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The COMMERCIAL and FINANCIAL CHRONICLE

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Volume 169 Number 4772 New York, N. Y., Thursday, January 27, 1949 Price 30 Cents a Copy

Wages, Prices and Employment In 1949

By EWAN CLAGUE*
Commissioner of Labor Statistics

Commenting on downward turn in prices, Labor Department statistician says these developments indicate better purchasing power of the consumer's dollar. Sees wage demands directed toward health and welfare plans.

The papers today are full of reports concerning a down-turn in business. Prices are falling, lay-offs are occurring, some businesses are closing down. Concern has been expressed that this is at last the beginning of the major postwar readjustment which has been expected since the end of the war.

Ewan Clague

In evaluating the present situation, it is important to maintain a long view. It is necessary to relate the current happenings to the economic base from which they spring.

Wholesale prices, for example, have been declining since the

(Continued on page 46)

*Summary of an address by Commissioner Clague before the Radio Manufacturers Association, New York City, Jan. 18, 1949.

Municipal Bond Market Prospects

By JOHN S. LINEN*
Vice-President, Chase National Bank

Municipal bond expert reviews investment position of State and municipal bonds and notes increasing volume of these issues. Says tax exemption benefits of these securities generally are not understood or appreciated, and expresses view prospective large volume of tax exempt issues does not mean forcing down their prices. Lists heavy financial demands on State governments, but concludes States will not be inclined to assume obligations they can't meet.

A discussion in January of any form of securities whether it be government, municipal or corporate issues, almost without exception calls for a review, brief or otherwise, of the preceding year and some observations or possible prognostications for the year ahead.

Because the year 1948 established some noteworthy records in the experience of municipal finance, it is appropriate, I believe, that we review just a few of the most interesting events.

An all time high was reached in total amount of municipal bonds sold, the "Bond Buyer" reporting the figure at $2,983,-427,653. This compares with totals for 1943 of $507,566,466; 1946, $1,203,557,909; 1947, $2,353,-771,562.

There were, of course, special reasons for this large volume, the most important one being bonus financing by some of our large States, notably New York, Illinois and Ohio. An increasing volume of public revenue financing which included an issue well and favorably known to your local market, the $134,000,000 Pennsylvania Turnpike Bonds and a growing volume, as well, of bonds in support of Federal, State or locally aided housing projects contributed importantly to the total. In regard

(Continued on page 50)

*An address by Mr. Linen before The Philadelphia Security Association, Philadelphia, Pa., Jan. 17, 1949.

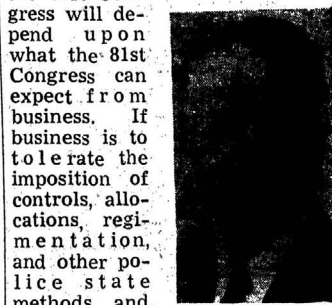
What Can Business Expect from Congress?

By HON. KENNETH S. WHERRY*
U. S. Senator from Nebraska

Blasting President's "reckless, spendthrift, and socialistic platform," Senate Republican Floor Leader attacks Federal budget and proposals for heavier taxes. Says country "is suffering from Big Government, Big Labor and Big Business," and warns decline in national income under rising taxation would threaten nation's solvency. Scores Truman's spending proposals, and calls for scrutinization of every proposition submitted by President.

The principal question that many of your members are asking me is—Where do we go from here? What can business expect from the 81st Congress?

The only answer that can be given to that question is: What business can expect from the 81st Congress will depend upon what the 81st Congress can expect from business. If business is to tolerate the imposition of controls, allocations, regimentation, and other police state methods, and submits without protest or effective resistance, then, that kind of a program is exactly what you are going to get.


Sen. K. S. Wherry

You Wholesale Dry Goods merchants know how your very existence was threatened under

(Continued on page 39)

*An address by Senator Wherry at a luncheon of the Wholesale Dry Goods Institute, New York City, Jan. 17, 1949.

EDITORIAL

As We See It

A Look at Our Own Record

For two reasons one hesitates to subject the inaugural address of the President last week to realistic analysis. In the first place, it was "his day," a festive occasion bordering at times upon the bizarre, but one upon which in the circumstances one feels reluctant to throw cold water. In the second, what the President had to say was for the most part couched in such highly generalized terms that it is not easy to determine what he really has in mind, if anything of a nature different from the various current programs. Of course, he took occasion officially to denounce Russia and all her doings in somewhat the manner of President Roosevelt when he paid his respects to Hitler and Mussolini in his much publicized "quarantine" address, but such formerly unheard-of behavior in the realm of international affairs appears meanwhile to have become a part of accepted techniques.

We are, however, again impressed with one fact which we hope our readers will not lose to sight. It is that this address, like virtually all of the President's utterances of late—and for that matter like most if not all of the postwar utterances of good New Dealers every-

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Let the Government Not Upset the Stock Market!

By FRANKLIN COLE
Franklin Cole & Co.

In view of drastic healthy readjustments already occurring, stock market economist believes Congress should and will limit government spending by cutting down President's new social welfare proposals; and will "wait and see" before granting his tax recommendations. Concludes it safe to purchase common stocks if confined to industry leaders well-entrenched and with low costs.

This study centers around the program of the President set forth in the State of the Union Message and the policies defined more closely in the budget and report of the President's Council of Economic Advisers. The President is said to long for the advent of an era of good feeling and to go down in history with President Monroe, whose administration has been stamped as one in which political difficulties were resolved amicably and division of opinion was extraordinarily moderate. Instead, in the first few days of his administration as an elected President, he has awakened new fears. Are we on the road to statism or disastrous inflation or deflation, or are we moving in the direction of greater stability? Security values over the next year will be determined in great measure by the policies which we shall discuss in this study. The sputter of the stock ticker responds to hourly developments and reports that are often forgotten in the next 48 hours. Values founded on such matters as fiscal and national economic policy on the other hand are of a more enduring nature.

Franklin Cole

Nothing is gained by impugning the motives of the President or those who share his views. Sincerity of purpose rather than mere window dressing, we prefer to believe, was responsible for the closing words in the President's Economic Report to the Congress: "We are committed to the working out of our economic problems in a way that combines economic and social progress with democratic self-responsibility."

Spending

It is thoroughly recognized that the budget for fiscal 1950 is largely fixed by the war and its aftermath, and our determination to avoid the errors following World War I. The core of the expenditure side of the budget is made up of interest on the public debt, provision for national defense and international affairs, and veterans' services and benefits. These are contractual items or matters about which there are only minor differences of policy, if any. For the fiscal 1950 they aggregate approximately $32 billion out of the proposed expenditures of $41.9 billion.

What might be called the fringe is where sharp differences of opinion exist. If inflation impends, is this the time to increase expenditures on social welfare, health and security by approximately $400 million, on education and general research by $329 million and on national resources by $245 million, and despite a general reference to the wisdom of keeping down the expenditures of the general government, to increase this item by $37 million instead of effecting a reduction? The budget, be it noted, does not include more than nominal provision for the disability insurance urged, or "the comprehensive national health program" which is envisaged as a national system of medical case insurance accompanied by improved services and facilities for public health and medical care, for which a bare $15 million is provided.

The interest of government in providing adequate housing for low income groups and in modifying the impact of illness, as of unemployment, the nation must become reconciled to in this day. If it were proposed to inaugurate these programs in the future, when less than full employment prevailed or commitments for defense and international aid were less demanding, one would be willing to go along with the main objectives, at the same time scrutinizing details, for in the setting up and actual administration of such measures, experience tells us much of the good may be lost or costs ballooned beyond reason.

The Liberal's Dilemma

Here the liberal's dilemma becomes clear. It rests on two points —their inability to appreciate the need for a large volume of saving if the objective of the Full Employment Act of 1946 is to be attained; and a distrust of profits. They close their minds to the fact that their policies tend to freeze the advantages of bigness and large aggregates of capital and do not further the long-term interests of the greater number.

Savings, Profits and Economic Progress

There has just been published the quarterly report on savings by individuals in the United States, prepared by the Securities and Exchange Commission. It shows liquid saving of $3.1 billion in the third quarter of 1948, but the most impressive figure is the increase in holdings of corporate securities of only $200 million. This merely bears out what government prepared data have shown to be true over a period of some fifteen years. Individuals willing or able to furnish additional ownership capital to provide business with new tools and equipment or to add to the fund of business capital are funneling their savings into other forms, mainly United States Savings Bonds and insurance.

For the first time, the Council of Economic Advisers seems to be adopting a more understanding viewpoint. The current Annual "Economic Review" in referring to the financing of business expansion states in part:

"The only source of capital which does not appear to have been large, compared with earlier experience, has been outside equity capital. Total new money raised in the stock market has been somewhat smaller than during the prosperity of the late twenties." . . .

"*It should not be assumed, however, that financial resources will be adequate for all types of business, or that a higher share of equity* investment would not be desirable. . . . *It is undoubtedly true that certain features of our tax system bear particularly on equity financing.* When a reduction in taxes becomes possible, the tax system should be reviewed to strike the best balance between the objectives of maintaining adequate consumer markets and of providing capital of the needed character in adequate amounts. . . . (Emphasis supplied)

Possibly, because of the commitment of the President on taxes, however, the Council adds its influence to the recommendation of larger taxes. Yet, it carefully avoids a recommendation of excess profits taxes but plumbs for increases in taxes on personal incomes in the middle and upper brackets, after indicating elsewhere that the bulk of the saving is in the middle income brackets where concern with the safety of investment rather than gains is primary. The fear of excess saving is a carry-over from the thirties and seems to be an anachronism when this country and the entire world are calling for capital goods to make more things more cheaply.

It is akin to squaring the circle to express concern over debt financing by business and at the same time propose increased taxes on business and the incomes of those individuals who are the only ones from whom savings for investment in business can come. The real trouble, we gather, is that the President and his advisers are trying to move in all directions at one and the same time.

As to profits, present tax rates, let alone higher rates, bear heaviest on new business entering the field or enterprise in the growth stage. Really big business at worst can obtain funds at going rates in the market. This is hardly the way to encourage small and medium size business. With competition and a "fair deal" to ownership capital, profits will take care of themselves.

Revenues

In our opinion, the most disturbing feature of the budget is the Chief Executive's refusal to acknowledge the mistakes made in the estimates of Federal revenues, which have occurred repeatedly. Doubt is cast on the accuracy of the current forecasts, thereby bringing into question the validity of the requests for additional taxes and the entire assumption that the budget will not be in balance this year or in fiscal

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Published Twice Weekly

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Patent Office

WILLIAM B. DANA COMPANY, Publishers
25 Park Place, New York 8, N. Y.
REctor 2-9570 to 9576

HERBERT D. SEIBERT, Editor & Publisher
WILLIAM DANA SEIBERT, President
WILLIAM D. RIGGS, Business Manager

Thursday, January 27, 1949

Every Thursday (general news and advertising issue) and every Monday (complete statistical issue — market quotation records, corporation news, bank clearings, state and city news, etc.).

Other Offices: 135 S. La Salle St., Chicago 3, Ill. (Telephone: State 0613); 1 Drapers' Gardens, London, E. C., England, c/o Edwards & Smith.

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Reentered as second-class matter February 25, 1942, at the post office at New York, N. Y., under the Act of March 8, 1879.

Subscription Rates

Subscriptions in United States, U. S. Possessions, Territories and Members of Pan-American Union $35.00 per year; in Dominion of Canada, $38.00 per year. Other Countries, $42.00 per year.

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Bank and Quotation Record—Monthly, $25.00 per year. (Foreign postage extra.)

Monthly Earnings Record — Monthly, $25.00 per year. (Foreign postage extra.)

Note—On account of the fluctuations in the rate of exchange, remittances for foreign subscriptions and advertisements must be made in New York funds.

"What About the Market?"

By ROBERT P. BOYLAN*

Chairman of the Board, New York Stock Exchange

Holding despite decline in stock exchange activity, "we can look forward to good new days, if we recover our confidence in America and its way of life," N. Y. Stock Exchange executive urges investment houses take aggressive action in interesting 50,000,000 new potential investors in usefulness of our financial markets. Deplores propaganda of fear and depression regarding equities market, and calls upon investors to exert powerful influence on government. Says common stocks are good today, and securities business should aid NYSE in campaign to restore confidence in American enterprises.

Whenever investment men and other businessmen are gathered together these days the state of the market is a principal topic of discussion. "What about the market?" someone asks, and that's the question I'd like to discuss tonight without pulling any punches. Permit me to put the cards on the table, face-up and see how they look.

Robert P. Boylan

This year, 1949, marks the Twentieth Anniversary of the market convulsion of 1929, a year which brought home painfully, to the financial community and to the entire country, certain realities. Among these realities is the fact that "everybody is bigger than anybody"—a lesson of lasting interest still applicable in 1949. Our people labored under the delusion in the twenties—and one which some thoughtless people still accept—that certain bankers and industrialists and political leaders could, by their combined efforts and influence, control the course of economic events. After the 1929 crash the whereabouts of these men was eagerly sought in New York, in Washington, and elsewhere, but they were not found, and the intelligent public eventually reached the conclusion that the crash resulted largely from panic and fear; and the depression which followed was aggravated and prolonged by unsound experiments and by ventures into forms of socialism.

Many previous financial panics were of comparable magnitude in relation to their times. Historians tell us that the panic of 1873, which marked the culmination of the boom after the Civil War, was more severe in comparison to the volume of business then transacted, than that of 1929. We all realize, however, that the aftermath and the consequences of 1929 were of greater significance.

The United States not only recovered from 1873, but those who suffered particularly saw prosperity rise to undreamed-of heights. There have been other panics and depressions and national disasters, and after each one our people have resumed their progress as a nation. The same has happened since 1929. Following the American tradition, we have built an economy which is so strong as to support our people in comparative luxury and to help greatly in feeding and clothing and rehabilitating an impoverished world.

Our industrial recovery since 1929 has been remarkable. National income, about $87 billion in that year, is now well over $200 billion. Improvements in the American well-being since that time have enabled us to meet the challenge of Communism and Socialism. I doubt if it could have done this so effectively if such advances had not been made in the national welfare since 1929. We learned much prior to 1929, but after that experience we have learned more.

Certain industrialists, notably the late Henry Ford, proved to us in the early twenties that wages are not paid out of profit, but out of production and that, therefore, wages and profits can rise together by increasing production. But as a result of the depression it became evident to all that, if people as consumers could not increasingly buy the products of their own labor, the economy could not be sustained in vigor and strength. This is a lesson which may prove to be worth all the agony of 1929 and of its aftermath.

The Capital Markets

Now, what of the condition of our capital markets?

In 1929 the shares of stock that changed hands on the New York Stock Exchange amounted to 119% of the 1,000,000,000 shares available for trading. In 1948 the share turnover was only 15% of approximately 2,000,000,000 shares on the Exchange list. The amount of credit involved in stock transactions today is so small as to be almost negligible. Brokers' loans reported by New York Stock Exchange firms are less than $450,000,000 compared to $8,500,000,000 in 1929.

Yet we hear occasionally the fear expressed that we may go through another 1929. That fear is in the minds of some government office holders, bankers, farmers and other workers. Men in every walk of life hold it largely because no one has made the effort to replace unfounded fear with confidence. The presence of the fear is so widespread that capital is needlessly timid, growth is retarded and government policies are shaped unwisely. I have in mind in this reference to gov-

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*An address by Mr. Boylan at a dinner given by the financial community of Buffalo, Buffalo, N. Y., Jan. 20, 1949.

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Campaign to Increase Confidence in Equity Capital

By HAROLD P. GOODBODY*

Partner, Goodbody & Co., President Association of Stock Exchange Firms

Mr. Goodbody holds the problem today is to restore confidence in American methods of assembling private capital for development and expansion of industry, and this can be done only by improved public understanding of the role of securities markets in the national economy. Says it is matter for serious attention at top management level and urges financial industry aid in N. Y. Stock Exchange's campaign to popularize investment in equity securities.

You and we know that Wall Street is quite accustomed to a good deal more than merely frigid receptions. That little thoroughfare which happens to be located in New York City is blamed by the politicians and demagogues for just about everything. And now Russia has picked up the tunes. When "Pravda" wants to lambast some one to their people they identify him with Wall Street. The latest was their attempt to disparage His Eminence, Cardinal Spellman, as the Bishop of Wall Street.

Harold P. Goodbody

Quite aside from the grist furnished the Communist propaganda mill, however, it is a serious situation because of the adverse effect it is having upon the flow of risk capital from its source to the industry and commerce of the nation. It is destroying confidence in machinery which for 156 years has proved so effective in financing the progress of our great democracy. It is serious to you! It is serious to us! But that would be unimportant if it were not so serious to the welfare and progress of America.

The problem today is to restore the confidence of those citizens who once made use of the American methods of assembling private capital for the development and expansion of industry and to gain the confidence of those new owners of risk capital who have never used those facilities.

That is exactly what we are setting out to do. That is our job in the national economy—financing industry and commerce. The record will show that we have not done our job thoroughly. We have been hesitant to use the media available to us to correct the many unfounded criticisms which have been leveled against our industry.

We are now setting out to encourage greater use of the facilities of the Stock Exchange industry and the facilities of the investment banking industry by the owners of risk capital wherever they are and whoever they are. There is only one alternative to private financing. And we do not believe that the American people want that alternative.

I am frank to admit that our industry has been rather timid in recent years about encouraging the use of its facilities. We have been somewhat prone to be satisfied in the knowledge that we have contributed vitally to our country's welfare in the past. The Stock Exchange industry, a part of an extremely highly organized market place for securities, operates under rigid rules and strict regulations of good business conduct—all designed in the public interest and most of them of our own doing. We have believed that we had no apologies to make and that sooner or later the public would realize our functions and again utilize our facilities for the benefit of progress.

I certainly do not want to leave the impression however that the Stock Exchange industry has been entirely remiss in its obligations in this direction. On the contrary, a great deal has already been done. The groundwork has been laid for intensive efforts. The New York Stock Exchange, for example, has for more than three years been engaged in an institutional advertising campaign to a potential audience of 37 million people which has told the functions of the industry in our national economy.

As a part of that campaign, the Stock Exchange commissioned "March of Time" to produce a motion picture, "Money at Work," which the Association has had the privilege of distributing, and which has been viewed by almost two million people.

The Association and its members have been engaged in a program which is preliminary to an enlarged campaign. It has been our purpose to integrate the thinking of our own industry with respect to this major problem. We have held regional meetings of various kinds and on various subjects, all designed to serve as a backdrop for an enlarged effort. Our Governors and officers have been doing a great deal of contact work, particularly within the industry, gathering ideas and discussing the problem from the front line point of view.

These quarterly visits of the Board of Governors to various financial communities—of which this visit to Buffalo is one—have accomplished a great deal toward a better understanding of Wall Street and the nation's financial community—which is comprised of many Wall Streets. We have come to know the business leaders of many communities on occasions like this one. We have become familiar with the problems of communities other than our own.

On the other hand, the communities have come to recognize to a larger extent that we, representing so-called Wall Street, actually represent the Wall Streets of a large number of financial communities throughout the nation, including Buffalo, so ably represented on our board by Frank C. Trubee, Jr. The public to a larger extent has come to realize that the Stock Exchange industry is a nation-wide one and an integral part of the national economy.

These meetings have, I am sure, contributed to the knowledge that, working together, labor, management and, if you please, Wall Street, have made possible the fine schools, churches, parks, factories and the other splendid things which make communities throughout the nation like Buffalo fine places in which to live. They have contributed to the knowledge that this cooperative effort has meant larger payrolls for these communities and greater prosperity.

Improved Public Understanding

No, our industry has not been idle. It has made some progress toward an improved public understanding of its functions as a part of the national economy. But we do know that we have only touched the surface. There is a long way to go.

We know that it is not enough that we conduct our affairs according to sound business principles, which we do. We know it is not enough that our policies are based on a clear conception of the best interests of the public, which they are.

For some time the industry has been giving thought and consideration to the problems of interpreting those principles of business conduct and business policies to the public, and now we are going to do so with all the public relations media available to us.

Our industry has been somewhat slow to recognize the changing concept of public relations and the improved methods which have developed so strikingly in recent years. The really important change which is taking place in public relations is the realization that the problem is one which must have serious attention at the top management level.

In no sense of the word do I mean to set myself up as a public relations expert. I am not. But I am convinced that any good public relations program must stem from the management level. That is the contention of the experts and I am in complete agreement.

We are therefore approaching our problem with that premise in mind. In the set-up of our industry, however, with the Stock Exchange at the organizational top and the Association as the trade organization of members and member firms, it is not a simple problem to formulate public relations plans. Top management is not confined to the governing bodies of the two organizations. It consists of the management of 1,600 member firms and branch offices scattered through the country. Upon the success of our nation-wide program, therefore, depends the cooperation of the top management of all of those units. I am very confident it will be forthcoming. That confidence is based on the fact that our governors and officers in their regional contacts have been assured that it will be forthcoming.

I am encouraged to believe that our industry has evolved the beginning of a program in the right direction. I am glad to say that in its development the thinking of the Board of Governors and officials of the New York Stock Exchange and our group with respect to this problem has been along the same lines. We are headed in the same direction and our respective programs are thoroughly correlated.

Our nation-wide organization is not unlike your own. Our 1,600 member firm offices constitute the distributing points for our service to the public all over the country. They are small units. Those in Buffalo are a good example. There are ten distributing units here—ten outlets for our service. By themselves, even as a group, it is not possible to devote sufficient time or effort to public relations. As you may do and as many businesses do, therefore, we as the national trade organization of the industry are

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*An address by Mr. Goodbody at a dinner given by the Financial Community of Buffalo, Buffalo, N. Y., Jan. 20, 1949.

Why This Pessimism?

By THOMAS W. PHELPS*

Partner, Francis I. du Pont & Co.
Members, New York Stock Exchange

Holding we are suffering from vast overdoses of pessimism, Mr. Phelps traces origins to ideas and practices of collectivism fostered by the Administration. Blames financial advertising for stressing risks and casualties without giving advantages gained in investment. Says over-emphasis is placed on investment timing and price fluctuations, while too little attention is given to gains from permanent investment. Concludes new generation is willing to take a chance.

Uninhibited as I am by either training or experience in advertising, I propose today to tell you simply how your work looks to a layman—myself—and to ask you a few questions about it. In a way this is a poll, with the minor variation that instead of sending one of your representatives to ask a great many John Q. Publics what they think, you have summoned me, one John Q. Public, to appear before a great many of you. The principle is still the same. My only excuse for talking is that you asked me.

Thomas W. Phelps

I want to speak frankly because I am troubled by a number of things about financial advertising that I do not understand. At the same time I do not want my ignorance of the subject to hurt anyone. Accordingly, it seems to me that much as I deplore the practice I would speak off the record. If anything I say here goes beyond these four walls the responsibility will be yours.

What is the State of the Union? I know you do not expect me to give you a political and economic roundup. Mr. Truman and his Council of Economic Advisors have just done that. It seems to me, however, that they omitted a few important things. For one, they omitted to tell us that the dominant mood of the nation is pessimism.

We celebrate the unconditional surrender of all our enemies in the greatest war in history by shivering in our boots because we think another war is about to begin and we probably shall lose it.

We rejoice over the greatest harvest in our history by lamenting the destruction of our soil and the inevitability of starvation.

We accept the greatest national income and the highest employment on record as proof positive that we are at the top of a boom, about to bust.

In the stock market we give away factories and their equipment, daily selling their shares at prices below applicable net current assets though they are selling only five times earnings to yield 6 to 8% on dividends covered three times over.

Now pessimism has its uses, just as does laziness. Much of our progress in science and industry undoubtedly is due to a desire on someone's part to avoid work. Similarly, pessimism has contributed to man's well-being by acting as a shock-absorber to cushion the ups and downs of life. But both can be overdone.

I guess my quarrel with pessimism began with the fable of the ant and the grasshopper. The ant, you remember, was a pessimist. He worked hard all summer storing up food and making shelter for himself against the possibility that some day he might need both. The grasshopper sang and danced all summer with never a thought for the future. When winter came, the optimistic grasshopper knocked in vain at the door of the pessimist ant. As children we were left with the impression that the grasshopper thereupon froze and starved to death while the ant spent the winter multiplying. The first question I asked was where the grasshoppers came from the following spring. By the time I was ten, I was convinced that the whole story was propaganda to make small boys work. Ultimately I came to the more temperate conclusion that "nothing in excess" is the right answer, not only for the lazy man but for the pessimistic one.

Suffering From Over-pessimism

It seems to me that America is suffering from a vast overdose of pessimism.

Mr. Truman not only failed to note our national pessimism, but he likewise omitted any comment on one of its most important derivatives. That is, our growing acceptance and endorsement of collectivism. You all know the old story about the Irishman who was asked if he favored sharing the wealth. He gave the idea his hearty endorsement except as to pigs, because, as he put it, "Hell, I've got two pigs." When most of us have two pigs, the only hope for selling us the idea of collectivism is to scare us into believing that shortly we shall have none. You can suit yourselves as to whether I am suggesting a political consequence, but I think you will agree that fear of the future has played an important part in American politics in the last 20 years.

I hope you don't think I am fiddling on impractical, philosophical themes while back in your offices your clients are burning because you are not there. The slogan of our Research Department at Francis I. du Pont & Co. is "so what?" The "so what?" of our national pessimism and its derivative collectivism is that three years of record peacetime prosperity find us with equity markets so weak as to provide considerable justification for those who contend that the solution of an ever larger number of national problems is to let the government do it. Not in 30 years have stocks sold as low in relation to earnings as they are selling now. Only in 1932 and in 1942 have our leading industrial shares failed to sell higher in relation to book values than now. Not in the last quarter century have stock earnings been valued lower in relation to yields on highest grade corporate bonds than now. All this at a time when the SEC reports our net savings at the record figure of a quarter trillion dollars. Our shortage of risk capital is so acute and obvious that Eleanor Roosevelt recently devoted her entire daily newspaper column to it. I do not want to get into the argument as to whether our steel capacity is adequate, but it is fair to say that under current market conditions if the steel industry wanted to expand by raising additional equity capital it would have to invite that additional equity capital into the business on a basis representing a drastic write-down of the equity capital already there.

We have seen the practical effect of pessimism and collectivism in housing. Governmental inter-

(Continued on page 51)

*Address by Mr. Phelps at luncheon meeting of the New York Financial Advertisers, New York City, Jan. 25, 1949.

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Observations . . . .

By A. WILFRED MAY

STOCKHOLDER PROBLEMS HIGHLIGHTED BY THE MEETING SEASON

At this annual-meeting season the question of stockholder-management relations enjoys one of its sporadic appearances in the sun. Unfortunately, however, the public's interest gets aroused chiefly by press accounts of superficial controversies raised at the more turbulent gatherings, and by eccentricities displayed by a handful of recalcitrant "specialists" harping on a few "pet" procedural abuses in their many one-meeting stands. Thus these activities and their news treatment may merely be serving as a "red herring" in diverting serious attention from the much more fundamental problems arising from the separation of corporate ownership from control.

A. Wilfred May

What Price Management?

An example of a long-standing and complex question is the determination of management's compensation. Sound and equitable fixing of salaries persistently remains a most difficult problem for the various interested members of the community:—for the official himself, for the director seeking to do the best for his company, for the banker, for the SEC, for the courts, and for the occasionally interested stockholder. How is a scientific gauge, a statistical yardstick, or the market rate, to be found for objectively "pricing" an executive?

Surely these formidable basic difficulties in fixing officials' pay cannot be constructively resolved either by statute, by the glandular *Jammergeschrei* of social reformers, or by antics (even when provoking the gavel and/or fisticuffs) at the annual stockholders meeting.

Dividend policy, decision whether a company should be liquidated under certain conditions, a recap plan, and directorate change (as now proposed for the Illinois Zinc Co.) typify some of the situations where the interests of the management and the stockholders may be in opposition.

In practice, little if any constructive aid toward working out such problems is furnished by the presently existing techniques, such as the informative and elaborate annual report, the "modern" meeting (with or without sandwiches or soft drinks), the company stockholder relations officer (inside or outside the company), the law, or government agencies. To throw the above-cited types of issues into the lap of the Securities and Exchange Commission, as is frequently suggested, would completely distort the principles and effectiveness of that body. Nor does responsibility for internal company abuse which is contributed by the very important hiatus of disorganization and disfranchisement of stockholders get remedied by the existing stockholder leagues, by the financial "trade" organizations, by brokerage firms, or by the investment funds. Nor, of course, does the frequent "sell your stock if you're worried"-reply constitute a legitimate solution, even if convenient to management.

"How's the Management?"

