9.6 billion.

No better evidence of the impotence of the monetary authority is to be had than by an examination of Reserve bank figures over the 15 months ending September, 1948. In this period, a rise of Federal Reserve credit of $1.7 billion and an inflow of gold of $2.8 billion accounted for $4.5 billion potential rise of bank reserves. Actually, the Treasury by increasing its cash with the Federal Reserve banks deprived the market of $1.1 billion. But the net effect of all relevent transactions on the reserves of member banks was a gain of $3.7 billion. Indeed, excess reserves rose only by $200 million, for reserve requirements were raised. But the need of protecting the bond market resulted in the Federal Reserve banks pumping $1.7 billion of additional cash into the market, in a period when gold inflows added $2.8 billion to reserves, and when the general situation called for anti-inflationary measures. The rise of reserve requirements could only be a relatively innocuous measure under these circumstances.

Similar conclusions stem from a study of a somewhat longer period, 1945 to June, 1948. In this period, member bank reserves rose by $4 billion as a result largely of an inflow of gold ($4 billion) and a decline of money in circulation of $700 million. The Federal Reserve disposed of but $1 billion of assets in this period.

There seem to be two alternative policies. The first is to allow the bond market gradually to find a free level, with attendant dangerous effects on the prices of government securities, the rate of interest, and the like. How serious the effects might be is suggested by the experience of late 1947, when a fear of succesive declines resulted in large sales.[21] The second way out seems to be measures directed against the offer of securities to Reserve banks —e.g., immobilization of securities as secondary reserves of banks and possibly other financial institutions. In this manner, the monetary authorities could regain some element of freedom to contend with inflation without jeopardizing the Federal bond market.[22]

19 Hearings of House Banking and Currency Committee on S. Res. 157 (*Inflation Control*), 1948, pp. 181-82, 187, 194.

20 *Ibid.*, p. 91.

21 Cf. Report of Joint Committee on the Economic Report, on *High Prices of Consumer Goods*, 1948, pp. 42-43.

22 Governor Eccles has presented this position effectively on numerous occasions. Cf. Hearings of Joint Committee on the Economic Report, on *Credit Policies*, 1948, pp. 19-21, 35-37.

Harry Simon Now With Newburger, Loeb Co.

Newburger, Loeb & Co. announce that Harry Simon, retiring from the partnership of Ungerleider & Co., has joined their organization as Registered Representative at the firm's main office, 15 Broad Street, New York City.

With Shearson, Hammill

The association of Ernest Oberhumer with the uptown office of Shearson, Hammill & Co., 522 Fifth Avenue, New York City, members of the New York Stock Exchange, is announced.

Richard Clarke Co. Admits McKee

Richard W. Clarke & Co., 17 East 42nd Street, New York City, members of the New York Stock Exchange, have announced that they are taking in as a general partner as of Jan. 1, 1949. E. Bates McKee, who will also be a Vice-President and Director of the Richard W. Clarke Corp. Mr. McKee is a graduate of Yale and Cambridge, England. Since his return from the National City Bank of New York, France, in 1932, Mr. McKee has been associated with the City Bank Farmers Trust Co. and has been an officer since 1937. Prior to the war, he was in charge of investments at their Forty-Second Street Branch and, since his return from the United States Navy, where he served as operations officer for landing craft in the Mediterranean, he has been an Assistant Vice-President in charge of new business at that branch.

E. Bates McKee

Mr. McKee is a member of the second class of the Graduate School of Banking where he majored in investments in which field he will continue to specialize at Richard W. Clarke Co.

Peru Extends Bond Exchange Offer

Offers of the Republic of Peru to holders of six issues of bonds of dollar and sterling loans, to exchange such bonds for Republic of Peru external sinking fund dollar bonds of 1947, due Jan. 1, 1997, have been extended until Dec. 31, 1949. Under the offers, approximately $25,000,000 of the dollar bonds of 1947 has been issued as of Dec. 30, 1948. Funds have been deposited with Central Hanover Bank and Trust Company, paying agent, for the Jan. 1, 1949, interest payment on the dollar bonds of 1947, at the rate of 1% per annum. From Jan. 1, 1949 until Jan. 1, 1951, interest will accrue at the rate of 1½%. Following are the issues of bonds to be exchanged:

Republic of Peru secured 7% sinking fund gold bonds, 1927; Peruvian National Loan, 6% external sinking fund gold bonds, first and second series; Province of Callao, Peru, guaranteed and secured sinking fund 7½% gold bonds; Peruvian National Loan, 6% external sinking fund gold bonds, second series (sterling bonds), and Honorable Provincial Council of Lima Municipal Loan of 1911 due 1965.

M. F. Skinner Retires

CHICAGO, ILL.—On Dec. 31, Melvin F. Skinner, Assistant Manager, Bond Department, the Northern Trust Co., retired after 45 years of service. Mr. Skinner is a member of the Bank's pension plan.

Mr. Skinner worked as a telegraph operator for the Atchison Topeka and Santa Fe Railroad before joining the Bank's staff in 1903. After holding various clerical positions in the Banking Department he was promoted to the Bond Department as a salesman and was elected Assistant Manager in 1929.

Named Director

Harry Mitchell has been elected a Director of the First Guardian Securities Corp., 20 Pine Street, New York City.

The State of Trade and Industry

(Continued from page 5)

poor deal for the user of steel, concludes "The Iron Age," and he has therefore lined up in opposition to mill selling to steel.

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 Jan. 3, 1949, as against 97.3% in the preceding week, representing an increase of 2.7 points, or 2.8%. A month ago the indicated rate was 100.0%.

This week's operating rate is equivalent to 1,802,500 tons of steel ingots and castings compared to 1,753,800 tons a week ago, 1,802,500 tons a month ago and 1,708,600 tons, or 94.8% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, highest prewar year.

The percentage rate of operation is based on the 1948 capacity and is subject to revision when the 1949 capacity is computed.

ELECTRIC OUTPUT EASED FURTHER IN WEEK ENDED JAN. 1

The amount of electrical energy distributed by the electric light and power industry for the week ended Jan. 1 was estimated (subject to revision) at 5,470,000,000 kwh., according to the Edison Electric Institute. This was a decrease of 38,240,000 kwh. below output in the preceding week which was revised to 5,508,240,000 kwh. and 601,989,000 kwh or 12.4% higher than the figure reported for the week ended Jan. 3, 1947. It was also 896,193,000 kwh. in excess of the output reported for the corresponding period two years ago.

CARLOADINGS LOWER IN WEEK BUT 1.6% ABOVE 1947 WEEK

Loadings of revenue freight for the week ended Dec. 25, 1948, which included Christmas holiday, totaled 609,239 cars, according to the Association of American Railroads. This was a decrease of 145,306 cars, or 19.3% below the preceding week this year. It however represented an increase of 9,885 cars, or 1.6% under the corresponding week in 1947 but a decrease of 18,728 cars, or 3.0% below the similar period in 1946.

AUTO OUTPUT CUT BY FACTORY CLOSINGS FOR MODEL CHANGEOVERS AND CURTAILED WORKING HOURS

Production of cars and trucks in the United States and Canada dropped to 82,979 units from 94,668 (revised) units the previous week, according to "Ward's Automotive Reports."

The decline last week was the result of four or four and a half day operations and closing of most Chevrolet assemblies for model changeover.

Output in the similar period a year ago was 65,573 units and in the like week of 1941, 76,690 units.

This week's output consisted of 62,321 cars and 17,398 trucks built in the United States and 2,036 cars and 1,224 trucks in Canada.

BUSINESS FAILURES UPTREND CONTINUES UNABATED

Commercial and industrial failures increased to 128 in the holiday week ended Dec. 30 from 116 in the preceding week, Dun & Bradstreet, Inc., reports. This was the highest since Feb. 12 and considerably exceeded the 58 and 30 which occurred in 1947 and 1946 respectively. Casualties were about two-thirds of the 1939 total for the same week.

Retail failures were lower for the week but were more than twice the number a year ago. Manufacturing, wholesaling, construction and commercial services were higher the past week with the sharpest relative upswings from the 1947 level appearing in wholesaling and construction.

FOOD PRICE INDEX CLOSES AT YEAR'S LOW POINT

The Dun & Bradstreet wholesale food price index fell 2 cents in the final week of 1948 to stand at $6.21 on Dec. 28, duplicating the year's low recorded two weeks previous. The current index is, in fact, at the lowest level since June 10, 1947, when it registered $6.12. It compares with $7.24 on the corresponding date a year ago, or a drop of 14.2%.

The weekly average of the index for the year 1948 established a record all-time high of $6.82, a rise of 4.0% above the 1947 average of $6.56. This year's average of $6.82 was more than double the 1941 level of $3.01, and was 37.5% above the post World War I high of $4.96 recorded in 1919.

COMMODITY PRICE INDEX SHOWS MILD UPWARD TREND

There was a mild recovery in some of the leading agricultural commodities in the past week and the Dun & Bradstreet daily wholesale commodity price index edged slightly higher during the period. The index figure closed at 269.53 on Dec. 28, against 268.61 a week earlier and compared with 301.48 on the like date a year ago.

Despite seasonal slackening in demand, grain markets generally maintained a firm undertone during the past week.

Cash wheat trading was light with the CCC the principal buyers. Cash corn prices were stronger; receipts fell off sharply from those of a week ago. Government buying of cash corn remained at a low level. Oats developed independent firmness in the latter part of the week. Weather and crop conditions were reported much improved with ample rain and snow blanketing a large part of the winter wheat belt.

Domestic flour business remained very slow. Bookings of all types of bakery and family flours were confined mostly to small lots for immediate or nearby shipment. Export flour demand was somewhat better.

Butter declined rather sharply at midweek but recovered all of the early losses in late trading under a more active demand.

The raw sugar market turned stronger, buoyed by brighter consumption prospects for 1949. There was a steadier undertone in the cocoa market following the sharp losses recorded in recent week.

Arrivals of cocoa beans in this country for the year to date totaled 3,812,161 bags, as compared with 4,138,995 bags in the corresponding period last year. Receipts of live hogs were comparatively light during the week and prices rose moderately. Cattle prices weakened somewhat in late trading following early steadiness. Lard prices fell to the lowest levels of the year under prospects of a sharp increase in the Spring pig crop of 1949.

Seasonal dullness ruled in leading cotton markets. Trading lacked feature and prices moved in a narrow range, closing slightly higher than a week ago.

A late spurt in prices was attributed to foreign fixations on British and German account.

Easiness in the early part of the week reflected indications of a sizable decline in the parity price for the staple this month, and continued uncertainties over Congressional farm price legislation. Loan entries of cotton for the week ended Dec. 16 were placed at 197,530 bales, with total entries for the season to that date of 3,587,320 bales, and a net stock, after repossessions, of 3,584,362 bales.

Quietness prevailed in the Boston raw wool market during the pre-holiday week just ended. A fair volume of government owned fleece wools changed hands but there was very little activity noted in free wools. Prices for territory wools remained firm in the western States but trading was at a slower pace than in recent weeks. Foreign wool markets closed on a firm basis but little activity is expected until after the holiday season.

RETAIL AND WHOLESALE TRADE MAINTAINED ABOVE LEVEL OF LIKE WEEK OF 1947

Last minute shopping in the two days preceding Christmas and extensive post-holiday clearance sales helped to boost total retail volume in the period ended on Wednesday of last week. Volume for the week was fractionally below that of the preceding week, but was considerably above that of the comparable 1947 week which did not include any pre-Christmas shopping days, according to Dun & Bradstreet, Inc., in its current summary of trade.

Markdowns were large compared with those of a year ago and consumer response was very favorable. Shoppers continued to be highly conscious of both price and quality.

Numerous year-end promotions and clearance sales last week helped to stimulate total apparel volume well above that of a year ago, although volume was slightly below the preceding week's level. Cold weather early in the week and rainy weather later was reflected in a continued large sales volume of Winter clothing and rainwear. Women's tailored gabardine suits and tissue faille dresses were in large demand. Women's furs, aided by extensive price reductions, sold moderately well. Men's sportswear and furnishings were in steady demand.

Stimulated by late shopping for Christmas table needs, retail food volume in the period ended on Wednesday of last week rose slightly above that of the preceding week and appreciably above that of the comparable 1947 week. Nuts, assorted fruits and chocolates sold well. Baked goods were in large demand. The volume of poultry, fruits and vegetables compared favorably with that of a week ago.

Retail purchases of consumer durables declined slightly the past week, although some price reductions helped to maintain volume moderately above the level of a year ago.

Such house furnishings as draperies and curtains sold well. The consumer demand for appliances and furniture decreased slightly in the week.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from 7 to 11% above that of a year ago.

Regional estimates exceeded those of a year ago by the following percentages: New England and Middle West 11 to 15, East and Southwest 5 to 9, South 3 to 7, Northwest and Pacific Coast 8 to 12.

Despite scattered commitments for replacement stocks and some Spring bookings, wholesale order volume in the past week declined seasonally from the level of the previous week. Wholesale volume slightly exceeded that of the corresponding week a year ago. Buyer attendance at major wholesale centers decreased moderately for the week, although the number of buyers was estimated to be about twice that in the comparable 1947 week.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Dec. 25, 1948, showed an increase of *32% from the like period of last year. This compared with no change recorded in the preceding week. For the four weeks ended Dec. 25, 1948, sales increased by 4% and for the year to date increased by 5%.

Retail trade here in New York the past week suffered a post-Christmas decline in sales with total volume falling below the 1947 period.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Dec. 25, 1948, advanced by *48% from the same period last year. In the preceding week a decline of 3% was registered over the similar week of 1947. For the four weeks ended Dec. 25, 1948, a rise of 3% was recorded over that of last year and for the year to date volume increased by 4%.

*The large increases shown for this week reflect in part the fact that in 1948 Christmas fell on Saturday and the week therefore included five days of heavy pre-Christmas shopping as compared with three days in 1947 when Christmas fell on Thursday.

New York Stock Exchange Weekly Firm Changes

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

Francis F. Patton retired from A. G. Becker & Co., Dec. 31.

Willem Van Marle withdrew from Bendix, Luitweiler & Co., Dec. 31.

Philip Wick, Jr., member of the exchange, retired from partnership in Butler, Wick & Co., Dec. 31.

Charles Fellowes - Gordon retired from Fahnestock & Co., Dec. 31.

Irving H. Isaac withdrew from Gimbernat & Sellwood Jan. 3.

John C. Marshall retired from Kebbon, McCormick & Co., Dec. 31.

Interest of the late F. Malcolm Minor in Pyne, Kendall & Hollister ceased Dec. 27.

Ira Richards, member of the Exchange, withdrew from partnership in Richards, Heffernan & Benedict, Dec. 31.

Fred E. Koechlein retired from Smith, Barney & Co., Dec. 31.

Carlos Maisonpierre With Herbert E. Stern & Co.

Carlos Maisonpierre, for more than 30 years in the banking business in Brussels, Beligum, has become associated with Herbert E. Stern & Co., 30 Pine Street, New York City, members of the New York Stock Exchange.

1949 Federal Tax Outlook

(Continued from page 2)

more improvement still. As to the first, the law should provide simply and directly that an individual does not realize income from the purchase of stock or warrants, whether from his employer or others, provided that the purchase is effected or the option granted at a price not substantially less than the fair market value of the stock. Such an amendment would not actually cost the Treasury any revenue, for it is pretty clear that the present rulings have completely stopped stock option and stock purchase contracts. Whether it will be adopted, however, is at best debatable, since its utility will be thought to be for highly paid corporate executives. It can be used to the great advantage to the young corporate officer growing up, but Congress may not fully realize that.

Some of the questions raised by the provisions governing the penalty on unreasonable corporate accumulations are fundamental in character and involve broader issues than the application of the particular penalty. We are told that one of the reasons our business civilization has flourished is that we have been quick to modernize plant and machinery. Our factories are more completely mechanized than those of any other country. One result has been that we can produce better goods cheaper than our neighbors, at the same time than we can pay far higher wages than they do. Thus, it has become true that our people, as a whole, can enjoy a notably higher standard of living than those of any other land.

The corollary of these propositions is that our investment per worker in plant and machinery is higher than that of any other country. Moreover, if we are to continue to advance industrially, it is likely that that investment will steadily increase, as it has in past decades. There is, therefore, a continuing and increasing demand for new capital to be invested not merely in new businesses here and abroad, but in the improvement of our old businesses.

Where is this capital to come from? High surtaxes prevent much saving by middle class and well-to-do people. The day of great fortunes is probably over. Many serious writers have called attention to statistics bringing out the dearth of new capital formation. In large part, businesses have had to accumulate their own new capital. It has not been possible for some time readily to obtain new equity money from the market.

Our federal tax laws have been designed almost exclusively to raise as much revenue as possible with as few loopholes as possible. In recent years, the Congress and the Treasury have labored with particular diligence to this end. Much less attention has been paid to the long-run effects of income tax provisions on the economy. While the United States Treasury is a partner with a large and, during the war, a majority interest in corporate incomes, individual citizens are still heavily interested in their own enterprises. In any event, both parties have a tremendous stake in the preservation and prosperity of industry. Tax provisions that work against these great ends must be corrected, and they should be corrected in times of prosperity, when any adverse revenue effect of changes can the more readily be borne.

Three provisions of the income tax law work in the wrong direction, and should be changed before more permanent damage is done. The first is the penalty on the unreasonable accumulation of earnings. Now no one would urge that closely-held corporations should be perfectly free so to accumulate earnings that surtaxes on their wealthy shareholders are avoided. On the other hand, cases of tax avoidance of this sort are probable the exception today, not the rule. Since corporations have found it difficult or impossible to raise equity money in the market, they have been forced to retain earnings for needed improvements and expansion. On the other hand, internal revenue agents have long been instructed by the Bureau to apply a rule of thumb that a corporation should distribute 70% of its earnings, unless it can demonstrate special reasons for retention of earnings. One result is annual conferences between corporate executives and their lawyers to try to determine whether the corporate needs will probably be regarded as adequate by a revenue agent examining the books two or three years later. It is impossible to determine so speculative a question, and the usual practice is to cut the corporate program for modernization and improvement, in order to permit it to distribute more dividends than the officers and directors honestly think is wise. In this manner, the officers and directors hope to purchase that much insurance against the possibility of a damaging internal revenue agent's report. Recent litigation has shown that such a report may not only cost the corporation the severe penalty of Section 102; it may also subject the directors individually to damage suits by stockholders and possibly to adverse judgments.

The large publicly-owned corporation has little to fear from Section 102, for it can almost always show pressing needs for funds for development and expansion. The penalty is more apt to be asserted against smaller enterprises trying to grow; enterprises whose stock is closely held because they are relatively unknown, and public financing is costly and impossible. Small business is generally forced to produce and to accumulate its own capital. Granted that there must be a penalty for improper accumulation, the Commissioner should have to prove his case in this instance as he must if he asserts other penalties. Business should not be left so vulnerable to the assertion of a penalty by a revenue agent who really knows very little about business at all, but whose assertion now enjoys a presumption of correctness.

In the second place, the Treasury has followed for years a rigid and niggardly policy on depreciation, inspired in large part by a Congressional threat of restrictive legislation in 1934. Rates determined by the company's own officers are not entitled even to a presumption of correctness, and are frequently questoned and reduced. This policy would have been more damaging had Congress not provided liberally for amortization of war facilities during the last war. It operates especially badly today, when replacement costs are far above the original or tax cost of depreciable items. For obvious reasons, the damaging effects are more serious to small corporations than to large.

We are told that one reason for the reluctance of British corporations to replace obsolete machinery is the absence of adequate depreciation provisions in the British income tax law. Certainly, we do not want to drift into similar stagnation over here, for we know our past success has been due in large part to our willingness to adopt promptly new methods and new machinery.

Depreciation rates once adopted should be retained in force. If they are, any temporary advantages from excessive rates soon iron out. The Treasury would not be likely to lose seriously in the long run if businessmen were free to choose depreciation rates on all assets having a life of more than, say, five years. Legislation to secure that result has been recommended, but Congress is slow to adopt it. Satisfactory results can be obtained without new legislation if the Commissioner of Internal Revenue will simply order his agents to give real effect to the wording of the present law—"a reasonable allowance for the exhaustion, wear and tear (including a reasonable allowance for obsolescence)." That wording surely permits the revenue agent to allow the company's depreciation rates to stand, unless they are away out of line; and certainly at least a 50% margin over generally approved rates should be regarded as reasonable. The result of a more reasonable policy here would be not only a great saving in time now wasted in futile controversies, but a great assurance to corporations that the American policy of replacing old machines with improved new machines will be facilitated, not hindered.

Finally, we have double taxation of corporate dividends, while we have only a single tax on salary income, on bond interest, or on other forms of income. Certainly there is no fairness in taxing one form of income twice while all others bear only one tax. Moreover, on the basic premises I have outlined—the need for more equity capital investment—the tax provisions are plainly bad, for they discourage by a double tax the flow of funds into equity securities, particularly the equity securities of small enterprises. Nearly all responsible organizations and writers have advocated that the double tax be eliminated, but the reform has not yet been accomplished. It forms no part of H. R. 6712, mainly because the immediate loss of revenue would be substantial, and that argument has been regarded as conclusive.

In my judgment, the unfairness of the tax law in this respect, and its unwisdom, are so patent that the reform should be carried through at the earliest date that the budget can stand the cost. We can stand heavy taxes better than unjust ones, particularly unjust ones that operate to hinder and to dam the flow of capital into small and new enterprises.