Appraisal of his company's management and its performance constitutes a nettlesome enigma constantly confronting the shareholder, even during prosperous conditions. Although cognizant of available logical standards such as intra-industry comparisons of income statistically related to various criteria, and other more elaborate attempts at methodical appraisal, even the securities professional seems unable to do a satisfying job in this regard. He too is often sidetracked by a tendency to conform his appraisal to the mere course of income, and to glamorize and fictionalize "blue chip" management, particularly in certain industries. How much more bewildering, then, is the task of the lay shareholder, who is hence inclined to duck this as well as his other responsibilities in a general feeling of helplessness and "what's-the-use?"

Conclusions

Surely there is no overall panacea for the effects of honest differing self-interests functioning within the framework of our corporate system. But this observer has come to the strong conviction that a long and fundamental step in the right direction lies in revamping our director system.

The solution does *not* lie in the guise of the professional paid director, namely a director who is neither part of management nor a shareholder, or who is perhaps a shareholder in nominal amount. This technique, studied here and abroad by the writer, runs into the simple but decisive snag that the element of remuneration does not make the director work for the interests of the minority shareholders, nor for any particular class; nor does it prevent his subservience to the management which designates him for engagement. Such abortive result has been confirmed by the actual experience in England, where the professional director system has been in operation for many years—as related in the testimony taken before the 1929 and 1947 revisions of the British Companies Act.

Instead—in the interests of realism, and of meeting the normal dictates of perfectly ethical human nature, a comparatively simple and direct remedy lies in linking the material interests of the directors with those of the shareholders—via the joint ownership of stock in the enterprise. To the extent that such a direct material stake is important to the self-interest of the management director as well as to the outside director, will it automatically ensure his solicitude for his fellow-stockholders even though they are "absentees." Directors' actual stock-HOLDING as a supplement to stockholder-MINDEDNESS would cut many of the above cited Gordian knots.

While there are some "bugs" in the mechanics of effecting such stock ownership, as high income taxation, the technique should not be too difficult to accomplish—possibly through remuneration in stock, partially in the case of management directors and wholly in the case of the outside directors.

The State of Trade and Industry

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

A slight increase was reported in total industrial output for the country at large last week and moderately exceeded that of the similar week a year ago.

Latest reports available on continued claims for unemployment insurance show an increase of more than 8% for the week ended Jan. 1, 1949 compared with a rise of almost 3% in the period ended Dec. 25, while initial claims rose precipitately to approximately 20% in the latest week as against an advance of about 2% in the period ended on Dec. 25.

* * *

American industry will invest a total of about $55 billion in new plants and equipment between now and the end of 1953 if present plans of business leaders across the nation are carried out.

This is the conclusion of the most recent survey of the McGraw-Hill Publishing Company's Department of Economics. Plans for 1949 the report points out, are large enough to be consistent with continuing prosperity. If industry can get the money to carry them through, it will keep purchases of new plants and equipment at a high level.

The survey shows that industry, as represented by manufacturing, mining, transportation, and utilities, is now planning to invest $14.1 billion in 1949. That is only 5% less than the record-breaking total actually spent in 1948. If these plans are carried through, 1949 expenditures might well exceed those of 1948. Actual expenditures have been larger than planned in the years since the war.

Industry now has plans to invest more than $40,000,000,000 in the four years 1950-53. Plans taper off as they are pushed further into the uncertain future, the report points out, but the decline is remarkably small.

The survey provides for the first time information on which to judge the level of capital investment in relation both to total present value and needs. It shows the total value of existing facilities in manufacturing is $96 billion and the cost of replacing them completely with the most modern plants and equipment available would be at least $136 billion.

"American industry," the report concludes, "is prepared with a program of expenditures for new industrial plant and equipment which can increase national security, raise the American standard of living, and make a key contribution to a continuation of high-level prosperity.

"But whether or not national policy makers in Washington and elsewhere are prepared to let American industry have that opportunity remains to be determined. The policy makers have what may well be a decisive role still to perform."

* * *

Business failures rose 15% in December to 531. This brought the annual total to 5,252, the highest number since 1942. Although casualties in 1948 increased 51% from the preceding year, the rate of increase was well below the 1946-1947 rise of 208%.

December liabilities were up nearly 30% to $31,731,000 bringing the yearly total to $310,566,000, the largest volume since 1935. The sharpest increase in 1948 was the 69% rise in the $5,000 to $25,000 group; the smallest rise was 7% among failures involving liabilities of $100,000 or more.

* * *

December building permit valuations showed a further mild seasonal decline, totalling $275,540,434 for 215 cities reporting to Dun & Bradstreet, Inc. This represented a drop of 2.6% from $282,974,572 in November, while the decrease from the December 1947 figure of $307,945,958 was 10.5%.

In New York City, building plans filed during December fell to $46,214,077, from $60,794,688 a year ago, a drop of 24.0%. Compared with $49,415,458 in November, the decrease was 6.5%.

* * *

Continued mark-down sales in many areas stimulated consumer buying in the week. Total retail dollar volume slightly exceeded that of both the preceding week and the corresponding week a year ago. Shoppers, it was noted, sought reduced-price soft goods of acceptable quality.

The dollar volume of wholesale orders increased fractionally last week, holding close to the high level of a year ago. Commitments for Spring merchandise were made in an increased volume. Collections, however, continued to be slightly slower than last year.

STEEL OUTPUT SCHEDULED TO BREAK ANOTHER HIGH RECORD IN CURRENT WEEK

There are more signs this week that the steel industry is on its way to a normal market. Scrap is more plentiful, pig iron output is higher and the unusual pressure from customers is on the wane. This does not mean that the "great day" has arrived when the steel buyer

(Continued on page 35)

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Percy J. Ebbott Named President of Chase National Bank

The following changes in the management of the Chase National Bank were announced by Winthrop W. Aldrich, Chairman, after a meeting of the Board of Directors on Wednesday.

Percy J. Ebbott

Percey J. Ebbott, Senior Vice-President, has been appointed President of the bank, and Arthur W. McCain, who has been President, becomes Vice-Chairman of the board of directors. Carl J. Schmidlapp, senior Vice-President, has been named Vice-Chairman of the Executive Committee. The Chairman and President are the chief executive officers of the bank.

Eugene R. Black and George Champion have been appointed senior Vice-Presidents. Edward L. Love and Hugo E. Scheuermann, who were appointed senior Vice-Presidents in 1947, will continue in that capacity.

Mr. Black, formerly Vice-President in charge of the Bond Department of the Chase, has been United States executive director of the International Bank for Reconstruction and Development during the past two years. At the request of the Secretary of the Treasury, John W. Snyder, he has consented to continue to serve temporarily in that position, in addition to his duties at the Chase, until his successor in the International Bank is appointed.

Mr. Champion, who has been a Vice-President of Chase since 1939, has charge of the bank's business in the South.

Mr. Ebbott, the new President of the bank, has a background of broad experience in commercial banking and in trade and industry. For many years he has been a director of the Nash-Kelvinator Corporation, Allied Stores Corporation, and Moore-McCormack Lines, Inc.

In the Chase organization, Mr. Ebbott has been one of the senior lending officers and has had charge of the bank's business in Middle Western and Southwestern

(Continued on page 55)

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Business and Finance Speaks After the Turn of the Year

[EDITOR'S NOTE: The accompanying statements on the outlook for trade, industry and finance during 1949 were received too late for publication in our ANNUAL REVIEW ISSUE of Thursday, Jan. 20, in which issue there appeared, starting on page 18, several hundred of equivalent comments.]

POWEL CROSLEY, JR.

President, Crosley Motors, Inc.

With growing public realization that high-style automobile transportation can now be bought economically, the year 1949 should bring the lightweight car industry its biggest volume in history. That, I believe, is more than just a projection of a trend that became clearly defined in 1948. The year just closed, of course, was the biggest year in U. S. lightweight car history, with out company producing 34,000 units during the calendar year. There is every reason to believe that these figures, which are far above those of any preceding year, will be substantially exceeded in 1949.

Powel Crosley, Jr.

In addition to the pressure of general economic conditions, which are making people conscious not only of original cost but of the cost of maintenance, there is another influence in favor of the smaller car. The modern lightweight Crosley car has been engineered and styled to meet or exceed the standards demanded by the American motoring public.

Traditionally, Americans have always wanted power under the hood. Because the average family wants its car for fairly long trips as well as for intra-urban driving, the factors of speed and power will always be of importance in the buyer's opinion, and therefore must be reckoned with by the manufacturer. In our own case, we have met this demand with a 26.5 horsepower engine which is an outgrowth of wartime research and production we carried on for the Navy. This rugged engine combines power with lightweight to such an extent that it now is being used to fly lightweight airplanes and to power factory fork lifts. It is also being used as an air-conditioning power plant for large buses, and is being ordered in quantity for racing speedboats by the motorboat industry.

As 1948 came to a close, figures were released from Washington which showed that contrary to the case in 1947, Americans bought more E bonds than were presented for redemption. This seems to be further evidence that the public's purchasing power is still intact. On the other hand, becoming increasingly budget conscious and there is little doubt that this is another factor in the growing popularity of the lightweight car. The public already is aware of the economy made possible by the Crosley.

As the car population increases—and I think it will increase another 30% over the next five years—the roads and streets become more crowded. Parking has become all but impossible in most cities, and is even now a problem in the smaller towns. The owner of a lightweight car in this respect has a tremendous advantage over the driver of the conventional car. Women shoppers, out for the day's marketing, are particularly aware that their neighbors with smaller cars get their shopping done more quickly and conveniently.

These facts and figures do not mean that we believe the lightweight car will supplant other types of cars. We at Crosley have always taken a realistic view of our market. However, we do believe there is a potential market for at least 150,000 new lightweight cars a year. This is only 1% of the new and used cars purchased annually in this country. In 1949, Crosley Motors expects to produce and sell at least one-third of this 150,000 potential.

HON. CLAUDE PEPPER

U. S. Senator from Florida

The 81st Congress must pass legislation which would solve many challenging and complex problems.

We must expand and enlarge our education, health and social security programs. Nearly every county in the nation requires new school buildings and new equipment. Teachers' salaries and teaching standards must be raised. The present funds allocated to the states by the Federal Government for state and local health programs do not go very far. A National Program of aid to our Public Health Services is imperative.

Hon. Claude Pepper

There is an overwhelming demand for a National System of health insurance so that every man, woman and child can receive good medical attention through a typical American principle of insurance rather than charity.

We need more doctors, dentists, nurses and more hospitals. We, therefore, must make provisions for medical schools where American boys and girls can go to complete their training in the field of medicine, dentistry, nursing and related professions.

Something must be done about raising the purchasing power of our people in this time of a tremendous high cost of living. We must, if we are to take care of our people, make our national minimum wages at least 75 cents an hour and raise Social Security benefits and extend these payments to every man, woman and dependent child in the United States who needs it.

The Taft-Hartley Act must be repealed, lock, stock and barrel. We must start once again with the Wagner Act as a basis and pass any necessary amendments which would be acceptable to management and labor. I would like to see the President call a conference of Management and Labor and secure its recommendations for amending the Wagner Act. This conference should work closely with the Committees of the House and Senate in improving the Wagner Act so that Labor relations will be stable for many years to come.

Our tax program must be revised to balance the budget in line with the President's recommendations. This program will be, I am sure, an equitable one in which ability to pay will be the prime consideration. Small business concerns and persons with lower incomes should bear a lower burden than they now have.

Our foreign aid program must permit greater participation by small business concerns. The loopholes in our anti-trust statutes must be plugged and great monopolies must be broken up.

The 81st Congress will, under the leadership of the Democratic Party, return to the principles of free international trade and to this end, we will try to restore the Reciprocal Trade Agreement as it existed in 1946.

Naturally, as the President promised the people in the 1948 campaign, the 81st Congress will, I hope, approve the various aspects of the Civil Rights program. The Federal Government should be limited to those aspects of Civil Rights upon which it is empowered to act by the Constitution. We have no intention of intruding upon States' Rights in this field.

The whole world looks to America for prosperity and security. The 81st Congress must find a way to adjust our needs and requirements with those of the rest of the world. Every nation knows the devastating effect of the atomic bomb. They are all aware that this machine of destruction can render the world uninhabitable for generations to come. It is, therefore, the obligation of the 81st Congress to help build the greatest foundation for world peace and establish an equilibrium to make it everlasting.

ROBERT C. STANLEY

Chairman and President, International Nickel Company of Canada, Limited

Total world deliveries of Canadian nickel in all forms for the year 1948 will set a new high peacetime record. The two previous peacetime peak years were 1947 and 1937.

Robert C. Stanley

The principal nickel companies in Canada operated at high levels during the year to supply the unprecedented peacetime demand for the metal. The French production from the New Caledonian nickel deposits, however, is reported to have been relatively small, with 1948 output estimated at well under that of the preceding year. Cuban production will not figure in this year's total as the mines in that country, which had been worked from 1943 to the early part of 1947, remained closed. Since Russia does not release information on metal production, it is not feasible to estimate that country's 1948 nickel output.

The production of the Canadian nickel industry, in common with that of other industries in Ontario, has been hampered in recent months by electric power shortage brought about the lack of rainfall during the summer and autumn. Power restrictions may continue throughout the winter months.

During the latter half of the year prices quoted by International Nickel for electrolytic nickel were raised by reason of increased production costs, including supplies, services and labor, and the fact that the company must mine lower grade underground ore bodies to continue a large and steady supply. These increases brought the price level of nickel to well above that prevailing in the prewar years.

Stainless Steels

Following the pattern of previous years, the steel industry in the United Kingdom, Canada and the United States continued to be the largest consumer of nickel during 1948. Production during the year of chromium-nickel stainless steels, which accounted for a major portion of the steel industry's nickel consumption, is expected to exceed any previous year. It is estimated ingot output of chromium-nickel stainless steels will be approximately 15% above that of 1947.

Industries with diversified interests continue to expand their use of stainless steels. There is a growth in the employment of these steels in the field of industrial equipment and machinery required by the chemical industry as well as the beverage and canning, dairy, packing house and other food processing industries. Applications of stainless steels expanded this year in household appliances, such as cooking utensils, refrigerators and dish washers; also in restaurant equipment and galleys, soda fountains, deep freezers, vending machines, barrels, drums, shipping pails and surgical, hospital and photographic apparatus. The transportation industries, including railroads, aircraft and trailers, continue their use of chromium-nickel stainless steels.

New uses are continually being found for the stainless steels. The home building industry this year increased its use of various types of stainless steels for components which are exposed to the elements, such as door and window trimmings, decorative panels, window screens, gutters, spouts and drainage pipes. Other recent applications of stainless steels included curtain walls, endless belts, fish canning machinery, picnic coolers, shower nozzles, tire mold jackets and coal chutes.

Certain standard types of stainless steels which are used for heat resisting purposes have shown expansion in many applications, primarily in the field of the new type of locomotion and propulsion. The aircraft industry employs substantial quantities in various components of jet and gas turbine engines such as tail pipes, tail cones, firewalls, exhaust systems, heating and ventilating systems, fuel tanks and hydraulic equipment.

Considerable interest is being manifested in stainless-clad steel and bi-metals, and the growth in the use of these materials has continued.

In the United Kingdom and on the Continent, as in the United States and Canada, there is a growing interest in stainless steels and expectations are their production will continue to increase in these countries. Stainless-clad steel plates are now being produced in Italy for the soap industry, and the production of stainless steels in that country has expanded, particularly to meet the requirements in the chemical and oil industries.

Nickel Alloy Steels

The use of nickel as an alloying element in engineering steels continues to be one of the main outlets for the consumption of this metal. While practically all grades of nickel alloy steels were in heavy demand during the year, the so-called triple alloy steels, containing nickel, chromium and molybdenum, were again, as in the past several years, produced in greater tonnages than any other single class of engineering alloy steels. These steels are employed for an infinite variety of vital parts such as gears, shafts, heavy springs and structural tubing, in the aircraft, automotive, railroad, machine tool, tractor, mining, petroleum, agricultural machinery, and many other alloy steel consuming industries.

The fields of application for the nickel-containing high strength structural steels are steadily expanding with the growing appreciation of the economies which their employment makes possible. These steels have been found particularly useful by manufacturers and users of mobile equipment in which the reduction in deadweight and maintenance and operating costs are important factors. Examples of successful applications include railway rolling stock, Diesel locomotives, trucks, trailers, tractors, earth moving machinery, and mine cars, skips and cages.

The 9% nickel and 5% nickel steels have been recently demonstrated as highly resistant to the corrosion of condensate wells, and an appreciable volume of these steels is being ordered for "sucker rods" and tubing employed in these deep, high pressure oil wells. Various other types of engineering nickel alloy steels are employed for casings, drill stems and other components in the petroleum field.

In the United Kingdom considerable attention is now being given to mechanization in the coal industry, and various types of nickel alloys are extensively employed for most of the vital components of coal cutting and conveyor equipment. Many of the steel works in Italy have resumed the production of nickel steels for use in the chemical and oil industries.

Cupro-Nickel Alloys

The cupro-nickel and rolled nickel silver producers are consuming nickel at a record peacetime rate. The cupro-nickel alloys continue to be employed in the United States, Canada and the United Kingdom in increasing quantities in the industrial and shipbuilding fields for heat exchangers and salt water lines.

The 70 copper-30% nickel type retains its position as the most suitable condenser tube material for arduous service. Tubes of 88% copper-10% nickel-2% iron have been successfully used this year in the British sugar industry, where they show distinct advantage over brass tubes.

The cupro-nickel alloys have been supplemented in the United States and the United Kingdom with a new 90% copper-10% nickel alloy. It is expected that this alloy will find many applications in marine and industrial fields, where a moderately priced yet highly corrosion-resistant material is desired.

The large demand for high grade silver-plated ware using nickel silver for the base metal continues and the established markets for zippers, keys, springs and architectural applications are expanding both in the United States and the United Kingdom. In Australia the nickel silver industry has been particularly active with increased production of this alloy for tableware.

Nickel silvers and nickel bronzes continued to be widely used for fittings and architectural metalwork for marine purposes. The heavy building program under way in British shipyards demands increased quantities.

Nickel-Plating

The United States automotive industry continued as the largest consumer of nickel for plating purposes. Bright nickel under chromium still accounts for the major portion of sales in the plating industry in the United States, being almost universal on automobiles and elec-

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Digitized for FRASER

From Washington Ahead of the News

By CARLISLE BARGERON

The Republicans on the Senate Labor Committee can be pardoned for ridiculing the contortions of the Committee Democrats in an effort to meet organized labor's demand for outright repeal of the Taft-Hartley Act first, then consideration of amendments to the restored Wagner Act. Mr. Truman, himself, never promised any such thing. He promised repeal of the Taft-Hartley Act but with certain changes in the Wagner Act.

Carlisle Bargeron

For obvious strategical reasons, labor has been demanding ever since the election that the repeal and changes be in two separate packages. Once they got outright repeal of existing legislation they would be in a better position to control the changes, if they didn't prevent any changes.

So the pro-labor members of the committee sought to solve their dilemma by blandly passing a resolution saying the Taft-Hartley Act was dead and this being the case, the committee would now proceed to consider amendments to the revived Wagner Act. This is just so many words because the committee's report will still go to the Senate in one piece and be acted upon by that body as one piece. Naturally, the Republicans get a hearty cackle out of this. But they are overlooking a far more important accomplishment of labor in this first round of what promises to be a knock-down and drag out fight. They have succeeded, at last temporarily, in limiting the hearings.

Manifestly, before any action on the Taft-Hartley Act is taken, its critics should be called before the committee, confronted with each provision and required to explain just what is objectionable about it. This the labor leaders definitely do not want to do. They simply want to label it a "slave labor act" and let it go at that. On this basis they have collected millions of dollars from their members to bring about the measure's repeal and to increase their personal political power.

Why should they not be made to discuss each provision and explain just wherein the particular provision has hindered legitimate labor?

The Act, for example, prevents violence on picket lines. Do the labor leaders insist upon the right of violence? They unquestionably do but will any of them say so publicly.

These leaders should be confronted with the case histories where the National Labor Relations Board has moved under the Taft-Hartley Act, and required to say whether they wanted the conditions against which the Board moved to be continued.

Here is one at random and there are hundreds in the files of the Board and the Joint Congressional Committee which kept up a continual study of the operations of the act.

Out in California three GI's opened up a tavern and employed three bartenders. The GI's worked on the job, too. They had no contract with the union, but two of the bartenders did belong. One day the union business agent stalked in and demanded that the nonunion worker be fired, else a picket line would be thrown around the tavern until it was put out of business. The GI's demurred and called the nonunion bartender over and presented him with the problem. He readily agreed to join the union. "How much does it cost?" he asked. The business agent told him the union didn't want him, he simply had to get out.

Confronted with the ruin of their business, the GI's fired him. Under the Taft-Hartley Act he brought charges of an unfair labor practice with the NLRB. Under the Act, either the employer or the union and maybe both, are liable in such a case and can be forced to make restitution.

The labor leaders should be made to say if and why they object to this provision. They should not be permitted to get away with generalities.

Over in Baltimore, only recently, the labor bosses of the plumbers and the machinists working on a public health project, got into one of those jurisdictional disputes and the machinist boss pulled his men off the job, bringing it to a halt. There was nothing the employing contractor could do, nothing the other workers could do.

Under the Taft-Hartley Act, the NLRB can take over these jurisdictional squabbles and adjudicate them if the involved parties fail to get together themselves. The Board began to move in this instance, and the aggressive labor boss quickly put his men back to work.

Do the labor leaders object to this provision? If so why?

Regardless of what the committee does, the big battle over the Taft-Hartley Act will take place on the floor. And undoubtedly there will be a full airing of these case histories. But the labor leaders can't be questioned and cross-questioned on the Senate floor. Limitation of the committee hearings will preclude their being thoroughly examined there. Republicans have given notice they will seek to extend the hearings in order that the new labor legislation may be thoroughly gone over. Certainly the whole labor-management situation was explored before the Taft-Hartley Act was enacted. The only argument so far advanced for its repeal is that the labor leaders want it.

And when it gets down to brass tacks most of them want this repeal by way of showing their power over the government. This gives them a greater hold over the workers and also permits them to continue collecting money from these hapless fellows for one "benevolent" cause after another. These collections for "causes" in the labor movement, incidentally, have come to be as much of a nuisance as the ever-present collectors for charities and inescapable testimonial dinners.

In the recent Presidential campaign the Big Four Brotherhoods collected money from their subjects to defeat the Taft-Hartley Act and they don't even come under it.

Spread the True Story Of American Business!

By IRVING S. OLDS*
Chairman, Board of Directors, U. S. Steel Corporation

Deploring misconceptions and propaganda against American business, U. S. Steel Corp. Chairman urges campaign of education to bring out true facts. Denies corporation profits are excessive and warns of dangers of socialization. Points out further increases in wages without offsetting price increases, will kill the golden goose. Sees proposal of government entering steel business an opening gun in program of industry nationalization.

At the outset, I should like to say that I am not pessimistic about the future of this country. I cannot make myself believe that the American people are so lacking in common sense as readily to permit any foreign importation to replace our long tried-out system of competitive free enterprise—a way of life, which I think all of you will agree is largely responsible for the growth and strength of the United States and which has resulted in a standard of living unequalled anywhere outside of this nation.

Irving S. Olds

Undoubtedly we must anticipate constant change in conditions over the world. That has been going on since the beginning of civilization. But such a gradual alteration of surroundings as time marches on does not require abandonment of fundamental American freedoms and principles. What I should like to emphasize tonight is that the preservation of these freedoms and principles calls for eternal vigilance on the part of our people. In fact, it calls for much more than that. To permit the American people to exercise that inherent wisdom and sense of fairness which I am certain is their possession, the public must be told, and told again and again, the truth about our American economic system and its accomplishments. Men of standing and responsibility throughout the nation must be vocal on behalf of our American institutions.

Today a number of individuals in this land appear to want more government in business. They seem to be of the opinion that the public interest will be better served by throwing overboard the determinations of the market place and the economic law of supply and demand, and by substituting therefor mandatory statutes and arbitrary regulations promulgated by governmental bureaucrats. Their conviction apparently is that government is far better qualified than businessmen to decide what should be the products of American industry, to whom they should be sold, and at what profit, if any.

Acquaint People With Facts of Business

Some of these seeming advocates of basic change in our established American economic order may be idealistic theorists, whose aims are sincere. Others may be simply ignorant. Still others may have sinister axes to grind. Whatever may be their inward motives, expressed or unexpressed, since or insincere, the effect on the country will be the same, should their views prevail. These men and women are now distinctly in the minority, I should say. I firmly believe that the primary task facing American businessmen today is to acquaint the people of our country with the facts about business and with the great achievements and virtues of our American system. Telling the full truth is always the most constructive way to meet any problem. Through education and sound argument a convincing case can and must be established to show the fallacies of those who would so establish a new order of things in the United States. In my judgment, this is the effective way to insure that this particular group of unsound advocates will forever remain in the minority.

How can this be accomplished? I can only give you my thoughts, for whatever they may be worth. Probably something of a constructive character along the educational lines I have suggested can be done by this association of manufacturers at Hartford and by similar organizations throughout the country. Unfortunately, business embraces thousands of separate concerns and is not organized or capable of speaking as an entity, although some commentators often talk of American industry as if it thought and acted as a single unit. Business organizations have not always been too influential with the public in the past. Irresponsible critics unjustly assail manufacturers' associations as citadels of concentrated wealth and monopolistic privilege, only concerned with reactionary policies and with the selfish interests of their members. Unfair and unfounded criticism of this kind should not be permitted to deter manufacturers' associations from doing their duty and acting in such a way as they believe to be in the public interest. The heads of business groups can be sound leaders and sincere statesmen.

Each of us as an individual has a distinct responsibility to do his part in bringing home to the public the true story of American business. Somehow people at large must be made familiar with the facts. Otherwise, how can we answer effectively the false accusations which are constantly being hurled at us? Otherwise, how can we meet the threat in days of

(Continued on page 40)

*An address by Mr. Olds at dinner of the Manufacturers Association of Hartford County, Hartford, Conn., Jan. 20, 1949.

We are pleased to announce the following appointments:

Mr. Glenn R. Miller
Executive Vice President and Director

Mr. John A. Kruse
Vice President in charge of Syndicates and Sales and Director

Mr. Harry Irwin
Vice President in charge of New York Office and Director

Mr. Cyril H. Weagle
Vice President in charge of Municipal Department and Director

Mr. Robert L. Kaiser
Secretary and Director

Mr. John E. Dwyer
Director

Mr. Harvey L. Hawkins
Director

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U.S., Canadian Exchanges—Bulwarks of Free Markets

By EMIL SCHRAM*
President of the New York Stock Exchange

At 75th Anniversary of Montreal Stock Exchange, Mr. Schram lauds unity of U. S. and Canada in adhering to North American system of democratic capitalism. Holds Canada will not abandon free enterprise in favor of nationalization of industries, and defends securities exchanges as free markets. Says exchanges are a catalyst between investor and management and, if not badly handicapped by unnecessary regulation, they direct flow of savings through proper channels.

I am highly honored to have this opportunity to share your 75th Anniversary. There is something about coming to Montreal that warms the heart. It is like visiting an old friend with whom one has endured much and enjoyed much. No two nations have ever achieved a greater measure of mutual understanding, good will and unity of ideals than Canada and the United States. As a material reflection of this achievement, the United States has invested four times the amount in Canada that it has in any other nation; our trade is the largest of that between any two nations. A citizen of Canada is highly regarded in the United States where I cannot recall hearing one derogatory remark in regard to a Canadian. Perhaps a good reason for our steadfast belief in each other lies in the fact that, like good companions, we have shared together—the hardships of war—the blessings of peace.

Emil Schram

In this connection may I pay tribute to Canada's outstanding contribution to the winning of the second World War; to her invincible Navy, which now ranks as the third largest in the world; to the Royal Canadian Air Force and the training of more than 131,000 air crew personnel; to the Canadian Army which fought in five European countries and accomplished some of the most difficult and painful jobs that had to be done.

U. S. and Canada Allied in New War

The United States is engaged in a new war now, a war of ideas and ideologies, and Canada is again our ally. The field of battle is the economic system under which both nations live, and our antagonists, the purveyors of socialism and communism who have asked us to exchange a free society for one in which we would lose many of our liberties in return for a minimum of security.

During the passage of the 75 years we are celebrating tonight, Canada and the United States have been well fortified in war and prosperous in peace under a form of capitalistic system, I say a form because we do not have the same capitalistic system which has been known in Europe and which fell in disrepute there because it was not operated democratically. In Europe, both cartels and monopoly were not only permitted but encouraged by governments and they sapped much of the vitality of capitalism and prevented its doing the greatest good for the greatest number.