The adoption of these three changes, whatever may happen to tax rates, would have a most helpful effect on our economy. To flourish, business need ask no favors from government, but it must have a fair chance to move forward. The tax toll must not be so heavy as to stop the traffic, and the toll gate must be wide enough to permit vehicles to pass through. What I have recommended is that the gate be widened, even though the toll remains unchanged. The traffic can then increase and the taxgatherer will gain. The main advantage will be that the people of this nation and their children will continue to get more goods at better prices.

Simpson Installs Wire

DENVER, COLO. — B. E. Simpson & Company, California Building, has installed a private wire to Troster, Currie & Summers, New York City, and through them to Trubee, Collins & Co., Buffalo; Gottron, Russell & Co., Cleveland; George A. McDowell and Co., Detroit; Young & Co., Pittsburgh, Pa.; and Fusz-Schmelzle & Co., St. Louis.

As We See It

(Continued from first page)

paign against what appeared to be hopeless odds—and won. He was throughout "of the earth, earthy." The American people, moreover, love a winner. All this adds to his present standing and, in a sense, to his popularity. He, in all these respects, is without question a more formidable political figure than he was when he was serving out the unexpired term of the late President Roosevelt.

Appearances May Mislead

Yet it would be quite possible to be misled by appearances. Very few, if any, of the members of the new Congress came into office "on the coat tails" of the President as was so often true of the campaigns when President Roosevelt headed the Democratic ticket. On the contrary the general rule was that the President this time ran "behind the ticket." It could in a sense be said with truth that the President "rode back into office" on the tide that swept in a Democratic Congress — although, of course, President Truman did his part in inducing the change in Congress. More than one Democratic member of the 81st Congress will, in all probability, take a good deal of the current talk about a mandate from the people exclusively for President Truman and his own rather personal platform with several grains of salt.

There is, of course, first of all the Southern element in the national legislature. In a strict sense of the term this is hardly an "element" or "bloc" at all, but it is held together on many matters by a number of bonds, one of which is a predisposition against President Truman. But much of it is also predisposed against the very nature of much of the New Deal, whether it be of the Truman or the Roosevelt variety. There are various other individuals or groups within the Democratic party which are more "conservative" than many in the Republican party. Over these, or some of them at any rate, the President will hold a patronage club, but in many instances it may well be doubted whether these elements do not already regard themselves as more or less beyond the pale.

At any rate, it is evident enough that for several reasons, President Truman has a real problem on his hands in dealing with the 81st Congress, which in some degree at least will be inclined toward hostility as the result of all the things the President has had to say about the 80th Congress, many of whose members will still be on Capitol Hill and many of whose members were quite active in some of the acts which the President in his campaign characterized with acerbity.

The Country's Salvation

But the President's problem may in a sense, and in a degree, be the country's salvation. More time must elapse before it can be definitely ascertained precisely how much pressure the President is able to bring on this new Congress, but it would appear that some of the President's extreme proposals, constituting what is now being termed a "new New Deal," are likely to have rather hard sledding in Congress. One sometimes suspects that the President would, in certain instances, not be too displeased if such turns out to be the case, but however that may be he is apparently likely to run into real difficulties in undertaking to drive through the 81st Congress anything in the nature of a full list of the measures commonly said to be necessary to complete the "new New Deal." In some instances it may well be that he could not get the desired measures through even if his program turned out to be of more moderate proportions than some are inclined to believe it to be.

But this sort of a situation is unsatisfactory at best. It is unsatisfactory because constructive action is really needed, and it is unsatisfactory because it is out of a situation of this sort that the worst conglomerations of good and bad, sense and nonsense, often all in the same measure all too often emerge. It also carries serious dangers because so often, with President and Congress in a deadlock, nothing at all can be done. It is therefore to be ardently hoped that the more sensible elements in Congress will stand immovably firm against at least the worst of the nonsense that these New Dealers demand, but that somehow President and Congress can keep on sufficiently good terms to carry forward to completion the really necessary work of the nation during the next two years. There is plenty of it to be done which need not involve too greatly, at least, the controversial issues which brand the Truman regime definitely New Dealish.

The First Task

One of the first things that the President has to do is to try to recapture the respect and if possible some of the goodwill among Congressional members he lost last year in his campaign against the 80th Congress. This campaign was, of course, ostensibly against a Congress dominated by the Republican party, but the fact is that Congress was able to do a number of the things that the President did not like only because of the acts of large elements of the President's own party. Very few, if any, of these latter have been retired. They, generally speaking, are still in Washington, and since they are human one must suppose that they have not remained unaffected in their feelings toward the President.

The President is said to be counting heavily upon the Vice-President-elect and upon such stalwarts as Mr. Rayburn and Senator Lucas to help work out an effective *modus operandi* with Congress, but the mere fact that he has such representatives, if such they may be called, at the other end of Pennsylvania Avenue guarantees precisely nothing. It became evident long before the 80th Congress was chosen that President Truman had much to learn about working effectively with Congress. Has he learned since his early days as a successor to President Roosevelt? If he has not, and presently finds it necessary to develop some sort of scapegoat for the shortcomings of his Administration, he will discover that it is much more difficult this time since Democrats are in the majority in Congress. Even Roosevelt did not come out so well when he undertook to "purge" his party of members who would not follow him blindly.

The business community will watch with interest, and no little anxiety, developments in this situation during the months to come.

Business Prospects in 1949

(Continued from first page)

relax and pay attention to what I really wish to tell you.

I have no startling conclusions to present concerning the business prospects for the coming 12 months. My opinion—for what it may be worth—is that we have no reason to look for a major change in the current levels of general business activity, national income, employment or prices—either up or down. Of course, this opinion, like all forecasts, is a complex of assumptions and opinions, some of which I will present before I finish.

A New Forecasting Approach

This forecasting approach that I have presumed to call "new," and which I wish to present to you, is a comprehensive and inclusive review of expenditures for investment. The importance of investment spending as the initiating force in business activity and income formation is by no means new. The significance of investment spending in income and employment theory has been developed and has become well established over the past ten years. What is new in this forecasting method is the consideration of government investment along with private investment to obtain a more comprehensive and accurate picture of total investment spending.

The second feature of this approach that I believe is new—and that follows directly from the inclusion of government investment in the picture—is a broader definition of investment. For my purpose, I include as "investment" spending all spending that is included in gross national income and product, but that does not result in corresponding consumer goods appearing for sale on domestic markets. It is spending for production that provides personal income but does not produce offsetting consumer goods.

This new definition results in no change in private investment. The four familiar categories of private investment are all included: all forms of private construction, producers' durable equipment, changes in inventory and net foreign investment, which is mainly the excess of exports over imports in foreign trade through private trade channels.

Government Investment and Spending

The major change that results from this new definition affects government investment. Government expenditures that are included in gross national product may be divided into two major classes: (1) purchases of services, principally compensation of employees; and (2) net purchases of goods from the business and foreign sectors of the national economy.

Only this second part of government purchases is included in government investment spending. This is possibly the most important change from usual forecasting procedure. This second part of government purchases consists mainly of public construction (public works) and other purchases from business. The latter item, and this is important, includes military expenditures for facilities and equipment. In this way the procedure provides an over-all picture of the forces working for higher or lower levels of business activity.

If we are to understand the amazing postwar level of national product and employment—with gross national product exceeding $250 billion, and more than 60 million jobs—we need to understand what has happened to total investment over the years, as shown by our national income statistics.

In these national income and product figures of the past 18 or 19 years, we have a rich storehouse of information. They include years of peacetime prosperity; years of serious depression; and years of illusion of prosperity during the war.

I propose to take a brief look at total investment expenditures during each of these three periods because each period has its own characteristics and can teach its own lessons.

The Prosperous Years

These figures in the exhibit of investment expenditures give a complete picture of investment funds and their relationship to the value of the national product. It will be noted that in each of these prosperous years investment was large and in the neighborhood of 20% of gross national product. This is a significant relationship. It shows how the American people have divided their spending between consumption and investment—about 20% for investment and 80% for current consumption.

A second interesting point is the division between private investment and public investment. For these five years, private investment was about 76% of the total and government investment was 24%.

It is significant that this ratio has changed so little over the years despite the depression, the changed attitudes toward government responsibilities in the economic field, and despite the war and the increased responsibilities of the United States in world affairs.

In 1929, government agencies supplied 20% of investment funds and private business supplied the other 80%.

In 1947, despite all the influences I just mentioned, the government agencies supplied 22% and private agencies nearly 78%—and the government's share would have been smaller were we not compelled to so greatly increase foreign aid and military expenditures.

This division of investment expenditure between government and private agencies may be taken as a rough measure of their respective responsibilities for maintaining a high level of national income and employment. The division was 80-20 in 1929; it was 78-22 in 1947, despite unusual de-

I. Investment Funds — Prosperous Years

(Millions of Dollars)

Year—	Gross National Product	Investment Funds —Private— Amount	%	—Government— Amount	%	Total	Per Cent Investment Funds to G.N.P.
1929	$103,828	$16,577	80.1	$4,116	19.9	$20,693	19.9
1937	90,213	11,502	71.1	4.665	28.9	16,167	17.9
1940	100,477	14,492	70.3	6,116	29.7	20,608	20.5
1946	213,429	31,130	75.8	9,924	24.2	41,054	19.2
1947	231,636	38,929	77.7	11,189	22.3	50,118	21.6

II. Investment Funds — Depression Years

(Millions of Dollars)

Year—	Gross National Product	Investment Funds —Private— Amount	%	—Government— Amount	%	Total	Per Cent Investment Funds to G.N.P.
1932	$58,340	$1,055	22.6	$3,611	77.4	$4,666	8.1
1933	55,760	1,456	31.0	3,240	68.9	4,696	8.4
1933	55,760	1,456	31.0	3,240	68.9	4,696	8.4
1934	64,868	3,236	43.8	4,148	56.2	7,384	11.4
1935	72,193	6,092	60.9	3,917	39.1	10,009	13.9
1937	90,213	11,502	71.1	4,665	28.9	16,167	17.9

III. Investment Funds — War Years

(Millions of Dollars)

Year—	Gross National Product	Investment Funds —Private— Amount	%	—Government— Amount	%	Total	Per Cent Investment Funds to G.N.P.
1940	$100,477	$14,492	70.3	$6,116	29.7	$20,608	20.5
1941	125,294	18,335	54.5	15,290	45.5	33,625	26.8
1942	159,628	9,123	17.0	44,437	83.0	53,560	33.6
1943	192,573	2,346	3.6	62,691	96.4	65,037	33.8
1944	212,231	4,296	6.3	63,673	93.7	67,969	32.0
1945	213,429	7,806	14.2	46,944	85.8	54,750	25.6

Sources: *Survey of Current Business*, Supplement, July, 1947 and July, 1948.

mand for additional government expenditure.

This statement is not to be taken as approval or disapproval of government spending to provide employment. It is merely a statement of facts that are not generally known.

It may be noted, however, that these figures refer to spending for investment only — not to total spending. Government spending for employment and relief during the 1930's was very largely for increased consumption; not for investment, and, consequently, was relatively ineffective except for relief of suffering. Government spending for investment, which is used in this analysis, usually stimulates business and increases confidence. Spending for consumption is much less effective in these directions.

Depression Years

Now consider the depression years. From 1929 to 1932 and 1933, private investment almost disappeared. Contrary to popular impressions, total government investment increased very little from 1932—before the beginning of the Roosevelt administrations —up to the relatively prosperous year of 1937. State and local government investment declined and Federal Government expenditures of an investment nature were relatively small.

Nevertheless, in 1932, government agencies supplied 77% of total investment and private agencies only 23%—a complete reversal of the ratio of more prosperous times. But total investment was only 8% of gross national product—less than one-half the ratio during more prosperous years.

War Years

The outstanding feature of investment in war time is the almost complete transfer of responsibility for income and employment to the Federal Government. During the two years of maximum war production, about 95% of total investment was government investment. Total investment increased to around one-third of gross national product. Personal consumption was reduced correspondingly for well-known reasons.

The strong, substantial force behind our postwar prosperity is found in these expenditures for investment—private and government. For the new high levels of postwar national income and employment, experience shows that we need to spend about 20% of gross national product for investment purposes. In 1929, with gross national product of roughly $100 billion, we spent $20 billion for public and private investment. In 1947, with gross national product of about $230 billion, we spent $50 billion for investment. If we are to maintain gross national product at or above the $250 billion, we need to maintain investment expenditures around $55-60 billion level. We are no longer the $100 billion nation that we were in 1929 when $20 billion investment in 1929 dollars was sufficient to maintain reasonably full employment for about 46 million workers.

We can now get on with the question before us: What are the business prospects for 1949?

I will answer that question Yankee fashion by asking another: What are the prospects for total investment spending in 1949?

If investment expenditures can be maintained at the 1948 level, then we can predict safely that 1949 business activity, income and employment will be maintained at the current levels. If, on the other hand, there are prospects for a material drop in investment, there will be a material drop in business activity and all that goes with it.

Estimates for 1948

Total investment spending in 1947—the latest full year for which the record is available—was $50 billion, as I have shown.

Investment spending in 1948 can be estimated from the preliminary figures for the first three quarters. The total of the three categories of private domestic investment — construction, producers' durable equipment and inventories —is estimated to increase $7.5 billion over 1947.

Net foreign investment—mainly the excess of private exports over imports — will probably decline from about $9 billion in 1947 to only about $2 billion in 1948. This very considerable decline is due to a smaller excess of commercial exports over imports, but also to a considerable increase in government grants to foreign governments. Notwithstanding this decline in foreign investment, total private investment in 1948 can be estimated at $39.5 billion, as compared with, roughly, $39 billion in 1947. Domestic investment increases are expected to more than offset the decline in net foreign investment.

Total government investment in 1948 can be estimated from preliminary figures to exceed the 1947 figure of $11 billion by $6 billion, making 1948 government investment $17 billion.

Total investment for 1948 is therefore, estimated at $56.5 billion (1947 was $50 billion). On the basis of these unofficial estimates, the country has moved appreciably in 1948 toward a war economy, with the government furnishing 30% of total investment, instead of the customary peacetime ratio of 20%.

Estimates for 1949

With these 1948 estimates as a foundation, we can erect another and less dependable structure of estimates.

From the past behavior of private construction and producers' durable equipment expenditures, I do not believe either of these kinds of private investment has reached its cyclical peak. I look for some small increase in these expenditures in 1949 over 1948. Inventories are a small item in the total current investment picture, and may increase one billion in 1949.

Total private domestic investment will then be about the same in 1949 as in 1948.

Net foreign investment — through private trade channels—may stay as it was during the second half of 1948: about $2 billion.

All of these changes in private investment just about offset each other, and the most reasonable guess as to the size of private investment spending in 1949 is to make it slightly less than 1948: $39 billion against $39.5 billion in 1948.

When we come to consider government purchases from business in 1949, we approach the largest question mark in this guessing game because it includes expenditures for foreign aid and for military equipment and facilities.

It is within the bounds of possibility to assume anything from a complete reversal of Soviet policy in the direction of peace to a fighting war. In the absence of any basis for either of these extreme assumptions, the most reasonable assumption is the continuance of the existing "cold war" throughout 1949, and an increase in over-all government purchases from the business sector of $2 or $3 billion. Instead of expenditures of $17 billion in 1948, there might be expenditures of $20 billion for 1949.

Thus, total investment expenditures—private and government —may be estimated at $39 billion + $20 billion, or $59 billion — which is only $2.5 billion more than the estimated figure for 1948. We have moved a little farther—but only a little—toward a war economy, with government investment 34% of the total. This estimate of investment expenditures, it will be noted, is 20% over the figure for 1947. And on this basis, gross national product in 1949 would be about $260 billion, or a few per cent larger than 1948. Employment will continue above 60 million jobs, and we will continue to have a tight labor market.

Any forecast of this kind is based on a large number of assumptions, some of which I have mentioned. Several others should be considered.

I am assuming there will be no material change in the BLS all-commodity price level. Some reduction in farm prices will be offset by some increases in manufactured goods prices. Production per man-hour should increase, but a fourth round of wage rate increases is likely to cause unit labor costs to increase.

A major assumption is that sufficient funds for investment will be found. Major sources of investment funds, as in 1948, will be the large retained profits of incorporated and unincorporated business, depreciation allowances plus special reserves for replacement of fixed assets, institutional savings and the conversion of long-term government bonds into business loans.

It is also assumed that there will be no major change in Federal Reserve credit policies during 1949. The existing size of the money supply and its inherent stability are counted on to prevent any sudden deflationary change in money and credit conditions.

One advantage of this investment spending approach to forecasting problems is its concentration on the whole area of initiating factors, and its disregard of many minor, irrelevant factors and factors that are results and not causes of changes in business activity.

I have not discussed inventory changes at any length because they are relatively small. They could have been disregarded ever since the end of the war for the same reason, despite the concern they did cause in 1946 and 1947.

I have disregarded soft goods industries because their major fluctuations do not initiate the major fluctuations of general business.

I have disregarded the behavior of stock market prices because stock prices have moved contrary to the fluctuations of business ever since 1939.

There is one more point that should receive attention. We have enjoyed virtual capacity production and employment for two years, and this forecast anticipates another year of full production. Such a long period of capacity production is unusual, to say the least, and it is natural that businessmen should be careful of a coming collapse.

However, whenever the decline in investment spending does come —and in view of the tense international situation, this does not appear imminent—there are a number of good reasons for believing it will be slow and moderate. There is a little reason to fear the same kind of business collapse that we went through in 1920-21 or 1929-32.

The first of these reasons is the radically different nature of the money and credit situation that exists today. In 1920 and 1929 much the larger part of the money supply was based on private debt; 80% of total debt was private debt. Today less than half of the total debt is private debt.

The significance of these ratios lies in the greater stability of government debt in the event of business decline. A decline in business activity leads to a reduction of private debt and money supply. A decline in business activity is more apt to cause government debt to increase.

A second reason is the larger ratio of government investment to total investment. Government spending for investment is not discouraged by declining business activity.

A third reason is the support of farm prices by the government.

All of these factors—large government debt, large government expenditures and farm price support contain the seeds of future danger, but over the next few years, at least, they will work for greater stability of business.

Of course, I don't know what is going to happen in 1949—a state of ignorance that I am sure I share with many others. But I believe that businessmen and government men who have to make policy decisions may count on little change from the present high level of business during 1949, and this stability will continue until there is clear evidence of a material drop in the combined spending of business and government for investment purposes.

ECA—Good or Bad for Export Trade?

(Continued from page 21)

preservation of existing distribution channels and the maintenance of trade names."

Where funds and equipment are made available for improvement or expansion of industrial production, care must be exercised to prevent permanent elimination of our exports from traditional markets where they have been established on a competitive quality and price basis. Arbitrarily selection and exclusion of imports by recipient countries may in effect confiscate the investments of American exporters in advertising, sales, distribution and service expenditures. In this connection careful appraisal of ECA operations and, if necessary, of legislative authority, will be required to prevent permanent injury to America overseas trade.

ECA and Private Enterprise

One phase of ECA operations of great interest to American exporters is the participation of private enterprise. In authorizing the Foreign Assistance Act, it was clearly the intention of Congress, supplemented by official statements of ECA, that private procurement and normal channels of commerce, trade and transportation were to be used to the maximum extent practicable in these operations. Obviously, the complete use of private trade channels would exclude all operations by the governments, involved and, in the extreme application, would mean that all transactions would have to be between the producer and the foreign consumer and would have to be handled by non-official organizations. However, the stipulation in the law, whatever may have been the intent as to coverage both here and abroad, nevertheless is binding only on our domestic operation. It does not preclude foreign governments' use of official agencies, semi-official syndicates of private importers, or some similar style of organization.

In this connection it should be noted that it has been, and continues to be, the official policy of the United States Government, as expressed by the Department of State and confirmed by ECA, to discourage the use of procurement missions by foreign governments here. As a matter of record, the number of such missions has been drastically reduced, with those remaining dealing for the most part with a few selected commodities. In the operations of ECA to date, with the exception of grains and foodstuffs, shipments from the United States have been handled preponderantly through private channels. The arrangements for payment are either direct with the producers or, to a large extent, by letters of credit through commercial banks. In the case of certain grains, it was announced in October that even these would be returned to private channels but subsequently, on authorization of the President, this order was rescinded, apparently through the strong recommendations of the Department of Agriculture. The Commodity Credit Corporation will continue its handling of such shipments through government channels.

In analyzing the amount of trade which has moved through private exporters, it is interesting to note of the approximately $2 billion in total procurement authorizations which have been issued as of mid-October including off-shore purchases, freight and shipments from the United States through government agencies, American private exporters had participated to the extent of about 28% of the total trade authorized. However, this figure covers the early stages of the operation and could be misleading as far as the utilization of private enterprise for purchases in the United States itself. Up to October 15, a survey of the National Foreign Trade Council indicated slightly less than 60% of purchases made in the United States were going through private exporters. Information is not available to indicate what portion of this consisted of private trade here supplying private importers abroad and how much was made up of private American exports to official agencies of foreign governments. Furthermore, a substantial portion of the procurement in the early stages has been for agricultural products such as wheat; on these, as indicated, the Department of Agriculture and the Commodity Credit Corporation for domestic policy reasons, have been given a virtual monopoly.

Questions have been raised as to the participation of private foreign importers. ECA agreements and authorizations are made with sovereign foreign governments and the internal policy in any foreign country is the determining factor in what private or government agencies abroad handle imports. The influence of ECA has apparently been toward the utilization of private channels as far as possible, in line with its operations in the United States.

Effects of ECA on Hemisphere Trade

One of the important effects of ECA operations on American export business is apparently not fully recognized, namely, the effect of purchases made under ECA authorizations in countries other than the United States, or so-called off-shore purchases. This is particularly important in the Western Hemisphere, with special reference to Canada and Latin-America. Many countries of the Western Hemisphere, because of the close tie with the United States, desire to utilize the dollar as the basis of their operations. Yet, there is dollar deficiency. Not only have these off-shore purchases, totaling over a half billion dollars in the Western Hemisphere, reduced the burden of furnishing commodities which are in tight supply in the United States, but of equal importance, they have provided dollars to other countries in the Hemisphere. These dollars are utilized in payment for the large volume of other goods and services needed from the United States in what are traditionally good markets for American exporters. For example, while a shipment to Canada paid for through normal procedure might not appear to have any relationship to ECA, nevertheless the substantial amount of dollars provided to Canada makes

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Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Market previously discounted President's program. Now is time to take action, particularly as regards to some of the lower-priced stocks.

This is being written Tuesday night in the midst of all sorts of bogey-man stories about what the President will say in his State of the Union message to Congress. In common with many other people, I too have read the so-called inside information about what it will say. I, too, have heard a radio commentator with his flash-flash stuff. But outside of that, I haven't any idea what the President will call for.

But because I know what I have read and heard on the air, as do millions of others who have access to the radio and newspapers, I am not as alarmed as many others seem to be about the future of business and the stock market. Before I go any further, let me say that when I refer to the "future," I am not taking any long range view. I am simply referring to the market for the next week or the week after. Beyond that I will have to leave to others.

Yesterday (Monday) and today the market went down. If the message, awaited with bated breath, is as drastic as many people seem to believe, the chances are the market will go down still further. Yet, in the past few weeks, the market must have expected that the news would not be too bullish, and still it did not break wide open. In fact the chances are that the first break, right after the election, was the break that not only reflected the fears of stockholders, but also anticipated whatever action might be taken by the Democratic administration.

I am not given to whistling to keep up my morale. I let somebody else pass out the Pollyanna stuff. I am interested in what the boys on Broadway call "making a buck," and in following the elusive buck, even a devaluated one, I have no time for mass fears or hopes. I will grant that these mass opinions do have an effect on stock prices to the same extent that if many people believe a thing and act on it the results will reflect such action. But once the initial rush is over the solid groundwork—call it intrinsic value or whatever—will rise to the surface.

All this means that while the market is in a period of storm, it is time to look around and see what you can pick up. A few weeks ago I sounded off on the market action of the so-called cheap stocks without giving any specific buying points. I still prefer to stay away from specific buying levels because they may look silly by the time you read this. I, however, think that such issues as Paramount, Loew's, R. K. O., and Warner have discounted for the foreseeable future and are now a buy. The same thing is true for other amusement stocks. Other favorites include Avco, American Airlines, and T. W. A. Current prices, or a point or so lower, would be a good level to buy them at.

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.]

ECA—Good or Bad for Export Trade?

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it possible to help maintain the volume and value of United States-Canadian trade.

The type of influence of ECA on Western Hemisphere business is also clearly pointed up through the situation which has developed in Argentina where the anticipated large expenditure of dollars has not materialized. This is due to a number of factors, chiefly the high prices demanded by Argentina at a time when purchases could have been made but which subsequently could not be effected due to surpluses which had accumulated in the United States and also because of ability to purchase cheaper in other markets. Dollar income, hopefully expected by Argentina, is not available. There has been a further decline in greatly restricted imports and a serious stoppage of dollar payments.

The world unquestionably is faced with a dollar shortage and, more important, with inconvertibility of currencies. This dollar shortage is not the cause but rather the effect of unbalanced trade and the failure in many parts of the world to produce dollar balances. Further, with the United States as the main source of production, both for agricultural and industrial goods, in the immediate postwar years and even presently, this dollar shortage undoubtedly causes serious continued dislocations to American and world trade. This will be intensified if the economies of industrial countries destroyed by the war can not be revived and if non-industrial countries can not increase their potential as suppliers in the world markets.

In the final analysis, trade can only be brought into balance, other than by gold movements, by shipment of goods and services and by loans and investments. For a permanent and long-range trade, both as far as the United States and the world at large are concerned, production must be increased and markets developed. This can be stimulated by grants or loans during the intervening period, as is the case with ECA, but more basically we should work toward a climate where private investment, both by investors abroad and of an international character, will stimulate the development of the economies of countries throughout the world and the improvement of living standards, and lead to the creation of expanding and permanent market.

To survey again the operations of the ECA, and their effect on export trade, it would be well to consider the matter both from the short-range and the long-range point of view.

On the short-range, much of the early authorizations were characterized by the pick-up of purchases previously made with the prospect of utilizing in many cases restricted dollar reserves. By transferring the burden of these purchases to ECA grants, it was possible to free the equivalent dollars either to stabilize the hard currency reserves of the recipient country or, more important, to release equivalent funds for other purchases within the dollar area. In its early stages, it was necessary to place emphasis on the movement of the three F's, food, fertilizer and fuel. These have gone forward in substantial quantities and now the emphasis seems to be shifting to the movement of industrial goods and services which must be made available to build up the economies of the participating nations.

ECA has said that with the anticipated increase of European agricultural production and rise in fuel stocks from sources other than the United States, Western Europe's abnormal dependence on these supplies from overseas will diminish. However, with Europe's great manufacturing areas normally requiring large imports of food for its working population and petroleum products for its industries and transportation, it is obvious that continued imports of these commodities will be substantial. As Europe and other areas regain their productive power, many of these imports will be made from non-dollar sources and will be financed by Europe itself.

Various American producers have complained that the assistance program has been of little help to them as they have been unable to identify any direct orders. However, some of this undoubtedly will change as attention is directed more to industrial goods, building materials, etc. Also, producers will benefit as Europe is able to meet its emergency needs from local sources, thereby freeing exchange for more normal products and for an expending economy. In this connection it should be realized, although it is frequently overlooked, that the assistance was not designed to finance the movement of commodities which would not have moved, but rather to assure that the minimum of imports to bring about European recovery be made available.

Without this assistance, the total amount exports into Europe, particularly from the United States, would certainly have been lower. Enforced cuts would have been made for the most part in manufactured goods and not in agricultural products or raw materials because undoubtedly the very limited amount of dollars available would have been used for the sustenance of the people and for raw materials to employ labor. Many exporters now shipping at levels of 1946 and 1947, or even below that, could easily have been completely cut out of the European market. Therefore, it is well to note that ECA has made it possible for European nations to import non-ECA products by reducing the need to divert exchange for the essentials which have been covered by ECA authorizations.

Much of the early operations of ECA were on the grant basis but announcements have just recently been made that practically all of the funds have been allocated. This includes almost a billion dollars of loans to various participating countries. Survey of the purposes of these loans indicates that a large percentage are for industrial machinery, transportation equipment, and other goods and services of this character to be supplied as American exports when translated into effective and workable plans for industrial development. This part of the program has only recently been made effective and, as yet, has not had its impact upon American production nor has it been translated into American export sales.

Long-Range Effects

In surveying the long-range effect of ECA on American exports, consideration must not be confined to Europe alone but rather we must look at the picture for the entire world. Counterpart funds, which represent tremendous amounts of local currencies can and should be utilized to develop the economies of many of the colonial possessions as well as that of Europe itself. They should lead to the production of strategic materials and other imports into the dollar area which, in the long run, will be translated into greater expenditures for American goods as increased dollars become available.

There will be many changes in commodities shipped both to Europe and to other parts of the world. American exporters may be depended upon to continue to utilize their proven abilities in developing new markets and in changing their production to meet the new requirements of foreign markets. Some products may disappear or be gradually reduced in our export movements but the ultimate result should be the expansion of our export trade and the ability to hold it at levels far above the most optimistic vision of prewar days, even though necessarily below the figures of the war and immediate postwar years and the unrealistic trade of that period.

Over the period of ECA operations, if continued in the present concept, financial stability ought to be attained in participating countries abroad and, what is even more important, once this stability has been reached, convertibility of currencies can be brought about. With convertibility and the opportunity to conduct and pay for multilateral trade, we can look for the lowering of trade barriers and arbitrary import, export, and financial controls. The bilateral agreements negotiated with participating countries as a basis for ECA envisaged this and, in fact, call for it.

If the concept of ECA is carried forward and the participating nations do their part in self-help, we should be able to look for greater stability and freedom of trade and investment. We should be very watchful that American interests are protected for the long run but without restricting or channelizing our overseas business within a pattern necessarily of the past or the present. Changes and adaptations must be brought about to meet conditions as they will exist in the world. There are no grounds for fearing that American exporters, based on their record, cannot make the adaptations necessary to maintain their position in the world market.

The United States is engaged in a great experiment involving the rehabilitation of virtually an entire continent. We have our political reasons for embarking on such a difficult task and these are widely known and approved. Our economic reasons are, and should be, equally compelling. Apart from the existence of political and military problems, the task is and will be difficult. We have yet to see whether the United States will hold fast to its determination and whether the European countries will carry through their objective of a cooperative effort to restore the economy of Europe to a balanced position within a reasonable period of time. The first steps appear good, but the multiplicity of problems to be faced not only by us but by Europe, and the other nations of the world, which are all concerned in this matter, are such as will challenge the courage, clear thinking and determination of all peoples and of business everywhere.

Military Government and Foreign Policy

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machine will be just that much more difficult and expensive for her.

When recently we introduced the new Western Zone currency, we gave expression to the depreciation that had been taking place besides, maybe because of the increased production that has occurred plus the aid we are sending, establishing a currency with some temporary stability, thus making looting more difficult and a settlement of the reparations question necessary to the Russians and maybe to the French. There had to be, of course, a basis of exchange of the old currency for the new. Therefore, we had to keep the Russians out of our zone, otherwise there might have been a flood of old currency into our zone. Notice the Russians charge us with being the first to stop traffic between the zones. Notice also that the Russians first only wanted to stop and examine traffic out of Berlin. This was because they feared Berliners might prefer to sell us goods they wanted, which they were paying for in worthless currency, but which we would pay for in new good currency. That the Russians didn't want, and it was as a result of this crisis and our and English reactions to it that traffic into Berlin was stopped, particularly when we tried to force some of the new currency into use in that city without giving the Russians a supply of it. All of this should have been known before we acted; if it wasn't, our financial organization doesn't understand money—or maybe the Army got out of hand.

Organizing the Western Zone

Let us consider a series of events that are interesting but to the writer utterly stupid and impossible of understanding. In early July, General Clay knew the Germans wouldn't back the new Western State yet he went ahead with it after accusing the German leaders of deserting him. In mid-July the German leaders informally announced this and it looked like we had a crisis in Berlin on our hands. The basis of which Western German State had evaporated and we were going to look very foolish arguing for a State that didn't exist. Today we know that while Clay was in this country the German leaders agreed to the Western German State only if modifications were made in the laws establishing it. Had this been accepted we would have been responsible for the well being of this state, and as the German leaders would not have had any real responsibility, they could have continually blackmailed us for more and more power and money. General Clay quite properly refused the modifications but because the new currency was already being issued he had to order the Germans to again attempt to establish a constitution for a Western German State, thereby risking war with Russia, whereas he should have stopped the issuing of the currency until a fuller debate on our Middle Europeon policy had been held in this country.

Russia is worried by this Western German State because, in order to keep a stable value for the new currency, we must either strictly limit the amount in circulation or allow Germany a far larger current production while allotting a far greater proportion of Marshall Plan aid. Our Military Government's ability to keep the supply of the new currency limited seems to the writer to be quite poor. In the first place a limited amount of currency makes for low prices and low wages so the pressure will constantly be on the German officials to secure higher prices and wages: therefore they must constantly argue with Military Government officials for more currency. As the present officials of our Military Government have violated the first principle of their profession, they, not the German officials, having become the responsible representatives of the Western German people and directly subject to pressure from them though not in possession of their loyalty, they must gradually either retreat before these pressures or start concentration camps to hold in check the dissatisfaction that will arise to be fertile ground for the planting of seeds of discontent by Russian agents.

In addition to these internal pressures there will also be those from external sources. If, for instance, we maintain our position in Berlin, and if as at present the Russians can be successful in continuing the Eastern Mark as the legal tender currency within that city, we will probably be forced to sell them Western Marks to obtain the currency necessary to continue our operations in that zone. In fact we already have had to indulge in one operation of this sort for a fairly substantial amount of marks and reports have it that the Russians are now in possession of a fair amount of Western Marks with which they can supply their agents in the Western zone. Low prices are also going to attract buyers from other countries, most of whom will be nations victorious over Germany in the last war, and they are going to want Western Marks for their currencies, some of which are still very much overvalued, particularly the English pound. Not only is this true but some of these currencies are still subject to strict exchange regulations and it is more than possible that our Military Government will wind up with a considerable sum of these currencies which it won't be able to use, but against which it will have issued Western Marks which when entering the monetary stream cause an inflationary pressure, particularly as the production will have been exported. The Allied Nations probably will not allow Western Germany to export her cheap goods where they would compete with their exports, particularly if they are able to export even with an overvalued currency, i.e.. English automobiles to the United States, so she will be more or less at the mercy of these countries as to what foreign exchange she may acquire. Finally there is one more pressure that will be constantly at work to increase the supply of Western Marks, namely, the cost of the occupying armies, Military Government, and the increasing expenses of the local civilian government. We may pay the principal costs of our own army by purchasing the necessary supplies here and sending them to our Army against a book charge against the Western German state while also restricting the amount of local currency our soldiers may acquire; but they must be allowed some and sooner or later the American taxpayer will ask for an accounting, particularly if he ever realizes that the other occupying countries are living off the country. It is extremely doubtful that these other occupying countries will pay for the cost of occupation out of their own budgets. It is true that German taxes will probably be high but when people are responsible to a foreign military government it is a popular thing to find ways to circumvent it and penalities for being caught at this have to be extremely heavy which causes much friction and hard feeling.

If the Military Government in Germany finds these pressures for issuing more currency stronger than it is able to combat, internal prices will rise and trouble ensue with labor unless some compensating forces can be put in operation. The two compensating factors that would be of the most use are increased production that will be for internal use and consumption, and requests for more aid from the United States of America. Increased production means more machinery and more transportation, hence a stronger country, and no French Government that would consent to that—unless France is protected by a large American Army, in being, on the continent—would last 24 hours. A large American Army in Europe would create a serious problem of inflation for the American Government, or, if charged to Western Germany, a serious charge against her depleted economy and hence detrimental to confidence in the new currency. The Russians, the Czechs, the Poles and the Yugoslavs also fear any increase in German production because of their fear of the Germans and the possibility of another invasion of their country by these people at some future time; therefore the logical conclusion is that if we are to have peace in Europe yet attain the increased production necessary for Europe to live, a new and different solution of the German problem must be found and Military Government was wrong in pushing the old one just to establish some stability to the currency it had previously issued.

Recently the French people by Parliamentary action have given their government almost unprecedented power to reform the budget and the economy and also to foster a United States of Europe. The French people know that in time, with the annexation of the Saar and the Rhineland, they can become the dominant and most prosperous nation on the continent, providing, of course, that their economy and manpower are not in the meantime subject to a heavy drain by military necessity, and the politicians have the courage to act properly. The realization of this goal by France would be the best protection from communism that Europe and America could have, but time and a reasonable solution of the German problem compatible with French public opinion are necessary to its fulfillment.

If the problem of allowing Western Germany to become powerful in its own right is so serious, what would we have to do in order to maintain our own prestige and the value of the new Western German marks yet satisfy our allies? We could keep a very big American army in Germany and supply the Western European nations with the weapons needed for their rearmament so as to alleviate their fear, or we could make Western Germany produce for these countries and we supply her with the necessary raw materials and the consumption goods needed to keep the people working. In any case the American taxpayer will be the loser, the American economy and industrial plan will be faced with additional strain and American youth will be subject to military service and an increasing possibility of a shooting war, in which we will not be able to rely too confidently on the support of our present allies.

The problems as herein presented are not theoretical, they are actual and growing every day. As Mr. Walter Lippman has ably pointed out America has never had any Middle European policy decided by great public debate and therefore subject to the bipartisian agreement on foreign affairs. The split in authority between the State Department's responsibility for Western Europe and the Defense Department's responsibility for Middle Europe is the result of certain agreements between some of our governmental officials, and the Middle European policy is simply the sum of the opinions and desires of certain Army and civilian authorities operating in that zone and therefore subject to local pressure and their own understandable human desire to see affairs in their immediate vicinity operating with efficiency without fully realizing the international implications inherent in their actions.

Another Split in Responsibility

In conclusion it would be wise to consider one more factor in this split responsibility of the State Department and the Department of Defense which undoubtedly acts to our disadvantage. While we are wooing France with hundreds of millions of dollars of Marshall Plan aid and Mr. Hoffman is courageously evolving plans to have the Western European nations self-supporting by the time our aid is due to terminate, General Clay apparently has an unfortunate habit of bearing down on the French whenever they make suggestions which might help us achieve the desired end. Recently at a meeting at Chiemsee the Bavarians, probably with French backing, proposed that rather than a strong federation of German States there be formed a loose confederation with a large degree of autonomy reserved for the individual states. If the confederation was primarily to assist in economic matters and the political power largely left to the states it would be possible that the question of security would be largely answered and a higher standard of living and increased production could be allowed the peoples of these various states. It is quite possible that they might even become sovereign in their own right providing, of course, that proper groupings are evolved with regard to economics and combinations of relatively similar Teutonic groups, thereby maybe making possible the inclusion of Austria in the plan. If these states could establish their own currencies and operate within modest budgets so as to keep their currencies stable communism would receive a setback. It is possible to operate small states with local police forces rather than a central police force and without the latter it is almost impossible for a dictator to seize control of a country. In time it probably would also be possible to allow these states militias similar to that of Switzerland, thus forming a group of countries, which while unable to mount an attack individually could quite-conceivably in combination put up a tough battle in defense of their homes, thus making it unattractive for either East or West to make a battleground of Middle Europe. Unfortunately this plan will probably not receive any further consideration as General Clay seems to be wedded to Pan-Germanism and he and his Military Government and not the American State Department, operating under a policy formulated by public debate, has been making Middle European Policy.

Truman Asks $4 Billion More Taxes

(Continued from first page)

chance in the pursuit of happiness. It is foremost among the nations of the world in the search for peace.

During the last 16 years the American people have been creating a society which offers new opportunities for every man to enjoy his share of the satisfactions of life.

In this society we are conservative about the values and principles which we cherish. But we are forward-looking in protecting those values and principles and in extending their benefits. We have rejected the discredited theory that the fortunes of the nation should be in the hands of a privileged few. We have abandoned the "trickle down" concept of national prosperity. Instead, we believe that our economic system should rest on a democratic foundation and that wealth should be created for the benefit of all.

The recent election shows that the American people are in favor of this kind of society and want to go on improving it.

The American people have decided that poverty is just as wasteful and just as unnecessary as preventable disease. We have pledged our common resources to help one another in the hazards and struggles of individual life. We believe that no unfair prejudice or artificial distinction should bar any American from an education or from good health or from a job that he is capable of performing.

Increasing Responsibilities of Government

The attainment of this kind of society demands the best efforts of every citizen in every walk of life, and it imposes increasing responsibilities on the government.

The government must work with industry, labor and the farmers in keeping our economy running at full speed. The government must see that every American has a chance to obtain his fair share of our increasing abundance. These responsibilities go hand in hand.

We cannot maintain prosperity unless we have a fair distribution of opportunity and a widespread consumption of the products of our factories and farms.

Our government has undertaken to meet these responsibilities.

We have made tremendous public investments in highways, hydroelectric power projects, soil conservation and reclamation. We have estabilshed a system of social security. We have enacted laws protecting the rights and the welfare of our working people and the income of our farmers. These Federal policies have paid for themselves many times over. They have strengthened the material foundations of our democratic ideals. Without them, our present prosperity would be impossible.

Reinforced by these policies, our private enterprise system has reached new heights of production. Since the boom year of 1929, while our population has increased by only 20%, our agricultural production has increased by 45%, and our industrial production has increased 75%. We are turning out far more goods and more wealth per worker than we have ever done before.

This progress has confounded the gloomy prophets — at home and abroad — who predicted the downfall of American capitalism. The American people, going their own way, confident in their own powers, have achieved the greatest prosperity the world has ever seen.

But, great as our progress has been, we still have a long way to go.

Our Shortcomings

As we look around the country, many of our shortcomings stand out in bold relief.

We are suffering from excessively high prices.

Our production is still not large enough to satisfy our demands.

Our minimum wages are far too low.

Small business is losing ground to growing monopoly.

Our farmers still face an uncertain future, And too many of them lack the benefits of our modern civilization.

Some of our natural resources are still being wasted.

We are acutely short of electric power, although the means for developing such power are abundant.

Five million families are still living in slums and firetraps. Three million families share their homes with others.

Our health is far behind the progress of medical science. Proper medical care is so expensive that it is out of reach of the great majority of our citizens.