Our North American system is private capitalism, but it is not monopoly capitalism nor cartel capitalism. The fact that we outlawed monopoly both in Canada and the United States when it began to develop at the turn of the century, is the key to our whole economic system. It is the one thing that makes the system American. It springs from the same idea of freedom that has shaped our form of government and our way of life. The American idea of freedom is the idea of a ship or an engine running free—not running wild. In North America the very idea of freedom has always meant a certain amount of control, enough control so that each man may be free, so that no one man or group may ever end the freedom of the rest. That has always been our idea of a free form of government, and that is why our government is a system of checks and balances, and when I talk of free enterprise throughout this evening I use the word "free" in that sense.

Most of the development of this democratic capitalism has come within the past 75 years and much of it has come to Canada as a result of the gradual dissolution of the ties that bound her to Europe.

Seventy-five years ago Canada was largely under British rule. As North America developed, and especially after the Civil War in the States, Canada slowly absorbed American ideals. The ties of tradition are strong, and Canada adheres to many British customs and forms, but when it comes to a decision involving fundamental policy she is usually American. These changes from British to American ideals have gone on so consistently that today Canada is just as much an independent nation as the United States. She is no longer tied to Great Britain except as a matter of choice, certainly not in any compulsory sense.

Canada at Crossroads

You may wonder why I am saying these things, or you may realize that there is a very good reason. Canada is at the crossroads. The Canadian people are being urged by the doctrinaire socialists to abandon free enterprise in favor of bureaucratic controls and the nationalization of major industries. In common with the United States, Canada has adopted some socialistic principles, but as a unit she remains a free enterprise nation. There are certain socialistic concepts and customs well etsablished in the United States, but they are not of national formation and do not control general national policy. Canada shares this type of free society.

These isolated acceptances of enlightened socialism in the United States and Canada are a far cry from the nationalization of the British steel industry which, as Winston Churchill describes it, "is not a plan to help our patient, struggling people, but a burglar's jimmy to crack the capitalistic crib."

I do not believe Canada will go socialistic in the sense that Great Britain has. It is unthinkable that Canada would ever have to choose between American and Great Britain on any great fundamental question of policy, but if such a choice were forced upon her, I believe her decision would be thoroughly in accord with American ideals, and when I say American I mean the entire continent and not just the United States.

Under the free enterprise system both of our nations have made remarkable progress throughout the past 75 years. Our lives today revolve around the inventions and discoveries made during that time. Those years have contributed to our mutual convenience and well being beyond the most courageous expectations of the founders of your exchange.

Beginnings of Montreal Exchange

A progress of events that was to completely alter the mode of life in North America was unfolding when the "Board of Stock Brokers" became the Montreal Stock Exchange in 1874. There is no record that anyone of them foresaw the prosperous years ahead. Their actions, however, had previously revealed confidence of high order. In 1870, the first $50 received as a listing fee by the Board of Stock Brokers was promptly spent on champagne for the members. In the optimism inspired by the champagne, there were undoubtedly rosy dreams of the future, but what actually transpired was, I am sure, beyond the best of them. First came the telephone, invented by Alexander Graham Bell in 1876; then the phonograph born in the brain of Thomas Edison about 1877 and soon joined by his other brain babies, the electric light and the motion picture.

On the farm the self-binder came into existence about 1879 and revolutionized the harvesting of grain. It was succeeded by the "combine" which in turn greatly increased the efficiency of farm work.

But the invention which has completely altered the lives of most of us since 1874 was that of the internal combustion engine. It was not until 1876 that the production of the silent gas engine launched this revolutionary discovery on its amazing commercial career, during which it was applied to the automobile, the truck, and then the airplane. It seems to me that human activities now center around these three developments, more so than around anything else, with the possible exception of electric power in which Eastern Canada stands as one of the principal sources of supply.

In medical science, Pasteur's discovery of "germ diseases" was followed shortly by that of the X-ray; later by the preparation of insulin by your Canadian scientists, Dr. Banting and Professor MacLeod.

Seventy-five years of magnificent accomplishment! During this three-quarters of a century, the North American man has been freed of the limitations of space; his health has been materially improved; his work on the farm and in the factory has been taken over by powerful and efficient machines; his standard of living has steadily increased; he is able to buy more, enjoy more pay less and work less.

In this unparalleled economic progress, human rights were at first neglected. Since the turn of the century, however, and particularly in recent years, industry has shown increasing willingness to shoulder its responsibilities to employees and to operate in the public interest. As a result social progress has caught up. In fact, as I look over the socialistic proposals which are awaiting consideration by our two nations, I am inclined to say there is imminent danger that if many of them are enacted, social progress will

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*An address by Mr. Schram at the 75th Anniversary Dinner of the Montreal Stock Exchange, Montreal, Can., Jan. 26, 1949.

Dealer-Broker Investment Recommendations and Literature

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

Banks and Trust Companies of New York—67th consecutive quarterly comparison of leading banks and trust companies—New York Hanseatic Corporation, 120 Broadway, New York 5, N. Y.

Dividend Records—List of 25 investment issues with 50-year dividend records—Amott, Baker & Co., Inc., 150 Broadway, New York 7, N. Y.

New York City Bank Stocks—Annual analysis and comparison—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

New York City Bank Stocks—Comparative figures at Dec. 31, 1948—The First Boston Corporation, 100 Broadway, New York 5, New York.

Outlook for 1949—Forecast—Milner, Ross & Co., 330 Bay Street, Toronto 1, Ontario, Can.

Also available are data on **Canadian Breweries, Bell Telephone, Algoma Central Railway.**

Railroad Switches—Bulletin of suggested switches in railroad first mortgage bonds—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Also available are leaflets on **Central Foundry** and **Wisconsin Electric Power.**

Refined Sugar Prices—Lamborn's chart of comparative prices World War I and II and Postwar Period—Lamborn & Company, 99 Wall Street, New York 5, N. Y.

Taxability of Dividends Paid in 1948—Detailed memorandum showing tax status of the dividends on various investment trust for the year 1948—Taussig, Day & Company, Inc., 316 North Eighth Street, St. Louis 1, Mo.

Television—Memorandum—Television Shares Management Company, 135 South La Salle Street, Chicago 3, Ill.

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

* * *

Air Reduction Company—Analysis—G. H. Walker & Co., 1 Wall Street, New York 5, N. Y.

Amalgamated Sugar Company—New analysis—Edward L. Burton & Company, 160 South Main Street, Salt Lake City 1, Utah.

American Airlines—Analysis—Townsend, Graff & Co., 15 Broad Street, New York 5, N. Y.

American Telephone & Telegraph—Circular—A. M. Kidder & Co., 1 Wall Street, New York 5, New York.

American Trust Company—Analysis—Elworthy & Co., 111 Sutter Street, San Francisco 4, Calif.

Arkansas Western Gas—Circular—Comstock & Co., 231 South La Salle Street, Chicago 4, Ill.

Bingham-Herbrand Corp.—Circular—Hecker & Co., Broad and Arch Streets, Philadelphia 7, Pa.

Bingham-Herbrand Corp.—Bulletin—Wm. J. Mericka & Co., Inc., Union Commerce Building, Cleveland 14, Ohio.

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COMING EVENTS

In Investment Field

Jan. 28, 1949 (St. Louis, Mo.)
Security Traders Club of St. Louis Winter Party at the Chase Hotel.

Jan. 31, 1949 (Pittsburgh, Pa.)
Pittsburgh Securities Traders Association Annual Dinner and Meeting at Pittsburgh Athletic Association.

Feb. 11, 1949 (Boston, Mass.)
Boston Securities Traders Association Annual Dinner at the Hotel Somerset.

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

Feb. 14, 1949 (New York, N. Y.)
New York Curb Exchange Annual Election.

Feb. 15, 1949 (Detroit, Mich.)
Detroit Stock Exchange Annual Dinner at the Hotel Statler.

Feb. 21, 1949 (Philadelphia, Pa.)
Investment Traders Association of Philadelphia Annual Mid-Winter Dinner at the Benjamin Franklin Hotel.

March 16-17, 1949 (Chicago, Ill.)
Central States Group of IBA Spring Meeting at Drake Hotel.

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

Dec. 4-9, 1949 (Hollywood, Fla.)
Investment Bankers Association Annual Convention at the Hollywood Beach Hotel.

NSTA Notes

BOSTON SECURITY TRADERS ASSOCIATION

The Boston Securities Traders Association has announced that it will hold its annual dinner at the Hotel Somerset on Friday, Feb. 11, 1949.

Carl V. Wells, of Paine, Webber Jackson & Curtis is handling ticket reservations and Rodney M. Darling, of du Pont Homsey Company is in charge of room reservations. Other members of the committee are: T. Edmund Williams, Chairman, Hooper-Kimball, Inc.; Curtis S. Bates, Draper, Sears & Co.; Hubert N. Bernard, Jr., Schirmer, Atherton & Co.; Fred R. Carr, Tucker, Anthony & Co.; Arthur H. Reilly, Josephthal & Co.

INVESTMENT TRADERS ASSOCIATION OF PHILADELPHIA

The Investment Traders Association of Philadelphia will hold its 25th annual mid-winter dinner on Feb. 21 at the Benjamin Franklin Hotel at 7:30 p.m. Newton H. Parkes, Jr., Bioren & Co., is Chairman.

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Paul R. Flynn Co. Formed in Los Angeles

LOS ANGELES, CALIF.—Paul R. Flynn has formed Paul R. Flynn Co. with offices at 411 West Seventh Street. Mr. Flynn was formerly partner in the dissolved firm of Flynn & Levitt. Associated with him in the new firm are Clarence F. Anderson, Thomas F. Ardman, and Lynn A. Hart, all previously with Flynn & Levitt.

Albert W. Baker Joins Lyons & Shafto Staff

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Albert W. Baker has become associated with Lyons & Shafto, Inc., 79 Milk Street. Mr. Baker was formerly trader for F. Brittain Kennedy & Co.

With M. N. Hogan & Co.

(Special to THE FINANCIAL CHRONICLE)

MEDFORD, OREG. — William Owens is with M. N. Hogan & Co., 38 South Central Avenue.

Niccoli With Fewel & Co.

LOS ANGELES, CALIF.—Michael C. Niccoli has become associated with Fewel & Co., 453 South Spring Street, members of the Los Angeles Stock Exchange. Mr. Niccoli was previously with Gross, Rogers & Co. and Walston, Hoffman & Goodwin.

With Akin-Lambert Co.

LOS ANGELES, CALIF.—Richard B. Ensign has been added to the staff of Akin-Lambert Co., Inc., 639 South Spring Street.

Bateman, Eichler Adds

LOS ANGELES, CALIF.—Stanley H. Lack has been added to the staff of Bateman, Eichler & Co., 453 South Spring Street, members of the Los Angeles Stock Exchange.

Fenwright Co. Formed

Max Rhoade is engaging in a securities business from offices at 110 William Street, New York City, under the name of Fenwright Company.

Wallace Marshall With Hill Richards & Co.

LOS ANGELES, CALIF.—Hill Richards & Co., 621 South Spring Street, members of the Los Angeles Stock Exchange, announce the association with their firm of Wallace A. Marshall as Executive Vice-President. Carey S. Hill has been elected Chairman of the Board of Directors, and Murray Ward, President.

Mr. Marshall was formerly partner in Maxwell, Marshall & Co.

New Issue

$50,000,000
STATE OF LOUISIANA
World War II Veterans' Bonus Bonds
Series "A"

Dated January 15, 1949 — Due January 15, as shown below

Bonds maturing January 15, 1954, and thereafter, are redeemable in whole or in part, in inverse order of maturity, by the State of Louisiana at the option of the Board of Liquidation of the State Debt on January 15, 1953, or on any interest payment date thereafter upon payment of the par value thereof plus a premium of 2% and accrued interest to the date fixed for redemption of the bonds.

Principal and semi-annual interest (July 15 and January 15) payable at the office of the Treasurer of the State of Louisiana, Baton Rouge, Louisiana, or at the State's fiscal agency in the City of New York, N. Y. Coupon bonds in the denomination of $1,000, registerable as to principal only or as to both principal and interest. Fully registered bonds may be reconverted into coupon bonds.

Interest exempt, in the opinion of Counsel, from all present Federal Income Taxes

Legal investment, in our opinion, for Savings Banks and Trust Funds in New York, Connecticut and certain other states and for Savings Banks in Massachusetts

THESE BONDS, to be issued to provide funds for the payment of bonuses to World War II Veterans' of the State of Louisiana, are part of an authorized issue of $60,000,000 authorized by Constitutional Amendment at an election held November 2, 1948. Said bonds will constitute, in the opinion of counsel, valid general obligations of the State of Louisiana for the payment of the principal and interest of which the full faith and credit of said State will be pledged. In the opinion of counsel also, these bonds will be payable primarily from the avails and proceeds of the tax levied on beer, authorized by Act No. 8 of the Regular Session of 1948 of the Legislature of Louisiana.

AMOUNTS, MATURITIES AND PRICES

Amount	Coupon Rate	Due	Yield to Maturity	Amount	Coupon Rate	Due	Yield to Maturity	Amount	Coupon Rate	Due	Yield to Maturity
$3,500,000	4 %	1953	2.00%	$3,939,000	3.10%	1957	2.60%	$4,433,000	3.10%	1961	3.00%
3,605,000	4	1954	2.20	4,058,000	3.10	1958	2.70	4,567,000	3.10	1962	3.00
3,713,000	3¼	1955	2.40	4,179,000	3.10	1959	2.80	4,704,000	3.10	1963	3.00
3,824,000	3.10	1956	2.50	4,305,000	3.10	1960	2.90	5,173,000	3.10	1964	3.00

(accrued interest to be added)

These bonds are offered when, as and if issued and received by us, subject to affirmation by the Supreme Court of the State of Louisiana that the bonds are general obligations of the State of Louisiana for the payment of the principal and interest of which the full faith and credit of the State are irrevocably pledged; and subject to approval of legality by Messrs. Wood, King & Dawson, Attorneys, New York, N. Y.

Blyth & Co., Inc. — Halsey, Stuart & Co. Inc.

Lehman Brothers — Chemical Bank & Trust Company — The First Boston Corporation — Kidder, Peabody & Co. — Smith, Barney & Co.

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January 26, 1949

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Mutual Funds

By HENRY HUNT

25% Up; 1% Unchanged; 74% Down

The Dow-Jones average of 30 industrial stocks has been so long and widely publicized that people accept it pretty generally as a standard measure of stock price trends. The market "advances" or "declines" according to what the Dow-Jones average does.

One might think, therefore, from glancing at the following table that for the past two years the market had "done nothing," and in fact that it had been remarkably stable.

12-31-46	3-31-47	6-30-47	9-30-47	12-31-47	3-31-48	6-30-48	9-30-48	12-31-48
177.20	177.20	177.30	177.49	181.16	177.20	189.46	178.30	177.30

But if from these figures one gains the impression that stock prices are almost exactly where they were two years ago, he is probably in for a surprise.

Actually of all the nearly 1,000 common stocks quoted on the New York Stock Exchange, only 13 registered no net change for the two year period.

Only 25% of all these stocks showed any net gain, 1% no change and the remaining 74% showed net losses ranging up to more than 77%.

Finally, of those stocks which went down, about 14% or 94 issues declined more than 50% in value.

A $77,000 loss on a $100,000 investment is pretty stiff in a period when the market was supposed to have been "doing nothing." And $50,000 and $60,000 losses are distinctly not ho hum matters in any period, let alone one of seeming price stability.

These figures rather dramatically illustrate a contention we have held for a long time, viz., that market averages don't reflect the experience of investors. Investors owned all these 676 stocks that have declined in the last two years including, of course, the 94 stocks that declined over 50%.

We don't think anyone is smart enough to pick only the stocks that always go up. But we are emphatically convinced that the only way to avoid such losses as represented by the above facts and circumstances and to obtain relatively good results on a dependable basis is to diversify investments broadly among carefully and intelligently selected issues and then to watch them and keep watching them and still keep watching them.

Conditions change and the fortunes of individual companies change accordingly. No one can anticipate every adverse development affecting individual stock values but simple common sense tells us that an organization of trained and experienced men devoting full time to "weeding out" doubtful situations and substituting healthier and more promising ones is bound to produce better results than the average individual acting on tips, hunches or guesswork. At least such an organization will avoid the kind of mistakes that are avoidable. And at best it can, by careful selection and broad diversification, offer the strongest possible assurance of relatively good rather than relatively poor investment results.—Quoted from **Vance, Sanders'** "Brevits."

The Case History of Penicillin

Penicillin, one of the greatest discoveries benefiting mankind, stands as a major milestone in medical history.

The observation of a British scientist, back in 1928, that a mold growing in a glass plate destroyed disease bacteria finally led to the creation of a brand new line of products, sales of which are estimated at the rate of $170 million for 1948.

The product of the mold turned out to be a new drug that proved to be an almost sure cure for some of the most devastating diseases. First commercial production got underway in 1943. Pneumonia no longer terrifies, because with the use of penicillin less than 5% of the patients die. Deadly infections, once called "blood poisoning" can be quickly stopped. It may be possible to stamp out venereal disease. The discovery opened a whole new medical horizon, and now a variety of molds make a variety of "antibiotics" for different uses.

Penicillin is produced from a mold similar to the humble and annoying growth found on cheese or spoiled fruit. However, it took the war and the ingenuity of the chemical industry to turn the production of the drug into a major industry. Molds are temperamental "plants" and only make a little of the magic drugs. At first penicillin was made in glass bottles on a small scale, and it sold for $20 a dose of 100,000 "Oxford units." Now it is produced in huge tanks as big as those used to make beer, and it sells in bulk for only about 10 cents a dose.

Last year production was over a billion doses totaling about 125,000 pounds. The accomplishment is more striking than growing orchids by the ton.—Quoted from **Chemical Fund's** "Test Tube."

Assets of Television Fund Cross $1,000,000

Operations of **Television Fund, Inc.** started Sept. 8, 1948. In the first four months the Fund has declared an initial dividend of 10 cents a share and compiled this growth record:

	As of Jan. 12, 1949
Net Asset Value	$1,010,384
No. of Shareholders	762
No. of States Cleared	29

The initial dividend of 10 cents a share is payable Feb. 15, 1949, to holders of record Feb. 5, 1949.

A Calvin Bullock Forecast

"As we view 1949, there does not appear to be any danger of a crisis arising from credit stringency. Also business activity as measured by physical volume may show a moderate decline, but should remain at relatively high levels. The principal danger is a recession not of general business, but of the profit margin. With rigid and rising costs, even a slight decline in price or volume could have a

Prominent Personalities

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HARRY J. SIMONSON, Jr.
President, National Securities & Research Corp.

Harry Simonson is a hard worker. He has to be. Like most good Catholics, he has a large family which keeps his nose to the grindstone from 9 to 6 or even later. Harry is handsome, dapper and an immaculate dresser, although sometimes he looks as if he'd be more comfortable if he took off his vest.

H. J. Simonson, Jr.

His private office is only slightly smaller than Grand Central Station. However, there is a reason for this. It also doubles as a room for his Board of Directors. Harry has an accordian-like table that can be stretched to almost any desired length. When fully extended and surrounded by occupied chairs, his office doesn't look quite so large.

Mr. Simonson spent his early business career learning selling, advertising and printing techniques. He was also engaged in the mortgage business for several years during the late '20s. In 1930, together with "Doug" Laird, he organized the National Securities and Research Corporation. However, it was not until 1940 that they launched National Securities Series, now comprized of 21 different series including 10 industry group funds, two bond funds, one preferred stock fund and several other income type as well as appreciation type funds. No other sponsor covers such a wide range of investment objectives as "National," although Hugh Long and Distributors Group are close runners-up. Including First Mutual Trust Fund, "National" sponsors and manages some $50 million of investors' funds today.

Harry Simonson is an inveterate reader and seldom misses any important item in financial publications. He also studies current and past economic trends in the United States and foreign countries whenever he has the time. Harry enjoys a good story and is an occasional weekend golfer. On his vacations, he prefers to fish but can't decide which he'd rather do, catch a mess of brook trout or eat them. We agree, that's a tough choice.

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substantial effect on profit margins, particularly in the early stages of readjustment. Such a condition would however be spotty rather than general since some industries have already made their readjustments to 'normal' and some others will unquestionably continue to show high earnings during 1949.

"In the light of these conditions and the prospect of a general decline of corporate earnings, what of the stock market? Is it reasonable not to expect the market to decline if this occurs? Obviously, there is no categorical answer to this question, but one might well have posed the query in 1946 as to whether the market could decline, as it did, when the postwar boom was just getting underway. Stocks are reasonably priced in relation to book values of their assets, which are incidentally largely valued in 1939 dollars, and the market has exhibited caution and foresight—possibly to an exaggerated degree—in appraising current earnings. In view of the sobriety and the caution exercised by the market, the market cannot be said to be in a vulnerable position. As a matter of fact, the market appears prepared for almost every contingency except good news. Again, as in the past two years, the prospective economic environment suggests that selection should prove of paramount importance in shaping investment policy."—An excerpt from **Calvin Bullock's** "Perspective."

Louis E. Stone With Goodbody Co. Staff

Louis E. Stone, formerly Vice-President of Montgomery, Stone & Peyser, has become a registered representative in the investment sales department of Goodbody & Co., 115 Broadway, New York City, members of the New York Stock Exchange.

Edward Long, Others With Estabrook & Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Edward B. Long, Daniel M. Harrington, and Robert L. Daley have become associated with Estabrook & Co., 15 State Street, members of the New York and Boston Stock Exchanges. Mr. Long was formerly a partner in Long & Nash.

Transcripts of Mutual Fund Lectures

The announcement last week of a new course in "Retail Salesmanship of Mutual Investment Funds" to be given by the New York Institute of Finance, 20 Broad Street, resulted in an over-subscription of the available seats in the Institute's largest classroom.

To meet this unsatisfied demand in New York and the many requests received from all parts of the country the Institute plans to publish transcripts of the lectures. The course will be conducted by Douglas K. Porteous, Vice-President and Sales Manager of the Cohu Corp. He will be assisted by nine guest lecturers. The list includes: Arthur Wiesenberger Partner, Arthur Wiesenberger & Co.; Harold E. Aul, Economist; Calvin Bullock; Frank L. Valenta, Vice-President, Distributors Group, Inc.; Louis H. Whitehead, Louis H. Whitehead Co.; Douglas Laird, Vice-President and Secretary, National Securities & Research Corp.; Hugh Bullock, President, Dividend Shares; James Bridges, Partner, The Keystone Co. of Boston; Vernon Vivian, Vice-President, Hugh W. Long and Co., Inc.; Kimball Valentine Partner, Vance Sanders & Co.

The Institute announces that registration is still open in its other lecture courses in Current Developments in Utilities, Current Economic Developments Affecting Security Values, Analysis of Public Utility Operating Company Securities, Analysis of Railroad Securities, and Current Developments in Selected Industries. The latter course includes two lectures on the Television Industry

Classes start the first week in February in the classrooms of the Institute located in the Stock Exchange building at 20 Broad Street, New York City.

City of Brisbane Bonds Drawn for Redemption

Holders of City of Brisbane 20-year sinking fund 5% gold bonds due March 1, 1957, are being notified that $93,000 principal amount of the bonds has been drawn by lot for redemption on March 1, 1949, through the sinking fund at par. The bonds will be redeemed at the head office of The National City Bank of New York, 55 Wall Street, New York.

Donald Davis With Dempsey-Tegeler Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.— Donald W. Davis and John M. Archer have become associated with Dempsey-Tegeler & Co., 210 West Seventh Street. Mr. Davis was formerly Vice-President of Wagenseller & Durst, Inc.

F. Thomas Kemp Joins Edgerton, Wykoff & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.— F. Thomas Kemp has become associated with Edgerton, Wykoff & Co., 618 South Spring Street, members of the Los Angeles Stock Exchange. Mr. Kemp has recently been with Paine, Webber, Jackson & Curtis and prior thereto was head of Thomas Kemp & Co. in Pasadena.

Foster & Marshall Adds

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, OREG. — William E. Wetmore has been added to the staff of Foster & Marshall, U. S. National Bank Building.

A Half-Century of Leadership

1899-1949

OHIO, with its prosperous and balanced economy of farm and factory, and Otis & Co., a pioneer in the State's financial and industrial development, have grown up together.

When Otis & Co. entered the investment banking business in Cleveland in 1899, Ohio had a population of 4,000,000 and Cleveland some 380,000. Today Ohio, with 7,000,000 people and with its metropolis exceeding the 1,250,000 figure, is a leader among the States of the Nation. Similarly the annual value of manufactured products in Ohio has increased from $748,000,000 to more than $15,000,000,000 and the annual value of its agricultural products from $200,000,000 to more than $1,000,000,000.

Ohio's score of populous cities are the "home towns" of internationally known industrial organizations and the productivity of its agriculture ranks with the best of America's fertile farm belt. Its network of railroads is supplemented by the magnificent water transportation facilities afforded by the Great Lakes on the north and the Ohio River on the east and south.

Year Business Established	Company	Headquarters	Total Assets
1830	Shillito's	Cincinnati	Not Available
1851	Selby Shoe	Portsmouth	$10,295,000
1870	B. F. Goodrich	Akron	243,168,000
1874	Strouss-Hirshberg	Youngstown	8,870,000
1878	Chesapeake and Ohio R. R.	Cleveland	736,913,000
1880	Ohio Bell Telephone	Cleveland	324,590,000
1884	Sherwin-Williams	Cleveland	99,638,000
1887	New York, Chicago & St. Louis R. R. (Nickel Plate)	Cleveland	292,169,000
1888	Hinde & Dauch	Sandusky	18,614,000
1888	Ohio Brass	Mansfield	11,661,000
1889	Akron Beacon Journal	Akron	Not Available
1891	Cleveland-Cliffs Iron	Cleveland	92,743,000
1898	Goodyear Tire & Rubber	Akron	407,845,000
1899	Republic Steel	Cleveland	455,060,000
1900	Firestone Tire & Rubber	Akron	324,394,000
1901	National Acme	Cleveland	18,761,000
1904	Timken Roller Bearing	Canton	73,950,000
1906	Columbus & Southern Ohio Electric	Columbus	78,358,000
1906	Jaeger Machine	Columbus	8,452,000
1907	Ohio Power	(1)	209,326,000
1908	Ohio Public Service	(2)	93,435,000
1911	Eaton Manufacturing	Cleveland	50,154,000
1912	Mansfield Tire & Rubber	Mansfield	14,593,000
1919	Fisher Body Ohio	Cleveland	(3)
1919	Murray Ohio Manufacturing	Cleveland	6,540,000
1946	Portsmouth Steel	Portsmouth	23,147,000
	TOTAL		$3,602,676,000

(1) Serving Canton, Lima, Zanesville, Steubenville, Newark, Portsmouth, etc.

(2) Serving Alliance, Lorain, Warren, Mansfield, Elyria, Sandusky, Marion, etc.

(3) Now part of General Motors.

We are proud to have rendered financial and other services to scores of Ohio enterprises, as well as to countless corporations outside of Ohio, either at their inception or in the later phases of their development. Listed herewith are a few of the Ohio companies with which we have thus been associated, and the growth of which has been outstanding. Many of them, like Otis & Co., had their beginnings at the turn of the century.

With headquarters in Cleveland and offices in other great cities throughout the State and the Nation, Otis & Co. today occupies a leading position in its field at home and abroad. In constant and close contact with the leaders of labor and agriculture, as well as business and industry, Otis & Co. is able to make the rich experience of a half-century of leadership available both to established enterprises and promising new undertakings, not only in its home State of Ohio but wherever they may be located.

In the year just closed, Otis & Co. was a principal underwriter of high-grade bond issues totaling approximately two billion dollars.

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Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Insurance Stocks

The two principal companies of the "America Fore" insurance group, The Continental Insurance Company and Fidelity-Phenix Fire Insurance Company, are the first of the major insurance companies to issue their annual report to stockholders for the year 1948.

Because of their prominent position within the industry, the results of these two companies are particularly interesting at this time. They serve as an indication of the general forces at work and give some idea as what to expect in the way of results from other companies.

For this reason the income accounts of both companies for the years 1948 and 1947 are shown below. These as well as the following per share figures, have been presented on a parent company basis as results of the subsidiary companies are not yet available.

	Continental Insurance Co.		Fidelity-Phenix Fire Insurance Co.	
	1948	1947	1948	1947
	$	$	$	$
Underwriting—				
Premiums written	63,573,325	51,267,982	51,674,484	42,094,392
Increase in unearned premium reserve	10,423,730	8,970,216	7,746,780	8,008,264
Premiums earned	53,149,595	42,297,766	43,927,704	34,086,128
Losses	28.460,095	24,864,487	23,857,302	20,920,684
Expenses	22,657,480	18,410,261	18,409,073	15,216,836
Underwriting profit or loss	2,032,020	—976,981	1,661,330	—2,051,392
Investment—				
Interest, dividends and rents	6,640,132	6,108,635	5,289,870	5,088,652
Expenses	219,700	195,525	173,136	155,045
Net investment income	6,420,431	5,913,110	5,116,735	4,933,607
Operating income before Federal taxes	8,452,451	4,936.129	6,778,065	2,882,215
Federal income tax	1,485,110	364,285	998,192	150,464
Net operating income	6,967,341	4,571,844	5,779,873	2,731,751

Possibly the most significant change in the above figures is the gain in underwriting profits. After a number of years of generally unsatisfactory results, a period of profitable underwriting was reached in 1948. The increase in premiums earned of approximately 26% in the case of Continental and 29% for Fidelity-Phenix was sufficient to offset the somewhat larger losses and expenses.