Our schools, in many localities, are utterly inadequate.

Our democratic ideals are often thwarted by prejudice and intolerance.

Each of these shortcomings is also an opportunity—an opportunity for the Congress and the President to work for the good of the people.

Our first great opportunity is to protect our economy against the evils of "boom or bust."

Task of Free Enterprise

This objective cannot be attained by government alone. Indeed, the greater part of the task must be performed by individual efforts under our system of free enterprise. We can keep our present prosperity, and increase it, only if free enterprise and free government work together to that end.

We cannot afford to float along carelessly on a postwar boom until it collapses. And it is not enough merely to prepare to weather a recession if it comes. Instead, government and business must work together constantly to achieve more and more jobs and more and more production—which mean more and more prosperity for all the people.

The business cycle is manmade; and men of good will, working together, can smooth it out.

So far as business is concerned, it should plan for steady, vigorous expansion—seeking always to increase its output, lower its prices, and avoid the vices of monopoly and restriction. So long as business does this, it will be contributing to continued prosperity, and it will have the help and encouragement of the government.

The Employment Act of 1946 pledges the government to use all its resources to promote maximum employment, production and purchasing power. This means that the government is firmly committed to protect business and the people against the dangers of recession and against the evils of inflation. This means that the

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Truman Asks $4 Billion More Taxes

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government must adapt its plans and policies to meet changing circumstances.

Inflationary Pressures Threaten Prosperity

At the present time, our prosperity is threatened by inflationary pressures at a number of critical points in the economy. The government must be in a position to take effective action at these danger spots.

To that end, I recommend that the Congress enact legislation for the following purposes:

First, to continue the power to control consumer credit and enlarge the power to control bank credit.

Second, to grant authority to regulate speculation on the commodity exchanges.

Third, to continue export control authority and to provide adequate machinery for its enforcement.

Fourth, to continue the priorities and allocation authority in the field of transportation.

Fifth, to authorize priorities and allocations for key materials in short supply.

Sixth, to extend and strengthen rent control.

Seventh, to provide standby authority to impose price ceilings for scarce commodities which basically affect essential industrial production or the cost of living, and to limit unjustified wage adjustments which would force a break in an established price ceiling.

Eighth, to authorize an immediate study of the adequacy of production facilities for materials in critically short supply, such as steel; and, if found necessary, to authorize government loans for the expansion of production facilities to relieve such shortages, and furthermore to authorize the construction of such facilities directly if action by private industry fails to meet our needs.

The economic report, which I shall submit to the Congress shortly, will discuss in detail the economic background for these recommendations.

Asks More Taxes

One of the most important factors in maintaining prosperity is the government's fiscal policy. At this time, it is essential not only that the Federal budget be balanced, but also that there be a substantial surplus to reduce inflationary pressures, and permit a sizable reduction in the national debt, which now stands at $252 billion. I recommend, therefore, that the Congress enact new tax legislation to bring in an additional $4 billion of government revenue. This should come principally from additional corporate taxes. A portion should come from revised estate and gift taxes. Consideration should be given to raising personal income tax rates in the middle and upper brackets.

Asks Repeal of Taft-Hartley Act

If we want to keep our economy running in high gear, we must be sure that every group has the incentive to make its full contribution to the national welfare. At present the working men and women of the nation are unfairly discriminated against by a statute that abridges their rights, curtails their constructive efforts, and hampers our system of free collective bargaining. That statute is the labor-management relations act of 1947, sometimes called the Taft-Hartley Act.

That act should be repealed.

The Wagner act should be reenacted. However, certain improvements, which I recommended to the Congress two years ago are needed. Jurisdictional strikes and unjustifiable secondary boycotts should be prohibited. The use of economic force to decide issues arising out of the interpretation of existing contracts should be prevented. Without endangering our democratic freedoms, means should be provided for settling or preventing strikes in vital industries which affect the public interest.

The Department of Labor should be rebuilt and strengthened and those units probably belonging within that department should be placed in it.

The health of our economy and its maintenance at high levels further require that the minimum wage fixed by law should be raised to at least 75 cents an hour.

If our free enterprise economy is to be strong and healthy, we must reinvigorate the forces of competition. We must assure small business the freedom and opportunity to grow and prosper. To this purpose, we should strengthen our anti-trust laws by closing those loopholes that permit monopolistic mergers and consolidations.

Wants Improvement of Farm Program

Our national farm program should be improved—not only in the interest of the farmers, but for the lasting prosperity of the whole nation. Our goals should be abundant farm production and parity of income for agriculture. Standards of living on the farm should be just as good as anywhere else.

Farm price supports are an essential part of our program to achieve these ends. Price supports should be used to prevent farm price declines which are out of line with general price levels, to facilitate adjustments in production to consumer demands and to promote good land use. Our price support legislation must be adapted to these objectives. The authority of the Commodity Credit Corporation to provide adequate storage space for crops should be restored.

Our program for farm prosperity should also seek to expand the domestic market for agricultural products, particularly among low income groups, and to increase and stabilize foreign markets.

We should give special attention to extending modern conveniences and services to our farms. Rural electrification should be pushed forward. And in considering legislation relating to housing, education, health and social security, special attention should be given to rural problems.

Our growing population and the expansion of our economy depend upon the wise management of our land, water, forest and mineral wealth. In our present dynamic economy, the task of conservation is not to lock up our resources, but to develop and improve them. Failure, today, to make the investments which are necessary to support our progress in the future would be false economy.

We must push forward with the development of our rivers for power, irrigation, navigation, and flood control. We should apply the lessons of our Tennessee Valley experience to our other great river basins.

I again recommend that action be taken by the Congress to approve the St. Lawrence seaway and power project.

We must adopt a program for the planned use of the petroleum reserves under the sea, which are —and must remain—vested in the Federal Government. We must extend our programs of soil conservation. We must place our forests on a sustained yield basis, and encourage the development of new sources of vital minerals.

In all this we must make sure that the benefits of these public undertakings are directly available to the people. Public power should be carried to consuming areas by public transmission lines where necessary to provide electricity at the lowest possible rates. Irrigation waters should serve family farms and not land speculators.

Broadened Social Security

The government has still other opportunities—to help raise the standard of living of our citizens. These opportunities lie in the fields of social security, health, education, housing and civil rights.

The present coverage of the social security law is altogether inadequate, and benefit payments are too low. One-third of our workers are not covered. Those who receive old age and survivors insurance benefits receive an average payment of only $25 a month. Many others who cannot work because they are physically disabled are left to the mercy of charity. We should expand our social security program, both as to size of benefits and extent of coverage, against the economic hazards due to unemployment, old age, sickness, and disability.

We must spare no effort to raise the general level of health in this country. In a nation as rich as ours, it is a shocking fact that tens of millions lack adequate medical care. We are short of doctors, hospitals, and nurses. We must remedy these shortages. Moreover, we need—and we must have without further delay—a system of prepaid medical insurance which will enable every American to afford good medical care.

It is equally shocking that millions of our children are not receiving a good education. Millions of them are in overcrowded, obsolete buildings. We are short of teachers, because teachers' salaries are too low to attract new teachers, or to hold the ones we have. All these school problems will become much more acute as a result of the tremendous increase in the enrollment in our elementary schools in the next few years. I cannot repeat too strongly my desire for prompt Federal financial aid to the States to help them operate and maintain their school systems.

The governmental agency which now administers the programs of health, education and social security should be given full departmental status.

The Housing Shortage

The housing shortage continues to be acute. As an immediate step, the Congress should enact the provisions for low-rent public housing, slum clearance, farm housing, and housing research which I have repeatedly recommended. The number of low-rent public housing units provided for in the legislation should be increased to 1,000,000 units in the next seven years. Even this number of units will not begin to meet our need for new housing.

Most of the houses we need will have to be built by private enterprise, without public subsidy. By producing too few rental units and too large a proportion of high-priced houses, the building industry is rapidly pricing itself out of the market. Building costs must be lowered.

The government is now engaged in a campaign to induce all segments of the building industry to concentrate on the production of lower priced housing. Additional legislation to encourage such housing will be submitted.

The authority which I have requested, to allocate materials in short supply and to impose price ceilings on such materials, could be used, if found necessary, to channel more materials into homes large enough for family life at prices which wage earners can afford.

The driving force behind our progress is our faith in our democratic institutions. That faith is embodied in the promise of equal rights and equal opportunities which the founders of our republic proclaimed to their countrymen and to the whole world.

The fulfillment of this promise is among the highest purposes of government. The civil rights proposals I made to the 80th Congress, I now repeat to the 81st Congress. They should be enacted in order that the Federal Government may assume the leadership and discharge the obligations clearly placed upon it by the Constitution.

I stand squarely behind these proposals.

Our domestic programs are the foundation of our foreign policy. The world today looks to us for leadership because we have so largely realized, within our borders, those benefits of democracy for which most of the peoples of the world are yearning.

Foreign Policy

We are following a foreign policy which is the outward expression of the democratic faith we profess. We are doing what we can to encourage free states and free peoples throughout the world, to aid the suffering and afflicted in foreign lands, and to strengthen democratic nations against aggression.

The heart of our foreign policy is peace. We are supporting a world organization to keep peace and a world economic policy to create prosperity for mankind. Our guiding star is the principle of international cooperation. To this concept we have made a national commitment as profound as anything in history.

To it we have pledged our resources and our honor.

Until a system of world security is established upon which we can safely rely, we cannot escape the burden of creating and maintaining armed forces sufficient to deter agression. We have made great progress in the last year in the effective organization of our armed forces, but further improvements in our national security legislation are necessary. Universal training is essential to the security of the United States.

During the course of this session I shall have occasion to ask the Congress to consider several measures in the field of foreign policy. At this time, I recommend that we restore the reciprocal trade agreements act to full effectiveness, and extend it for three years. We should also open our doors to displaced persons without unfair discrimination.

It should be clear by now to all nations that we are not seeking to freeze the status quo. We have no intention of preserving the injustices of the past. We welcome the constructive efforts being made by many nations to achieve a better life for their citizens. In the European Recovery Program, in our good neighbor policy and in the United Nations, we have begun to batter down those national walls which block the economic growth and the social advancement of the peoples of the world.

We believe that if we hold resolutely to this course, the principle of international cooperation will eventually command the approval even of those nations which are now seeking to weaken or subvert it.

We stand at the opening of an era which can mean either great achievement or terrible catastrophe for ourselves and all mankind.

The strength of our nation must continue to be used in the interest of all our people rather than a privileged few. It must continue to be used unselfishly in the struggle for world peace and the betterment of mankind the world over.

This is the task before us.

It is not an easy one. It has many complications, and there will be strong opposition from selfish interests.

I hope for cooperation from farmers, from labor, and from business. Every segment of our population and every individual has a right to expect from his government a fair deal.

They have a right to expect that the Congress and the President will work in the closest cooperation with one objective—the welfare of the people of this nation as a whole.

In the months ahead I know that I shall be able to cooperate with this Congress.

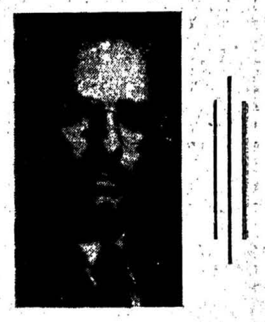
I am confident that the Divine Power which has guided us to this time of fateful responsibility and glorious opportunity will not desert us now.

With that help from Almighty God which we have humbly acknowledged at every turning point in our national life, we shall be able to perform the great tasks which He now sets before us.

Gerald Colby With F. L. Punam & Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Gerald S. Colby has become associated with



Gerald S. Colby

F. L. Putnam & Co., Inc., 77 Franklin Street, members of the Boston Stock Exchange. Mr. Colby was formerly with Sherman Gleason & Co., Inc. and prior thereto conducted his own investment business in Boston.

Halsey, Stuart Offers Illinois Central Equips.

A group headed by Halsey, Stuart & Co. Inc. won the award Jan. 4 of $6,400,000 Illinois Central equipment trust, Series BB, 2¼% equipment trust certificates, maturing $320,000 semi-annually July 1, 1949 to Jan. 1, 1959, inclusive. Issued under the Philadelphia plan, the certificates were immediately reoffered by the group, subject to Interstate Commerce Commission authorization, at prices to yield from 1.40% to 2.50%, according to maturity.

Proceeds will be issued to provide for not more than 80% of the cost, estimated at $8,034,250, of new standard-gauge railroad equipment consisting of 1,750 50-ton hopper cars.

Other members of the offering group were R. W. Pressprich & Co.; A. G. Becker & Co. Inc.; Hornblower & Weeks; Otis & Co.; L. F. Rothschild & Co.; First of Michigan Corp.; Freeman & Co.; The Illinois Co.; and Wm. E. Pollock & Co., Inc.

Hill, Thompson in New Quarters

Hill, Thompson & Co., Inc., announce the removal of their executive and underwriting offices to new and larger quarters at 70 Wall Street, New York City. Telephone number of these new offices will be WHitehall 4-4540.

The Trading Department will continue at 120 Broadway, New York City, telephone REctor 2-2020.

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)	Jan. 9	100.0	97.3	100.0	94.
Equivalent to—					
Steel ingots and castings (net tons)	Jan. 9	1,802,500	1,753,800	1,802,500	1,708,60
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Dec. 25	5,640,750	5,645,150	5,617,050	5,285,44
Crude runs to stills—daily average (bbls.)	Dec. 25	¶5,784,000	5,695,000	5,721,000	5,543,00
Gasoline output (bbls.)	Dec. 25	18,175,000	17,902,000	17,317,000	17,013,00
Kerosene output (bbls.)	Dec. 25	2,542,000	2,537,000	2,630,000	2,334,00
Gas oil and distillate fuel oil output (bbls.)	Dec. 25	7,776,000	7,539,000	7,476,000	7,041,00
Residual fuel oil output (bbls.)	Dec. 25	9,121,000	9,053,000	9,477,000	9,698,00
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Dec. 25	100,286,000	98,225,000	93,802,000	91,269,00
Kerosene (bbls.) at	Dec. 25	24,306,000	25,342,000	26,569,000	16,293,00
Gas oil and distillate fuel oil (bbls.) at	Dec. 25	79,271,000	81,071,000	85,151,000	50,324,00
Residual fuel oil (bbls.) at	Dec. 25	86,181,000	87,217,000	86,192,000	51,896,00
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Dec. 25	609,239	754,545	723,090	599,35
Revenue freight rec'd from connections (number of cars)	Dec. 25	590,534	666,197	661,165	641,54
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Dec. 30	$78,100,000	$173,235,000	$362,329,000	$54,364,00
Private construction	Dec. 30	31,688,000	111,832,000	287,841,000	26,057,00
Public construction	Dec. 30	46,412,000	61,403,000	74,488,000	28,307,00
State and municipal	Dec. 30	35,451,000	50,204,000	63,023,000	23,611,00
Federal	Dec. 30	10,961,000	11,199,000	11,465,000	4,696,00
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Dec. 25	8,492,000	*11,315,000	10,130,000	8,400,00
Pennsylvania anthracite (tons)	Dec. 25	967,000	940,000	1,039,000	748,00
Beehive coke (tons)	Dec. 25	139,700	*141,000	151,300	107,90
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Dec. 25	471	*576	347	35
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Jan. 1	‡5,470,000	*5,508,240	5,645,686	4,868,01
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Dec. 30	128	116	126	58
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Dec. 28	3.75628c	3.75628c	3.75628c	3.19541c
Pig iron (per gross ton)	Dec. 28	$46.82	$46.82	$46.82	$37.98
Scrap steel (per gross ton)	Dec. 28	$43.00	$43.00	$43.00	$40.00
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Dec. 29	23.200c	23.200c	23.200c	21.200c
Export refinery at	Dec. 29	23.425c	23.425c	23.425c	21.550c
Straits tin (New York) at	Dec. 29	103.000c	103.000c	103.000c	94.000c
Lead (New York) at	Dec. 29	21.500c	21.500c	21.500c	15.000c
Lead (St. Louis) at	Dec. 29	21.300c	21.300c	21.300c	14.800c
Zinc (East St. Louis) at	Dec. 29	17.500c	17.500c	17.500c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Jan. 4	101.04	100.97	100.86	100.5
Average corporate	Jan. 4	112.00	111.81	111.25	110.1
Aaa	Jan. 4	118.00	117.60	116.80	115.2
Aa	Jan. 4	116.22	116.02	115.24	113.7
A	Jan. 4	110.70	110.52	109.97	109.42
Baa	Jan. 4	104.14	103.97	103.47	103.13
Railroad Group	Jan. 4	107.27	107.09	106.39	104.48
Public Utilities Group	Jan. 4	112.75	112.37	111.62	112.19
Industrials Group	Jan. 4	116.41	116.22	115.82	114.46
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Jan. 4	2.43	2.43	2.44	2.45
Average corporate	Jan. 4	3.06	3.07	3.10	3.16
Aaa	Jan. 4	2.75	2.77	2.81	2.89
Aa	Jan. 4	2.84	2.85	2.89	2.97
A	Jan. 4	3.13	3.14	3.17	3.20
Baa	Jan. 4	3.50	3.51	3.54	3.56
Railroad Group	Jan. 4	3.32	3.33	3.37	3.48
Public Utilities Group	Jan. 4	3.02	3.04	3.08	3.05
Industrials Group	Jan. 4	2.83	2.84	2.86	2.93
MOODY'S COMMODITY INDEX	Jan. 4	394.0	396.6	400.5	450.
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	Jan. 1	227.3	226.8	231.9	242.1
Fats and oils	Jan. 1	190.6	189.6	206.8	280.
Farm products	Jan. 1	244.9	245.9	250.8	278.
Cotton	Jan. 1	305.5	305.7	304.2	341.9
Grains	Jan. 1	210.8	208.7	211.7	305.3
Livestock	Jan. 1	248.4	250.8	258.1	269.1
Fuels	Jan. 1	239.6	239.9	242.3	223.5
Miscellaneous commodities	Jan. 1	172.1	171.2	172.4	179.
Textiles	Jan. 1	195.2	195.3	195.5	220.6
Metals	Jan. 1	190.6	190.6	190.6	160.
Building materials	Jan. 1	225.8	225.8	225.9	236.
Chemicals and drugs	Jan. 1	149.0	149.5	150.3	156.4
Fertilizer materials	Jan. 1	142.8	142.8	142.9	135.9
Fertilizers	Jan. 1	150.8	150.8	150.1	141.8
Farm machinery	Jan. 1	155.2	155.2	*153.9	134.5
All groups combined	Jan. 1	217.1	*217.1	219.7	226.7
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Dec. 25	139,128	155,499	150,890	114,444
Production (tons)	Dec. 25	174,319	194,508	183,311	126,659
Percentage of activity	Dec. 25	87	96	89	71
Unfilled orders (tons) at	Dec. 25	285,601	323,781	338,720	406,738
OIL, PAINT AND DRUG REPORTER PRICE INDEX — 1926-36 AVERAGE=100	Dec. 31	142.0	143.1	144.6	149.4
WHOLESALE PRICES NEW SERIES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Dec. 28	163.5	163.8	165.1	164.5
Farm products	Dec. 28	177.4	177.6	179.4	199.0
Foods	Dec. 28	173.6	174.1	177.0	179.2
All commodities other than farm and foods	Dec. 28	152.5	152.8	153.4	146.7
Textile products	Dec. 28	145.6	145.7	147.0	149.4
Fuel & lighting materials	Dec. 28	136.9	136.9	136.8	127.7
Metals & metal products	Dec. 28	173.8	173.8	173.8	151.9
Building materials	Dec. 28	200.3	201.8	203.2	192.6
All other	Dec. 28	132.8	133.3	134.5	137.5
Special indexes—					
Grains	Dec. 28	170.9	170.1	171.8	248.2
Livestock	Dec. 28	221.4	218.3	233.1	250.3
Meats	Dec. 28	228.7	227.8	237.3	238.4
Hides and skins	Dec. 28	192.5	193.7	207.3	245.4

*Revised figure. ‡Estimated—Subject to revision. ¶Includes 400,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
AMERICAN GAS ASSOCIATION—For month of November:			
Total gas (M therms)	2,746,606	2,378,446	2,388,005
Natural gas sales (M therms)	2,463,358	2,128,632	2,088,959
Manufactured gas sales (M therms)	191,544	165,546	189,777
Mixed gas sales (M therms)	91,704	84,268	109,269
BUILDING CONSTRUCTION PERMIT VALUATION IN URBAN AREAS OF THE U. S. —U. S. DEPT. OF LABOR—Month of October (three 000's omitted):			
All building construction	$577,508	*$587,633	$607,677
New residential	274,110	*286,318	350,878
New nonresidential	223,067	*215,929	168,519
Additions, alterations, etc.	79,931	*85,386	88,280
BUILDING CONSTRUCTION—U. S. DEPT. OF LABOR—Month of November (in millions):			
Total new construction	$1,559	*$1,705	$1,432
Private construction	1,176	*1,263	1,141
Residential building (nonfarm)	600	*650	630
Nonresidential building (nonfarm)	328	*331	287
Industrial	113	*113	136
Commercial	112	*115	93
Warehouses, office and loft buildings	38	*36	19
Stores, restaurants and garages	74	*79	74
Other nonresidential building	103	*103	58
Religious	28	*27	13
Educational	25	*26	17
Hospital and Institutional	11	*11	9
Remaining types	39	*39	19
Farm construction	22	39	25
Public utilities	226	*243	119
Railroad	32	34	30
Telephone and telegraph	55	*60	53
Other public utilities	139	149	116
Public construction	383	*442	291
Residential building	3	4	8
Nonresidential building (other than military or naval facilities)	107	106	50
Industrial	1	2	---
Educational	60	58	29
Hospital and institutional	25	24	8
All other nonresidential	21	22	13
Military and naval facilities	11	*12	19
Highways	135	180	119
Sewer and water	43	47	32
Miscellaneous public service enterprises	8	*10	10
Conservation and development	61	*67	41
All other public	15	16	12
COKE (BUREAU OF MINES)—Month of Nov.:			
Production (net tons)	6,396,431	*6,587,968	6,242,100
Oven coke (net tons)	5,789,002	*5,965,654	5,682,500
Beehive coke (net tons)	607,429	*622,314	559,600
Oven coke stocks at end of month (net tons)	1,588,627	*1,474,305	1,151,101
COPPER INSTITUTE — For Month of Nov.:			
Copper production in U. S. A.—			
Crude (tons of 2,000 lbs.)	58,151	*81,474	72,534
Refined (tons of 2,000 lbs.)	102,779	101,436	97,525
Deliveries to customers—			
In U. S. A. (tons of 2,000 lbs.)	100,005	112,580	106,232
Refined copper stocks at end of period (tons of 2,000 lbs.)	89,756	76,371	66,622
CROP PRODUCTION — CROP REPORTING BOARD U. S. DEPARTMENT OF AGRICULTURE — Report issued Dec. 17 (in thousands):			
Corn, all	3,650,548	------	2,383,970
Wheat, all	1,288,406	------	1,367,186
Winter	990,098	------	1,068,048
All spring	298,308	------	299,138
Durum	44,742	------	44,328
Other spring	253,566	------	254,810
Oats	1,491,752	------	1,199,422
Barley	317,037	------	281,185
Rye	26,388	------	25,975
Buckwheat	6,324	------	7,334
Flaxseed	52,533	------	40,536
Rice	81,170	------	78,259
Popcorn	293,160	------	102,325
Sorghums for grain	131,644	------	96,016
Sorghums for forage	7,616	------	6,078
Sorghums for silage	4,549	------	3,448
Cotton, lint	14,937	------	11,857
Cottonseed	6,036	------	4,681
Hay, all	99,846	------	102,765
Hay, wild	12,848	------	13,479
Alfalfa seed	990	------	1,700
Red clover seed	1,774	------	1,262
Alsike clover seed	388	------	375
Sweetclover seed	533	------	574
Lespedeza seed	241,560	------	149,760
Timothy seed	424	------	1,589
Sudan grass seed	23,800	------	21,540
Beans, dry edible	20,833	------	17,218
Peas, dry field	3,584	------	6,513
Soybeans for beans	220,201	------	183,558
Cowpeas for peas	3,416	------	3,466
Peanuts picked and threshed	2,268,110	------	2,182,395
Velvetbeans	350	------	407
Potatoes	445,850	------	389,048
Sweetpotatoes	49,806	------	55,746
Tobacco	1,897,926	------	2,109,581
Sorgo sirup	7,625	------	9,845
Sugarcane for sugar and seed	6,309	------	5,297
Sugarcane sirup	13,790	------	20,270
Sugar beets	9,418	------	12,504
Maple sugar	229	------	305
Maple sirup	1,445	------	2,039
Broomcorn	30	------	34
Hops	49,819	------	50,098
Apples, commercial crop	90,288	------	113,041
Peaches, total	65,749	------	82,270
Pears, total	26,399	------	35,312
Grapes, total	2,998	------	3,024
Cherries (12 states)	217	------	173
Apricots (3 states)	250	------	202
Plums (2 states)	70	------	78
Prunes, dried (3 states)	171	------	198
Prunes, other than dried (3 states)	123	------	94
Oranges (5 states)	118,900	------	114,380
Grapefruit (4 states)	56,250	------	61,630
Lemons (Calif.)	13,100	------	12,870
Cranberries (5 states)	922	------	790
Pecans	153,812	------	118,639
Tung nuts (5 states)	67	------	53
EDISON ELECTRIC INSTITUTE:			
Kilowatt-hour sales to ultimate consumers—month of October (000's omitted)	20,510,530	20,539,207	18,655,776
Revenue from ultimate customers—month of October	$367,712,000	$366,155,300	$328,208,600
Number of ultimate customers at Oct. 31	40,389,677	40,167,801	38,077,298
NEW BUSINESS INCORPORATION—DUN & BRADSTREET, INC.—Month of Nov.	6,413	*6,686	7,873

Business Leaders Optimistic on 1949 Outlook

(Continued from page 8)

ume of new building is the general expectation for 1949. Declines in private residential and nonresidential building may be partially offset by increased activity in schools, hospitals and other public buildings. Increased volume of heavy engineering construction is expected.

"A moderate setback of the anticipated character might go far toward stabilizing construction costs to a degree that would permit later increase of the industry's operations. It could represent the transition from the recent inflationary boom to a sustained economic expansion.

"The amount of future investment in new facilities will be in large part conditioned by the kind of legislation produced by the 81st Congress. Housing legislation, government spending, taxation and economic controls are being widely discussed; all will have a bearing on future construction activity."

Banking

DR. FRED I. KENT,
Director, Bankers Trust Co.

"The banks of the country are in excellent condition to meet any financial problems with which they may be faced this coming year. They should be able to meet the demands of industry without difficulty unless their power to lend is curtailed by restrictive regulations.

"While it cannot be expected that interest rates will rise very much while present conditions in the government bond market continue to prevail, nevertheless, it is to be hoped that they may be high enough to enable the banks to maintain a proper profit, necessary for safety purposes in the interest of the country.

"American banks are intensely interested in cooperating with each other and with the government in such ways as may be necessary to further sound financial developments, and protect our economy.

"Under the leadership of the American Bankers Association, the banks of the country have kept in close touch with developing financial conditions, and they should be able to do their part toward solving such financial problems as may arise during the year 1949."

Foreign Travel

MR. JOSEPH P. GRACE, JR.,
President of W. R. Grace & Co.

"Travel between the United States and Latin America is expected to continue at the same high pace of the two previous postwar years. Some increase in tourist and pleasure travel may be anticipated as more conducted tours and special cruises are offered, but the bulk of travel will originate from business and professional sources.

"Broad plans of industrialization, hydroelectrification, and highway and building construction, now being carried out by many of the Latin American countries, may be expected to provide a large number of travelers to and from the United States.

"Faster schedules, better planes, and better service may be expected to increase somewhat the volume of air travel. Backlogs continue large for water surface travel over certain routes and will make it necessary to keep reservation lists for travel over these routes throughout all of 1949.

"Northbound tourist travel is still handicaped by persistent dollar shortages in many of the Latin-American countries. Exchange control regulations affect the ability of the potential traveler to obtain the exchange necessary for tourist travel, although dollars usually are made available for those planning bona fide commercial trips. As the necessity for exchange control decreases it is anticipated that larger numbers of Latin American tourists will visit the United States or stop over in this country en route to Europe.

"Under the stimulus of an increasing number of scholarship and student exchanges the number of students and professors traveling both to and from Latin America increased last year. A further increase may be anticipated during 1949 in this class of travel."

Aviation

MR. JUAN T. TRIPPE,
President of Pan American World Airways System

"In 1949, international travel must be viewed within the framework of the Marshall Plan. As part of that plan our own and foreign governments are preparing programs to encourage foreign travel by U. S. citizens. The purpose of these programs is to help relieve the critical dollar shortages in foreign countries.

"The hoped for expansion in travel must be preceded by certain steps aimed at simplifying foreign travel and reducing its costs. Issuance of passports should be simplified and decentralized. Visas and other secondary documents should be eliminated. The remaining wartime 15% nuisance tax on travel abroad should be repealed. Special overtime fees for customs services should be ended. The federal government should pay reasonable rents for space used by its border services at airports and docks. Customs exemptions on goods brought back for personal use or as gifts should be increased from $400 to at least $500.

"In 1948, American tourists left some $900,000,000 in the hands of friendly foreign countries. That sum can be increased within the next few years to at least $2,500,000,000 annually if proper steps are taken by our government to develop foreign travel as part of the European Recovery Program. Each of those dollars can take the place of a dollar that otherwise would have to be given away to foreign countries by the United States taxpayer."

Foods

MR. FRANCIS L. WHITMARSH,
President of Francis H. Leggett & Company

"Contrary to the belief of many, food prices have for the past two years been on a downward trend. The food index until recently has risen because a few commodities still are in scarce supply and are selling above their proper price level. When a food product is selling at three to five times its prewar level it is obvious that it is out of proportion to actual cost. This kind of pricing on a few of the principal food commodities has caused the index to rise but the future outlook for these expensive items would seem to indicate that the peak has been reached, and that there should be a marked reduction in prices.

"In my opinion, there will be no wide-open break but rather a gradual readjustment to prices more comparable to those of commodities in other industries. Each industry will experience its own readjustment. The food industry has been in the throes of doing this for the last two years and is just now reaching a level with the exception of a few items, where prices are becoming stabilized.

"The management of a great many firms in the food industry have already been through the process of analyzing their costs structure and have put in the necessary efficiencies to make it possible to operate at a smaller reasonable profit in view of conditions. In the majority of cases, therefore, I believe the year 1949 will bring satisfactory results although there may not be the extraordinarily large profits that were enjoyed in previous years."

Electrical Appliances

MR. C. E. WILSON,
President of General Electric Co.

"Barring a fourth round of wage increases or other outside interferences, we feel certain we can approximate last year's rate of business in 1949 by stepping up our sales activities. Should higher labor and material costs force prices to the point where consumer buying will refuse to absorb the added cost—and we are about at that point now—the answer is likely to be cutbacks and unemployment.

"We feel reasonably sure that we will require little adjustment in either employment or the use of our greatly expanded facilities to meet any foreseeable change in business conditions. Our own postwar planning now seems to have been sufficiently accurate for us to face the realities of a competitive market with confidence, and that is all anyone can ask.

"As to the general business outlook, we foresee no basis for a recession particularly in that local and state spending should offset to a degree any possible decline in business spending next year."

Textiles

MR. G. W. WALKER,
President and Treasurer of Hesslein & Co., Inc.

"The Cotton Textile Industry has closed a year marked by a high rate of employment and production, amicable employer-employee relations, a rise to the highest wage rates in its history, a bridging of the gap between demand and supply, and a stabilization of competitive relationships on a basis approaching normal peacetime conditions.

"Meanwhile the programs of plant improvement, renovation and modernization which have been sweeping the industry since V-J Day have proceeded apace, although some symptoms such as nearer deliveries of machinery may indicate that this movement has passed its peak and is returning to normal proportions.

"The record peacetime output of cotton cloth in 1947 was exceeded during most of 1948 with the result that shortages have been overcome, depleted shelves have been restocked and consumers have been amply supplied with goods of prewar quality or better. In the process of overtaking demand, excited competition between buyers has lessened, inflation has been retarded, and abnormal prices have eased off to more stable levels.

"Entering the new year with more moderate rates of loom and spindle operation, an ample supply of cotton from the largest crop in recent years, an abundant labor supply, an economical and stable price structure, and no unwieldy stocks overhanging its market, the industry looks forward to continued high demand and employment resulting from permanent popularity of its wares, the maintained high purchasing power of its consumers and the increasing flow of government funds into commercial channels."

Hotels

MR. FRANK L. ANDREWS,
Pres. of the Hotel New Yorker

"With sufficient material and labor available for the first time since before the war, the hotel industry will be continuing in 1949 on its current program of rehabilitation and modernization. The new year will find the industry geared to a program far more efficient in both service and comfort than at any time in the past.

"Convention and trade prebookings for 1949 at this date would seem to indicate a substantial increase over the past year. With the nation playing an increasingly large role in shaping the world's events and with American business still not approaching its maximum production strength, it seems safe to augur that the hotel industry will continue to hold the line in 1949 insofar as dollar sales are concerned.

"But with continuing increases in costs of supplies, machines and labor, I am of the opinion that the peak of earning has definitely been passed."

News About Banks and Bankers

(Continued from page 14)

SCHRODER TRUST COMPANY, NEW YORK

Total resources	$38,413,031	$35,325,802
Deposits	33,232,080	30,192,552
Cash and due from banks	10,429,479	9,174,170
U. S. Govt. security holdings	19,784,414	18,799,321
Loans and bills discounted	7,359,570	6,627,966
Surplus and undivided profits	2,627,890	2,625,975

* * *

THE PUBLIC NATIONAL BANK AND TRUST COMPANY OF NEW YORK

	Dec. 31,'48 $	Sept. 30,'48 $
Total resources	554,211,185	538,826,345
Deposits	515,990,583	500,895,067
Cash and due from banks	139,210,025	136,041,366
U. S. Govt. security holdings	248,763,322	212,036,694
Loans and bills discounted	140,306,960	163,035,222
Undivided profits	9,315,653	8,972,325

* * *

COMMERCIAL NATIONAL BANK AND TRUST COMPANY OF NEW YORK

	Dec. 31,'48 $	Sept. 30,'48 $
Total resources	211,824,189	201,818,959
Deposits	183,677,530	173,878,803
Cash and due from banks	62,501,680	52,635,380
U. S. Govt. security holdings	96,525,536	88,451,784
Loans and bills discounted	48,039,194	53,797,055
Surplus and undivided profits	14,077,136	13,921,904

* * *

BROOKLYN TRUST COMPANY BROOKLYN, N. Y.

	Dec. 31,'48 $	Sept. 30,'48 $
Total revenues	243,852,632	232,538,452
Deposits	226,292,997	215,020,332
Cash and due from banks	73,785,996	65,440,479
U. S. Govt. security holdings	125,719,975	125,904,899
Loans and bills discounted	32,947,797	28,814,681
Undivided profits	1,734.048	1,846,756

* * *

KINGS COUNTY TRUST COMPANY BROOKLYN, N. Y.

	Dec. 31,'48	Sept. 30 '48
Total resources	$53,971,401	$57,501,545
Deposits	44,397,279	47,914,055
Cash and due from banks	1,359,720	1,267,699
U. S. Govt. security holdings	22,447,591	23,636,290
Loans and bills discounted	1,454,411	2,180,559
Undivided profits	804,775	702,604

* * *

Raymond I. Bundrick and John G. Deinhardt recently completed 25 years of service with the **Lincoln Savings Bank of Brooklyn, N. Y.** At a luncheon held in their honor both were presented with gold watches by the bank.

* * *

T. Dawson Brown was elected First Vice-President of **Industrial Trust Co. of Providence, R. I.**, to succeed Everett S. Hartwell, who will take over other duties at the bank, the institution's board of directors announced on Dec. 28, according to the Providence "Journal." Mr. Brown, says the "Journal," has been Treasurer and a Vice-President at Industrial since 1941 and a member of the board since last January.

* * *

Joint announcement was made on Dec. 30 by George C. Crossley, President of **The Prospect National Bank**, and Caleb S. Green, President of **The Trenton Banking Co.**, both of **Trenton, N. J.**, of the approval by the boards of directors of both banks of a plan for the merger of the two institutions, subject to approval by the State and Federal supervisory authorities and the stockholders. The Prospect Bank would operate under the charter of The Trenton Banking Co. after the merger, but it was emphasized that the operation of the bank would continue to be supervised by Mr. Crossley and Garrett S. Boetsma, President and Vice-President, respectively, of the Prospect, and that there would be no change in the other operating officers or staff of Prospect. The Trenton Banking Company, the oldest bank in New Jersey doing business under its original name and charter, was founded in 1804. According to its latest published figures of June 30, 1948. total assets were $42,759,281. As of the same date, Prospect National Bank's assets were $6.118,913. Prospect National Bank was founded in 1926 by Mr. Crossley.

* * *

THE PHILADELPHIA NATIONAL BANK PHILADELPHIA, PA.

	Dec. 31,'48 $	Sept. 30,'48 $
Total resources	724,269,495	708,212,526
Deposits	656,777,741	640,521,642
Cash and due from banks	231,093,541	231,752,903
U. S. Govt. security holdings	261,644,151	259,002,683
Loans and bills discounted	176,976,836	162,063,493
Undivided profits	9,711,451	9,362,112

* * *

PROVIDENT TRUST COMPANY OF PHILADELPHIA, PA.

	Dec. 31,'48 $	Sept. 30,'48 $
Total resources	133,620,143	133,454,085
Deposits	117,035,307	116,885,524
Cash and due from banks	31,120,827	29,241,097
U. S. Govt. security holdings	63,494,250	63,066,856
Loans & discounts	24,368,524	25,277,841
Capital funds	15,457,936	15,383,506

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CORN EXCHANGE NATIONAL BANK AND TRUST COMPANY, PHILADELPHIA

	Dec. 31,'48 $	Sept. 30,'48 $
Total resources	282,630,237	274,569,322
Deposits	259,108,736	250,488,876
Cash and due from banks	78,730,268	71,135,094
U. S. Govt. security holdings	103,754,752	97,875,403
Loans & discounts	76,581,811	82,035,805
Surp. & undivided profits	12,869,531	12,785,974

* * *

FIDELITY-PHILADELPHIA TRUST COMPANY, PHILADELPHIA, PA.

	Dec. 31,'48 $	Sept. 30,'48 $
Total resources	222,292.241	211,346,088
Deposits	194,004,072	182,556,845
Cash and due from banks	55,295,390	47,740,539
U. S. Govt. security holdings	59,085,762	51,497,202
Loans & bills discounted	67,797,173	70,742,634
Undivided profits	5,045,851	4,557,832

* * *

In notices incident to the annual meeting on Jan. 14 of the stockholders of **The Bank of Virginia at Richmond, Va.**, sent out by Robert M. Berkeley, Vice-President of the bank and Secretary of the board, it was indicated that stockholders would be asked to vote on an amendment to the bank's charter to effect an increase in the par value of the bank's shares from $16⅔ to $20 a share. Advices from the bank state that in effect this is equivalent to the declaration of a 20% stock dividend. The new capital of the bank will stand at $1,800,000 instead of the present $1,500,000, according to Mr. Berkeley. if the amendment is approved. The $300,000 increase in capital will be the result of a transfer from undivided profits. The present number of shares outstanding totaling 90,000 will not be changed—only the par value moving up from $16⅔ to $20 per share. As a result of the expected action by the stockholders, the total capital of the bank will be: par capital $1.800,000, surplus $1,500,000, and the undivided profits account will stand at approximately $450,000, making a total of $3,-

750,000, the cash reserves of the bank being $1,750,000 in addition, or a total capital and reserve account of $5,500,000.

* * *

George C. Brainard, President and General Manager of the Addressograph - Multigraph Corp., Cleveland, has been redesignated Chairman of the Board of Directors of the Federal Reserve Bank of Cleveland for 1949 by the Board of Governors of the Federal Reserve System. Albert Z. Baker, President of the American Stock Yards Association, and Chairman of the Board of Cleveland Union Stock Yards Co., has been designated Deputy Chairman for the present year. Mr. Baker succeeds Reynold E. Klages, President of the Columbus, O., Auto Parts Co., who has served more than 12 years on the board, and as Deputy Chairman for 10 years. The Board of Governors has appointed Leo L. Rummell, Dean of the College of Agriculture of Ohio State University, as Class C Director of the Cleveland Reserve Bank for a three-year term ending Dec. 31, 1951. Ernest H. Hahne, President of Miami University, Oxford, O., and Joseph B. Hall, President of The Kroger Co., Cincinnati, have been appointed to the Cincinnati branch board, and Spears Turley, Vice-President and Trust Officer of the State National Bank & Trust Co. of Richmond, Ky., has been reappointed to that board, all for terms ending Dec. 31, 1951. Paul G. Blazer, Chairman of the Board of the Ashland, Ky., Oil & Refining Co., has been designated Chairman of the Cincinnati branch board for 1949. Albert H. Burchfield Jr., President and General Manager of the Joseph Horne Co., Pittsburgh, has been reappointed a director and designated Chairman of the board of directors of the Pittsburgh branch. Montford Jones of the Department of Finance, University of Pittsburgh, has been appointed to the Pittsburgh branch board and Laurence S. Bell, Executive Vice-President of The Union National Bank of Pittsburgh, has been reappointed to the Pittsburgh branch board.

* * *

Paul E. Miller, Director of Agricultural Extension at the University of Minnesota, has been reappointed Class C Director of the Federal Reserve Bank of Minneapolis, the bank announced on Dec. 31. Mr. Miller's appointment for a three-year term beginning Jan. 1, 1949, was made by the Board of Governors of the Federal Reserve System. The Board of Governors also redesignated Roger B. Shepard, St. Paul, as Chairman and W. D. Cochran, Iron Mountain, Mich., as Deputy Chairman of the board for the coming year, and appointed Dr. James A. McCain, President of the University of Montana, to the board of the bank's Helena branch. Dr. McCain's appointment is for a two-year term to succeed R. B. Richardson, Helena, Mont. At the same time the bank announced reappointment by the bank's directors of Henry E. Atwood, President of the First National Bank, Minneapolis, to the Federal Advisory Council for the coming year. The bank's directors also renamed E. D. MacHaffie, President of the State Publishing Company, Helena, Mont., and Theodore Jacobs, President of the First National Bank, Missoula, Mont., to two-year terms as directors of the Helena branch.