Investment income also showed some improvement. For Continental the increase over 1947 amounted to approximately 9% and for Fidelity-Phenix, 4%. Federal taxes were higher as a result of the improved underwriting and net operating earnings also reflected this change.

In order that a comparison of the per share results for 1948 and the previous two years may be shown, the following tabulation, on a parent company basis, has been made. It shows the statutory underwriting earnings, the estimated equity of the shareholder in the increase in the unearned premium reserve, and the adjusted net underwriting earnings. Also shown is the investment income, total earnings before taxes, Federal income taxes and the net operating earnings.

CONTINENTAL INSURANCE COMPANY

	Under-writing Earnings	Equity Change in Unearned Premium Reserve	Net Under-writing Earnings	Net Invest-ment Income	Total Earnings	Federal Income Taxes	Net Earnings
1948	$1.02	$2.08	$3.10	$3.21	$6.31	$0.74	$5.58
1947	—0.49	1.79	1.30	2.95	4.25	0.18	4.07
1946	0.49	0.95	1.44	2.60	4.04	0.49	3.55

FIDELITY-PHENIX FIRE INSURANCE CO.

	Under-writing Earnings	Equity Change in Unearned Premium Reserve	Net Under-writing Earnings	Net Invest-ment Income	Total Earnings	Federal Income Taxes	Net Earnings
1948	$1.11	$2.07	$3.18	$3.41	$6.59	$0.67	$5.92
1947	—1.37	2.14	0.77	3.29	4.06	0.10	3.96
1946	0.32	1.06	1.38	2.92	4.30	0.37	3.93

The above results are considered very satisfactory and show that the two companies had one of the most profitable years in their history. When the reports are available from the subsidiary companies, it is expected that on a consolidated basis, the per share results will be equally favorable.

If the statements of these two companies are any indication of reports to be issued by other insurance concerns—and it is believed that they are—the stockholders of insurance companies should have pleasant reading material.

With Fairman & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—John U. Walker has been added to the staff of Fairman & Co., 210 West Seventh Street, members of the Los Angeles Stock Exchange.

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With Weinress & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Charles A. Strick has become associated with Weinress & Co., 231 South La Salle Street, members of the New York and Chicago Stock Exchanges. Mr. Strick for many years has held a membership on the Chicago Exchange.

With Herrick, Waddell

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Robert L. Langdale has been added to the staff of Herrick, Waddell & Reed, Inc., 332 South Michigan Avenue.

Open in Shreveport

SHREVEPORT, LA.—Hardy B. Carroll, Sr. and Hardy B. Carroll, Jr., are engaging in a securities business from offices at 1529 Creswell Street.

Government Bond Outlook And Interest Rates

By MARCUS NADLER*

Professor of Finance, Graduate School of Business Administration, New York University

Dr. Nadler, holding statements of President Truman and his Economic Advisers indicate there is no chance government bond market will be permitted to stand on its own feet, foresees Federal Reserve stepping in to prevent either too rapid advance or decline in price of long-term issues. Sees both supply and demand for loan capital at high levels, but warns this condition may be changed should business decline and government revenues show a deficit. Looks for possible widening spread between corporate and government bonds.

The Economic Report of the President, submitted to Congress on Jan. 7, 1949, contains the following statement: "The public debt will continue to be managed in a manner that will make a maximum contribution to the stability of the economy. An important factor in this program will continue to be the maintenance of stability in the government bond market."

Dr. Marcus Nadler

The same idea is repeated in the "Annual Economic Review" of the Council of Economic Advisers, which states: "It would be a serious error to introduce new elements of uncertainty and possible financial disturbance which would follow a change of the policy with respect to the support of bond prices."

I believe these two statements indicate more clearly than any statistical analysis what the outlook for the government bond market will be during 1949. The President stated without any equivocation that stability of the government bond market is an important factor in maintaining our economy at a high level, while the economic advisers pointed out that it would be a serious error to introduce new elements of uncertainty.

Translated into language which the average banker understands better, these statements indicate that the peg on government bonds will be maintained and that there is no chance that the government bond market will be permitted to stand on its own feet. They indicate also that the Administration believes that a break in the government bond market could have far-reaching repercussions, adversely affecting economic conditions and employment. In endeavoring to ascertain the outlook for government bonds, therefore, one can for all practical purposes eliminate the danger of a break in the government bond market bringing government obligations below par. On the contrary, in 1949 the question confronting those interested in government securities may be that of how high government bonds will go before the Federal Reserve authorities step in and keep the market orderly not only on the downswing but also on the upswing. To judge from recent actions of the Reserve authorities, one may assume with a fair degree of accuracy that they will not permit long-term government bonds to advance too rapidly.

Stability the Outlook

The conclusion that one could reach would therefore be that throughout 1949 the government bond market should enjoy a fair degree of stability. That, of course, does not mean that fluctuations will not take place. What it does indicate is that any change that may occur in the government bond market will be of only minor importance.

One may go a step further and also state that the banking changes that will take place during 1949 will also not be radical or far-reaching. The total volume of bank deposits at the end of 1949 should not be materially different from the level at the end of 1948. The same applies to the volume of loans. While there is a possibility that certain types of commercial loans may decrease, other loans may witness an increase. The only important change that one can see in the banking structure during 1949 is the probability that if the volume of commercial loans should decrease waster than is now anticipated, there will be a reduction in the reserve requirements of the member banks and an increase in the holding of government obligations by the banks. A decline in the volume of loans might also induce some banks to lengthen their maturities. It is also possible that 1949 will make clearer than has been the case up to now what the refunding policies of the Treasury will be; specifically, whether the Treasury will continue to refund maturing obligations into certificates or whether it will offer notes and medium-term bonds. To a large extent the refunding operations of the Treasury will depend upon business activity and the movement of commodity prices, wages and employment.

With these remarks as an introduction, it is now possible to analyze the factors operating in the money market which have a direct bearing on government bonds, namely, the demand for and the supply of capital, the position of the Treasury and the policies of the Federal Reserve authorities.

The Supply of Capital

The supply of capital seeking an outlet in the form of bonds and mortgages during 1949 should continue at a high level. Savings of the people tend to increase. Liquid savings of individuals during the third quarter of 1948, as reported by the Securities and Exchange Commission, amounted to $3.1 billion as compared with $0.6 billion during the second quarter. A moderate decline in the cost of living should further stimulate savings by individuals. Moreover, the savings of many people have become institutionalized through insurance companies and pension plans.

The volume of life insurance sold during 1949 is bound to be large. Not only has the standard of living of many families in the United States increased, thus leading to larger sales of life insurance, but the continuing high cost of living has also induced many individuals to increase their insurance protection. Group insurance plans have been adopted by a large number of corporations and there is no reason to believe this tendency will decrease. Pension plans are economically sound and socially desirable and it may be expected that they will be established by an increasing number of corporations, which means further institutionalizing the savings of individuals. Funds accruing to insurance companies from the sale of life insurance or to trustees from the adoption of pension plans as a general rule seek an outlet in bonds and in mortgages.

The volume of mortgages acquired in recent years by institutional investors has shown a material increase. Almost all recently acquired mortgages, however, carry amortization provisions. This in turn means a constant repayment of outstanding debt, which will seek an outlet in new securities and new mortgages. The same applies to bonds offered during the past few years, practically all of which carry sinking fund provisions. Many preferred stocks also carry sinking fund provisions. As a result of this policy there will be a larger repayment of debt arising out of contractual obligations and the sums so realized will have to be reinvested.

Another important source of funds to business concerns will be the increased depreciation on plant and equipment erected during and since the war, which will be much greater than that obtained from plant and equipment acquired prior to 1941. This again will put substantial sums at the disposal of corporations and reduce the necessity for obtaining new funds to replace obsolete machinery and equipment. It may therefore be concluded that the supply of capital seeking an outlet in bonds and mortgages is bound to be considerable.

The Demand for Capital

The demand for capital in the form of bonds and mortgages should also be substantial. During 1949, however, one may expect certain changes in the composition of the sources of the demand. The demand for capital by corporations for modernization and acquisition of new plant and equipment is expected to be somewhat smaller than during 1948. Moreover, should Congress vote a substantial increase in corporate taxes one may expect an even greater decline in capital expenditures by corporations. The demand for mortgage money for the purpose of financing private construction, housing and commercial, is also expected to decline from the high level of 1948. This decrease, however, should be counteracted by an increase in the demand for mortgages on publicly financed or subsidized housing. Whether or not the demand for tax-exempt securities in 1949 will be as large as was the case in 1948 is not easy to say.

On the basis of the above analysis of demand and supply factors, it may therefore be concluded that, even eliminating the great influence that will be exercised by the monetary authorities, there will be no material change in money rates during 1949.

The Fiscal Position of the Treasury

The position of the Treasury has an important bearing on the demand and supply of capital, and hence on money rates. When the legislative accounts of the Treasury are balanced, the agencies of the Treasury are in a position to use their surplus of revenues over expenditures to buy long-term government obligations held by

(Continued on page 41)

*An address by Dr. Nadler at the 21st annual Mid-Winter Meeting of the New York State Bankers Association, New York City, Jan. 24, 1949.

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1949 Bank Earnings

By M. A. SCHAPIRO*
M. A. Schapiro & Co.

Bank stock analyst says banks must "hustle" to get increased compensation for their services and higher interest rates. Points to three-year rise of 30% in operating expenses and a further possible levy on earnings of 10% if the corporate tax rate is raised to 45%. Concludes without tax factor 1949 earnings will about equal 1948.

It is apparent that the New York City banks must hustle to get increased compensation for their services and higher interest rates on their loans just to maintain their 1948 earning rate of 6% on capital accounts, even if tax rates remain the same. Their tax credits are now rapidly running out and in certain banks, tax savings resulting from the deductions taken under the Treasury formula for bad debt reserves are included in net earnings.

In 1948 net operating income subject to income taxes is estimated at around $185 million, with a net of $135 million after taxes. An increase in corporation surtax rates in 1949 of seven percentage points, raising the total corporation rate from 38% to 45%, means that the New York City banks as a group would have added income tax liability of 7% on $185 million or around $13 million, based on 1948 figures. This would result in a reduction of net earnings after taxes from $135 million to $122 million, a decline of 10%. The prospect of higher taxes is sufficiently compelling to result in far more realistic decisions on the part of banks in their quest for higher rates.

It is clear that the New York City member banks are completing major phases of postwar readjustments. The restrictive and deflationary weather which overtook these banks after the Eighth War Loan Drive in December, 1945, has about run its course. Today after three years, the loss in deposits and the higher cash reserves which these banks are now required to maintain, have resulted in a contraction of $6 billion or 24% in the total of loans and investments. In 1945 this total averaged $24.7 billion; today the figure is $18.7 billion. Current indications are that deposits and the total of loans and investments are likely to show only minor changes in 1949.

Concurrently, operating costs other than income taxes of these 35 member banks in New York City increased from $216 million in 1945 to $280 million in 1948, a rise of $64 million or 30%. In 1948 the increase in operating expenses was only slight. The cost of doing business is now stabilizing.

Despite these adverse factors, the New York City member bank group had estimated net earnings from current operations in 1948 of $135 million, or 6% on total capital accounts of $2¼ billion. This was possible because of the improvement in interest rates and the marked increase in total loans.

The full impact of the three successive increases of 2% each in cash reserve requirements is evident in 1949 in the reduced total of loans and investments. However, the loss of interest income is gradually being offset as loans and investments mature and are renewed at the higher going rates.

Although it is much too soon for definite 1949 forecasts, it seems that the current day to day situation is shaping earning power in 1949 at around 1948 figures, provided the income tax factor remains unchanged in 1949.

*Excerpts from remarks by Mr. Schapiro before New York Society of Security Analysts, Jan. 18, 1949.

"One-Way" Economic Theories

By EDWARD H. COLLINS

(Reprinted from the New York "Times," of Jan. 24, 1949)

Last week the subject under discussion here was the undistributed profits tax and the economic theory to which it is related, namely, the underconsumption theory. Since then a correspondent has been good enough to contribute a footnote. He writes:

"Perhaps a further argument against the underconsumption theory is the fact that it is a one-way proposition. In deflationary periods a shift of entrepreneur income to labor income is advocated because this allegedly strengthens the propensity to consume. By the same token it would be logical to advocate in inflationary periods a shift of labor income to the entrepreneur through a lowering of wages. Instead, it is suddenly discovered at such times that prices are not dependent upon demand and supply, but are deliberately determined ('administered') by monopolistic corporations."

* * *

There is no doubt that part, at least, of the skepticism with which many persons regard the underconsumption theory lies in this fact that it is invoked frequently for the purpose of justifying politically popular actions by opportunist statesmen and economists who do so, in a manner of speaking, with their fingers crossed.

A typical situation of this kind comes to mind in the case of a wage increase granted railway labor back around 1937. Business had started upward in 1936 and was gaining momentum in early 1937. On the strength of this it was decided that the railroads were now financially capable of raising wages. But just about then the business boom collapsed of its own weight. Now it was the turn of the railroads to seek relief. Their representatives asked that the wage increase be set aside, for the time being at least. Most of the carriers, they showed, were operating in the red, with the rest heading rapidly in that direction. But now the President's fact-finding board decided that railroad earnings, on which the wage increase had been justified, were no longer determining in the case. It would be unthinkable, it said, to suspend the wage increase. Why? Because that would reduce purchasing power and intensify the depression.

Closely related to the underconsumption and over-saving theories is the idea of the Compensated Economy. Advocates of this particular brand of Utopianism visualize the federal budget as a sort of huge balance wheel. The way to stabilize the economy, they say, is to reduce taxes and permit the budget to become unbalanced when things are bad; then, when business begins to hum again, surplus income would be siphoned off through higher taxes. Not only would the budget be balanced, but all the debt contracted in the depressed year would be paid off by a whopping surplus.

They will tell you this, that is, when times are bad. But what becomes of these one-way theorists in time of economic fair weather is one of life's great mysteries. If any of them during these

(Continued on page 47)

The SEC and the Capital Market

By EDMOND M. HANRAHAN*
Chairman, Securities & Exchange Commission

Chairman Hanrahan maintains new money is being pumped into capital markets at a high rate and securities buyer is still factor in growth and development of American business. Says as long as commercial banks remain conservative, private investor must furnish market for equities, and stresses importance of having substantial equity capital. Points out over-regulation which impedes financing without protecting investor is disservice, and holds aim of SEC is to substantially facilitate securities distribution.

I was glad to be invited to talk to you today. Unlike other speakers before the Association I am not an economist; and I have no disposition to leave my depth for dangerous waters. I accepted your invitation because the Securities and Exchange Commission, although it does not have much to do with banks directly, is nevertheless concerned, as you are, with the general functioning of the capital markets.

E. M. Hanrahan

You will recall the terseness with which the President, in his recent message said that the state of the Union was "good." I hesitate to use any single adjective to characterize our capital markets. But from where I sit, the figures seem to show that these markets are still pumping new money into industry at a high rate and that the private American securities buyer is still a factor to be reckoned with in the growth and development of American business. Out of the total volume of registration with this Commission over the years 1934 to 1947, 26% was for new money purposes. In contrast, you may be interested in knowing that, out of about $6½ billion of securities registered with us during our last fiscal year for public offering 81% was for the purpose of providing business with new money. Of course, these figures relate only to financing registered with us, and do not include financing through private placements, small issues, term loans, railroad issues and other exempt methods. But this comparison makes it obvious, first, that our national plant is adding phenomenally to its development, and second, that the channels of securities distribution to direct investors are still being substantially used in the course of this development. Don't discount the private investor, he still kicks in the billions to keep the economy working and growing.

That is where the Commission comes in. Every penny of this $6½ billion went through the process of registration with the SEC and was sold pursuant to prospectuses distributed under the requirements of the Securities Act. That Act requires that certain public offerings of securities be registered with the Commission by the filing of a statement which contains the information an investor needs to know, and the law requires also that every buyer of securities in such a distribution receive a prospectus which summarizes that information. These requirements, now on our statute books for fifteen years, were once branded as a sure bottle-neck and stumbling block in American financing. I wonder if you recall some of the arguments that have been made against the registration and prospectus requirements administered by the SEC. It was said that the Commission would overstep its limited authority to require the disclosure of full and truthful information and would censor the process of securities selling and buying. Fifteen years of administration of this Act have proved the contrary. Investments running the gamut from triple A to Z have been sold under this law. High grade investments and pure speculations have been been registered and sold under the Act. For the only condition upon selling is that the entire truth be told in the registration statement and prospectus. While many questionable deals die at birth because the promoters fear disclosure, the Commission itself does not pass on the investment merit of any security.

An Integrated Capital Market

You may ask why I make this recitation to a group which consists of people whose job it is to find investment outlets for deposits. The answer is, I think, obvious. While in a sense, all investors compete with each other for investments, I believe that all segements of the investment community in fact constitute an integrated body; all in fact participate in providing capital and credit for the growth and maintenance of a healthy economy. I know that we are far from having achieved any true integration of functions among the various elements of the investment community. I know something of the problems of the commercial bankers and of their complaints at being restricted in the extension of credit while other segments of the investment community have been free to increase investments. The investment banker complains of private placements, and all who have assets that must be invested watch with interest the trends in internal financing of industry through surplus and depreciation funds.

But the truth remains that in a very important sense all segments of the investment community do and must complement each other. Institutions and banks are, generally, lenders. And, as the trend toward term loans continues, banks tend to become another source of debt capital. But a healthy economy needs very substantial amounts of equity investment. I have long been an advocate of improving the equity position of American industry. As

(Continued on page 43)

*An address by Commissioner Hanrahan before 21st Annual Mid-Winter Meeting of New York State Bankers Association, New York City, Jan. 24, 1949.

This is under no circumstances to be construed as an offering of these securities for sale, or as an offer to buy, or as a solicitation of an offer to buy, any of such securities. The offer is made only by means of the Prospectus.

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NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

At the annual meeting of stockholders of **Guaranty Trust Co. of New York**, held Jan. 19, presided over by J. Luther Cleveland, Chairman of the Board, directors, whose terms had expired, were re-elected for a term of three years. The directors of the company made the following official appointments: Alan C. Abeel and Harold M. Sherman, Jr., Vice-Presidents, formerly Second Vice-Presidents; Joseph McDonough, Second Vice-President, formerly Assistant Secretary; Frederic L. Simmons, Economist; Ferdinande H. Brewer, Laurence E. Darden, Jr., John M. Keyes, and Frank R. Schaumberg, Assistant Treasurers; George J. Jedlicka and Ellis A. Simmons, Assistant Secretaries; and Douglas L. Fairweather, Assistant Insurance Manager. Mr. Abeel, Vice-President, became associated with the company in 1919 and since 1928 has been with the Fifth Avenue Office, where he was appointed an Assistant Treasurer in 1931 and Second Vice-President in 1944. Mr. Sherman joined the company in 1930. He was appointed an Assistant Treasurer in 1934 and Second Vice-President in 1942.

Guaranty Trust Co. also announces the appointment of David C. Williams as an Assistant Secretary, Foreign Department.

* * *

At the annual meeting of stockholders of **Manufacturers Trust Co. of New York** on Jan. 19 it was voted to increase the authorized capital stock of the company from $41,250,000, represented by 2,062,500 shares, to $45,000,000, represented by 2,250,000 shares. The additional 187,500 shares so authorized will be issued to stockholders of record Dec. 22, 1948 as a stock dividend at the rate of 1 share for each 11 shares held. Distribution of this stock dividend was made on Jan. 22. Scrip certificates to be issued can be combined on or before Aug. 1, 1949 with other fractions thereby entitling the holder thereof to a full share.

* * *

UNDERWRITERS TRUST CO., NEW YORK

	Dec. 31,'48	June 30,'48
Total resources	$40,453,460	$37,976,100
Deposits	37,615,482	35,174,600
Cash and due from banks	9,187,302	8,215,700
U. S. Govt. security holdings	14,194,028	11,708,200
Loans & discounts	11,585,945	12,403,800
Surplus and undivided profits	1,710.998	1,685,600

* * *

At the annual meeting of the **New York State Safe Deposit Association** held Jan. 21, at the Hotel New Yorker, New York, John A. Elbe, Vice-President and Cashier of the **Lincoln Savings Bank of Brooklyn**, retired as President. He was succeeded by Richard L. Middleton, Vice-President and Treasurer of the **Corn Exchange Safe Deposit Co.**, New York City. Other officers elected were Thomas H. Coogan, Secretary and Treasurer of the Bankers Safe Deposit Co., as First Vice-President; James A. McBain, Treasurer of the Chase Safe Deposit Co., as Second Vice-President, and reelected to the office of Secretary pending the selection of a successor. John F. Gunn, Treasurer of the Bank of Manhattan Safe Deposit Co., was re-elected Treasurer. Elected to the Executive Committee were: Harold V. Gustafson, Manager, Safe Deposit Department, Seamen's Bank for Savings; Andrew J. Oreste, Jr., Manager of the Sterling Safe Deposit Co., and Henry P. Steitz, Assistant Treasurer, The Chase Safe Deposit Co.

OFFERINGS WANTED:

First National Bank, Minneapolis, Minn.

First National Bank, Superior, Wisc.

National Insurance Co., Denver, Colo.

Western Life Ins. Co., Helena, Mont.

KENNEY & POWELL
NEW YORK

* * *

E. Chester Gersten, who was elected President of **The Public National Bank and Trust Co. of New York** on Jan. 9, 1929, was tendered a dinner by the directors of the bank at the Ritz-Carlton Hotel in commemoration of the anniversary. He also was a guest of honor at a dinner given recently by the Senior Officers of the bank at the New York Athletic Club. Mr. Gersten began his banking career 40 years ago as a messenger for the National Bank of Commerce in New York. He worked in various departments of the bank and was a Senior Vice-President when he resigned to become President of The Public National Bank and Trust Co. At that time resources of latter were $137,900,000 and deposits were $115,415,000. On Dec. 31, 1948 they were $554,200,000 and $515,990,000 respectively. Mr. Gersten is a member of the Clearing House Committee of the New York Clearing House Association and a past President of the New York State Bankers Association.

* * *

A series of monographs designed to encourage increased imports from Portugal has been published by **Colonial Trust Co. of New York**, it is announced by Arthur S. Kleeman, President. The series is being mailed to more than 350 banks in the port cities of the United States and to a list of importers and others interested in international trade. In conjunction with publication of the monographs, the trust company has placed on display in the windows of its principal offices on the Avenue of the Americas at 48th Street an exhibition of Portuguese products furnished by the Casa de Portugal, Information Bureau of the Portuguese Government. The series, entitled, "World Recovery through Imports; Trade with Portugal," is a result of visits to Portugal last summer by Mr. Kleeman and Mario Diez, Vice-President in charge of Colonial's International Division.

* * *

The Grace National Bank of New York announced on Jan. 17 that Robert F. C. Benkiser, a Vice-President of the bank has been elected a Director.

Robert S. Clarke, formerly Assistant Trust Officer of the First Bank and Trust Company of Utica, N. Y., has been appointed Assistant Trust Officer of the Grace National.

* * *

The stockholders of the **Continental Bank & Trust Company of New York** were advised by President John T. Seaman on Jan. 14 that the directors had announced the declaration and payment of the first liquidating dividend at the rate of $13 per share. The dividend is the first to be paid since the taking over of the Continental by the Chemical Bank & Trust Company last May. In his Jan. 14 letter to the stockholders of the Continental Mr. Seaman says:

"The Trust Company had been administering a total of 703 corporate and personal trusts, amounting in the aggregate to approximately $475 million. In addition, 504 corporate agencies had been handled. We are proceeding as rapidly as possible to account in all of the trusts, both personal and corporate, in which accountings are necessary, and accounts have been prepared and filed, or are about to be filed, in the greater number of these trusts. The balance will be brought into court as expeditiously as possible. The New York State Banking Department now informs your management that it will require the setting up of a general reserve of $6,500,000, pending the determination of certain litigation and the accounting proceedings which are now either in court or about to be filed. From May 1, 1948, to Dec. 31, 1948, the expenses of the Trust Company, including operations, have exceeded its income by $98,637.41."

Mr. Seaman also says that: "your directors are of the opinion that the reserve referred to is greatly in excess of the amount which eventually will be determined to have been needed. As the liquidation progresses and reserves are released, further liquidating payments will be made to stockholders." The letter also stated that the first liquidating dividend would be paid to the stockholders "on and after the day following the final adjournment of the annual stockholders meeting called to be held on Jan. 19, 1949."

* * *

Edward W. Smith was elected Chairman of the Board and Chief Executive Officer of **Clinton Trust Co. of New York** at the annual meeting of the directors on Jan. 19. At the same meeting, Theodore R. Schwarz was elected President and a director of the bank. Mr. Smith became associated with the bank in 1930 as Assistant Trust Officer. After advancing to various executive positions, he was elected President in 1946. Mr. Schwarz has been with the institution since it opened in 1929. He has been an officer of the bank since 1937 and was made Vice-President in 1946.

* * *

Herbert O. Pfister, for the past 21 years an employee of **Lawyers Trust Co. of New York** has been made an Assistant Trust Officer of the company.

* * *

At the annual meeting of stockholders of **Savings Banks Trust Co. of New York**, held Jan. 19, Eugene A. Colligan, Vice-President of Long Island City Savings Bank, George M. Penney, President of Oswego City Savings Bank, and Horace Reed, President of Buffalo Savings Bank, were elected directors to succeed Joseph Upton, President of Queens County Savings Bank, Herbert C. Wing, President of The Elmira Savings Bank, and William S. Rogers, deceased President of Buffalo Savings Bank. Re-elected directors were John Adikes, August Ihlefeld, Albert O. Johnson and Clarence G. Michalis.

* * *

Fourteen new members were admitted to the **Brooklyn Trust Co. of Brooklyn, N. Y.**, 25-Year Club at its second annual dinner, on Jan. 20, at Towers Hotel, Brooklyn. These admissions bring the total number of members to 86. Silver sandwich plates were presented to the new members by George A. Barnewall, Executive Vice-President of the company. Present officers of the Club are: Sherwood C. Conner, President; Eugene Britton, Vice-President, and Mollie C. Rowley, Secretary. The Executive Committee consists of: Thomas J. Parker, Joseph M. O'Neill, Edward L. Paynter and Clarence W. Bonner.

(Continued on page 46)

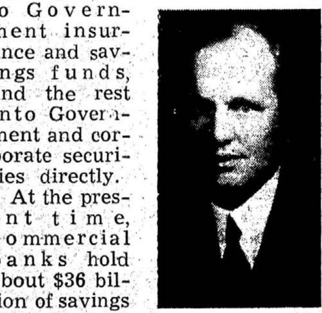
Use of Institutional Investment Funds in 1949

By EARL B. SCHWULST*

Executive Vice-President, Bowery Savings Bank, New York

Mr. Schwulst, predicting total savings collected by private financial institutions in 1949 will vary little from the 1948 amount of $7 billion, foresees larger use by savings institutions in effecting new mortgage loans, while life insurance companies will continue to favor corporate bonds. Holds sale of government bonds by insurance companies and savings banks has tapered off.

There are three major groups of savings institutions—banks, insurance companies and building and loan associations. These three groups of institutions together accounted for about half of the savings of the American people in 1947. Almost another quarter of the savings went to Government insurance and savings funds, and the rest into Government and corporate securities directly.



Earl B. Schwulst

At the present time, commercial banks hold about $36 billion of savings and other time deposits, and mutual savings banks over $18 billion of savings deposits. Life insurance companies hold over $55 billion of assets, and savings and loan associations over $10 billion.

Thrift departments of commercial banks, savings banks, insurance companies and savings and loan societies thus constitute the hard core of our present-day capital market. They provide the chief channel through which the liquid personal savings of the American people are being invested in productive enterprise and the financing of home construction. It is highly important to the business community, therefore, to know the likely volume of funds each of these groups of investing institutions will collect in the course of the coming year, and how these funds may be invested.

Commercial Banks

Savings and other time deposits received by commercial banks are invested in large measure like the demand deposits by these institutions. In a period when restrictive credit policies are being pursued by the banking authorities, commercial banks are under pressure not to expand loans and investments.