* * *

Frank L. King, President, **California Bank, Los Angeles**, has announced the following promotions made at the Dec. 14 meeting of the board of directors: Vice-President, C. C. Pearson; to Assistant Vice-Presidents, H. V. Grice, H. C. House, F. S. Huber, Rudolph Ostengaard, Fred G. Tanner, Jr.; to Manager, W. H. Oliver; to Assistant Managers, B. P. Mitchell, J. W. Munson, W. H. Rogholt, R. F. Townley.

Economists Give Opinions On The Business Outlook

(Continued from first page)

Marketing, Graduate School of Business Administration, Harvard University.

Merryle S. Rukeyser, Economic Commentator, International News Service.

O. Glenn Saxon, Professor of Economics, Yale University.

Helen Slade, Economist. (Guest).

Bradford B. Smith, Economist, United States Steel Corporation.

Rufus S. Tucker, Economist, General Motors Corporation.

Edwin B. George Believes Boom is Leveling Off—Mr. George believes that "maladjustments will continue" and that "general activity will remain high." He told members of the Economic Forum that "if anyone wishes to argue that the boom is leveling off, I will freely concede it. The rates of increase in the money supply and in the different kinds of credit, and in wages and total compensation of employees, are all moderating."

"There will probably be a more general mix of trends adding up to whatever remains of our net upward pressure. Some prices will go down, and others will continue to go up, barring selective intervention by the government. Sluggish prices and volatile prices would, if left to themselves, continue to gravitate toward each other."

Mr. George added that, in his opinion, consumers' prices would be down in 1949, "especially in the second-half of the year."

Malcolm McNair Sees Possibility of Recession—In summarizing his views on the 1949 outlook, Malcolm McNair stated, "I feel that we are considerably more likely to have a recession than I thought we were before the election. But the elements of extreme vulnerability are not present, and numerous supporting factors are present which would likely check the course of such a recession perhaps by the end of 1949. Business should not get its tail between its legs, and crawl back into the doghouse. If it does, then not only are we bound to have serious industrial repercussions, but also such developments will probably hasten the time when we actually get into a shooting war."

He added that, "I expect that somewhere in 1949 we will begin to see the effects of an accelerated decline in business spending. If along with that decline there is a drop in consumer spending and increased consumer saving, I think we might witness a fairly considerable readjustment."

Bean Anticipates Lower Farm Income in 1949 — Louis H. Bean, viewing the farm situation, forecast that "we may see some decrease in livestock prices, and probably some strengthening in grain prices if we have a reversal of the record output in 1948, and not too burdensome a carry-over in 1949. It is therefore possible that farm income, in view of this stable level of production and the lower level of prices, may be as much as 10% lower in 1949."

As to the production index, Mr. Bean said "I guessed the production index for 1948 would be about 200. It fell short of that by about six or seven points. For 1949, I would again forecast it at about 200. This would correspond to a gross national product of, say, $255 billion for the first-half of the year and about $260 billion for the second-half. But 1949 could be a year in which it would be worth while, at the end of the first-quarter, to 'stop, look and listen' for new developments."

Edwin B. George

Louis H. Bean

Martin R. Gainsbrugh

Prof. M. P. McNair

Merryle S. Rukeyser

Dr. O. Glenn Saxon

Bradford B. Smith

Rufus S. Tucker

"As to consumer prices, I assume they will be pretty stable, at about the present level, with the consumer price index at 174 for the first-half and somewhat lower in the second-half. The index of wholesale prices will be slightly under that of last year. Without support from the defense and foreign-aid programs, a weaker situation could develop in the latter half of 1949."

Rufus Tucker on the Automotive Outlook for 1949—Mr. Tucker stated that there is still an immense demand for automobiles, especially in the Chevrolet-Plymouth-Ford range. The demand for the more expensive cars has apparently weakened some, but even in the case of the more expensive cars, such as Buick and Oldsmobile, for example, dealers report unfilled orders running up to a year or 18 months. Even after a pretty liberal discount for duplication and the possibility of the purchaser changing his mind, the outlook still is good for the coming year in automobiles.

Mr. Tucker went on to say that "there will be more of a tendency for the administration to try to support weak industries by pumping purchasing power into the economy. If they defer the necessary adjustments in those industries which need it first, the time will come when they will all need readjustment at once and then we will have real trouble."

Bradford Smith Thinks Upward Rather Than Downward Price Trend in 1949 Likely—In viewing the government's monetary policy, Mr. Smith estimated the 1949 outlook by saying "if the Federal Reserve Board, in collaboration with the Treasury Department, abandons its inflation-feeding artificially easy-money policy, then the boom will be over. If, on the other hand, it persists in its easy-money policy, then I think 1949 will be another year like those behind us in which prices, wages, production, dollar income and taxes will exhibit more generally upward than downward tendencies."

Mr. Smith added that "while reserving the right to reverse my anticipations in event of a sufficient change in monetary policy, I take the position that as the situation stands today the present Administration will balk at abandoning its easy-money policies, will seek thereby to postpone the day of retribution, and that 1949, therefore, is more likely to be another year of boom than one of significant recession in over-all prices, production and employment."

O. Glenn Saxon Expects Price Decline—"My guess," Mr. Saxon said, "is that 1948 will turn out to be the peak year of wholesale commodity prices and cost of living. We are going to see a decline from here on, despite the various controls and supports that will be placed on many individual items, especially agricultural products."

He continued by stating "we are inevitably going to have lower prices for food, clothing, and many other cost of living items. Cotton and wool and other things will likewise go down. As a result, at least by the second-half of 1949, the cost of living will be, say, 10% below the level that we reached in 1948, which, I think will be the all-time peak for many years."

Mr. Saxon summarized his view by saying, "I expect little change in industrial production, a relatively small decline in national income, a 10% decline in farm income, a substantial decline in wholesale prices, and a moderate decline in the cost of living index. It is possible that the Chinese situation may drain more from us than I anticipate, but even that may be offset by other economies or by contractions in the velocity of our money turnover. Left alone and with not too much interference, wholesale commodity prices will decline steadily to a level of 20% (in two years) below their postwar peaks of 1947-1948."

Martin R. Gainsbrugh Sees Consumer Demand Dominating Business Scene — Mr. Gainsbrugh viewed the 1949 outlook optimistically when he said "my prediction for 1949—and it is purely personal and in no way a Conference Board viewpoint—is the same as it was for 1948 and for 1947. I have not changed my views about the effective consumer demand which dominates the postwar business scene. I would look for a further increase in national income and in the remainder of our national accounts, except that I am not too certain about the course of prices. I would settle for plus or minus 5% as a reasonable range for 1949 for most business indicators, and would personally stress the plus sign."

Donald H. Davenport on Individual Components of the National Economy—Mr. Davenport expects that "average weekly earnings in manufacturing establishments will continue to rise, say $2 by the middle of next year above their present level; and another $2 for the average of the second-half of next year; in other words, to $56 and $58, respectively. Wholesale prices will continue to go up more slowly. The average will be about 172 for the second-half of next year. It stands today at 168.3. Consumers' price indexes will rise slowly to about 182 in the second-half of 1949."

"Nonagricultural employment will rise to 52 million by the second-half of 1949. Industrial production will probably drop slightly in the first-half and rise above present levels to a figure of about 196 for the second-half of 1949. Personal savings will probably be dipped into as increases bring prices above the earnings of individuals. The second-half of 1949 should show personal savings down to about $9 billion."

"Corporate profits after taxes will probably be less, since I expect taxes to be increased. I would say that profits will probably be about $14 billion in the last-half of 1949."

"I set a figure of $226 billion for national income for the second-half of 1949, and about $256 billion for gross national product. Personal income will be about $222 billion."

Halsey Stuart Offers Fla. East Coast Equip.

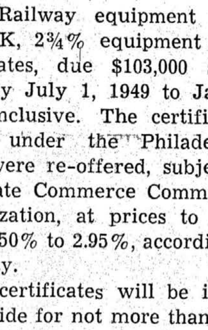
Halsey, Stuart & Co. Inc. headed a group that won the award Jan. 5 of $2,060,000 Florida East Coast Railway equipment trust Series K, 2¾% equipment trust certificates, due $103,000 semi-annually July 1, 1949 to Jan. 1, 1959, inclusive. The certificates, issued under the Philadelphia plan, were re-offered, subject to Interstate Commerce Commission authorization, at prices to yield from 1.50% to 2.95%, according to maturity.

The certificates will be issued to provide for not more than 75% of the actual cost, estimated at $2,761,846, of new standard-gauge railroad equipment consisting of six 1,500 H. P. Diesel-electric branch line switching locomotives and four 4,500 H. P. Diesel-electric road freight locomotives.

Other members of the offering group included R. W. Pressprich & Co.; Otis & Co.; Freeman & Co.; The Illinois Co.; and McMaster Hutchinson & Co.

MacDonald Governor of N. A. S. D. District

KANSAS CITY, MO. — Frederick H. MacDonald, Burke and MacDonald, has been appointed a



F. H. MacDonald

Governor of the National Association of Securities Dealers, Inc. for the Missouri, Kansas and Oklahoma district. He succeeds Harlan Herrick, Lathrop-Hawk-Herrick Co., Wichita.

Securities Now in Registration

● **INDICATES ADDITIONS SINCE PREVIOUS ISSUE**

Affiliated Gas Equipment, Inc. (1/10-14)
Dec. 6 filed 40,000 shares of $3 cumulative preferred stock (par $50) with non-detachable warrants for common stock, 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 next week.

Air Commuting, Inc., White Plains, N. Y.
Dec. 15 (letter of notification) 1,767 shares of capital stock (no par) of which 1,000 shares will be offered publicly at $100 per share and the underwriter will receive one share for each 10 shares sold and an option for five years at $100 per share on two shares for each three shares sold. **Underwriter**—Burnham & Co., New York. Corporate purposes.

● **Albion (Mich.) Gas Light Co.**
Dec. 31 (letter of notification) 500 preferred shares (par $100). Price, par. **Underwriter**—Berrien Securities, Inc., Benton Harbor, Mich.

● **American Box Board Co., Grand Rapids, Mich.**
Jan. 5 filed $5,400,000 15-year 4¼% convertible sinking fund debentures. **Underwriter**—Paine, Webber, Jackson & Curtis. **Proceeds**—To pay off a long-term obligation and to pay for part of the costs involved in a program to improve and expand a pulp and paper mill.

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.

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.

● **Badid Insulating Boards Corp. of Palestine. New York City**
Jan. 4 filed 57,144 shares of 5% cumulative ($21 par) convertible preferred stock and 57,144 shares (no par) common A stock, to be sold in units of eight shares of each class at $169 per unit. No underwriting. **Proceeds**—To buy equipment and set up plant ready for operation.

● **Bethlehem Steel Corp. (1/19)**
Dec. 30 filed 627,960 shares of common stock (no par). **Underwriters**—Kuhn, Loeb & Co. and Smith, Barney & Co. **Proceeds**—For construction costs of corporation and its subsidiaries. Expected after Jan. 19 depending on market conditions.

● **Bethlehem Steel Corp. (1/19)**
Dec. 30 filed $50,000,000 consolidated mortgage 30-year sinking fund bonds, series K, due 1979. **Underwriters**—Kuhn, Loeb & Co. and Smith, Barney & Co. **Proceeds**—For construction costs of corporation and its subsidiaries.

● **Bond Fund of Boston, Inc.**
Dec. 27 filed 100,000 shares capital stock (par $1), to be offered at market. **Underwriter**—Vance, Sanders & Co., Boston. **Proceeds**—For investment.

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.

Cenco Corp., New York, N. Y.
Dec. 23 filed $846,400 5%, 10-year debentures and 846,400 shares ($1 par) common stock. **Offering**—These securities were sold by the company last September to 135 persons. This is an offer of recession, permitting original purchases to cancel their subscriptions and receive the amount paid, as the SEC has decided the transaction was not exempt from the registration requirements of the Securities Act of 1933.

● **Central Illinois Public Service Co.**
Dec. 31, 1948, filed $10,000,000 first mortgage bonds, series C, due 1979. **Underwriter**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc., The First Boston Corp., Salomon Bros. & Hutzler, Lehman Bros., Kuhn, Loeb & Co., Glore, Forgan & Co., Blyth & Co., Inc., Kidder, Peabody & Co., Smith, Barney & Co., and Merrill Lynch, Pierce, Finner & Beane (jointly.) **Proceeds**—For construction.

Central Maine Power Co.
Nov. 1 filed 303,330 shares ($10 par) common stock. **Offering**—Company proposes to offer the stock to its stockholders for subscription for a period of approximately 30 days on the following basis: For each two shares of common, right to subscribe for one share of common; for each share of 6% preferred, right to subscribe for one share of common; for each two shares of preferred, 3.50% series, right to subscribe for one share of common stock; and subject to the foregoing rights and subject to allocation, the right to subscribe for any number of shares of common stock which any stockholder of the applicant may desire to purchase. New England Public Service Co., owner of 77.8% of presently outstanding common stock, has waived its preemptive right to subscribe for 232,076 of the 303,330 shares of common stock to be issued, on condition that such shares be made available for subscription by all stockholders on the foregoing basis. **Underwriting**—Stock will not be underwritten. Any shares not subscribed for by stockholders will be disposed of in a manner to be determined after the close of the subscription period. Company proposes to enter into a contract with an investment banker or security dealer to act as manager in the solicitation of subscriptions for the proposed issue. **Proceeds**—The net proceeds are to be used to reduce outstanding short-term notes payable to First National Bank, Boston, the proceeds of which were used for the acquisition of property, construction, completion and extension of facilities, and other lawful purposes.

● **Community Building Corp., Juneau, Alaska**
Dec. 29 (letter of notification) $150,000 first mortgage bonds and 1,500 shares of common stock. No underwriter. To purchase land and construct office building.

Consolidated Edison Co. of New York, Inc. (1/25)
Dec. 29 filed $50,000,000 first and refunding mortgage bonds, series E, due Jan. 1, 1979. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc. and The First Boston Corp. (jointly); Morgan Stanley & Co. **Proceeds**—To pay $40,000,000 of short-term notes and reimburse the treasury for outlays made to acquire property and for construction. Bids tentatively expected to be opened Jan. 25.

● **Crader Oil Co., Inc., Oklahoma City, Okla.**
Dec. 29 (letter of notification) 150,000 shares ($1 par) common stock. Price, par. No underwriter. For maintaining the oil company, drilling and development work.

Eastern Indiana Telephone Co., Winchester, Indiana
Dec. 16 (letter of notification) 3,000 shares of 5% cumulative preferred stock (par $100). Price, par. **Underwriter**—City Securities Corp., Indianapolis, Ind. **Offering**—Stock being offered by company to its stockholders and employees. Prior to Feb. 1 underwriter will buy any stock for subscribed for. For further additions to plant and for additional working capital.

● **Economy Portable Building Mfg. Co., West Chicago, Ill.**
Dec. 21 (letter of notification) 2,700 shares ($25 par) 6% noncumulative preferred stock, 6,750 shares ($10 par) common and $135,000 10-year 5% income debentures. No underwriter. To acquire certain assets of Economy Portable Housing 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. De Witt Co., New York. **Price**—95. **Proceeds**—To pay off, in part or in full, outstanding indebtedness and for general working capital.

● **Falcon Mines Corp., Locust Valley, N. Y.**
Dec. 30 (letter of notification) 7,500 shares common class A and 22,500 shares common class B. **Price**—$10 per share. No underwriting. Development of mining properties.

Ferro Enamel Corp., Cleveland, Ohio (1/13)
Sept. 17 filed 69,590 common shares ($1 par). **Offering**—Offered for subscription by stockholders of record Dec. 29 at $16.75 per share in ratio of one additional share for each four shares held. Rights expire Jan. 12. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—Company and subsidiaries will use the funds for general corporate purposes.

● **Foremost Dairies, Inc., Jacksonville, Fla.**
Dec. 24 (letter of notification) about 16,000 shares (20¢ par) common and about 4,500 shares of 6% preferred. Price, market. No underwriter.

● **Forming Machine Co. of America, Inc., Bound Brook, N. J.**
Dec. 20 (letter of notification) 400 shares of common stock ($1 par). **Price**—$100 per share. No underwriting. Working capital.

● **Friendly Fidelity Casualty Co., Memphis, Tenn.**
Jan. 3 (letter of notification) 1,667 shares (no par) common stock. **Price**—$150 per share. No underwriter. To acquire capital to operate insurance company.

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.

● **Grover Company, Detroit, Mich.**
Dec. 31 (letter of notification) 1,994 shares of common stock. **Price**—$30 per share. No underwriter. To build additional warehouse space and purchase new machinery.

Gulf States Utilities Co. (1/11)
Dec. 9 filed competitive bidding of $15,000,000 20-year debentures and 350,000 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. **Bids**—Bids for the purchase of the debentures and bids for the purchase of such number of whole shares of common stock as will yield an aggregate price to the company of $4,500,000, will be received by the company at the office of Irving Trust Co., 1 Wall St., New York, 11:00 a.m. (EST) for the bonds and the common stock at 11:30 a.m. (EST), 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.

● **Hastings (Minn.) Gas Co.**
Dec. 27 (letter of notification) $14,000 first mortgage sinking fund 5% bonds, due Aug. 1, 1960. **Underwriter**—Braun, Monroe & Co., Milwaukee, Wis. For working capital.

● **Hayward Milling Co., Glendale, Ore.**
Dec. 27 (letter of notification) $297,000 2% unsecured bonds. No underwriter. For working capital and existing indebtedness.

Horwood Lake Gold Mines Corp., N. Y. (1/12)
Dec. 27 (letter of notification) 100,000 shares of capital stock. **Price**—$1 per share. **Underwriter**—Charles W. Warshoff & Co., Newark, N. J. For development of mining properties.

Hotelevision, Inc., Long Island City, N. Y.
Nov. 3 filed 160,000 shares ($1 par) class A stock. **Underwriter** — Cantor, Fitzgerald & Co., Inc., New York. **Price**—$3 per share. **Proceeds**—To develop, exploit and distribute a television innovation. Expected early in Jan.

Humphryes Manufacturing Co., Mansfield, O.
Dec. 20 (letter of notification) 4,500 shares ($10 par) stock. **Price**—$22 per share. **Underwriter**—Robert Garrett & Sons, Baltimore, Md.

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.

● **Insurance Exchange Building Corp., Chicago**
Dec. 30 filed 32,500 shares ($10 par) common stock to be offered for sale by five selling stockholders. **Underwriter**—Central Republic Co. of Chicago will underwrite all but 41,500 shares of the offering.

Jersey Central Power & Light Co. (1/25)
Dec. 22 filed $3,500,000 first mortgage bonds, due 1978. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co.; Glore, Forgan & Co.; Merrill Lynch, Pierce, Fenner & Beane; The First Boston Corp., Salomon Bros. & Hutzler; Otis & Co. **Proceeds**—For construction or improvement of new facilities and betterments of existing facilities. Expected about Jan. 25.

NEW ISSUE CALENDAR

January 10, 1949
Affiliated Gas Equipment, Inc.----Preferred & Com.
Koppers Co.----Common

January 11, 1949
Chicago Burlington & Quincy RR. Noon (CST)----Equip. Trust Ctfs.
Gulf States Utilities Co., 11 a.m. (EST)----Bonds
Gulf States Utilities Co., 11:30 a.m (EST)----Common
Mississippi River Fuel Co.----Common

January 12, 1949
Horwood Lake Gold Mines Corp.----Capital Stock
International Great Northern Ry.----Equip. Tr. Ctfs.
Ocean Downs Racing Ass'n Inc.----Debs. & Common
St. Louis Brownsville & Mexico Ry.----Eqp. Tr. Ctfs.

January 13, 1949
Ferro Enamel Corp.----Common

January 17, 1949
Rohm & Haas Co., 3:30 p.m. (EST)----Stocks

January 18, 1949
Mississippi Power & Light Co.----Bonds
Pennsylvania RR., noon (EST)----Equip. Trust Ctfs.

January 19, 1949
Bethlehem Steel Corp.----Bonds and Common

January 20, 1949
Nashville Chattanooga & St. Louis RR.----Equip. Trust Ctfs.

January 24, 1949
Public Service Co. of Indiana Inc.----Bonds

January 25, 1949
Consolidated Edison Co. of N. Y., Inc.----Bonds
Jersey Central Power & Light Co.----Bonds

January 27, 1949
Maywood Chemical Works, 1:30 p.m. (EST)----Stocks

February 15, 1949
Monongahela Power Co.----Bonds

● **Knickerbocker Fund for the Diversification, Supervision and Safe-Keeping of Investments, New York, N. Y.**
Jan. 4 filed 1,000,000 shares of beneficial interest in the fund. Shares of beneficial interest will be offered at varying prices based upon fluctuating values of the underlying securities.

Koppers Co., Inc., Pittsburgh, Pa. (1/10-14)
Dec. 15 filed 400,000 shares ($10 par) common. **Underwriter**—The First Boston Corp. **Proceeds**—To retire the balance of the company's 4% purchase money mortgage bond and to pay the balance of the purchase price on a blast furnace and coke plant. Part will be used to expand plants and reduce indebtedness. Expected Jan. 11 depending on market conditions.

● **Mid-States Equipment Co.**
Jan. 5 filed 98,750 shares ($3 par) 7% cumulative convertible callable preferred stock. **Underwriter**—Greenfield, Lax & Co., Inc. **Proceeds**—Of the proceeds, it is the present intention to retire an indebtedness of the company's wholly owned subsidiary, Modern Atlas Corp. The balance will be used for expansion and additional working capital. **Business**—Company, through its subsidiary, is engaged in the retailing of household equipment, furnishings, and specialties, on the budget plan, principally through sales agents. The territory in which the company presently operates includes Michigan, Ohio and Indiana.

Miller Manufacturing Co., Detroit, Mich.
Dec. 20 (letter of notification) 2,260 shares ($1 par) common. **Price**—$4.25 per share. **Underwriter**—George A. McDowell & Co.

Mississippi Power & Light Co. (1/18)
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. Expected about Jan. 18.

Mississippi River Fuel Corp. (1/11)
Dec. 21 filed 146,700 shares of common stock. **Underwriter**—Union Securities Corp. **Proceeds**—To selling stockholders. These shares were purchased from Standard Oil Co. (New Jersey) in July 1948 by a group of investment houses headed by Union Securities Corp. Firms in the group of selling stockholders, in addition to Union Securities Corp., are Kuhn, Loeb & Co., Stone & Webster Securities Corp., White, Weld & Co., A. C. Allyn and Co., Inc., Equitable Securities Corp., John W. Clarke, Inc., Dewar, Robertson & Pancoast, and Walker, Austin & Waggener. **Business**—Corporation, which was organized in 1928, owns and operates a natural gas pipeline system extending from northern Louisiana to the Greater St. Louis area. Of the remaining 508,520 shares of common stock outstanding, all but 3,320 shares are owned by United Gas Corp., Columbian Carbon Co. and United Carbon Co. Expected about Jan. 11.

● **Monarch Marking System Co., Dayton, O.**
Dec. 27 (letter of notification) 30,000 shares of 6% cumulative preferred stock ($25 par). Price, par. No underwriter. For current business and permanent investment in additional capital.

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. For general corporate purposes. **Underwriters**—Buckley Brothers; Hope & Co., San Diego, Calif.; G. Brashears & Co., and First California Co., Los Angeles, Calif.

● **Nesbett Fund, Inc., New York**
Dec. 27 filed 30,000 shares of capital stock (par $1), to be offered at market. **Underwriter**—John G. Nesbett & Co., Inc. **Proceeds**—For investment.

● **New Stages, Inc., New York**
Jan. 4 (letter of notification) 6,991 shares of voting profit-participating stock (par $10) and 5,000 shares of non-voting stock (par $10). Price, par. No underwriting. To present new plays and revivals, etc.

Ocean Downs Racing Association, Inc., Baltimore, Md. (1/12)
Dec. 16 filed $600,000 6% income debentures due Jan. 1, 1974, and 60,000 shares (50¢ par) common. **Offering**—To be offered in units of $100 of debentures and 10 shares of stock. **Underwriters**—Harrison & Co.; Bioren & Co., Philadelphia; C. T. Williams & Co., Inc., Baltimore, and Woodcock, McLear & Co., Philadelphia. **Proceeds**—To construct a racing plant.

● **Oxford Electric Corp., Chicago, Ill.**
Dec. 31 (letter of notification) 3,100 shares ($1 par) common stock. **Price**—$4 per share for 1,800 shares and $3⅞ for 1,300 shares. **Underwriter**—Townsend, Graff & Co., New York.

● **Paper Associated Products Corp., Ramsey, N. J.**
Jan. 3 (letter of notification) 29,000 shares of capital stock (par $10). Price, par. **Underwriter**—Charles W. Warshoff & Co., Newark. Expansion of sales territory.

Pennsylvania & Southern Gas Co.
Dec. 22 (letter of notification) $25,000 first lien and collateral trust bonds, series D (non-convertible). Price, par. **Underwriter**—Bioren & Co., Philadelphia. Reimburse treasury for advances to subsidiaries.

Pepsi-Cola Bottling Co. of Washington, D. C.
Dec. 21 (letter of notification) 31,500 shares (10¢ par) common stock to be sold to public at $3 per share; 40,000 shares to be offered to trade accounts; 27,500 shares to be offered on behalf of a stockholder at $3 per share and 10,000 options at 1¢ per share. **Underwriter**—Willis E. Burnside & Co., Inc., New York. For working capital and payment of taxes. Expected about March 1.

● **Philadelphia Dairy Products Co., Inc.**
Dec. 31 (letter of notification) 550 shares of common stock. The stock is being purchased by Stroud & Co., Inc.; Butcher & Sherrerd and Glover & MacGregor, Inc., who intend to resell to their customers at the market, which is now approximately the same price ($16) as the price paid by dealers.

● **Playboy Motor Car Corp., Tonawanda, N. Y.**
Dec. 29 filed 1,000,000 shares of class A 20-cent preferential dividend series ($3 par) common stock and 1,000,000 shares of class B (5¢ par) com. stock. **Offering**—To be offered in units of one share each. **Underwriting**—By amendment. **Proceeds**—For purchase of equipment and working capital.

● **Process Engineering Inc., Somerville, Mass.**
Dec. 28 (letter of notification) 1,000 shares (no par) common stock. **Price**—$50 per share. No underwriter. For general corporate purposes.

Public Service Co. of Indiana, Inc. (1/24)
Dec. 21 filed $12,000,000 first mortgage bonds, series H, due 1979. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Blyth & Co., Inc.; Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co.; Glore, Forgan & Co.; Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co., and White, Weld & Co. (jointly). **Proceeds**—For construction costs. Expected about Jan. 24.

Public Service Co. of New Mexico
Dec. 28 filed 15,000 shares ($100 par) cumulative preferred stock. **Underwriter**—Allen & Co., New York. **Proceeds**—For construction and to increase general funds.

● **Radio Systems, Inc., Cleveland, O.**
Dec. 29 (letter of notification) 12,500 shares (50¢ par) common. **Price**—$7 per share. No underwriter. To pay current accounts, meet payrolls and other costs and expenses.

● **Reliance Mutual Life Insurance Co. of Ill.**
Dec. 28 (letter of notification) 4,000 shares of capital stock. **Price**—$25 per share. No underwriter. To increase surplus.

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.

● **Rockland Light & Power Co., Nyack, N. Y.**
Dec. 30 filed $7,500,000 first mortgage bonds, series C, due 1978. **Underwriting**—Names will be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc., Harriman Ripley & Co., Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly). **Proceeds**—For construction and the retirement of bank borrowings.

● **Rocky Mountain Casualty Co., Denver, Col.**
Dec. 29 (letter of notification) 24,700 shares of 8% cumulative participating preferred at $10 per package, consisting of one share and one attached profit-sharing agreement offered to subscribers for the 300 shares of 8% cumulative preferred. No underwriter. To set up casualty insurance company with proper reserve.

Rohm & Haas Co., Philadelphia, Pa. (1/17)
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. Registration statement effective Dec. 13. **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.

● **Seven Consolidated Gold Mines, Inc., Seattle, Wash.**
Dec. 24 (letter of notification) 1,500,000 shares of non-assessable common stock (par 10¢). Price, par. No underwriting. To discharge a loan and maintain a mine.

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. Expected this month.

● **Southern Natural Gas Co., Birmingham, Ala.**
Jan. 3 (letter of notification) 9,419 shares ($7.50 par) common stock which will be offered to each holder of Birmingham Gas Co. common stock at the rate of one share of Southern Natural's stock in exchange for each two shares of Birmingham's ($2 par) common stock. No underwriter.

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.

Southern Union Gas Co., Dallas, Tex.
Dec. 16 filed 107,430 shares ($1 par) common stock. **Offering**—To be made to holders of outstanding stock of record Jan. 3, on basis of one new share for each 10 shares held, plus the privilege of subscribing for additional shares not purchased by other stockholders. **Underwriting**—None. **Proceeds**—For construction and betterments.

● **Specialty Food Products, Inc., Pasco, Wash.**
Dec. 27 (letter of notification) 75,000 shares of preferred (par $1); and 75,000 shares of common (par 10¢). Price, par for each class. No underwriter. To build two plants.

Taylor Food Co., Raleigh, N. C.
Dec. 17 (letter of notification) 17,000 shares ($1 par) common stock, of which 7,000 shares would be sold at $1.12½ and 10,000 shares at $1 per share. **Underwriter**—Griffin & Vaden, Inc., Raleigh, N. C. For additional working capital.

● **Timken-Detroit Axle Co., Detroit**
Dec. 27 (letter of notification) up to 1,000 shares ($5 par) common stock. Price, at market. No underwriter.

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., Dallas, Texas. **Proceeds**—For general corporate purposes.

● **Tung-Sol Lamp Works Inc.**
Dec. 31 (letter of notification) 9,704 shares of common stock. All of this stock will be offered to employees in return for their demand promissory notes.

● **Union Light, Heat & Power Co., Cincinnati**
Dec. 30 filed $5,000,000 first mortgage bonds. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; W. E. Hutton & Co. **Proceeds**—For prepayment of first mortgage bonds owned by parent, Cincinnati Gas & Electric Co., and for construction.

● **Union Trusteed Funds, Inc., New York**
Dec. 28 filed 300,000 Union Bond Fund shares, to be offered at market (approximately $5,511,000) also 2,500 Union Bond Fund A shares, 5,000 Union Bond Fund C shares, 7,500 Union Preferred Stock Fund shares and 5,000 Union Common Stock Fund shares, the above securities to be reserved for conversion of other classes of stock on net asset value basis. **Underwriter**—Lord, Abbett & Co., Inc.

United States Television Mfg. Corp., New York
Dec. 23 (letter of notification) 1,000 shares common stock (par 50¢). **Price**—$2.25 per share. **Underwriter**—Willis E. Burnside & Co., Inc., New York. 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.

● **Universal Business Machine Corp., Middletown, Connecticut**
Dec. 31 (letter of notification) 23,400 shares of class A common (par $10). Price, par. No underwriter. For purchase of machinery and materials to start production.

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● **Venezuela Syndicate, Inc., New York**
Jan. 3 (letter of notification) 32,000 shares of common stock. Price, market (about $2.75). Moore, Leonard & Lynch may act as brokers in selling the stock on the New York Curb Exchange. Proceeds to selling stockholders.

Waukesha (Wis.) Motor Co.
Dec. 7 filed 200,000 shares of common stock ($5 par). **Offering**—Offered to stockholders of record January 3 at rate of one new for each two shares held at $10 per share. Rights expire Jan. 24. **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.

● **Western Carolina Telephone Co., Franklin, N. C.**
Dec. 22 (letter of notification) 1,406 shares ($50 par) capital stock. Price, par. No underwriter. To retire short-term bank loans.

● **Western Phosphate & Talc Co., Seattle, Wash.**
Dec. 27 (letter of notification) 20,000 shares of common stock ($1 par) and 10,000 shares of ($5 par) preferred. To be sold in units of two shares of class A and one share preferred at $7 per unit. No underwriter. To secure a manufacturing plant and for working capital.

● **Wichman Philippine Mindanao Development Co., Cebu City, Philippine Islands**
Jan. 5 filed 2,000,000 shares of voting capital stock, one centavo par value. **Price**—25 cents per share (U. S. currency). **Underwriter**—F. T. Andrews & Co. **Proceeds**—To provide funds for plant construction, diamond drilling, exploration and repayment of loans.

Prospective Offerings

● **Bell Telephone Co. of Pa.**
Jan. 3 company filed with the Pennsylvania Utility Commission an application for authority to issue $25,000,000 25-year debentures on a competitive basis. Proceeds will be applied to the payment of advances from the American Telephone & Telegraph Co. for expenditures on additions and improvements to plant. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.; The First Boston Corp.; White, Weld & Co.

● **Chicago Burlington & Quincy RR. (1/11)**
Company will receive bids up to noon (CST) for the purchase of $3,210,000 equipment trust certificates to be dated Jan. 1, 1949 and due in 30 equal semi-annual installments July 1, 1949-Jan. 1, 1964. Probable bidders: Halsey, Stuart & Co. Inc., Harris, Hall & Co. (Inc.), Salomon Bros. & Hutzler, Harriman Ripley & Co. and Lehman Brothers (jointly).

● **Colombia, Republic of**
Dec. 30 it was stated the Republic of Colombia is preparing to register a new issue of national government-guaranteed bonds intended to be exchanged for outstanding obligations of certain of the Republic's departments and municipalities. The bonds are to be dated July 1, 1948, and will mature July 1, 1978. They will bear interest of 3%. For each $1,000 of old bonds surrendered with all unpaid coupons, new bonds in the amount of $1,200 will be issued.

The exchange offer is to apply to the Antioquia 7s of 1945 and 1947, the Caldas 7½s of 1946, the Cauca Valley 7½s of 1946 and 1948, the Cundinamarca 6½s of 1959, the Santander 7s of 1948, the Tolima 7s of 1947, the Cali 7s of 1947 and the Medellin 7s of 1951 and 6½s of 1954.

● **Duke Power Co.**
Dec. 30 company told the FPC it will sell its proposed $40,000,000 first mortgage 30-year bonds through competitive bidding. Company's original plan was to place the new bonds privately with institutional investors. Possible bidders include: Morgan Stanley & Co.; The First Boston Corp.; Halsey, Stuart & Co. Inc.; Stone & Webster Securities Corp.

● **International Great Northern Ry. (1/12)**
Bids for the purchase of $1,870,000 equipment trust certificates will be received up to Jan. 12. Certificates will be dated Jan. 15, 1945 and will mature Jan. 15, 1950-1959. Probable bidders: Halsey, Stuart & Co. Inc., Salomon Bros & Hutzler, Harris, Hall & Co. (Inc.), Harriman Ripley & Co. and Lehman Brothers (jointly).

● **Liquid Carbonic Corp.**
Jan. 28, preferred stockholders will vote on a proposed long-term loan of $10,000,000, the net proceeds to be used as follows: $8,900,000 to retire present bank loans, and the balance added to working capital.

Maywood Chemical Works (N. J.) (1/27)
Bids for the purchase of 6,930¼ common shares (no par), 56,562⅕ shares of participating preferred stock (no par) and 8,081 shares of cumulative preferred stock (no par), constituting 23.10%, 29.28% and 32.85%, respectively, of the stocks, will be received up to 1:30 p.m. (EST) Jan. 27 at office of Alien Property, 120 Broadway, New York. The company itself has formally agreed to submit a bid of $847,500 for the stock.

● **Monongahela Power Co. (2/15)**
Jan. 5 directors approved a financing plan for its 1949 construction program. A total of $6,000,000 of new mortgage bonds is to be sold through competitive bidding and approximately $1,000,000 is to be obtained by the sale of additional common stock of the company to West Penn Electric Co. (parent). Probable bidders: Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce, Fenner & Beane and Hallgarten & Co. (jointly); Harriman Ripley & Co. and Lazard Freres (jointly); Blyth & Co., Inc. and Goldman, Sachs & Co. (jointly); Kidder, Peabody & Co.; Glore, Forgan & Co.; Lehman Brothers, Salomon Bros. & Hutzler. The present plan is to open bids for the bonds on or about Feb. 15.

Nashville Chattanooga & St. Louis RR. (1/20)
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.). Expected about Jan. 20.

● **Pennsylvania RR. (1/18)**
Bids for the purchase of $7,965,000 equipment trust certificates, series V, dated Nov. 1, 1948, and due in 15 annual instalments of $531,000 from Nov. 1, 1949-1963, will be received by company at Room 1811, Broad Street Station, Philadelphia, up to noon (EST) Jan. 18. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co. and Lehman Brothers (jointly); Salomon Bros. & Hutzler.

● **St. Louis Brownsville & Mexico Ry. (1/12)**
Bids for the purchase of $1,870,000 equipment trust certificates will be received up to Jan. 12. Certificates are to be dated Jan. 15, 1949 and will mature annually Jan. 15, 1950-1959. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc); Harriman Ripley & Co. and Lehman Brothers (jointly).

New Credit Controls in France

(Continued from page 4)

any abuse of the commercial bill such as would enable manufacturers and traders to obtain access to banking credit that was otherwise denied them by the restrictions on loans and advances.

Yet even now "purely commercial" bill discounts are not subject to prior authorization by the Bank of France. A distinction is made between bills of a commercial character, the maturity of which corresponds to the actual delivery of merchandise as attested by the supporting invoices, and "financial" bills, which cannot be linked clearly with a physical movement of goods, and are thus, as a matter of fact, disguised loans. The distinction is rather subtle, and it is not possible for the outsider to know whether it can be implemented in practice.[1] Apart from the discounting of "purely commercial" bills, those containing a guarantee or a rediscount undertaking by public or semi-public credit institutions are likewise exempt from prior authorization by the Bank of France. Documentary credit is also excluded.

Not only were discounts other than "purely commercial" ones made subject to prior authorization by the Bank of France, as had been loans and advances, but the qualitative credit regulations were recast. In principle, banking credit is reserved for enterprises that produce essential equipment or consumption goods under technical conditions offering prospects of a reduction of costs. Enterprises producing less essential goods can obtain credit accommodation only if they can export a large part of their output. Banks must systematically abstain from any speculative credit such as advances for security purchases or personal investment, advances against gold, etc.

Quantitative Credit Controls

At this distance it is exceedingly difficult to form a judgment as to the effects of the qualitative credit controls in France. The very fact that they have been gradually accentuated and extended points to the conclusion that the French authorities have deemed it necessary to make them more effective. But the clearest indication of the difficulties of controlling credit solely through qualitative means is the fact that the authorities have now imposed quantitative credit controls in a banking system that thus far has been exempt from any legal reserve requirements.

On Feb. 11, 1948, the commercial banks were instructed to maintain a minimum liquidity of 60% of their liabilities. This rule was motivated largely by considerations of sound banking practice; and in no way implied that the banks should hold any specified proportion of Treasury bills, since rediscountable commercial bills also are considered to be liquid.[2] Actually, however, the measure increased somewhat the control of the Bank of France and the National Credit Council by limiting the amount of credit given to business through overdraft advances and medium and long-term loans alike.

On Oct. 1, 1948, the French commercial banks were called upon to maintain in their portfolios a specified minimum of Treasury bills and other public securities, such as acceptances of the Credit National, a semi-government institution financing French economic reconstruction. These regulations for the commercial banks provided that:

(a) The commercial banks were to keep in their portfolios in the form of Treasury bills at least 95% of the amounts of such securities that they held on Sept. 30, 1948.

(b) In the event that outstanding commitments at any bank (checking accounts, current accounts, and miscellaneous creditors) should exceed at any time the level prevailing on Sept. 30, the bank's minimum portfolio of Treasury paper was to be increased by an amount corresponding to 20% of the rise in commitments since that date.

(c) On the other hand, if a bank's commitments should fall below the level of Sept. 30, the minimum portfolio of Treasury paper was to be reduced by 80% of the reduction in such commitments from the figure for that day.

Since their Treasury bill holdings have been frozen as a result of these minimum requirements, the commercial banks are limited in lending old deposits; and of their new deposits they must maintain 20% in Treasury bills, while a part of the remaining 80% will, of necessity, be kept in liquid form. Their potential lending has thus been substantially reduced.

Finally, under the new regulations, commercial banks may have recourse to rediscounting at the Bank of France only within limits that the latter will fix for each institution on detailed study of its present position. Informal rediscount ceilings were reportedly established earlier this year; but like the minimum-liquidity maintenance which I have discussed earlier, they were inspired by considerations of sound banking practice, aimed primarily at protecting depositors in smaller banks against undue expansion of these banks, rather than by a desire to devise a new instrument of credit policy.

No information has thus far been made public as to the actual limitations on rediscounts, but newspaper comments point to the likelihood that the present volume of rediscounts by each bank will be taken as a basis for ceilings. Should this be so, the banks would have no other choice but to reject undue demands for rediscounts.

Preliminary Conclusions

France faces a difficult dilemma: On the one hand, since current savings are likely to be inadequate to finance the requirements of private and public reconstruction, there is bound to be continuous pressure for bank credit expansion. Yet, on the other hand, further cerdit inflation must be prevented if France is to attain a somewhat less precarious economic balance. The impact of the new credit controls is likely to be severe and immediate, in view of the fact that French business had not expected any further credit restrictions at a time when it was having to find the means for financing new tax and wage increases. Whatever the immediate repercussions, however, it may be taken for granted that the new credit policy will not aim at a general credit contraction, with a concomitant decline in economic activity, but rather at a temporary stabilization of the present-day credit structure and its eventual re-expansion *pari passu* with production. The economic merits of individual projects, and the economic capacity of the country to provide the real resources that the realization of these projects requires, will under present circumstances be the governing consideration rather than the particular method of financing; but the art of central banking in France has acquired new instruments of control, the ultimate implications of which cannot yet be judged.

1 Although the instructions to the commercial banks have been published (*Agence Economique et Financiere*, Oct. 5, 1948), it is difficult to interpret them at this distance.

2 For the purpose of these regulations, acceptable liquid assets included cash and bank balances, Treasury bills, bills issued by public and semi-public credit institutions, commercial bills rediscountable at the Bank of France (three-name paper of less than three-month maturity), negotiable government securities, and negotiable private securities (the last up to a maximum of 5% of the total short-term liabilities).