During 1948, commercial banks expanded their loans and reduced their Government security holdings. Assuming that a mildly restrictive credit policy will be continued during 1949, we are likely to see a smaller rise in loans during the forthcoming year. At the same time, having reduced their Government security portfolios by over a quarter since the end of 1945, commercial banks will probably be more reluctant to reduce these holdings further, since they are desirable investments from the viewpoints of liquidity and quality.

Commercial banks have increased only to a small extent their holdings of other than United States Government obligations. There is no reason to think that their attitude towards the bond market will change materially. Preferring relatively short maturities and enjoying an ample demand for loans, commercial banks have not been finding the corporate bond market particularly attractive at the moment.

The fact that the rise in savings and other time deposits at commercial banks has slowed up markedly over the past year further lessens their interest in long-term industrial bonds and longer-term capital loans to business.

Mutual Savings Banks

Mutual savings banks reported a gain in deposits during 1948 about equal to the rise in time deposits of all commercial banks. This is noteworthy, considering the fact that the mutuals are located mainly in the northeastern part of the country, and that the total of their deposits is little more than half the total time deposits of the nation's commercial banks.

Savings banks last year invested additional deposits received, funds derived from accretions to surplus and money received in payment of mortgages and other maturing investments partly in real estate mortgages and partly in corporate and miscellaneous bonds. For the first three quarters of the year, roughly 60% of the funds available for new investment went into additional mortgages, and 40% into bonds.

Generally speaking, real estate mortgages give a higher net return than do high quality corporate bonds. On the other hand, bonds enjoy greater marketability. Mutual savings banks will adjust the ratio of mortgage to bond investments for available funds with any shift in comparative yields. Under existing conditions, it is probable that the larger part will continue to go into mortgages, as in 1948.

Insurance Company Funds

The life insurance companies gained $3.6 billion of additional assets during 1948, according to the Life Insurance Association of America. Since the bulk of the funds received by life insurance companies represent renewal premiums on old policies, the amount is not greatly affected by year-to-year changes in sales of new life insurance. It is probable that the gain in assets for 1949 will be close to the 1948 figure, therefore.

Life insurance companies constituted the backbone of the corporate bond market in 1948. They increased their holdings of corporate bonds by almost $3.2 billion, which was nearly two-thirds of the total of new corporate bond financing consummated last year. In addition, the life companies last year increased their mortgage holdings by over $2.1 billion, which was approximately 40% of the whole rise in mortgages outstanding.

The life insurance companies provided so much capital for new corporate and mortgage financing, because, as is well known, they cut their United States Government security holdings by over $4.2 billion last year. Sales of Governments by life insurance companies have tapered off in the past two months. If the life insurance companies do not continue to sell Government securities in volume, they will have to reduce their purchases of corporate bonds and real estate mortgages during 1949. Less demand from life in-

(Continued on page 49)

*Excerpts from a discussion by Mr. Schwulst given before the Conference on Finance of the American Management Association, New York City, Jan. 21, 1949.

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Higher Price of Gold

By PAUL EINZIG

Dr. Einzig, noting demand of South African gold miners for 30% wage increase, sees in it either subsidizing gold production or increasing price of gold. Says higher gold price would enable payment of U. S. export surplus in dollars, and thus eliminate its settlement of international balances by "give away." Denies universal higher gold price would be inflationary.

LONDON, ENG.—The demand of a 30% increase of wages by the South African gold mine workers has revived interest in the question whether the price of gold should be increased. If this demand is satisfied the rise in the cost of production of gold would make the working of many of the poorer seams unprofitable, and South African gold output would fall sharply, unless producers are enabled to obtain better prices for their gold. As gold is South Africa's principal article of export, the government could not afford to allow such a deterioration of the already unsatisfactory dollar position. Nor could Britain view with indifference such a decline of the most important dollar-earning export of the Sterling Area.

Dr. Paul Einzig

It is no wonder that suggestions for a higher price of gold have been revived. Alternative solutions would be to sell the gold in the free market to the highest bidder, or to subsidize gold production. Owing to the almost unprecedented hoarding demand in the East, due to monetary instability and political uncertainty, the whole South African output could be sold there at very high prices. Payment would not be received, however, in hard currencies, and the gold producers' gain would be therefore the government's loss. As for subsidies, the International Monetary Fund is waging a crusade against that solution. While it is unable to enforce the much more important rule outlawing multiple currency practices, it has been so far highly successful in preventing the application of the device of subsidies which, while far from ideal, would in existing circumstances serve a constructive purpose by stimulating the gold output in countries needing hard currencies.

The choice lies between doing away with the ban on subsidies or agreeing to an increase in the price of gold. The question is, what form the latter solution would assume. South Africa and other countries exporting their home-produced gold could of course resort to unilateral devaluations. Should this solution be chosen, however, the relief obtained would only be temporary. If the South African pound should be devalued there would be an immediate increase in the price of imported goods, and other items of the cost of living and cost of production would soon follow. Before very long the adjustment would be more or less complete, and gold producers would be no better off than they were before devaluation.

The only way in which gold producing countries could obtain lasting relief would be through an all-round increase of the official buying price of gold. This depends of course entirely on the United States. Should the American buying price of gold be raised from its present figure of $35 all other countries represented on the International Monetary Fund would willingly act likewise. It would be easy to obtain a unanimous decision in favor of an all-round increase of the price of gold in all countries of importance, whether or not they are represented on the International Monetary Fund, with the notable exception of the Soviet Union, which country is not interested in gold parities or exchange rates, and the gold output of which is independent of factors such as cost of production or gold price.

On the face of it the United States has no interest in raising its buying price of gold, for it would only mean that more dollars would have to be paid for the gold imports. On closer examination, however, it would appear that a strong case could be made in favor of a higher gold buying price even from an American point of view. It is true that more dollars would be paid for the same amount of gold imports. But since under existing arrangements a very large part of the proceeds of the American export surplus has to be given away in any case, the payment of higher prices for imported gold would make no difference in practice. Instead of giving away dollars in the form of outright grants or loans which would never be repaid, dollars would be given away by paying more for gold imports.

Nor is this all. The result of an all-round increase in the buying price of gold would be an increase of the output, and there would be a more or less corresponding increase of gold exports to the United States. To that extent the dollar scarcity would become relieved, and the need for American financial assistance would become reduced. This would mean that, for at least part of the export surplus, the United States would be paid in gold instead of having to export without receiving any payment whatever.

Finally, the writing up of the bookkeeping value of the large existing American gold reserve would go a long way towards assisting in the solution of the budgetary problem, aggravated as it is by rearmament costs and Marshall aid financing. To some extent other countries would also stand to benefit by the revaluation of their gold reserves.

There is no reason to believe that an all-round increase of the price of gold would produce inflationary effect either in the United States or in any other country. The volume of credit is no longer determined by the amount of the gold reserve.

It is to be hoped that the proposal will receive due consideration. After all, it does seem unreasonable that gold should be the only commodity the price of which should remain pegged to prewar level while all other prices have risen well about it all over the world.

With Coburn & Middlebrook

(Special to THE FINANCIAL CHRONICLE)

HARTFORD, CONN. — Edward J. O'Brien has become associated with Coburn & Middlebrook, Inc., 37 Lewis Street. Mr. O'Brien was formerly connected with Brainard-Judd & Co.

With J. H. Hilsman & Co.

(Special to THE FINANCIAL CHRONICLE)

ATLANTA, GA. — Samuel G. Walker is with J. H. Hilsman & Co., Inc., Citizens & Southern Building. In the past Mr. Walker was with Norris & Hirshberg, Inc.

The Commercial Banker As Investment Counsellor

By BENJAMIN GRAHAM*
President, Graham-Newman Corp.

Finance expert attributes to banker unique opportunity to inculcate sound investing principles for benefit of his customers as well as national economy. Maintains "aggressive" investor should adopt business-like approach to opportunities; while "defensive" investor should confine commitments to E-Bonds and equities; and all should evince active interest in stockholder-management problems.

This paper is addressed primarily to the "upstate banker" who manages an institution of moderate size, and who comes in direct contact with the various financial needs of his local friends and clients, including their problems of investment policy. In the larger banks, of course, investment counsel and administration is departmentalized and handled by experts. To such in this audience my apologies for lecturing them on their own familiar subject.

Benjamin Graham

My purpose today is to suggest some **guiding principles** to aid the commercial banker in discussing the investment problems of his clients under present-day conditions. Obviously we have no time or occasion to go into detailed techniques of analysis. My view of the basic position of the commercial banker in this field is summarized in a paragraph of my book—entitled "The Intelligent Investor" — which is now in press, and from which I quote:

"It is a good old custom, especially in the smaller towns, to consult one's local banker about investments. A commercial banker may not be a thoroughgoing expert on security values, but he is experienced and conservative. He is especially useful to the defensive, or passive investor, who is often tempted to stray from the straight and unexciting path, and who needs the steadying influence of a prudent mind. The more aggressive investor, seeking counsel in the selection of security bargains, will not ordinarily find the commercial banker's viewpoint to be especially suited to his own objectives."

Help for the Defensive Investor

You will have noted that I have here classified investors into the defensive kind, to which you can be of real help, and the aggressive kind, who if they want counsel should seek it elsewhere. The real distinction here is between those who invest to put only their **money** to work, and those who invest to put their **training** and **abilities** to work in the field of security values. The latter person is at least a quasi-professional; he has embarked on a peculiar and exacting business; and he needs more equipment than the ordinary layman is able to bring into the area of investment.

Thus the first function of the commercial banker is to dissuade his friends from trying to act as aggressive investors, unless they know securities about as well as a good banker knows banking or a good plumber knows plumbing. This means that, since the great majority have merely their money to put up, they would be making a fundamental business error in trying to earn more than a conventional or "passive" rate of return on their investible funds. The second function of the commercial banker, then, should be to guide this large group of defensive investors into the path of sound and simple activity. Where does this path lead?

E-Bonds—Plus-Equities Prescribed

My own prescription for defensive investment has two main ingredients: (a) U. S. Savings Bonds, Series E, and (b) a diversified list of first line, or leading, common stocks, bought at a reasonable price level. For the investor in upper income brackets there are persuasive reasons to buy higher-grade tax-exempt securities, because of their substantial tax advantage, in lieu of taxable U. S. issues. For the smaller investor, conversely, a good case may be made out for the purchase of investment—fund shares—instead of a selected common-stock list—nor is this unsound policy for larger investors as well.

You may be a little shocked by the exclusion of several major categories of securities—all corporate bonds, all foreign bonds, all preferred stocks, and all common stocks of secondary or lower status. Incidentally, we are unkind enough to exclude practically all the merchandise being offered by security salesmen, with the exception of tax-exempt issues and shares of closed end investment companies or funds. This program marks a great departure from conservative investment as it was prescribed and practiced not so many years ago. Then the backbone of the typical portfolio was a diversified list of high-grade corporate bonds, returning some 4½% to 5%. Preferred stocks were admissible, in moderation; common stocks were generally excluded entirely.

Investment policy in every sector has been influenced by the enormous expansion of U. S. debt since 1933, and it was inevitable that Government bonds should have become a major element in both individual and institutional portfolios. During the same period —and in part for the same reasons that underlie the increasing role of U. S. bonds—there has been a growing acceptance of common stocks as an appropriate element in a sound portfolio. (As you know, the fear and actuality of inflation has been an important consideration here.)

Thus we see that older investment practice has been modified in the direction of Government bonds and common stocks. However, this view has not yet been carried to what I consider its logical conclusion—namely, that individual investment of the conventional kind should be **confined** to these two categories. Corporate bonds and preferred stocks are still found in most such portfolios, and certain standard percentages —as high as 40%, or more—are still allotted to them in the trust department activities of New York and other banks. (Example: Allocation of Bank of New York common trust fund, Jan. 31, 1948: U. S. issues 25%; other bonds 30%; preferred stocks 17%; common stocks 28%.)

Corporate Bonds and Preferreds Excluded

Let me now state briefly my arguments for excluding corporation bonds and preferreds from defensive portfolio. In the first place, the idea of diversification to reduce risk is meaningless when it leads away from U. S. obligations into other bonds. Under modern fiscal conditions no corporate obligation can possibly be safer than Federal debt. Secondly, Series E Savings Bonds provide a better yield than the best-grade corporate bonds; they carry a vitally important guarantee against market-price decline; they have several other advantages of convenience and from the tax angle.

Most people—including at least some in this audience, I am sure—fail to realize the flexibility now possible in a Series E program. They are available for the full needs of practically everyone's current savings. But, in addition, by use of the co-ownership provisions, a large amount of **principal** funds can be rapidly transferred into this medium in spite of the limitation on annual purchase.

Take the investment problem that occasions more conscientious brain-racking to you and to me than any other—namely the predicament of the widow left with say between $50,000 and $100,000 on which to support herself and young children. Assume it is desirable to place half or more of these funds in Series E bonds. If there are two children she can buy no less than $45,000, cost price, of Series E bonds during a 13-month period or shorter. Furthermore, the 2.90% compound interest can be transformed into current income of about 2.70%, by the simple expedient of cashing in $1,200 redemption-value of bonds each year. Thus, with a little ingenuity, the Series E Savings Bond can be made the primary element of the vast majority of conservative investment programs.

Whatever portion cannot be adequately accomplished by the issue Series E may assuredly be taken care of through Series G bonds, with their 2½% regular interest and their numerous protective features in addition.

Individual investment policies are often greatly influenced by the real or fancied need for a certain rate of return. Many people put some of their funds in lower-grade bonds and in preferred stocks, "to sweeten the yield" of their entire portfolio. My long experience leads me to warn strongly against this practice. It is bad business for the rank-and-file investor to trade quality for yield, even if the overall result happens to work out all right. Such securities are peculiarly subject to market vicissitudes, and to corresponding chills and fevers in the minds of their owners. Nearly all of them sell at big discounts at various times in their history. They may then present good opportunities for shrewd bargain-hunters—but that very fact is an argument against their purchase in ordinary times, and at full prices, by the lay investor.

Let me adapt an old investment saying to this type of securities: To the extent they help you eat better they are likely to make you sleep worse.

These adverse comments apply to the general run of preferred stocks under most conditions. However, for rather complicated technical reasons, I am inclined to make a current exception of many public utility preferred issues,

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*A talk by Mr. Graham before N. Y. State Bankers Ass'n, New York City, Jan. 24, 1949.

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Canadian Securities

By WILLIAM J. McKAY

The forthcoming fifth session of Canada's 20th Parliament is likely to be one of the most momentous in the history of the Dominion's virile legislative body. As it is probable that a general election will be called before the close of the year, party politics will take on added emphasis. The Progressive Conservative opposition will make a superlative effort for electoral favor, which will be all the keener as a result of the change in party leadership. In place of the somewhat colorless former Conservative leader John Bracken, the official opposition will now be sparked by that fiery implacable opponent of Administration policies, the former Ontario Premier, George Drew.

Opposition efforts to supplant the Liberal Government in the next Parliament will be further encouraged in view of the precariously narrow Administration majority of only four seats. The Conservative attack is likely to be directed principally against the Government system of restrictions and controls. There is little question that the Foreign Exchange Control Board Act which expires 60 days following the reconvening of Parliament will be violently assailed by the Conservative advocates of a freer economy. Although there can be few doubts that this or a similar measure will eventually be reenacted, the opposition will almost certainly loudly espouse the cause of the freedom of the Canadian dollar. This will encourage the resumption of the pressure by minority interests for the devaluation of the Canadian dollar. Such efforts however appear to be foredoomed to failure as International Monetary Fund obligations and the currently improved position of the dollar are definite factors that would seem to debar any immediate steps in this direction.

Condemnation of the action of the government in raising the dollar to its present parity, although it will have widespread appeal, is not likely to cause the government embarrassment of too serious a nature. Conservative criticism of the Administration's wheat policy on the other hand is likely to uncover many chinks in the Liberal armor. It will be difficult for the authorities in Ottawa to justify the inequitable burden placed on Canadian farmers as a result of the United Kingdom Wheat Agreement which has been estimated to have cost this important section of the electorate about $350 millions. The fact that Britain obtained the bulk of her grain requirements at a price substantially below the world level will not be the point at issue. Instead the government will doubtlessly be called upon to explain its failure to distribute fairly the cost of this item of British aid.

Although the Liberal Administration is apparently vulnerable as far as these issues are concerned it can point with justifiable pride to its able conduct of affairs in general during the difficult war and postwar periods. It will consequently be no easy task for the Conservative opposition to convince the people that Canada under the present regime has not made truly remarkable progress.

During the week the external section of the bond market was strong with unusual activity in Nationals and high-grade provincials following persistent savings bank demand. Interest in the internals was limited and there was little change pricewise. Free funds fluctuated within a narrow range but the corporate-arbitrage rate continued to improve. However with the termination at the end of the month of the International Petroleum-Standard Oil of New Jersey exchange offer the corporate-arbitage rate is likely to lose some of its recent strength. Among the stocks the base-metals were again to the fore led by Waite-Amulet which advanced on a heavy turnover to a new high of $14¼ while Quemont also reached a new peak at $17. Western oils were quiet but the undertone was steady. Golds and industrials on the other hand were inclined to drift in a dull and inactive market.

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Scherck, Richter Co. Adds

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Erwin von Gemmingen has joined the staff of Scherck, Richter Co., Landreth Building. Mr. von Gemmingen in the past conducted his own investment firm in St. Louis and in New York City.

S. Cleo Hunter Joins Walston, Hoffman Co.

(Special to THE FINANCIAL CHRONICLE)

SAN DIEGO, CALIF.—S. Cleo Hunter has become associated with Walston, Hoffman & Goodwin, 530 Broadway. Mr. Hunter was formerly an officer of First California Company.

With Otis & Co. in Denver

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO. — Charles T. Lowndes has become associated with Otis & Co., First National Bank Building.

With Harris, Upham & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Dean M. Kennedy is now with Harris, Upham & Co., 523 West Sixth Street. Mr. Kennedy for many years was with Blyth & Co.

The
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Managing the Bank Portfolio in 1949

By WALTER L. REHFELD*
President, Robert Morris Associates
Vice-President, Mercantile-Commerce Bank & Trust Company, St. Louis, Mo.

Problems in 1949 bank portfolio management are listed by Mr. Rehfeld as: (1) appropriate level of loans for a given bank; (2) what steps should be taken in managing existing loans; and (3) loan policy to be followed in event of business recession. Stresses importance of keeping risk assets in proper relation to capital funds and advocates reappraising loans on basis of specific categories as well as on quality. Urges sticking with sound loan commitments in recession.

It is a privilege and a great pleasure to appear on the program of the Louisiana State Bankers Association. My interest in the subject of this talk stems not only from my own banking experience but from many years of participation in, and association with, the activities and members of the Robert Morris Associates. This national organization of bank credit men and loaning officers has been investigating the problem of how to better analyze credit risks throughout several major business cycles since 1914. Among the developments which have contributed materially to this field of study are a Code of Ethics for credit men, a little blue book entitled "The Credit Department—A Training Ground for the Bank Loan Officer," annual statistical studies of composite financial statements for many lines of business, and texts on credit practices and financial statement analysis. In view of the fact that all of these tools available to credit grantors are well-known, I will not elaborate further upon detailed techniques and principles of credit appraisal in my remarks on loan portfolio management. However, it does not go without saying and should not be assumed that all generally accepted and established practices are being consistently applied by credit analysts. There have been and probably always will be plenty of illustrations in the form of cases where some basic consideration of sound analysis was overlooked or ignored that could have prevented a bad loss. I do not want to take up your time rehashing well-known tenets of our profession, but the point I want to get over at the outset is this: There are a great many loaning officers today who have not been seasoned with the experience of making loans through a complete business cycle, and living with loans made during a boom and endeavoring to collect them in an unanticipated depression. I refer to the younger generation that has come up the ladder since 1940. We in the Robert Morris Associates are keenly aware of the problem which this situation poses and are launching a program of education directed at meeting it which will emphasize cases reflecting experience gained during the '30s. You veterans can do the young loaning officers in your banks a lot of good by giving them the benefit of your experiences. In other words, history does repeat itself — teach them foresight with your hindsight.

Walter L. Rehfeld

*An address by Mr. Rehfeld at the Mid-Winter Conference of the Louisiana Bankers Association, Baton Rouge, La., Jan. 24, 1949.

The Changing Economic Factor

Credit men universally refer to several C's of credit. They are Character, Capacity, Capital, Collateral and Conditions. It is the economic factor which determines the conditions under which loans are made. If it were not for the changes in the business outlook, we could say the same things about the management of a bank loan portfolio at the beginning of each new year that were said at the beginning of the last one. As a matter of fact, the points emphasized by a number of eminent authorities during 1947 and 1948 are equally applicable in 1949.

It is important to look back and see how far we have gone along the road since the war and, by way of comparison, to check that position against prewar conditions. For this purpose I have passed out a few basic statistical compilations which provide an interesting picture in summary form for the country as a whole. It is somewhat of a paradox that everyone exhorted bankers to lend money

(Continued on page 44)

How Can Profit Reports Be Made Realistic?

By RALPH COUGHENOUR JONES*
Associate Professor of Economics, Yale University

Professor Jones, asserting something is wrong with prevailing methods of profit computation, outlines difficulties in revising established accounting methods. Estimates inflation has resulted in overstatement of steel companies' earnings in last seven years by over $1 billion. Sees huge overstatement of business profits as unfavorable to adoption of sound economic policies.

One of the hottest controversies generated by inflation rages over the question of business profits. Have they been excessive or inadequate? While there is no dearth of statistical evidence to support either view, nearly everyone agrees that something is wrong with prevailing methods of profit computation. That something, of course, is the changing value of the dollar. When the value of the dollar moves rapidly and persistently in one direction, it is manifestly impossible to produce profit figures with a semblance of reality by accounting methods which rest, as conventional methods do, on the assumption that the value of the dollar never changes.

Ralph C. Jones

From a very rapid survey of steel industry results it appears that the most noteworthy effect of inflation was to cause the companies to report about three times as much net income as they really earned. The total overstatement for the seven-year period was about $1 billion. In 1946 the distortion amounted to over 8% of sales. An 8% distortion when reported earnings are only 6% of sales can have disturbing effects. And it most assuredly did.

*Excerpts from an address by Professor Jones given before the Conference on Finance, American Management Association, New York City, Jan. 21, 1949.

The principal effect of huge overstatements of business profits in 1946 and 1947 was to create a climate of public opinion unfavorable to the adoption of sound economic policies. The prevalent opinion, even among well informed persons, is that profits have been and are extraordinarily high and probably excessive. These high book profits have diverted attention from the basic causes of inflation and directed it toward superficial symptoms. These high book profits have lent plausibility to the claim that substantial wage increases could be given without price increases and have spawned proposals for such remedial legislation as price control, excess profits taxes, and undistributed profits taxes. If profits really were as high as reported, price control might conceivably work. Under present conditions it could not succeed since fictitious book profits will not meet payrolls. And if profits were really as high as reported, excess profits and undistributed profits taxes might have some justification, but to tax as an excess profit something which is not profit at all or to require corporations to borrow money in order to distribute profits which do not exist could hardly serve any useful purpose.

Inflated profits are now reported in such a way that he who runs may read. Are we ready to admit that it is beyond our capacity to report real profits with equal clarity? Accountants and management, is seems to me, must be held responsible for presenting reports which are not inherently misleading, reports which are as free as possible from inflationary or other bias. If business firms choose to report profits which are inflated, it would seem that they have no proper complaint if the figures are taken at face value. The remedy obviously is to report profits in the first place on a sound and realistic basis. The burden of proof would then be upon those who question the computations.

What Can Be Done About It

If the desirability of reporting profits on a realistic basis is so obvious, why isn't something done about it? It will be worth while, I think, to examine some of the obstacles. The first, naturally, consists of simple inertia, reluctance to change, and wishful thinking. Of these, wishful thinking is the worst. The argument of the wishful thinkers goes something like this: Inflation is not yet serious enough to require ac-

(Continued on page 45)

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Montreal Exchange Celebrates 75th Anniversary

Jacques Forget, Chairman, presides at dinner commemorating three-quarters of century of progress at Windsor Hotel, Montreal, on Jan. 26. Exchange now has 260 securities listed for trading with dollar value of over $9 billion.

The Montreal Stock Exchange celebrated the 75th anniversary of its incorporation with a dinner in the Windsor Hotel, Montreal, on Wednesday, Jan. 26, 1949, as was indicated in the "Chronicle" of Jan. 20. Among those present were the heads of corporations whose shares are listed on the Exchange, representatives of the Federal, provincial and civic governments and of leading financial institutions and to members of the press.

Jacques Forget

The members in holding the dinner not only commemorated this anniversary, but paid tribute to those who through their membership in or association with the world of finance have contributed in large measure to the progress which Canada has made during the past 75 years.

The records of the Montreal Stock Exchange contain official minutes dating back to 1863 when a "Board of Stock Brokers" was formed in Montreal. The Board originally had 11 members. The members met daily between 12:00 and 12:30 o'clock in the office of the Board's honorary secretary. In 1866 the members hired a room in the Board of Trade Building (situated at that time where the Lake of the Woods Building now stands), where they met for a number of years. Rules regarding memberships and commissions were drawn up and enforced, and listing fees were instituted. In 1872 the Board of Brokers began calling itself the Montreal Stock Exchange and in 1874 the Exchange was incorporated under that name with a charter from the Government of the Province of Quebec.

As was the case with the London Stock Exchange and the New York Stock Exchange before it, the local market had a very modest beginning indeed. In 1874 there were but 63 issues traded. Bank issues, 21 in number, made up one-third of this list and turnover at that time was around 800 shares daily.

A general increase in business during the first nine years of the Exchange's incorporation made a move to larger quarters imperative and in 1883 the Reading Room of the Merchants Exchange Building at No. 11 St.-Sacrement Street (where the Marconi Building now stands) was rented for its daily board meetings.

By 1901 sales averaged about 7,000 shares per day: the membership had increased to a total of 45 and the value of a Stock Exchange seat had risen from a figure of $2,500 in 1876 to over $12,000. In 1902 membership was increased three times, to total 60 seats, and it was at that time that the Exchange decided to build its own home on a property located on St. Francois Xavier Street and purchased from the Seminaire de Saint-Sulpice. Construction was completed in 1904 and the members moved into the building which has housed them up to the present day.

In 1926 the members of the Montreal Stock Exchange organized the Montreal Curb Market with a view to provide organized trading facilities for unlisted securities, which could not meet the listing requirements of the senior market, and in 1929 construction of an annex to the Exchange building was completed to house the Curb Market.

At the present time there are over 260 securities listed on the Stock Exchange. The dollar value of these listings is over the $9 billion mark, and the volume of shares traded during the past year was just over 8 million shares.

The present officers of the Montreal Stock Exchange are: Chairman, Jacques Forget; Vice-Chairman, F. J. Vincent; Secretary-Treasurer, D. C. McEachran; Governors: Raymond Allan, H. S. Bogert, J. E. Chaput, W. T. K. Collier, L. T. Des Rivieres, H. J. Ferguson, F. G. McArthur, A. E. D. Tremain.

The General Manager is G. P. G. Dunlop, and the Assistant Manager is J. E. McKenna.

Hyder to Conduct Course at Columbia

Carl T. Hyder, of the brokerage firm of Shields and Company, will conduct a survey course in general investments for the layman during the spring semester in the Columbia University Institute of Arts and Sciences. The course will be given Tuesday evenings for ten weeks, beginning Feb. 1.

Carl T. Hyder

"The purpose of the course," according to Mr. Hyder, "is to tell the layman what to look for as a good investment and what to avoid as unsound."

Mr. Hyder has dealt with the general investment field for more than 20 years, specializing in the handling of individual portfolios. For his course, he will call in recognized authorities to discuss industrial, railroad, public utility, oil, chemical and other kinds of investments.

Among the specialists to address the class will be W. Truslow Hyde, Jr., of Josephthal and Company, public utilities; Herbert S. Wyeth of Shields and Co., railroads; Clifton A. Hipkins of Braun, Bosworth and Co., tax exempt securities; Edmund W. Tabell of Walston, Hoffman and Goodwin, a technical analysis of the market; Alfred S. Rudd of Shields and Co., heavy industrials.

The course will also include a session on how to read and understand the financial pages of the daily newspapers.

Fee for the course will be $15. Registration application may be made through the Institute office at 304 School of Business Building, New York City.

Southern Nat'l Inv. Corp. Is Formed

SAN ANTONIO, TEX.—The Southern National Investment Corporation has been formed with offices in the Milan Building to act as originators and dealers in Texas municipal bonds. Robert McIntyre is President of the new corporation and E. P. Kinzie Secretary-Treasurer.

Mr. McIntyre has been conducting his own investment business in San Antonio under the firm name of Robert McIntyre Company for some years.

J. F. Reilly & Co. To Be Formed in N.Y.C.

John F. Reilly and Harold M. Maslus, both members of the New York Stock Exchange, will form J. F. Reilly & Co. with offices at 25 Broad Street, New York City, as of Feb. 1. Mr. Reilly has recently been doing business as an individual floor broker; prior thereto he was a partner in Marx & Co. and conducted his own investment business. Mr. Masius has been active as an individual floor broker and prior thereto was a partner in Skall, Joseph, Miller & Co.

John F. Reilly

MIT Receives Grant From Merrill Foundation

A grant of $50,000 to the Massachusetts Institute of Technology for a research program on the economics of the housing industry was announced by the Merrill Foundation for the Advancement of Financial Knowledge.

In making the announcement, Winthrop H. Smith, President of the Foundation and managing partner of Merrill Lynch, Pierce, Fenner & Beane, said that the study would be carried on in the department of economics and social sciences at MIT under the direction of Dr. W. Rupert Maclaurin, Professor of Economics, and a staff of experts.

The program which will form the basis for the study by Professor Maclaurin and his associates includes investigation of such factors as unit operations, building codes and zoning restrictions, building trades union practices, the relation of component manufacturers to the building industry, site developments, and the attitude of home-owners toward standardization.

The studies will be focused on what has been done and what can be done operationally to overcome the various handicaps which have retarded the advancement of the industry and it is hoped that the study will result in measures to bring order and stability to the housing industry, Professor Maclaurin said.

It is expected that a number of leading concerns in the building industry will cooperate in the study in order that all aspects of the problems of the industry may be thoroughly understood.

Blair & Co. Opens New Trading Dept.

Blair & Co., Inc., 44 Wall Street, New York City, announces the opening of a new trading department specializing in bank, insurance, public utility and industrial securities. The firm also underwrites, distributes and deals in government, municipal and corporate securities. Heads of the firm's trading divisions are James E. Gavin, bank stocks; Horace W. Wells, insurance stocks; John W. Bair, public utility stocks; and R. Sims Reeves, industrial stocks. The analysis and research division will be headed by Robert S. Burns, bank and insurance issues; William M. Friedel, utility issues; and Carl C. Adsit, industrial issues.

Bleak Prospect For Corporate Financing

By DEAN LANGMUIR*

Market economist cites various drawbacks to financing capital requirements from retained earnings, from borrowing, and from preferred stock issuance. Hence concludes common stock financing is the only desirable method under existing conditions, but this is extremely difficult during present undervalued equity markets caused by excessive taxation, SEC restrictions, and Administration's actual and potentially adverse policies. Believes mutual fund instrument embodies future hope of accomplishing stock distribution.

My conclusions on the possibility of adequately financing capital requirements are pessimistic, but wishful thinking is to be avoided at all costs. It is best to face the realities. The only sound method of financing expansion under existing conditions would be through the sale of common stocks, but as I shall explain later, this procedure is virtually impossible. First, let us take up the alternative methods of raising funds; namely, through reinvested earnings, through bond issues and bank loans, and through the issue of preferred stocks. Unfortunately, each of these methods of financing is undesirable.

Dean Langmuir

The securing of funds from reinvested earnings is the easiest of all procedures to finance expansion. There is no registration with the Securities and Exchange Commission. There are no negotiations with bankers as to the terms of issue and as to the amount of underwriting profits. There is no necessity to secure the stockholders' approval and there is a good deal of logic in applying surplus earnings to strengthen the company.

On the other hand, whereas the proceeds from borrowings or from new security issues are available, dollar for dollar, for use in plant expansion, each $2 of reinvested earnings produces only $1 for capital needs, if we assume a corporate tax of say 50%.

Another objection is that, if substantial earnings are consistently reinvested, the suspicion may grow that the stockholders will never be able to put their hands on such earnings. It is something like being presented with a beautiful cake which one is never allowed to eat. If so, reinvested earnings will come to be excluded in valuing stocks. The policy of reinvesting earnings tends to depress the price of stocks, which has always depended more on the amount of cash dividends than on the amount of book earnings.

Financing Through Borrowing

Financing through bond issues, or through borrowing from banks or insurance companies, is in many ways peculiarly appropriate to the present. In these days of infinite uncertainty it gives a real measure of security to the investor. If earnings fall off and the investor is not paid off, he can put the company in bankruptcy and all of the company's assets will go toward the satisfaction of his bonds. Conversely, however, it is dangerous and unsound for the company to increase its debt during times of great prosperity, while facing extraordinary uncertainties. Large debts imperil the interests of the stockholders. Where companies are subject to regulation, as in the case of public utilities, increases in debt are even disallowed by public authorities.

From the standpoint of the company, it is far sounder to raise capital funds through the sale of preferred stock, but it is difficult, if not impossible, to market preferred stock issues at the present time. The preferred stocks of companies such as U. S. Steel and Bethlehem Steel yield over 5%. These two well-seasoned companies enjoy a prestige and now have a degree of financial strength which is almost beyond belief. The yield on more obscure and less seasoned preferred stocks has to be far higher.

Preferred Stock Financing

The issue of preferred stocks is hard hit by our system of taxation. The common stockholders who own and control the company would certainly be foolish to expand through preferred stock issues unless they, the common stockholders, profited thereby. In other words, there is no incentive to finance through preferred stock issues unless the return on the plant facilities to be financed through the preferred stock will exceed the dividends paid to the preferred stockholder. If, however, we assume that the corporation tax rate will be 50%, and if we assume that the company must pay 6% for new preferred stock issues, then it follows that unless the new plant facilities provide a return of more than 12% per annum, the common stockholder will not be any better off by issuing the preferred stock. In view of the highly confused economic outlook, there are few businessmen who can afford to expand their facilities on the assumption that they will profit only so far as the new investment yields more than 12% for an indefinite period ahead.

Equity Financing

We come back then to common stock financing as the only kind of sound financing in times such as these. Unfortunately, if we examine the sources of funds available, it becomes evident that few funds are available for the purchase of common stocks. Common stocks are brought only by certain classes of people, for their purchase requires sophistication. One must know how to go about it, where to check advice, what brokers are dependable. Usually only those working in offices in large cities have this know-how, and of these only executives have sufficient funds to make substantial purchases, aside, of course, from those who have fortunes already invested in securities. But these classes of people no longer have excess funds which they can apply to the purchase of common stocks.

In earlier years, a man operating a small business, or a corporation executive, or a large investor, lucky enough to have a windfall of say $50,000 in any one year over and above his normal earnings would be more than likely to use such sum to buy common stocks. The chances of any one individual having a $50,000 windfall are slight indeed, but in the aggregate, in a growing

(Continued on page 36)

*An address by Mr. Langmuir before American Management Association, New York, Jan. 21, 1949.

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The Outlook for World Trade

By THOMAS C. BLAISDELL, JR.*
Acting Assistant Secretary of Commerce

Holding narrowing gap between U. S. exports and imports is healthy development, Commerce Department official sees in it indication of world economic recovery. Stresses importance of sound currencies in developing world trade and takes encouraging view of International Trade Organization and Marshall Plan as means of breaking down nationalist economic barriers. Calls for more and better non-government international organizations as aid in world trade progress.

This noon I want to make a prediction or two and talk about some of the government's policies affecting international trade. Government policies in the field of international trade are not easy to establish. They are far more difficult to establish than the policies affecting domestic trade. We may be very clear as to what we want to do, but too often our desires run counter to what the business people of other countries want to do. A generation ago, when we were trading with countries whose business practices were similar to our own and to each other's, the difficulties of international trade were relatively minor. But today we are living in a world that has been atomized—in more ways than one. But more of that in a moment.

Thos. C. Blaisdell, Jr.

At this time of year, when we are making our budget appraisals and when the appraisals of the national economy are being made for the purpose of establishing legislative programs, we have to think in terms of quantities and figures. The minute we suggest a figure we lay ourselves open because someone else's judgment may be—and usually is—different from ours. At any rate, we in the Department of Commerce think we see an export trade volume for the fiscal year 1948-1949 of something in the magnitude of $12½ to $13 billion. For the same period we expect that our imports will probably be about $7 billion. This leaves us with a net export balance of $5½ to $6 billion. In using these figures I am, of course, speaking only of the merchandise trade balance. This is somewhat deceptive, as you are all aware, since in international trade the so-called "invisible items" are as important as the obvious trade in goods. The shipping services which we buy from other countries, tourist expenditures abroad, the provision of banking and insurance services, the special services in the export-import trade by those who buy in one market and sell in another simply for the difference in price, are all important factors in establishing the financial balance of payments.

Closing Export-Import Gap

This difference between total exports and total imports, considered on a broader basis than the trade in goods, still shows a gap of about the same magnitude as the one we have mentioned. The significant thing, however, is that this gap has been narrowing since the middle of 1947. I think we all agree that this development is healthy. Those who are particularly interested in the export business probably do not feel entirely happy with a decline in the export trade. Fortunately, many of them also have an interest in the import trade, and the decline in the amount of business they have been doing in exports has been partly offset by the increased business they have been doing in imports. It has been heartening to see the increased interest which has been shown by a number of old firms who were primarily exporters in expanding the import phase of their activities.

As far as the effect of this narrowing gap on our national economy is concerned, we can feel even greater satisfaction in what is taking place. Our domestic markets have been willing and anxious to absorb the gradually increasing volume of imports, and the increase in goods available has offset to a certain extent some of the inflationary forces of the past two years. However, as long as this gap remains, it is an inflationary pressure on our economy. In all fairness, we must not overemphasize its importance as compared to the other major inflationary forces at work, particularly the unusually high levels of private investment in new industrial and commercial undertakings and the high level of housing construction.

It has been interesting to note some of the forces behind the growth of imports. Most important, of course, has been the ability of the American people to buy. High levels of purchasing power in the hands of consumers have made them willing to buy almost anything that has real merit. On the other side, the slow rise in the production of goods by foreign manufacturers and their intensified sales efforts in the United States have begun to bear fruit. As businessmen they are doing good business for their own countries and they are doing us a good turn by earning dollars to pay us for the goods they buy. We have always imported large amounts of certain raw materials essential to our economic life, such as tin, antimony and rubber from the Far East. These and other basic materials have been coming in in larger quantities and give hints of improved economic and industrial conditions in that part of the world.

Evidence of World Recovery

What I have been saying boils down, in one brief phrase, to the evidences of world economic recovery. I think we can say without hesitation that on the production side recovery is certainly in full swing. This recovery has been possible only because the American people have sensed that the times are changing and their place in the world is no longer one in which isolationism is possible. Perhaps it is a mistake to say it is impossible. Isolationism is possible, if we are prepared to pay the price. The price would be lower standards of living. In addition, we would have to admit that we were afraid to act like free people in a world of expanding interests and expanding opportunities.

The expanding and rapidly changing world of the Twentieth Century is full of uncertainties. Uncertainty is in the atmosphere we breathe and it determines the way we act and think. Within a generation we have seen two wars and a world-wide depression. What we all want is some measure of certainty about what is in store for us during the rest of the century. We want to see the way clear to a relatively stable world in which we and other nations can work together to realize the great promise inherent in our technological achievements. The only way to gain some measure of certainty is to face the realities of our world and decide how as individuals and as international traders or government officials we can live and work in it effectively. I should like to devote the rest of my time this noon to a brief survey of some of the realities that must be faced and dealt with if we are to build a structure of international business that will give the trader a certain amount of security and certainty.

During the Nineteenth Century and the early Twentieth Century the world was divided into two great parts. One par was the international trading world in which there was freedom of business activity. The other part was the self-sufficient world of the non-industralized parts of the earth: the great interior of Africa and Asia and a large part of Latin America. The vast movements of international trade and international investment were accompanied by tremendous increases in population, along with rising standards of living throughout the international trading world. Different parts of that world specialized in the things they could do best. Western Europe and the eastern United States became the great industrial producing areas of the world, and they sold their goods to each other and to the less industralized areas to pay for raw materials and to make possible expanding investments in other parts of the world. International banking played its part in this great development. The development of the gold standard made possible the exchange of currencies between different nations, and so well-developed was the mechanism of the international exchanges that the average trader was hardly aware of the financial services which were always ready at hand. These were the days when flights of currency between nations were almost unknown. These were the days when money as such was regarded as having little direct significance in trade. Money was a necessary instrument, but other than that was not in and of itself, a moving force in the development of trade.

Need of International Gold Standard

In various countries of the world, during the last half of the Nineteenth Century and during the early Twentieth Century, this great expansion and development of trade was rudely interrupted from time to time, not only by wars, which from one standpoint only added to the volume of trade, but, more significantly, by the great business crises arising from business booms followed by business slumps. The significance of the business cycle on national policy slowly became apparent. However, an understanding of the relationship between cyclical movements in business and the financial policies of governments was far from being well developed. The accepted principles of finance were so firmly ingrained that after the first World War—which had thrown the international financial machinery badly out of line—it

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*An address by Asst. Secretary Blaisdell before the Drug, Chemical and Allied Trades Section of the New York Board of Trade, New York City, Jan. 18, 1949.

Chase Nat'l Bank Reports on 1948 Operations

Annual Report to Shareholders for year 1948 shows earnings of $2.37 per share, after deducting net loss on sale of bonds bought during preceding years. Chairman Aldrich at stockholders' meeting defends bank's dividend policy.

Winthrop W. Aldrich, Chairman of the Board of Directors of the Chase National Bank of New York, in his report to shareholders for 1948, states that net earnings for the year amounted to $17,579,000, or $2.37 per share, compared with $2.68 per share the previous year. The lower 1948 earnings are ascribed largely to losses on securities which amounted to 20¢ per share, compared with a profit of 17¢ per share in 1947. Commenting on bank earnings in general, Mr. Aldrich stated: "Although this bank and banks generally shared the experience of industry and business in reaching new high levels of activity during the year, there was a sharp contrast in the matter of net earnings. Industry's profits generally continued upward to new peaks, whereas the net profits of banks on the whole showed comparatively small variations from 1947 and were lower than in 1946."

W. W. Aldrich

Despite slightly lower net earnings in 1948, Mr. Aldrich reported a gross income from operations in the year of $69,081,000, an increase of 7.9% over 1947, due in large part to increased earnings on loans, which amount to $9,857,000, or 43% over 1947. Indicating the upward trend of interest rates during the 12 months, the average rate on loans for the last quarter of 1948 was 2.32% compared with 1.96% for the same period a year ago.

The Chase's assessment paid to the Federal Deposit Insurance Corporation in 1948 was $3,100,000, the largest annual assessment which the Chase has paid during the 14 years since the Federal Deposit Insurance Corporation was organized. Aggregate payments in that period have amounted to $32,106,000, which is equivalent to $4.34 per share on the 7,400,000 shares of stock.

"The Federal Deposit Insurance Corporation," commented Mr. Aldrich, "now has a reserve fund of more than $1 billion. In view of this very large reserve fund, it seems clear that the existing laws establishing the basis for assessments should be modified and the rate of assessment should be reduced."

During the ten-year period 1939-1948 a total of $94,200,000 has been added to Chase capital funds, after dividend payments aggregating $108,040,000. The combined capital, surplus and undivided profits (referred to as capital funds) on Dec. 31, 1948, amounted to $327,764,000, compared with $322,025,000 at the end of 1947 and with $233,562,000 on Dec. 31, 1939.

At the annual meeting of the Chase's stockholders held on Jan. 25, Chairman Aldrich announced there were no plans for increasing the current dividend or declaring a stock dividend, stating "I do not believe we have reached the point where our capital funds are sufficiently great to increase the dividend under present conditions." In his address to the shareholders, Mr. Aldrich discussing the bank operations maintained the bank's dividend policy was as liberal as that of other banks. For three years, he pointed out, the payment has been $1.60 per share, or 54% of net earnings in 1946; 60% in 1947 and 68% in 1948.

First Boston Corp. Group Offers $50,000,000 Consolidated Edison 3% Mortgage Bonds

The First Boston Corp. headed a group of 49 investment banking firms which publicly offered Jan. 26 $50,000,000 of Consolidated Edison Co. of New York, Inc., first and refunding mortgage bonds, 3% series E, due 1979. The bonds were priced at 102.399 and accrued interest to yield 2.88% to maturity. Awarded at competitive bidding on Jan. 25, 1949, the issue is one of the largest of corporate securities marketed publicly thus far in 1949.

Proceeds from the sale will be used by Consolidated Edison to the extent of $40,000,000 for the payment of a like principal amount of short term notes which were issued in connection with interim financing of the company's construction program. The balance of the proceeds will be used in connection with the construction program which, it is estimated, will involve expenditures of approximately $225,000,000 for the years 1949 through 1952.

For general redemption the series E bonds are redeemable at 105.40% on or prior to December 31, 1949, and thereafter at prices scaling down to 100%. Special redemption prices are calculated to protect the basic offering yield of 2.88% to maturity. Consolidated Edison Co. of New York, Inc., organized under New York State laws in 1884 as Consolidated Gas Co. of New York, is a public utility operating company engaged in the manufacture, transmission and distribution of electricity and gas. It is also a holding company controlling certain utility companies and a non-utility known as Consolidated Telegraph & Electrical Subway Co. Consolidated Edison and its subsidiaries supply electric service in the Boroughs of Manhattan, The Bronx, and Brooklyn, in a large part of the Borough of Queens and Westchester County. Gas service is supplied in Manhattan and the Bronx and some areas in Queens and Westchester County. Steam service is supplied in part of Manhattan.

Giving effect to this financing the company and its subsidiaries will have long term debt of $493,732,400. Consolidated Edison has outstanding 1,915,319 shares of $5 preferred stock without par value and 11,477,215 shares of common stock without part value.

The consolidated net income of Consolidated Edison for the year 1948 was $36,824,881 after all operating expenses, taxes and other charges. Total operating revenues of the Edison System for the year 1948 aggregated $370,832,235, against $335,893,718 in the preceding year, while operating revenue deductions were $321,545,417, against $286,201,045.

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Otis & Co. Appoints New Officers and Directors; Launching Program of Expansion

CLEVELAND, OHIO.—With the appointment of six new officers and directors, Otis & Co., Terminal Tower, launched an aggressive program for the expansion of its business in all departments. The Cleveland investment firm was founded in 1899.

Glenn R. Miller

John A. Kruse

Harry W. Irwin

Cyril H. Weagle

Robert L. Kaiser

Glenn R. Miller, who has been manager of Otis & Co.'s Public Utility Department since 1946, becomes Executive Vice-President and a Director. A native of Elgin, Ill., a graduate of Northwestern University School of Commerce and an Ohio certified public accountant, Mr. Miller has spent the past 15 years in the investment business with the exception of three years' service in the Army with the Contract Renegotiation Division of the Cleveland Ordnance District. Prior to the war he spent two years as an investment analyst with the Continental Casualty Company of Chicago and seven years in a similar capacity with Sheridan, Farwell & Morrison, Chicago investment counsellors.

John A. Kruse becomes Vice-President in Charge of Syndicates and Sales and a Director. Mr. Kruse has been with Otis & Co. since 1932 and has been Manager of the Trading Department for 13 years. Mr. Kruse, a native Clevelander, was with the Bond Department of the Union Trust Company before joining Otis & Co. Mr. Kruse was Secretary-Treasurer for the Northern Ohio District of the Investment Bankers Association in 1946 and Vice-President of the Cleveland Security Traders Association in 1947. He succeeds C. B. Lincoln who has reached retirement age but who will continue with the company in an advisory and consultative capacity. Daniel M. Hawkins succeeds Mr. Kruse as Manager of the Trading Department.

Harry Irwin becomes Vice-President in charge of the New York office and a Director. Mr. Irwin has been continuously associated with Otis & Co. since 1926 and has been Manager of its Cincinnati office for many years. A native of Fort Thomas, Ky., and a graduate of the University of Cincinnati, Mr. Irwin served on the War Finance Committee of Hamilton County, Ohio, and Northern Kentucky. Charles A. Whiting succeeds Mr. Irwin as Manager of the Cincinnati office.

Cyril H. Weagle becomes Vice-President in Charge of the Municipal Department and a Director. A native of Nova Scotia, where he spends his summer vacations, Mr. Weagle came with Otis & Co. in 1928, and is its senior salesman, handling many institutional accounts. He is a graduate of Acadia University, Nova Scotia, and during his college summer vacations was the leading salesman for John C. Winston & Co., Philadelphia, in Canada and the United States. He is active in Cleveland church and civic circles and during the war was a Section Captain for the War Bond Drives.

Robert L. Kaiser becomes Secretary and a Director. Mr. Kaiser is a native of Elyria, Ohio, and a graduate of Miami University and Cleveland Law School. He came with Otis & Co. in 1946 as controller, which position he retains. Mr. Kaiser had been with the National Refining Company from 1935 to 1943, first as Auditor and Chief Accountant and then as Assistant General Counsel and Assistant Secretary. He was admitted to the Ohio Bar in 1940. For the three years prior to his association with Otis & Co. he was a Lieutenant (Junior Grade) in the United States Navy.

Harvey L. Hawkins becomes a Director. Mr. Hawkins is a native Clevelander and has spent his entire business career with Otis & Co. He has been associated with Otis & Co. since 1921.

John E. Dwyer, Vice-President in charge of the Chicago office, has also been elected a Director of the company.

NASD District No. 10 Elects Officers

COLUMBUS, OHIO—At its annual meeting the following officers were elected by District No. 10 of the National Association of Securities Dealers; Herman J. Sheedy, McDonald & Co., Cleveland, Chairman; Robert O. Shepard, Prescott, Hawley, Shepard & Co., Cleveland; Frank Reid, Maynard H. Murch & Co., Cleveland, and Don M. Kraft, Collin, Norton & Co., Toledo, members of the District Committee.

A. J. Stiver, Saunders, Stiver & Co., and Harold L. Emerson, H. L. Emerson & Co., have been appointed members of the NASD conduct committee.

District No. 10 includes Ohio and Kentucky.

The Future of the Securities Business

By HAROLD B. DORSEY*
President, Argus Research Corporation

Holding securities business as an industry is a house divided, weak and ineffective, Mr. Dorsey urges centralized representative organization for all segments and branches, with coordinating sub-committees for each. Urges public relations and educational campaign to regain respect of public and a policy of improving earnings and morale of securities business personnel. Advocates aggressive merchandising of securities, together with modernizing and creative leadership in making securities business a vital cog in the economic machine.

To a considerable extent, the future of the security business depends upon the initiative, energy and ingenuity with which its personnel and leadership plan and work for its future. Such a contention may seem to overlook the effects of outside factors over which the security business thinks it has no control. I refer of course, to taxes, loss of incentives, misunderstandings verging on persecution, socialistic trends, etc. To my mind, all of these factors should really be an integral part of the overall planning of the security business.

Harold B. Dorsey

Without going into too much detail, let us briefly look at conditions that exist now. It is common knowledge that an insufficient proportion of new capital is flowing into securities and especially into equities. It is recognized than a larger than normal proportion of consumer disposable income is going into consumers durable goods; these items are competing very successfully for the potential venture capital dollar. We know that liquid savings are large but, for various reasons, an abnormally large proportion of these savings is relatively inactive.

In addition to recognizing numerous unfortunate and unsound economic trends among these conditions, I think most of us also will admit that the morale of the personnel of the security business is very low. It seems to be punch-drunk and a great deal of time is devoted to explaining why it is punchdrunk, but correctives are spasmodic and on a small scale, at best.

Perhaps as a consequence of this low state of morale, the security business as an industry stands as a house divided and consequently is weak and ineffective. It has been pointed out to me that one representative of the industry will get the ear of some Congressman and tell him that such - and - such legislation is necessary, only to be followed by another representative who contends that the first fellow is wrong. There is a lack of intelligent coordination of effort, lack of a flag to rally around, lack of a dynamic organization that is intelligent enough and representative enough to command the respect of the people.

Now, much as I hate to be a party to piling one bureaucracy on top of another one, it is an undeniable fact that there is no organization representative of the whole security business and one is needed very badly. Grave problems are presented that are much too large for anyone of the various existing associations to tackle. The associations representing different segments of the security business do not have a broad enough representation to speak with authority and in some instances they are prone to grind their own particular axe.

Perhaps someone has a better solution but my own suggestion would run somewhat as follows:

(1) Let each one of the various associations that represent segments of the security industry appoint their most intelligent member to a newly organized central industry board, which then would consist of representatives from the Association of Stock Exchange Firms, the Investment Bankers Association, the National Association of Securities Dealers, the National Society of Security Analysts and others.

(2) The central committee would then select a coordinating head, of the Bernard Baruch type, who commands the respect of the public.

(3) The governing board and the coordinating head would then set up subcommittees along functional lines. It is in the process of designating these subcommittees that I intend to elaborate a little on some of the outstanding problems of the security business as I see them.

(a) **Legal**—It is trite for me to remark that there are a tremendous number of legal questions facing the security business that are common to numerous divisions of the business. A legal department here would not only provide elements of efficiency and uniformity of legal interpretations but could also clear away many misunderstandings that are a barrier to the dissemination of facts about securities to the public. For example, I have had partners of security firms tell me that, in their opinion, it was a matter of questionable legality for them to tell the public that a 5% return could be obtained by investing in General Electric's common stock. Frankly, I am not sure whether or not they are right.

(b) **Economics** — This group would prepare the data that would prove the vital importance of the security business to the nation's economic welfare. There is a tremendous need for explaining to the public—and even to our own members—the absolute necessity for the existence of the security business as a vital cog in our economic machine. Private enterprise, as we know it, cannot continue without the guidance of a certain proportion of individual savings back into the productive economic stream. Without this new capital, where else are we to obtain the funds to finance new enterprises, new products and new processes, which are responsible for the progress in our standard of living, or we can even say, are responsible for the maintenance of our present standard of living if we allow for population growth trends? This simple fact is not understood by the public nor by business executives and, I am sorry to say, I find it is not completely appreciated by the personnel of the security business. Other equally important economic information of broad interest would be supplied by the economic committee.

(c) **Public Relations** — I think all of us agree that the public relations aspect of the security business is in terrible shape. When I wrote on this subject of modernizing the merchandising methods of the business several months ago, I received very considerable mail from individuals who frankly expressed an unfavorable, but a completely unfair, opinion of security firms and their personnel. Certainly it will take a vigorous and well coordinated campaign to regain the respect of the public.

But of equal importance in this matter of public relations is the duty of our industry to accept a very large proportion of the responsibility for making the public aware of the economic facts of life. Labor does not thoroughly realize that capital is required to create jobs and pay decent wages. The public does not realize that new capital is required to reduce costs and prices, to increase production and thereby to improve the standard of living.

I venture to say that 99% of the people of this country are completely unaware of the statistically provable fact that there is a very precise correlation between corporation profits and the number of people employed. Invariably, when corporation profits rise, so does the welfare of our whole economy. Not only can this be demonstrated by statistics but it is also quite understandable if one looks at the matter from a common sense viewpoint. The prospects for profits have a very direct bearing on the willingness of business leaders to expand or contract employment. **The very genesis of our cyclical movements is to be found in the minds of the business leaders. After all, who else can possibly make the decision as to whether the number of jobs is to expand or contract?** This is the reason why we focus all of our economic studies on those forces that will influence the decisions of the business leaders.

The general public is woefully unfamiliar with the fact that their welfare is so heavily dependent upon the profitability of business operations and upon a normal flow of capital movements; but this condition is largely the fault of the security business. At the moment, there is no outstanding group which has the respect of the public and which is willing to undertake the task of making the public aware of these facts. And it is the public's ignorance of these facts that permits demagogues to succeed in their leftist policies.

What single industry is more familiar with these facts than the security business? Hence, why is it not our responsibility to provide the mechanism for this educational effort? I know that numerous individuals and small groups feel the same way about it as I do, but our voices are not strong enough. We need a much larger and more representative coordinated body such as I am suggesting here.

(d) **Compensation** — Under the private enterprise system, every man who performs a true economic function is entitled to his reward. There is considerable evidence that current compensations do not provide a sufficient incentive to stimulate the ingenuity, the energy and the constructive thinking of the present and prospective personnel of the business. A study of this subject has a direct bearing on the type of manpower that will be attracted to the business.

(e) **Morale** — Judging from my conversations with numerous members of the security industry, the morale of the personnel is

(Continued on page 34)

*An address by Mr. Dorsey at meeting of the Boston Investment Club, Boston, Mass., Jan. 21, 1949.

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Let's Get Down to Earth

"I doubt the wisdom of wide-scale guarantees to private investment abroad. There is uncertainty as to the way Governments operate, particularly socialistic Governments. Such operations may lead to imperialism, and there we would be left holding the bag.

Robert A. Taft

"While we have not been advised as to detail on the new plans [of the President] it is assumed that they will follow the Marshall Plan.

"I would almost rather put up a half-billion dollars in grants years, as a part of the Marshall Plan, for these projects, and forget them, rather than trying to collect. We are not popular as a collector, and we are no good at being an imperialist.

"At the same time, we are not strong enough to undertake this program, except under limited expense.