The Business Outlook for 1949

(Continued from page 3)

year ago, and while total unemployment remains at a high figure, more has been heard and read in recent weeks of layoffs and curtailed production schedules than at any time since Pearl Harbor.

Thus the judgment seems justified that the business weather has taken a turn for the worse in the last few months. But what of the future? What is the business outlook for 1949?

As I observed a few paragraphs back, on three previous occasions since the end of the war it has appeared, as it now appears, at least to me, that deflation was at hand and a decline in employment and in industrial activity was inevitable. But in each instance the readjustment which had seemed virtually certain, was pushed back and new peaks of prices, of employment and of industrial activity were recorded.

It is the judgment of some competent observers that this bit of history will again be repeated and that it will be possible once more to avoid sharp industrial reaction in 1949 as it was in 1946, 1947 and 1948.

Bases of General Optimism

Their optimism of the future is based upon the following considerations:

(1) That large backlogs of orders and of buying power remain to sustain the economy for many months.

(2) That the Administration is committed to the maintenance of a high level of industrial activity and that it will expand public expenditures in a measure sufficient to compensate for any decline in private and business spending that may occur.

(3) That business and industry will be stimulated in 1949 as in 1948 and earlier postwar years by a high level of exports stemming from the foreign aid program.

(4) That the Administration is committed to the continuance of the agricultural and labor policies which have played such an important role in the accelerated business and industrial activity of the postwar period.

(5) That new and additional props will be designed by the government to prevent a serious business decline.

With respect to the first of these points it is in order to point out that unfilled orders in the past have failed to prevent sharp business reactions when once the other major factors affecting business have turned unfavorable. Industrialists who have been through complete cycles of activity from depression back to depression know to their sorrow that backlogs of orders disappear, as if by magic, when scarcities no longer exist and prices start to soften.

Savings Dissipated

As regards the backlogs of buying power, it is in order to point out that, however substantial they may be, they are for the most part no longer at the disposal of low income and marginal buyers. These groups, according to the records, have already consumed a substantial part of their past accumulations and have also, in many cases, heavily mortgaged future income.

Moving on to No. 2 above we are confronted with what may be the $64 question of the coming year: How far can government by increased expenditures sustain a high level of business activity? My own impression is to believe that if government finances wisely by taxation or by borrowing from the public, the increase in public expenditures must be accompanied by a decrease in private spending and investment of comparable proportions, and that no additional production and employment results. If, on the other hand, the government finances through the sale of its securities to the commercial banks, it is likely to create new doubts and uncertainties in the minds of investors and industrialists and to aggravate the forces of reaction it seeks by added spending to correct.

For brevity points 3 and 4 above may be bracketed. It is doubtless true that the foreign aid program, under which we have given away the products of our industry at the rate of close to 7½ billion a year since the war, has been a sustaining influence in the economy. So also has the maintenance of high agricultural prices by government subsidy. The most that can be said for these measures and policies, it seems to me, is that they merely push back the inevitable day of reckoning and probably entail long-term costs which are out of proportion to the temporary benefits which accrue from them.

It is obviously impossible to pass judgment on new government measures and policies that may be designed to support business, if they should be necessary. It is reasonable to assume that they would involve the relaxation of credit controls of one kind and another and very possibly the resumption of large open market operations by the Federal Reserve Banks.

Extreme Reinflation Unlikely

More extreme inflationary measures are possible and consistent with the traditions of the Administration party, but will hardly be adopted in the early future. An Administration which as recently as six months ago was convinced that inflation was the No. 1 domestic problem of the nation could not consistently turn at this time to a broad inflationary program of the kind that was tried in the early and middle 1930s.

Finally, a few observations and conclusions regarding the probable course of business events in 1949.

I am of the opinion that a readjustment of fairly substantial proportions in the national economy is overdue and cannot be long averted, except by war.

I base this conclusion on the fact, or what I believe to be a fact, that most of the forces which have been the support of the boom of the last three years have spent themselves. Most of the acute scarcities for which the war was responsible have been eliminated. Demand and supply have been brought, or are rapidly being brought, into equilibrium, and quite as important, the easy money, upon which the boom has fed, has run out.

There will be a good deal less industrial construction in 1949 than there was in 1948 and 1947. There will be less private construction, what with the marked change that has come over the mortgage market. Public construction by state and local governments and institutional construction of many kinds, for much of which the funds have been provided, will continue at a high level; it may be higher in 1949 than in any one of the three previous years and thus be the most important natural sustaining influence in the economy.

Corporate profits almost inevitably will decline. What with a little deflation of prices and the high break-even point that currently prevails in many industries, the dark black of today may easily become the deep red of tomorrow.

Thus in 1949 industrial executives will be confronted with the problem of reducing their costs and of improving their products and services. They will resist the demand for the fourth round of wage increases, in the fear that unlike the first, second and third, it cannot be passed on to the consumer. In the process, they are likely to precipitate strikes and other labor troubles.

Large numbers of corporations and of individuals faced with declining incomes are likely to feel the pinch of high fixed charges, as is invariably true in periods of readjustments. Thus a larger or a smaller number, depending on the severity and duration of the period of readjustment, will fail.

The latest boom, like the latest war, never follows closely the pattern of the one that preceded it. For that reason it is not possible to forecast the precise nature of the correction that is now, or presently will be, in order. One sees many parallels with the deflation period of 1920 and 1921, as well as close similarities with the violent but little publicized reaction of 1937 and 1938.

Whatever form the correction takes, my disposition is to discount the probability of a modest decline in industrial activity and the permanent stabilization of the economy at a level only moderately below the peaks of the last three years. When the turn comes, I am fearful that the props that have been, and will be, designed to perpetuate the boom will prove weak and unavailing.

Observations

(Continued from page 5)

tinguishing normal and excessive profits. But that formula is seriously defective.

"Clearly, the repeal of the excess-profits tax will stimulate production. Today we are starved for new houses, new cars, new radios, and the like. The best defense against the use of our wartime savings to bid up prices on these scarce items is to remove the scarcity. Production and more production is the key. To this end, elimination of the repressive influence of the excess-profits tax will make a real contribution."[1]

How much more unrealistic and unsound, then, would be the attempt 3½ years after V-J Day, under our economy of part shortages and part overproduction, of price deflation steadily pervading the vestigial inflation, to justify a tax arithmetically calculated on increased earnings on the assumption that it will neutralize backlog from the last war.

It must be remembered that any extraordinary profits derivable from the next war are already prevented by Vincent-Trammell and contract renegotiation provisions.

Not De- But In-Flationary

Let the businessman, large and small defend the nation's economic welfare by pointing out that excess profits taxation is not anti-inflationary, but strongly pro-inflationary. This is so, of course, because such severe taxation prevents the expansion of plant and production which is the surest antidote against shortages and inflation; and because of its compulsion toward widespread corporate extravagance with "20 to 30 cent dollars."

Let the businessman, irrespective of his self-interest, defend the national welfare by pointing out the ruinous effect of a further rise in tax rates on long-term corporate expansion—through either the capital markets or the use of internal funds—and hence on the survival of corporate structures independent of the state. Let all businessmen — not only those immediately affected — realize that a punitive tax on efficiency, progressiveness, and growth, must have the anti-social effect either of freezing the disparities between growing and the already-arrived corporations, or else (if the levy is confined to the large companies) of leading to the unemployment of their workers and the gradual divestment of the savings of their millions of small stockholders.

Rather than hearkening with pleasure over their own possible (temporary) exemption because of size, let those businessmen not among those to be included in a "soak-the-rich" tax target instead try to realize that the large companies have in the main set the highest standard of wages, established the highest working conditions, and have, as in the automobile and railroad industries, supported small businesses by purchases of their goods and services.

Let the businessman, in lieu of thinking in terms of a "backlog tax," realize that peacetime excess profits taxation really constitutes a capital levy against corporations and their shareholders. (In Great Britain it is immaterial whether or not the Cripps "only once" formal capital levy is continued; the same effect is brought about by permanent excessive income tax rates which force dissaving. Some of the Britishers other than the 250 who have not been stripped to less than a £5,000 annual net income, must be dipping into their capital.)

Let the businessman realize the factor of Administrative difficulties, not *per se* but because the only way of avoiding them is to devise a statute which includes major inequities. Since the wartime statute's repeal in 1945 we have been left in a wake of carry-backs and carry-forwards which are still plaguing the Revenue Department and the businesses concerned. To settle relief cases still outstanding, the Treasury has recently enlarged the membership of its affiliated Excess Profits' Administrative Council and has extended its life for another two years. Theoretically a new peacetime law will be Administratively feasible if it uses the prewar bases which have already been established for all but about 1,000 corporations. Actually, however, the only kind of statute that would be Administratively feasible would be one that would perpetuate all the previous inequities and additionally generate a host of new ones.

* * *

Lastly, the ironic nature of businessmen's preference for the excess profits tax as the lesser of two evils, must be pointed out; namely, that if it were to be enacted first, the not-too-distant future would see them burdened with both a flat rate rise and an excess levy. In our present political status, affirmative choice of the lesser of alternative destructions, only hastens the infliction of them all.

[1]Source: Hearings before the Committee on Finance, U. S. Senate, 79th Congress, First Session, on H. R. 4309, October, 1945, pp. 23-25.

Our Reporter's Report

The corporate new issue market was dormant, as generally expected this week, but an early revival of underwriting and distributing activities is indicated by discussions around the market place.

The current week will yield investment bankers little in the way of business beyond a handful of equipment trust issues by the railroads and a smattering of municipal offerings.

However, January could prove a quite substantial month judging by prospective offerings which are simmering and awaiting the proper back-drop by way of conditions in the seasoned market.

There are about a dozen sizable undertakings which could come to market before the end of the month, most of them for the account of public utility companies and accordingly, with one or two exceptions, destined for competitive bidding.

These range all the way from Jersey Central Power & Light Co.'s projected issue of $3,500,000 of 30-year first mortgage bonds, to Consolidated Edison Co. of New York's $50,000,000 first and refunders which would have a similar maturity.

Accordingly, bankers and their distributing organizations who have had an opportunity over the year-end to work off bits and pieces of earlier undertakings, appear assured of ample chance to apply their selling talents in the next few weeks.

About 200 Millions In Sight

Should all deals now in registration or well along toward that stage materialize into actual offerings, it is possible that new corporate financing in January, despite the slow start, could foot up to above $200,000,000 face amount.

Consolidated Edison's big issue heads the list and is designed to fund $40,000,000 of short-term borowings and place the company in a position to repay its treasury for outlays made for acquisitions and construction.

Bankers are counting on Duke Power Co. for an emission of $40,000,000 in new 30-year first mortgage bonds. It had been the company's intention to place the issue privately, but there have been rumblings that the Federal Power Commission may order it up for competing bids and so groups are being formed.

If Market Is Right

Koppers Co.'s big equity venture will be ready for market any time from next Monday on and it is indicated that only the proper setting marketwise is required to open the way for early opening of subscription books.

Bankers handling this big one, 400,000 shares of common stock, with an indicated value of $12,000,000 at current prices, are reportedly busy laying the groundwork.

They are holding regional meetings with distributors and having company officials explain the aims and purposes of the company. In fact meetings at various points have been in progress throughout the week in preparation for the actual offering.

Other Major Prospects

Among the other issues which could reach market starting next week, but mostly the following week, are Gulf States Utilities Co. which will have $15,000,000 of 20-year debentures and a maximum of 280,000 shares of common stock up for bids, this particular one next Tuesday.

The list includes Public Service Co. of Indiana with $12,000,000 of first mortgage bonds; Central Illinois Public Service Co. which is seeking $10,000,000 through new mortgage bonds; Kentucky Utilities Co. with a $10,000,000 bond issue; Rockland Light & Power Co. seeking to sell $7,500,000 bonds, and Union Light, Heat & Power Co., which will raise $5,000,000 via the mortgage bond route.

Bringing up in the background and a probable starter at any time conditions are right, is the 675,000 shares of Southern Indiana Gas & Electric Co. common stock which Commonwealth & Southern Corp. will market as part of its plans for meeting the provisions of the Utility Holding Company Act.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—If a committee of the country's most substantial business leaders were to hold a completely off-the-record meeting with any six of the most experienced, seasoned leaders on Capitol Hill of both parties to ask for a completely anonymous "guesstimate" of the leaders as to what Congress will do that is good or ill for business in 1949, this is about the reply they would get:

"We would like to tell you, but we don't know ourselves. Never, hardly, did more uncertainties face a Congress. We don't know yet what the President really wants. We don't know how successful the President will be in getting what he wants. We don't know what part the minority will play. Those are the political uncertainties. Add to these two other uncertainties. We don't know what the course of business will be and the course of business may well revolutionize the legislative outlook, depending upon what happens. Then there is the ever-present uncertainty of the Russians and what they will do.

"If we had to forecast anything so early in the game, we would be inclined to think that Mr. Truman's mastery of his Congressional following is likely to range from ineffective to impotent, offering the prospect of a generally chaotic session, but we have only preliminary signs of that."

* * *

That, in a nutshell, is the consensus of informed legislators at the opening of the first session of the 81st Congress.

It will be some time before it is known what the President really wants. He has told everybody he is going to live up to his many conflicting, and grandiose promises to the special pressure groups. There will be much reading of the annual message, and of the forthcoming Budget and "Economic Report" messages, to attempt to read therein an interpretation of the President's wishes, particularly to deduce that he is not as hot for something or other as was expected. Nevertheless, the pressure groups to whom the President during his campaign made these promises are rather vocally represented on Capitol Hill, and may be expected to react against any apparent unenthusiasm on the part of the President with a demand for action.

* * *

It is Capitol dogma that President Truman cannot possibly make good on all his promises. It is explained that were he to push civil rights vigorously, as he has promised to do, he will all but drive the Southern Democrats into rebellion. If the latter go into rebellion, Mr. Truman's Capitol majority of Democrats will turn into a minority. The farm organizations at recent meetings have made it clear that they do not cozen to the idea of encouraging labor to get higher and higher wages by removing the restraints upon union labor action. At the same time the farm groups have made it clear that they are unenthusiastic about even standby price control, which Labor wants, and instead lean toward higher and higher official price supports. Thus there arise two potential conflicts between the President's supporters among farmer and labor representatives. Southern Democrats will tend to split with the Administration on many issues other than civil rights, especially on its pro-labor stand, and on experiments of a New Deal nature generally, even if the Southerners' split on the latter is not as pronounced as it will be on civil rights.

* * *

Despite the batch of conflicting, broad promises, a President with an astuteness in political management could perhaps handle the Congress so as to avoid any too serious conflicts. Time, or the absence of time, is on the President's side. There just isn't time to pass everything this year the President has promised. Mr. Truman could keep the boys busy on some less controversial issues for the first two or three months, and then call them in and tell them all to decide what quarter of a loaf they could have instead of a whole loaf.

* * *

Despite the fact that Mr. Truman's legislative problem calls for astute political management, the fact is that the overwhelming majority of persons on Capitol Hill, even though they are not yet ready to say so for publication, are convinced that Mr. Truman is going to blunder hopelessly in his relations with the 81st Congress. In fact, the unanimity of this as yet unquotable expectation, is just about as complete as was the expectation before Nov. 2, that President Truman would be defeated in the national election.

Some say that Mr. Truman will get his wires crossed with Congress "in a couple of months." Others more cautiously predict privately that "before the end of the session" Mr. Truman will be in a row with Congress. There are a number who believe that the potential row between the White House and Congress already is covertly under way, and will mount in fury with each week.

* * *

Some signs of what is called the President's "ineptness" in dealing with Congress already are noted. One of them was his post-election lambasting of the un-American Activities Committee, which, despite all the barrages of statements directed against the committee, has been popular with Congress. The late Mr. Roosevelt hated the un-American Activities Committee even more than Mr. Truman. Yet Mr. Roosevelt was unsuccessful in getting the committee killed off. However much members of Congress may agree with the criticisms made of the committee's operations, they resent the inference that "Congress when it investigates is just head-line hunting whereas when the Department of Justice investigates, it is only promoting justice."

* * *

Second of the Truman pre-session blunders in his relations with Congress, it is pointed out at the Capitol, was his having the Department of Justice institute a suit against Louisiana and Texas to establish Federal control over the granting of leases for the development of the tidelands oil.

Texas gains a very substantial proportion of its school revenues from royalties on oil on state lands, and the granting of such leases with resultant royalties would also mean tens of millions to Louisiana as well. This practically forces all the Texas and Louisiana delegations to fight Truman on this issue. It also puts the members of Congress from those two states in an awkward position. It is up to them to take the initiative to try to get Congress to approve a law vesting the control of tidelands oil in the states. Even if such a bill is passed, as it was three years ago, it will have a tough time hurdling a second veto by President Truman. However the fight comes out, it will create a great deal of bitterness toward the White House, with California and other states joining the fight against the White House.

As one illustration of how this move works out, Speaker Rayburn of Texas is one of the pronounced opponents of Federal control of tide lands oil. Mr. Rayburn will be Mr. Truman's chief spokesman in the House. Mr. Truman will have to depend upon Speaker Rayburn not only to get what the White House wants passed in the House, but generally to keep the President out of as much trouble as possible.

* * *

Finally, there were no signs that the President tried to stay the hand of those who succeeded in reducing the broad authority of the House Rules Committee to throttle legislation. The Rules Committee is more than a "traffic cop" to clear the track for necessary legislation and keep the House program ordered for important business. The Rules Committee is a parliamentary device which exists for the very purpose of strangling "popular" legislation which a majority of members feel that they have to vote for if the legislation comes to a vote, but which they privately pray will never come to a vote.

In the absence of a Rules Committee tough enough to pigeonhole popular demagogic legislation, a Federal pension of $200 a month for all persons over 60 years of age could easily get passed by the House the first time there was a recession. The committee exists to bail out legislative committees which feel they do not have sufficient courage to withstand heavy pressure, whether from the White House or from large voting groups.

What is important to Mr. Truman, it is pointed out, is that he must have "some one to blame" for the fact that he will not in 1949 be able to meet all his campaign promises. It is out of the question for Mr. Truman to blame the Congress. The voters gave him the Congress he requested. But the Rules Committee is the one instrument which would be available to bail Mr. Truman out of getting enacted many of the things he cannot afford to have enacted unless he is oblivious to the fate of the country's economy and his political backing. Accordingly the professional political observers note, Mr. Truman should have extended all the covert aid possible to maintain the Committee's traditional veto power which, in light of this week's action, has been virtually annulled.

* * *

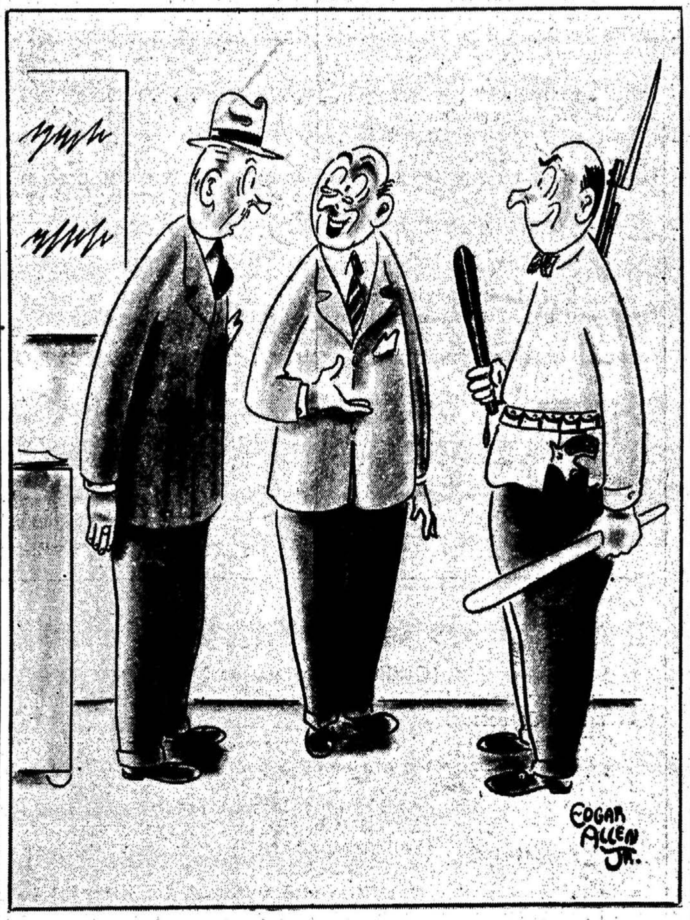
One of the final uncertainties is what the Republican minority will do. So far as the Republican leaders are concerned, their private disposition is to remain anti-New Deal. On the other hand, many of the members, scared at the November election, are expected "to vote as individuals." By that it is meant that it is feared that the "liberal" and wavering GOP members will decide that it is safer for their own political skins to buy Mr. Truman's merchandise rather than Republican ideas. The action of a dozen minority Senators in opposing, albeit unsuccessful, Senator Taft's leadership is a manifestation of that opening trend.

* * *

So far as legislative prospects are concerned, the immediate few weeks will be primarily devoted to maneuver, to seeing what Mr. Truman wants, to seeing how he can get along with Congress, to seeing what groups line up with whom. The outlook, of course, is for more left-wing legislation and higher expenditures than would have been the case with a GOP Congress. It may be some weeks before it will be possible to estimate how radical and how expensive the new Congress will actually turn out to be.

(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



"Mr. Blooper is in charge of delinquent accounts."