"Real dangers lie in overestimating of the good such a program would do. Greater dangers lie in a disappointing over-promising. If the objective is to raise living standards in these under-developed areas to those of the United States, what we could do by guaranteed investment would be only a drop in the bucket to what these areas would have to do for themselves."—Senator Robert A. Taft.

The Senator appears to have made at least a start in bringing this "bold new program" down to earth. We can only hope he keeps the good work up.

Outlook for Construction Industry

Clifford S. Strike, President of F. H. McGraw & Company, tells Security Analysts construction outlay in 1949 will approximate $15 billion compared with $17 billion in past year. Sees high costs and lack of research as handicaps but looks for large replacement of heavy industrial plants to keep construction outlays at high level.

At a meeting of the New York Society of Security Analysts in New York City on Jan. 13, Clifford S. Strike, President of F. H. McGraw & Co., engineers and constructors, expressed optimism regarding the immediate future of the construction industry. "The outlook for construction in 1949 is good," Mr. Strike said. "It will be less than in 1948, but the picture is still good."

Clifford S. Strike

"Though few people realize it," Mr. Strike continued, "the construction industry, next to agriculture, is the nation's leading industry. Its national product in 1948 was in the neighborhood of $17 billion. This year the industry will be off somewhat, but probably there will be nearly $15 billion worth of construction work done in the United States. This is a healthy amount of business."

"The principal cause of the decline in industrial construction this year," Mr. Strike said, "was high costs." "Construction costs are considerably out of line—about 15 to 20%, I would say. Should total construction decline to a point where demand for the present limited supply of building trades workers is eased—there are only a little better than two million trained construction mechanics in the U. S.—with resultant lowering of building costs, particularly labor rates, a number of industrial construction projects, now being deferred, could well develop and bring renewed stimulus to industrial building activity. I know of at least 10 firms that have expansion plans on their boards but are waiting for construction costs to drop before they go ahead. This factor provides a great backlog of work, if and when prices do ease."

Concerning the outlook for the future, Mr. Strike asserted:

"The steel industry, as well as other heavy industries, is today operating at 100% of capacity and in some cases even more than that. This strain on production facilities, much like an automobile that is traveling constantly at its top speed, means that eventually steel mills and other factories will require rehabilitation. That will probably come when demand and production ease off to a fairly large degree."

"This current strain on production facilities redounds to the benefit of construction concerns whose forte is the rehabilitation of steel mills and the replacement of worn-out facilities," Mr. Strike remarked.

"I would like to dispel, if possible, the idea that the construction business is an especially hazardous one," the speaker added. "It has its hazards to be sure, but what business hasn't. Large companies like my own—and there are at least 25 companies in this category—have been in business a long time. The alleged 'hazards' in the business are more likely to apply to small, 'fly-by-night' companies that are operating on a shoestring. Their operations are often not as well calculated as ours due to the fact they lack experience, facilities, or the necessary wherewithal. It is interesting to note, however, that no one construction company dominates the building field, such as you will find domination in other industries. So far as I know, no one company can claim as much as 2% of all the construction business done in any given year."

According to Mr. Strike, "an outstanding shortcoming of the construction industry is the lack of research. Most of our research to date has been supplied by the industries for which we have built. Of course our suppliers—equipment and material manufacturers, and so forth—have made major contributions to the industry by supplying equipment and materials that are faster, better in quality, lower in cost." "There is a great need for a research body in construction to discover ways of doing work better and cheaper," Mr. Strike remarked. "Our best method of discovering better construction methods is by experience, and here it is usually the client who is footing the bill. Naturally we apply the experience gained on one project to the next similar project."

Benjamin M. Anderson, Economist, Is Dead

Distinguished authority on monetary subjects served Chase National Bank from 1920 to 1939. Was Connell Professor of Banking at University of California and a contributor to "Commercial & Financial Chronicle."

Dr. Benjamin M. Anderson, Connell Professor of Banking at the University of California in Los Angeles, and during the last 30 years a distinguished economist, died at Santa Monica, Cal., on Jan. 19. Dr. Anderson was an occasional contributor to the "Chronicle," and at the time of his death had just completed a book, "The Financial and Economic History of the United States, 1914-1946," which is scheduled for publication shortly. Dr. Anderson was President of the Economists' National Committee on Monetary Policy.

Benj. M. Anderson

Dr. Anderson was born in Columbia, Mo. He received an A. B. degree from the University of Missouri in 1906, an A.M. from the University of Illinois in 1910 and a Ph. D. degree from Columbia in 1911.

He became an instructor at Columbia University in 1913, but shortly thereafter went to Harvard as Assistant Professor of Economics, holding the post until 1918, when he was made economic adviser of the National Bank of Commerce, New York. Two years later Dr. Anderson became economist for the Chase National Bank, serving until 1939, during which time he was editor of the "Chase Economic Bulletin." He next joined the University of California at Los Angeles as Professor of Economics and was appointed Connell professor at that institution in 1946.

Washington Univ. Course in Investments

ST. LOUIS, MO. — University College of Washington University will present an advance course on "Investments for the Layman." It will deal chiefly with the analysis of specific securities and the interpretation of current developments affecting security prices. This new course will begin Feb. 10 and continue for ten Thursday evenings. Registration is from Jan. 31 to Feb. 5; tuition, $16.

A repetition of the more elementary course on the same subject given last fall will be presented on ten Wednesday evenings beginning Feb. 9.

Public Utility Securities

By OWEN ELY

American Telephone & Telegraph

The Department of Justice recently filed suit against the American Telephone & Telegraph Company under the Anti-Trust Act, proposing that Western Electric Company (which has been part of the Bell System for 65 years) should be broken up into three publicly-owned companies; that all Bell System companies should then buy their supplies and equipment at competitive bidding; that A. T. & T. should buy Western Electric's half interest in the jointly-owned Bell Telephone Laboratories; and that A. T. & T. control of the telephone operating companies' practices should be restricted (reportedly to the extent necessary to insure competitive policies on equipment and supply procurement).

Of the three new Western Electric companies, two would compete in the manufacture of telephone equipment, while the third would produce electronic and non-telephone items. Through competitive bidding the two firms making telephone equipment would then compete with other producers. Moreover, A. T. & T. and Western Electric patents would have to be licensed to all applicants (with technical assistance supplied) which would open the Bell equipment market to Associated Tel. & Tel., International Tel. & Tel., Stromberg-Carlson, and others. Companies such as Anaconda Wire & Cable, General Cable, Rome Cable, and subsidiaries of Phelps Dodge and Kennecott Copper, could bid competitively to supply telephone wire and cable to Bell companies.

The divestment would deprive American Tel. & Tel. consolidated earnings of Western Electric income, which amounted to a record high of about $2 in 1948 but which averaged only about 70c per share (on present share capitalization) over the decade 1938-1947. However, Western Electric's elimination would not directly affect the system rate bases or the pending applications by Bell System companies for rate increases aggregating $260 million annually.

These applications were designed to offset higher costs and raise the rate of return which (excluding Western Electric) averaged less than 4.8% on invested capital in the nine months ended Sept. 30, 1948. In the 12 months ended Nov. 30 Bell System earnings were $10.21 a share compared with $7.62 in the previous corresponding period; and the parent company alone earned $9.20 vs. $7.43. Excluding Western Electric, the latest figures would have been reduced to about $8.21 for system earnings, and $7.70 for the parent company. However, if the stock of Western Electric should be sold to the public, or offered to Telephone stockholders on a subscription basis, substantial funds would be obtained which of course would yield a return to American Telephone when used in its telephone construction program.

As pointed out in Carl M. Loeb, Rhoades' recent study of A. T. & T., the results of rate applications, the expansion which has taken place since the war, and the further gradual mechanization of facilities, are of greater importance in considering the safety of the $9 dividend rate than is the loss or retention of Western Electric's normal contribution to consolidated earnings. A return moderately above 6% on invested capital, excluding Western Electric, should enable the company to earn somewhat more than the $9 dividend.

It is expected that A. T. & T. will strongly contest the anti-trust suit in the courts. Since a case of this importance might very well go to the Supreme Court, the anticipated long delay should give ample time to work out other problems with respect to rates and the construction program; and eventually the importance of Western Electric, which had an abnormally big year in 1948, will appear of lesser importance.

Western Electric's profits, after taxes, on sales to A. T. & T. companies over the past 25 years has averaged only 4% of sales; but of course this relatively low profit margin does not indicate whether prices for its products were low or high as measured by competitive standards. In the past decade the record has been as follows in millions of dollars:

	Sales	A. T. & T. Equity in Net Income	Dividend Payments to A. T. & T.
9 Mos. Ended Sept. 30, 1948	$845	$39	$27
1947	996	32	27
1946	610	12	12
1945	861	15	12
1944	927	14	12
1943	714	13	12
1942	574	8	6
1941	402	18	18
1940	249	33	24
1939	193	16	13
1938	180	6	3

American Tel. & Tel. was of course adversely affected marketwise by announcement of the suit, the stock dropping five or six points to 143 (lowest since 1943). However, continued buying by bargain hunters and investors has restored the price almost to the earlier level, around 148. Evidently the investing public has considerable faith in the company's ability to obtain further rate increases and to withstand any difficulties entailed by possible separation from Western Electric.

David Cerf II With Fred W. Fairman & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—David F. Cerf II has become associated with Fred W. Fairman & Co., 208 South La Salle Street, members of the Chicago Stock Exchange. Mr. Cerf was formerly syndicate manager for Floyd D. Cerf Co.

Harold Levitt Vice-Pres. Of Holton, Hull

LOS ANGELES, CALIF.—Harold E. Levitt has become associated with Holton, Hull & Co., 210 West Seventh Street, members of the Los Angeles Stock Exchange, as Vice-President. Mr. Levitt was formerly a partner in Flynn & Levitt.

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Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Lengthening of maturities in order to preserve income, and Federal's scaled-up selling have tended to push prices of long governments ahead, especially the eligibles. . . . It seems as though the monetary authorities have marked up prices of their offerings, and this has been followed by the dealers who are not too heavy in holdings of the more distant maturities. . . . Price advances have been orderly and the tone of the market is good, with sizable orders still waiting to be filled although some of these buyers are hoping to make purchases on a reaction which may or may not develop. . . .

The 2½% due 9/15/67/72 is the market leader, although the 2¼s due 1956/59 and the 2½s due 1956/58 are being well bought. . . . The last four partially-exempts continue under accumulation with the 2¾% due 1960/65 the bellwether of this group. . . . The tap bonds are getting good buying as the longest and shortest maturities vie for the spotlight with the 2¼s seemingly getting a bit more of the play at this time. . . .

SELLERS NOW BUYERS

The abrupt turnabout in prices of government securities makes it hard to believe that just about two months ago no one wanted these obligations and the principal buyer, the Federal Reserve banks, were being hit with plenty of bonds. . . . Today again the Central Banks are the all-important operators in the government market, but this time they are the only sizable sellers of Treasury obligations. . . . Before the elections last year the fear of lower government bond prices created such a liquidity complex that institutional holders of long Treasuries wanted to get rid of them, but fast, before the pegs would be pulled. . . . Accordingly they were all sellers and none was a buyer. . . .

At the present time the rush is on to get these bonds back, many of them at higher prices than they were sold at, because the fear now is not of lower quotations, but of higher ones, and it is felt that positions must be rebuilt before prices advance further. . . . The market is full of buyers, and it seems as though it will be that way for a while. . . .

INCOME THE INCENTIVE

It is indicated that the crying need today is for the maintenance of earnings and practically nothing is heard about liquidity which had such an adverse effect upon the government market a short time ago. . . . The elections, the reports of President Truman and the trend of economic conditions are the main reasons for the changed attitude in the money markets. . . . The size of the public debt and the heavy service charges mean that the money markets are going to be under the domination of the monetary authorities, and this presages low interest rates for a long time to come. . . .

A protected government market is one of the important factors in the program, because of the great influence the Treasury market has on the whole economy. . . . The limits of the market on the down side have been set and tested in the past. . . .

HOW MUCH HIGHER?

For the time being at least, the important thing in the government bond market seems to be how far will the managers allow prices to advance before the brakes are applied, because a stable government market is one that does not go to extremes in either direction. . . . To be sure, the rise so far has been moderate and represents a modest recovery from levels that would not have been reached were it not for the downside fear that fed upon itself. . . . Guessing price limits of government securities is at best a hazardous business but nonetheless some money market followers are looking at the picture this way: The longest taxable 2½%, they believe, should move ahead gradually, but with due allowance for minor interruptions—because prices do fluctuate—to about the 103 level. . . . The 2¼s due 1956/59 according to some should head into the area of 103¼. . . .

These prices would not be too far from the support levels that were held by the authorities before the 1947 Christmas present was given to the financial community. . . . The partially-exempts, especially the 2¾s due 1960/65, are expected to run into supply as they get up to 111. . . . The restricted issues will probably come in for more than passing resistance as they approach 101, the old support level that was defended by the money managers until they revised prices on Christmas Eve, 1947. . . .

MARKET MEMOS

Corporate bonds are being sold by savings banks and the proceeds are being put into Treasury bonds. . . . The spread in yields between high-grade corporates and governments has narrowed to the point where many institutions are liquidating the former securities in order to acquire government bonds. . . . World Bank obligations continue to get attention from deposit banks and non-bank investors. . . . Trust accounts and pension funds are reported to be among the sizable buyers of the 2¼s due 1959/62. . . .

The 2s due 1952/54 are being bought in considerable volume by the commercial banks, with out-of-town institutions reportedly the largest takers of these securities. . . . Two large Midwest deposit banks were reported to have been sizable buyers this week of the 2¾s due 1958/63 and 1960/65.

Elected to Board of Los Ang. Stock Exch.

LOS ANGELES, CAL.—Charles T. Jawetz, Daniel Reeves & Co.; Paul J. Marache, Marache, Sims & Co., and George E. Zimmerman, Revel Miller & Co., have been elected to the Board of Governors of the Los Angeles Stock Exchange for three-year terms. D. Roger Hopkins, Jr., Hopkins, Harbach & Co.; J. Derry Kerr, Kerr & Bell, and Oliver B. Scott, Walston, Hoffman & Goodwin, are retiring from the Board of Governors.

The following have been appointed to the Nominating Committee for 1949: H. M. Bateman, Bateman, Eichler & Co.; Harry B. Brooks, Wm. R. Staats Co.; D. Roger Hopkins, Jr., J. D. Middleton, First California Co., and Norman A. Tulk, Noble, Tulk & Co.

According to W. G. Paul, President, the Exchange had the greatest volume of activity in 1948 since 1930, showing an increase of 40% over 1947.

The Investment Portfolio as Bank Income

By F. BRIAN REUTER*

Vice-President, Mellon National Bank & Trust Co., Pittsburgh, Pa.

Mr. Reuter, asserting banking is still a business, contends income motive in its operations should extend to its investment policies, and a bank's portfolio should mean purchasing investments with view of obtaining highest flow of continuous income possible, after being conversant with structure of one's own bank and its deposit fluctuations and trends. Foresees stability in present volume of bank deposits and stresses dependence of investment policy on "hard core" of savings deposits. Urges actuarial viewpoint in judging investment results.

In an investment pamphlet which reached my desk a few months ago there was a brief dissertation on bank investments which pointed out that fortunately a banker is able to make a reasonably accurate projection of operating costs and then went on to say ". . . after providing for sufficient liquidity, their (the bank's) remaining investments can be adjusted to produce the income to cover operating expenses as well as a reasonable excess for earnings on invested capital. The article continued, ". . . this procedure is followed in most institutions as sound banking practice." This touches on something which has been dear to my heart for years.

F. Brian Reuter

About 24 years ago when I was working for a studious and able firm in the investment banking business, the salesmen were told by one of the elder statesmen of this concern an axiom which became so fixed in my mind that I can almost quote verbatim the expression which he used. "Profit making is, of course, the dominant motive of the average banking institution, even if the best of them frequently subordinate earnings to the conscientious discharge of their responsibilities towards their depositors."

Many bankers are quite as alert businesslike, and profit-conscious as are men engaged in commerce and industry, but this aggressiveness, from my observation, appears to be confined to operations other than the investment portfolio. I sometimes wonder whether years of control, regulation, and warnings under which those engaged in finance have operated have not to some degree stultified their outlook. While it is true that in a measure ours is a service industry and undoubtedly a most important industry from the point of view of the well-being of our economy as a whole, banking is still a business. Ours is a remarkable nation as is demonstrated by our position in the world today and the vast wealth and happiness which we have achieved. The system of competitive free enterprise boils down essentially to a few simple words. An American wants to make more money and faster than his fellow citizen.

There were four prominent zoologists, a German, an Englishman, a Frenchman and an American, who used to meet at intervals and spend the evening discussing a particular topic. The agenda for one meeting was, "The Elephant," and each prepared and presented a monograph on the subject.

The German produced a somewhat impressive book bound in thick leather which was entitled "The Feeding Habits of the Elephant." The Englishman's observations on the subject were contained in a not too voluminous book plainly bound, entitled "The Elephant from the Viewpoint of the Sportsman." The Frenchman's offering was bound in green pastel suede leather and was entitled "The Love Life of the Elephant."

*An address by Mr. Reuter before the 21st Annual Mid-Winter Meeting of the New York State Bankers Association, New York City, Jan. 24, 1949.

The American produced a monograph bound in cardboard, held together by brass paper clips, the title of which was, "The Elephant. How to Make Him Bigger and Better!"

It is not suggested that anyone can make a bigger bank portfolio but we can strive to make it a better one.

Naturally, the term "profit making" does not, for a bank, mean purchasing investments in order to sell them at a profit but means obtaining the highest flow of continuous income possible after being thoroughly conversant with the structure of one's own bank and the past and future possibilities of one's own community and one's own depositors.

Deposit Trend

We all understand, of course that the size of the deposits and of the working assets of an individual bank are partly within its control and partly governed by the net actions of the banking system as a whole, of business as a whole, and of the fiscal policies of the government. In what I have to say on this matter, I am forced to assume as a framework of individual bank policy, that the total level of bank deposits in the nation is unlikely to be permitted by the government to expand greatly over the foreseeable future, and in the absence of a large government budget cash surplus cannot shrink greatly. The deposit rise since 1941, however inflationary in origin, cannot be canceled or significantly reduced unless the government retires very large amounts of debt out of excess revenues.

Hence, within this expected framework of a rather stable deposit structure in the nation, it is up to the individual profit-making bank to evaluate its particular circumstances, since it can always lose deposits to, or gain them from, other and competing banks.

This self-appraisal is not a difficult task. Every bank has a past record of both its deposit and loan fluctuation over a long period of years. Such an analysis will reveal the relative stability of both demand and savings deposits and a careful appraisal of present factors should enable a banker to guess with fair accuracy, weighted on the conservative side, the future movement of these deposits. The assumption, of course, must be that it is unlikely that we will ever be able to level out the peaks and valleys in our economy and that at some future date the business picture will change for the worse. It must also be remembered that in the past our private banking system has suffered the full impact of the stresses and strains which an unbalanced economy always produces. It might be wise to be old-fashioned enough to fear that history will in some measure repeat itself.

Savings Deposits, the "Hard Core"

Thus, the first approach to a continuity of really satisfactory income is to estimate what I call the "hard core" money of a banking institution—generally speaking, predominantly savings deposits. This is the expectable proportion of the deposits of a particular bank *vis-a-vis* its city, district and the country as a whole, which the bank, in the main, can depend upon retaining. This amount, it is submitted, may properly be kept continually invested in the highest grade securities without too much regard for their maturity, assuming that the spread between short and long yields constitutes a sufficient incentive to lengthen—a condition which prevails at this time. The ebb and flow of deposits above this "hard core" will fluctuate with changes in our economy and should provide amply to meet all ordinary commercial loan demand.

The most useful application of this philosophy is to imagine your institution as consisting of three banks—a bank of demand deposits, a savings bank and a bank or, if you will, an investment trust consisting of the capital funds, the stockholders' direct share in the business. Against each of these three banks, and based upon your own informed appraisal of the relative volatility of the liabilities in each, there would be allocated an appropriate "strip" of cash and assets, in quality, marketability, maturity, and yield suited to the expected fluctuations in each "bank." The more stable the class of deposits, the longer and higher-yielding may properly be the investments allocated against them—with due regard always to providing a conservative margin of safety, but most definitely, without making a fetish of "shortness for shortness' sake." Such procedure, incidentally, also provides a most useful yardstick of the profitability of your demand, time, and savings deposits, in terms of the average rate of interest received on assets allocated to each, and the interest paid on savings deposits. Time is not available nor is it appropriate now to enlarge upon the ramifications of such a procedure, since the detailed application must necessarily be a highly individual matter for each institution. I leave the subject merely with the note that the most successful and long record of mutual savings banks renders the composition of their portfolios quite useful as a yardstick in establishing the nature of the strip of assets allocated against savings deposits. The longest and highest-yielding investments will naturally go against capital funds, and the overall excess or deficiency of liquidity may then be measured by what is left for demand deposits, in the light of the latter's expectable volatility.

Future of Interest Rates

I have made no mention of the future of interest rates on the highest grade long-term investments. An appraisal of one's own capital funds position, the past record of ones' own deposit and loan fluctuation and the relatively easy task of assaying one's own community and depositors, is a factual study compared with some of the crystal gazing which has to be resorted to in determining the long-term interest rate level over the next 10 or 15 years. Some proof of this has been very evident during the past 12 or 13 years when many have blown hot and then cold on the subject of long-term bonds with a consequent loss of income. Successful banking, and money

(Continued on page 34)

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Securities Salesman's Corner

By JOHN DUTTON

There is one way that you can be sure to make a great effort and still get nowhere—and that is to go around in a circle. There are times when many salesmen fall into the unconscious habit of seeing the same people TOO OFTEN. Familiar faces and places grow on us. But it is true that staying in the same pasture sometimes does not provide the most nourishment—grass that is grazed upon continuously, often grows short and stubby. There are times when "distant pastures" are the greenest.

Unfortunately, one of the inherent features of the securities business is the fact that there is much less stability to the average investment clientele than in most other lines of endeavor. It is absolutely necessary to cultivate new business constantly if one is to even keep up with the natural dropping off of clients that comes about periodically. Yet, many salesmen continue to go back again and again, over the same ground, until forced by necessity to branch out into new fields.

There is another advantage in going out among NEW people besides the fact that it must be done in order to maintain a healthy business. There is always the possibility that you will uncover some NEW CLIENTS THAT WILL BE MORE PRODUCTIVE THAN THOSE YOU NOW HAVE. After all, there are only eight working hours in a day, and probably even the most efficient salesmen do not spend more than half of them talking with customers and prospects. The most important asset any salesman has is TIME. If it is used efficiently a salesman can double or triple his earnings—just by the simple expedient of seeing a higher calibre of prospect. Those who can invest in larger amounts . . . those who are easier to see and talk with . . . those who are more receptive to suggestions . . . these are the clients that count when it comes to doing more and better business.

Many a salesman goes back to some quite likable customer again and again. He spends several hours obtaining a small order, or he gives so much service that his time is squandered. Habit becomes very strong in such instances, and even if the realization is there that the game is not worth the candle, repeated calls are made. Many a man works much too hard digging up small odd lot orders, or doing business with people who shop around so much that the profit in their orders are insignificant. By the end of the week he's dog tired and not much better off financially than when he started.

There is a great deal of better business available than that which you now have. You would be surprised to know of some of the accounts that other salesmen have obtained just by going out and seeing enough people. Contacting and following up leads is like blazing a new trail . . . you never know when you may uncover a gold mine. There have been cases where salesmen have called upon prospects in answer to newspaper advertisements and have literally fallen into clover. One case, with which I am familiar, led to a four million dollar account. This is unusual to be true . . . but there are many large accounts that you can obtain if you patiently keep on your toes and go after them.

As new and larger accounts are obtained you can still keep in touch with the smaller ones by telephone. The time you spend obtaining a small order is sometimes greater than a larger one. What happens when a doctor who is a general practitioner gets too many $3.00 patients? He becomes a specialist and raises his fees. He has to do it in self defense. Bigger accounts, better accounts, are the difference between medium earnings and high earnings in every business. If a man believes he is good (and you should if you ever expect to get anywhere in this or any other business) then go after the important accounts . . . that is where success and better earnings are sure to be found.

N. Y. Curb Exch. to Vote on Higher Commissions

A proposed increase in the schedule of New York Curb Exchange commission rates on stock transactions was submitted on Jan. 20 by mail to the regular members of the Curb Exchange by Francis Adams Truslow, exchange President.

Amendments to Section 2, Article VI, of the constitution of the Curb Exchange incorporating the proposed commission changes were approved by the board of governors at its regular meeting on Wednesday, Jan. 19, 1949. To become effective the amendments must be approved by a majority of the votes cast by at least a majority of the regular members of the Curb Exchange. The voting period is of two weeks' duration with an additional two weeks possible in the absence of sufficient votes.

If so approved, the revised commission schedules would provide an estimated 13.07% overall increase in stock commissions and would become effective as of the opening of business on Monday, Feb. 14, 1949.

$50,000,000 Louisiana Bonus Bonds Marketed

Issue underwritten by national syndicate headed by Blyth & Co., Inc. and Halsey, Stuart & Co. Inc.

The State of Louisiana on Jan. 25 awarded to Blyth & Co., Inc., and Halsey, Stuart & Co. Inc. and associates, $50,000,000 World War II veterans' bonus bonds, series A, due Jan. 15, 1953 to 1964.

The group bid a premium of $1,111.10 naming a 4% interest rate for bonds maturing in 1953 and 1954; 3¼% for those maturing in 1955 and 3.10% for the 1956-1964 maturities, representing a net interest cost of 3.16%. The underwriters are reoffering the bonds at prices to yield from 2% for those due 1953 to 3% for the 1964 maturity. Bonds maturing Jan. 15, 1954, and thereafter, are redeemable in whole or in part, in the inverse order of maturity, beginning Jan. 15, 1953, at par plus a premium of 2% and accrued interest.

The $50,000,000 of bonds represents part of an issue of $60,000,000 authorized by constitutional amendment at an election held last Nov. 2 and will constitute valid general obligations of the State for the payment of the principal and interest primarily from the avails and proceeds of the tax levied on beer.

Curb 5 and 20 Club Elects O'Brien Pres.

Edward A. O'Brien, a regular member of the New York Curb Exchange since 1920, was elected President of the Curb Exchange members' Five and Twenty Club at the recent annual meeting. Mr. O'Brien, Vice-President of the group since its formation in 1947, succeeds Mortimer Landsberg, who had headed the Club during that time. James J. Hopkins was elected Vice-President, Walter E. Kimm, Treasurer, and Lawrence M. Stern, Secretary.

Edward A. O'Brien

Eleven members of the Exchange who will complete 25 years as members of the Curb in 1949 were initiated to the club last night, bringing to 156 the full membership. The new members are Joseph Decker, Bryce A. Frey, Henry C. Hagen, Felix Hessberg, Robert Lehman, James A. McDermott, Austin K. Neftel, J. Edward Walsh, Rudyard K. Winchell, John Wise and W. T. Wuestehube.

The annual beefsteak dinner and entertainment followed the meeting, with Edward C. Werle, Chairman of the Curb Exchange board, Andrew Baird, Vice-Chairman, and Col. William A. Lockwood, Exchange Counsel, present as honorary members and Louis Burgers, President of the Exchange Employees' Quarter Century Club, and Daniel Hannafin, President of the Curb Floor Clerks' Association, as guests. Jack Feinstein was Chairman of the committee for the affair.

Mr. O'Brien, who first went to work on the old outdoor Curb Market in Broad Street as an errand boy in 1915 and served in the U. S. Navy during World War I, was elected to membership on that market in January, 1920. He is currently a member of the Curb Exchange board of governors and has been nominated for reelection to that office at the annual meeting next month. He is a member of the Exchange committees on floor transactions and admissions.

Prescott Co. Admitting Many New Partners

CLEVELAND, OHIO—Prescott & Co., Guardian Building, members of the New York and Cleveland Stock Exchanges, on Feb. 3 will admit to general partnership Harold J. Rosewater, Charles M. Bull of New York City, member of the New York Stock Exchange, Harry N. LePan and Corwin L. Liston, and to limited partnership Edward D. Untermyer, Jean H. Palmer, S. Livingston Mather and Charles G. Raible.

Gilbert L. King, member of the New York Exchange, will retire from the firm on Jan. 31. Interest of the late William Pendleton Palmer, Jr., in Prescott & Co. ceased Jan. 18.

E. N. Potter to Be Partner In Stanley Heller & Co.

On Feb. 3, Eliphalet N. Potter, member of the New York Stock Exchange, will be admitted to partnership in Stanley Heller & Co., 30 Pine Street, New York City, members of the New York Stock and Curb Exchanges. Mr. Potter has been a partner in Combs, Maxwell & Potter, which will be dissolved on that date. Robert G. Kennedy, Jr., member of the Exchange, will withdraw from partnership in Stanley Heller & Co. on Feb. 3.

Mid-West Stock Exch. Merger Parleys Resumed

Representatives of exchanges met in Chicago on Jan. 21 to prepare plan of consolidation to be submitted to memberships.

On Jan. 21, representatives of five Mid-West stock exchanges, comprising Chicago, Cleveland, Cincinnati, Minneapolis and St. Louis, convened in Chicago to consider a plan for consolidation into one major central securities market. The meeting is the second of a series of conferences regarding the proposed merger. Harry Besse, President of the Boston Stock Exchange, appeared at the conference as an observer. Neither the Detroit nor New Orleans Stock Exchanges sent representatives.

James E. Day, President of the Chicago Exchange, who has been the leader in promoting the consolidation said the final plan will be based on the reports of the various committees which had been studying the proposal. He estimated it would take a month for the plan to be prepared and two or three additional months before it would be submitted for a vote by the various memberships.

Phila-Balt. Exchange Merger Nears Completion

The posting of members of the Baltimore Stock Exchange on Jan. 20 to become members of the Philadelphia Exchange constitutes one of the final steps incident to the formal consolidation of the two stock exchanges. There still remains the approval by the membership of the constitutional amendments to make the merger complete.

The Baltimore candidates, to be voted on Feb. 2, are J. Dorsey Brown, President, Baltimore Stock Exchange; Floyd W. Bousman of Sterling Morris & Bousman; Leon H. Block of Simon J. Block & Son; Anthony D. Cassatt of Merrill Lynch, Pierce, Fenner & Beane; Elisha Riggs Jones of E. R. Jones & Co.; F. Grainger Marburg of Alexander Brown & Sons; T. Stockton Matthews of Robert Garrett & Sons; W. Carroll Mead of Mead, Miller & Co.; Philip L. Poe of Philip L. Poe & Co.; John Redwood, Jr., of Baker Watts & Co.; Joseph W. Sener of John C. Legg & Co.; Harry M. Sheely of Harry M. Sheely & Co.; Cornelius B. Sheridan of Mitchell & Co.; Walter Koppelman and Walter M. Weilepp.

In an address to the Cashiers Association of Investment and Brokerage Houses in Baltimore, William G. Barclay, President of the Philadelphia Stock Exchange, said the new exchange will be "neither local to Philadelphia nor to Baltimore but indigenous to both."

"Through its facilities," Mr. Barclay stated, "it will provide a single market place for the transaction of business originating in and about the third and seventh cities of the nation."

"Philadelphia and Baltimore members will have equal facilities," Mr. Barclay added. He said "to continue dual trading floors would have been uneconomical." Therefore it has been agreed to use the "present floor in Philadelphia for the joint operation."

To effect this arrangement private telephone channels will be established directly from the Philadelphia floor to Baltimore and to the offices of members in Baltimore. A joint clearing corporation also will be set up with offices in both Baltimore and Philadelphia.

Broach on Faculty of Rutgers Session

TULSA, OKLA.—Falkner C. Broach, Vice-President and director of National Bank of Tulsa, has been chosen to join 53 of the nation's top banking, trust and investment leaders on the faculty of The Graduate School of Banking, at Rutgers University, for this summer's sessions.

Falkner C. Broach

Appointment to the faculty of the Graduate School is a coveted honor among professional bankers. Broach, the only Oklahoman on the faculty, will be serving for the second time. His first tenure was two summers ago.

As a faculty member, Broach will be one of six men chosen to lecture in the Investments section. The course will cover a study of the Federal Reserve System, the money market, government and agency obligations, and investment policies and practices for the bank's bond portfolio.

The 1949 sessions of the Graduate School are scheduled for June 20 to July 2. They will be held on the campus of Rutgers University, at New Brunswick, N. J.

The Graduate School was established in 1935 by The American Bankers Association to offer bank officers and certain bank employees educational opportunities of an advanced character in the fields of their professional interest.

About 950 students will attend this year's sessions, some of whom will complete the three-year tenure necessary to receiving a diploma. The diploma is issued jointly by Rutgers University and the Graduate School.

Mr. Broach will go to New York City March 19 for a meeting of the School's faculty in the Biltmore Hotel.

Trinity Univ. Course In Investm't Technique

SAN ANTONIO, TEX.—Because of its success during the fall term, Trinity University is again offering its course in Investment Technique for the spring semester. This course, for adults, will be presented in the Downtown Division of the University every Tuesday evening from 7:00 to 9:40 p.m., beginning Feb. 1. The course will provide three semester hours of college credit and is approved for veterans under the "GI Bill."

The course, under the instruction of E. S. C. Coppock, will cover Investor's Dilemma, Characteristics of Investment Media, Economic Cycles, Flux of Supply and Demand, Characteristics of Commodities, Theory of Price Pattern Development, Logic of Technical Analysis, Internal Market Analysis, Class Construction of Essential Trend Indices, Line Charting, Bar Charting, Point and Figure Charting, etc.

Enrollment is limited to 25 persons.

Eugene F. Durand With E. F. Hutton & Co.

TUCSON, ARIZ. — Eugene F. Durand is becoming associated with E. F. Hutton & Co., 20 East Pennington Street. Mr. Durand was formerly senior partner of Eugene F. Durand & Co., which is being dissolved as of Feb. 1.

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A Plan for American Investment Abroad

Eric Johnston proposes creation of a billion dollar corporation to guarantee U. S. investors against loss from nationalization and confiscation.

According to a dispatch of the United Press from Washington on Jan. 22, Eric Johnston, President of the Motion Picture Association of America and former President of the Chamber of Commerce of the U. S., has a plan to implement President Truman's proposal to use American technique and capital to develop friendly countries throughout the world.

Eric A. Johnston

"I intend to take this plan up with the State Department and other Administration officials," Mr. Johnston is reported to have told the United Press.

"I propose setting up a body to be called 'World Economic Corporation' with a total capital of $1,000,000,000. I propose that this fund should be used to guarantee United States investors against loss through nationalization and confiscation of their capital invested in foreign lands.

"This corporation," Mr. Johnston stated, "would not guarantee investments against losses incurred in the ordinary course of business, because I want investments abroad to be developed with business acumen and enterprise. Also, it will not guarantee a return on the investments."

Sees Ratio of Stock Sales and Prices to Personal Incomes at Lowest Level

Cleveland Trust Company shows by diagrams almost steady increase in personal incomes, with stock prices and sales volume lagging.

The January issue of the "Business Bulletin" of the Cleveland Trust Company, in reviewing the stock market of 1948, calls attention to the stagnation of stock prices and low volume of stock transactions as compared with the almost steady rise in personal incomes since 1933. "It has been truthfully said," states the "Bulletin," "that the stock market has shown less response to inflation and the business boom than almost anything else. The average price of common stocks, as measured by Standard and Poor's index, is only about 19% above the 1935-1939 average. Most other business and financial indicators have recorded far greater increases. To mention only two, the wholesale commodity price index is 103% higher than for 1935-1939, and the physical volume of industrial production is 94% higher.

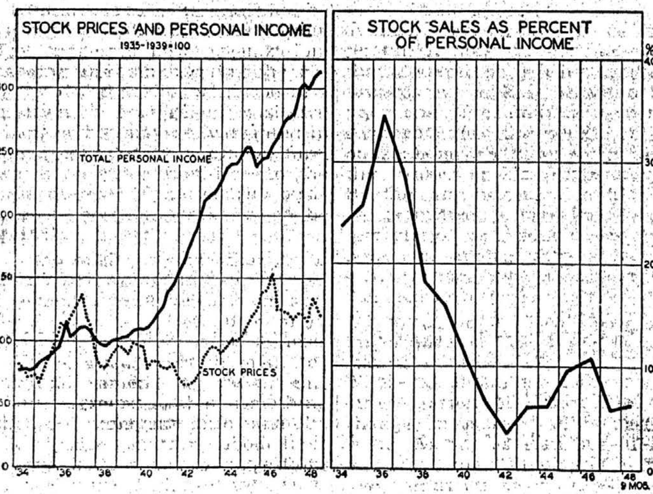
"As shown on the diagrams, the relatively low level of the stock market is apparent not only in stock prices, but also in the volume of trading. The diagram at the left compares total personal income with common stock prices, the data being plotted at quarterly intervals beginning with 1934. Both curves are indexes, and the base period or 100 is the 1935-1939 average. Stock prices are represented by Standard and Poor's index of 416 common stocks.

"In one of the accompanying diagrams, the market value of all sales of stocks on all registered exchanges is expressed by years as a percentage of total personal income. The market value of stock sales is the Securities and Exchange Commission's series, which begins in 1934. In both diagrams, the data for personal income are those of the Department of Commerce. This series does not differ greatly from the one for national income, and is available by quarters beginning with 1929.

In the other diagram, the long inflationary boom which originated in the war is clearly reflected in the sharp rise in total personal income, which is now 175% greater than in 1940. Stock prices are also higher than in that year, but the increase amounts to only 35%. Thus there is now an extraordinary disparity between common stock prices and total personal income as compared with earlier years.

"The second diagram reveals that the market value of all stock sales as related to total personal income has dropped to a very low point indeed. An earlier series, which goes back to 1875 and which is reasonably comparable with the curve on the diagram, discloses that the ratio in 1942 was the smallest in 73 years. The 1948 ratio is not much above that of 1942. In fact during the entire period shown on the diagram, stock trading in relation to income was considerably under the average level of the 60 years prior to 1934. This is due partly to the margin restrictions which went into effect in 1934.

"There are various reasons for the stock market's lack of response to the rise in business and earnings. At present one important factor is the proposed increase in corporation taxes. Any reduction in profits from such action would be at the expense of dividends; or of funds for business operations, including the maintenance, improvement, and expansion of physical facilities; or of both combined."



1949 Business Outlook and Retail Problems

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

Mr. Zelomek foresees an average decline in general business during 1949 of around 5%, with sharpest drop in last half of year. Says retailers are in more liquid position than year ago and merchandise supplies are better, but there will be more competition and pressure on profit margins will continue. Stresses importance of sound buying for merchandisers and an aggressive selling policy.

I suspect very much that, if I were an economist who merely published business forecasts, I would try to impress you with the importance of general business conditions in the year ahead. Working as closely as we do with a large number of retailers, however, I am compelled by simple honesty to tell you that I believe internal problems at this point in the economic cycle are most important to your success next year—and even to your success in following years.

A. W. Zelomek

Please do not conclude that I am belittling the importance of general business conditions. What I am suggesting is that outside conditions in 1949 will not be so favorable as to assure your success. You will succeed only by running your store better than your competitors.

You can see already what it will be like this year. Income was rising sharply during most of 1948, but sales became less favorable, markdowns heavier, and competition at the retail level much more intense.

All of you know how much liquidation there was in some markets, particularly but not exclusively in textile and apparel, despite the record high level of income.

All of you know that sales of individual items have become quite erratic, that for some items they go up while for other items they go down. And you know that all this has occurred at a time when general business conditions were never more favorable in all history.

These developments present real problems for retailers. And the one certainty that can be stated here and now, without any fear of later contradiction, is that there cannot be a sufficiently great increase in income, inflationary sentiment, employment or anything else in 1949 to eliminate or simplify the problems that you have already encountered in 1948. You will have to deal with them yourselves, and how you do that is, strictly speaking, an internal matter.

Any value that my talk will have for you, therefore, is not so much in calling your attention to these problems, in emphasizing their importance, and in urging you to deal with them, as it will be in attempting to outline a practical and an effective program that will help you.

General Business Outlook

Nevertheless, outside conditions will influence your efforts. They will not determine the nature of the problems you meet, but they will have a marked effect on their intensity.

For the sake of the record, therefore, let me summarize briefly what I believe the business outlook to be. Let me do this merely in terms of income and sales and as briefly as possible.

During the first six months of the year I doubt that there will be much change in the current trend of income and sales. Both have leveled off. Income in the first quarter will probably continue a little above a year ago. In the second quarter, at best, it would probably maintain that level, and at worst it might slip a little bit, but would still be close to the level of 1948.

Department store sales during this period may be up a little or down a little. Frankly, I don't believe that total sales estimates have too much importance at this point. Current conditions require you to gear your operations to individual items rather than to departments as a whole, and for individual items there will be a marked variability in sales results.

Toward the second half of 1949, I suggest that you maintain an attitude of uncertainty for the time being. You don't have to operate for that period for some time yet, and there is not much point in worrying about it. I believe that a deflationary trend has already begun. At the moment, at least, it seems likely to me that it will pick up downward momentum in the second half of the year. Yet there is bound to be some increase in government spending, and it is not by any means certain that taxes will be increased enough to fully offset this. The Veterans' Administration will pay out somewhere between $2 and $3 billion of insurance readjustment payments. Possibly the plateau of the first half can be maintained. But it seems safer now to accept the possibility that production and prices will drop somewhat, and that income and sales will be below a year ago.

What will this add up to for the year as a whole?

In terms of income, the worst that seems likely at the moment is a decline of 4% or 5%. Even that, however, would imply a fairly sharp drop in the last half of the year, since income begins the year showing a small gain. At best, if the first half plateau is maintained, income for 1949 would show only a minor increase.

I don't believe you will be amazed or shocked if I tell you that the economist has found neither a crystal ball nor a magic formula that will grind out all the answers. From the practical common sense viewpoint, however, there is no question about what you should do.

In your buying, inventory and commitment policy you should operate during the first half as if there would be some decline in the second half.

In your merchandising policy, you should operate with an aggressiveness and coordination that would be appropriate in a period of rising income; and which will be even more essential in a period of decline if you are to increase your relative share of a diminishing volume of purchasing power.

Reasonable Certainties

Here are the things that I believe should guide your operating policy in the first half of 1949. These things are all of them reasonable certainties.

(1) *Retailers generally are in a more liquid position at the beginning of the year than they were a year ago.*—This is all to their advantage. It is an advantage that they will need, and one from which they can benefit. The condition of most wholesale markets places a premium on retailers having money to spend as they go along. If the store has it, it will be able to come in and find saleable items on the short delivery basis. If the store lacks it, its entire merchandising operation will be handicaped.

(2) *The condition of better supplies will continue.*—The day is past when the buyer must kneel on a prayer rug in front of the seller in order to obtain something to put on his counters. There are spots here and there where the buyer still cannot sit down and write his own ticket as to delivery schedules. But in the main he can begin to exercise his legitimate function.

This function is to provide a steady supply of merchandise for his own store, which has the style, quality and delivery characteristics that his store demands. He may not always be able to obtain all these characteristics simultaneously, at least in the next few months. But in most cases he can insist on the delivery schedules that will fit in with a liquid and aggressive merchandising operation.

(3) *There will be more competition.*—Mail order and chain stores are back in business again, after having been deprived of supplies during the war period. They are beginning to exercise some of the advantages that normally accrue to the mass buyer.

I believe I am not being overpessimistic when I point out that the independent store cannot meet this competition on the grounds of price alone. Group buying helps preserve the balance, but the independent store must also depend on prestige values that are based on more than price appeal.

Several other factors must also be considered in planning operations for 1949.

(a) Stores operating in the general merchandise field will be competing against durable goods distributors, particularly new car dealers, for their share in consumer purchasing power.

This competition is nothing new. It began to reassert itself when the war ended, as durable goods supplies increased.

(b) There is another factor that also deserves some consideration. A great deal of selling in durable goods lines has already been accomplished on an installment basis. I refer here not only to the items that are sold through retail outlets—major appliances, home furnishings, new cars, etc.—but to the fact that urban consumers particularly have rapidly increased the volume of residential mortgage debt outstanding.

Installment sales were an incentive to sales while they were taking place. But installment sales, as well as the increase in mortgages, create commitments against future income.

An increase in credit outstandings for consumers as a whole—and the increase in the last two years has been rapid and substantial—raises the break-even point of the average family. The consumer, on whom the general merchandise outlet depends, must not only feed and clothe his family, but must meet regular payments on an increasing level of installment and other credit outstanding.

Every retailer consequently will be competing, not only against the current sales results in other forms of distribution, but against the payments that the average

(Continued on page 36)

*An address by Mr. Zelomek before the 38th Convention of the Retail Dry Goods Association, New York City, Jan. 13, 1949.

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Prospects of Railway Equipment Industry

By JOHN I. SNYDER, JR.*

Chairman of Board, and President, Pressed Steel Car Co., Inc.

Chief executive of railway equipment producer reviews shortage of railway equipment during last decade and describes handicaps in rebuilding old cars railroads repairing and rebuilding outmoded cars, long-continued freight car crisis is new freight cars in much larger numbers than it has been possible to produce up to this time. Sees economic fallacy in railroads repairing and rebuilding outmoded cars, when more than 40% of car builders' capacity is not in use. Urges program for producing 180,000 new and improved cars annually as a "national necessity."

It will help toward a better understanding of the present railway equipment situation if you will recall that we have been passing through a unique period. First we had a decade of depression. Then we had five years of war. During these 15 years there was very low production of the types of equipment which the railroads now want and need very badly.

During the depression decade the railroads suffered a net deficit throughout "seven lean years," 1932 to 1938 inclusive. Red ink won't buy many freight cars, locomotives or streamlined passenger cars. In 1933, Class I roads installed 14 new locomotives, 7 passenger cars and 2,163 freight cars. That was the rock-bottom low, of course. To get a better perspective, let's look at the two periods as a whole.

During the 'thirties the delivery of new freight cars averaged only a little more than 40,000 annually. More than 2,600,000 cars were then operating.

There was a fairly good year in 1941 when 80,000 cars were built. You may recall that this was due to joint planning by the railroads and the car building industry because even then an acute car shortage existed. Our entry into the war cut back a building program whose goal was to almost double the 1941 production figure. Instead of this planned expansion during the war years (1942 to 1945 inclusive) deliveries averaged about 45,000 cars annually. There followed, then, two difficult reconversion years. Shortage of materials prevented resumption of freight car building on anything like the needed scale.

The Association of American Railroads has pointed out that transportation history shows that, on the average, the country has **doubled** its demand for railway service every 15 years. The greatest tool of railway service, and the greatest revenue producer, is the freight car. Keeping in mind our historical habit of doubling our demand for rail transportation, let's turn to the detailed record of this tool.

During the past 17 years the average annual production of freight cars was only a little more than 45,000. The annual average during the 1920s was about 85,000. Thus, there has been accumulated a gigantic deficit of deferred replacement. The freight car deficit figure indicated approaches 700,000.

Similarly, there was a sharp drop in the building of passenger equipment. During two decades before the depression we had been sending annually nearly 1,800 new passenger cars onto the tracks. The annual average during the '30s was about 230. During the war years an average of 185 new cars a year were delivered. The story regarding locomotives was similar, though the cut-backs were not so sharp, and in addition there was a revolution going on in the locomotive industry between steam and diesel power.

Getting back to the freight car "main line," let's examine the record further.

Freight Car Deficiency Since 1930

There has been a loss of more than 600,000 cars from the total freight car fleet since 1930. Far more disturbing than the estimated loss is the old-age story. In 1930 about one-third of the cars were old enough to vote. Today nearly a million of the cars owned by Class I railroads, or more than 50%, are 21 years and up. According to Col. Johnson, Director of the Office of Defense Transportation, the statistical record stated in calendar years does not tell this age story completely. He points out that during the war and since, all freight cars have been turning in about twice as much work—in miles of burden carrying per year—as during the prewar period. As the railroads themselves have expressed it, they have had to "run the wheels off" their freight cars.

Col. Johnson therefore contends—and it seems sound logic—that in calendar years, plus double-use, nearly a million cars now should be rated as about 28 years old. At that age, prewar freight cars generally were considered ready for the junk pile. I do not mean they were "retired," with a possibility that a small proportion would or could be rebuilt and returned to service. Junked means cut up into scrap to be shipped to the steel industry, to help produce more steel for more new freight cars.

The ODT chief cites this part of the freight car record in support of his declaration that the railroads are not now prepared for another war, should it come.

I do not know whether the historical pattern referred to by Mr. Faricy—our doubled demand for rail transportation about every 15 years—will continue. But the American economy continues to expand, due to both increased population and steady increases in living standards. There are about 23% more people in the country than in 1930—when "the freight car population" was 600,000 greater than at present. Factory production has been running at about twice the level of the 1935-39 period. This year our needs will be supplied by about 50% greater steel production than in the prewar peak year, 1929. Our use of electrical power—another yardstick measuring industrial activity—last year was considerably more than twice what it was in 1939; while the electrical industry is speeding the expansion of capacity to take care of our needs for tomorrow.

It seems to me such simple logic—so obvious and axiomatic—that rail service should be improved and enlarged to keep pace with the needs of our growing population and our expanding economy.

Studies of Freight Car Shortage

Because periodic freight car shortages have been hampering industry, agriculture and business alike for more than two years, certain significant studies have been made.

One, by a committee appointed by the former Secretary of Commerce, reported the need for production of 14,000 new freight cars monthly. Another survey by a group headed by Secretary of the Interior Krug estimated the need for production of 15,000 new cars each month during the next five years. Col. Johnson has spoken of the need for a program for delivery of 14,000 to 16,000 cars monthly. Mr. Faricy has said publicly that Johnson is right about the 14,000 figure, but that he will settle for 12,000 monthly for the present. AAR testimony before the House Committee on Interstate and Foreign Commerce stated the need for "at least 12,000 new cars delivered monthly."

Finally, the Interstate Commerce Commission—whose dilatory rate deliberations have slowed up the ordering of cars on more than one occasion—in its last annual report formally estimated the freight car need at 900,000 to be delivered during the next five years or at the rate of 15,000 per month.

While there appears to be considerable unanimity of very expert opinion, curiously there has been great difficulty in assuring the continuation of steel allocations for the current 10,000-cars-monthly program. And there have been suggestions by some in the steel industry and some in government that the program be cut back to 7,500 cars monthly.

The absurdity of such a suggestion coming from anybody in the steel industry is self-evident when you consider that this industry, and its metal-working customers regularly use more than one-quarter of the total freight car fleet. And, leaders of the steel industry have stated that shortages of freight cars, notably gondolas, threaten to bring about cutbacks in overall production of steel.

The "Railway Age" calls attention to another phase of the freight car problem. This periodical estimates that the railroads should retire old cars at an annual rate of 100,000 during the next ten years. AAR figures, covering both the railroads and private car lines show a rapidly rising retirement rate. During 1947, retirements averaged less than 6,000 cars monthly, as against about 2,000 per month during the war. Retirements during 1948 rose to produce an average of over 8,300 monthly.

During the first six months of last year deliveries exceeded retirements by about 1,600 cars monthly. During the July-November period the margin was only about 500 cars monthly.

Cars Awaiting Repairs

Still another factor of the freight car problem has been a rise in the total of cars off line and awaiting repair. A recent AAR statement reported that the "bad order" cars amounted to 30,000 more than normal.

AAR figures comparing the freight car situation as of Nov. 1, 1948, with one year earlier—again covering both railroads and private car lines—show a net gain in ownership of cars of less than 22,000 in one year, this in spite of the delivery of nearly 112,000 new cars in that 12-month period.

But the gain in cars actually on line and **at work** was only about 15,000.

I am afraid there is a tendency to look at increases in car deliveries and to conclude that we are doing pretty well, considering shortages of supplies and other obstacles. In 1948 deliveries were up nearly 65% over 1947, and at a level nearly three times the 1946 figure. But, obviously, this means little if it does not translate into a major gain in **freight cars actually at work.** The gain in cars-at-work is disheartening—and it may even diminish.

Freight Car Shortage Serious

A freight car shortage which has been serious for more than two years has aroused shipper clamor, and brought occasional criticism from other sources.

As an illustration of the quandry in which some railroads find themselves, consider the Pennsylvania. It is the biggest freight carrying road and handles nearly one-tenth of the nation's total rail freight traffic. As of Jan. 1, 1948, the Pennsy owned 226,000 freight cars. Of these nearly 60% are more than 30 years old. The road then decided to build 3,000 new cars in its own shops during 1948. Early in the new year this goal was reduced to 2,000 cars—the reason: substitution in the Altoona shop of rebuilding and heavy repair work. At the year-end, the new-car production score was 1,764, a little more than half the total wanted.

At that production rate the Pennsylvania cars which are past 30 could be replaced in about 75 years, while total replacement of the fleet would require more than 120 years.

Accent on repair has been general. The ODT has reported this running as high as 30,000 cars undergoing "heavy repairs" monthly. Rebuilding of cars, which was very low during the war years, has been increasing. Both are uneconomic; especially so in view of the age and condition of so many cars.

Mr. Aydelott of the AAR, testifying before the Overton Committee, conceded as much, reporting that on the rebuilding of some types of cars as much was spent as the original cost of the car. During last year one railroad reported to the ICC on the rebuilding of some of its box cars in 1947. The per car cost proved to be equal to about 75% of the average cost of a new box car during 1947. That meant the spending of about three-quarters of the cost of a new car in order to give an old one "a second life" of perhaps eight or ten years. This may be an extreme case, but it illustrates the economic fallacy of rebuilding.

As for repairing: The average cost of repairs per car—both new and old—rose to $227 per year for 1947, the latest figure available. That was a three-fold increase in ten years. During that year, the total "garage bill" of Class I railroads was nearly $400,000,000. During five years it had totaled $1,840,000,000. That was a sum big enough to buy considerably more than 400,000 new box, gondola and hopper cars—types which were shortest in supply—at 1947 prices.

There is ample evidence that the spending of gigantic sums to make old cars do is proving to be "Operation Rat Hole."

Solution of Shortage

The only solution of the long-continued freight car crisis is **new** freight cars in considerably larger numbers than it has been possible to produce up to this time. To increase the level of freight car production the car builders need two things:

More orders and more steel.

From about the time that a 10,000-cars-monthly program was first publicly discussed, in late December, 1946, and continuing through 18 months, the railroads were ordering cars at an average rate of 10,000 cars monthly. Of these orders one-quarter went to their own captive shops and three-quarters to the contract builders.

During the last half of 1948 there was a sharp change in this

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*An address by Mr. Snyder at Meeting of Association of Customers' Brokers, New York City, Jan. 21, 1949.

Spahr Opposes Increased Gold Price

Executive Vice-President of Economists' National Committee on Monetary Policy says it would be injurious to people. Sees better monetary remedy in return to gold standard at present legal gold value.

"Proposals are being made for an increase in the price of gold, through such methods as devaluation of the dollar, again; free market for gold which would be higher than the Treasury's present fixed price; and a subsidy to gold mines. All these proposals are apparently based chiefly on the contention that since mining costs have risen so high some mines can no longer make a profit while they are compelled to sell their gold to the Treasury at $35 per fine ounce, and, therefore, the price of gold should be raised. An increase in the price of gold would be injurious to the people of the United States," says Dr. Walter E. Spahr, Executive Vice-President, Economists' National Committee on Monetary Policy.

Walter E. Spahr

"If a nation has a supply of gold adequate to support its paper money and deposits, as we have, if conventional standards of measurement and comparison have any value, there is no known valid reason why the size of that nation's standard monetary unit should be reduced," he continues.

"Should our government devalue our dollar again, we will then have joined the company of those people in foreign nations whose governments cannot or will not maintain fixed monetary units and we will have become voluntary partners in sharing the miseries of monetary depreciation and the consequent economic chaos.

"The agitation for a free gold market, while we have irredeemable paper money, rests on the valid reason that the price of gold under such conditions would be well above the Treasury price of $35 per fine ounce.

"Whenever the fixed link between paper money and gold is broken, the value of irredeemable money in terms of gold will decline and the price of gold in terms of such paper will rise. This is simply because paper is paper and gold is gold. Under such conditions the paper money price of gold will be determined by all the forces of supply and demand affecting both the gold and paper money.

"The arguments in behalf of a subsidy are to the general effect that such subsidies have been granted in Canada and South Africa, that we subsidize the silver interests, the farmers and others, and that, therefore the gold mines should be subsidized too. A valid answer is that none of these subsidies is defensible. Every miner entering the gold field knows the price of his product is of necessity fixed and that his problem is to keep his cost below that price. Most other industries often have the problem of high or rising costs not merely in the face of a fixed price for their product but in the face of falling prices for their output."

"The higher-price-for-gold bloc would render their best service to their country and themselves," said Dr. Spahr, "if they devoted their efforts to returning the United States to a gold standard at $35 per fine ounce."

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Taxation and the Budget

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

Holding no convincing case has been made in President's budget for higher taxes and that there is room for reduced taxation, especially in excises, Mr. Ruml advocates increased sale of savings bonds as being both practical and anti-inflationary. Calls for more efficiency in public expenditure, and gearing of tax program to Treasury's cash budget.

In this discussion of taxation and the budget, I want to make it clear that the opinions which I express are only my own. They are not necessarily the views of any organization with which I am associated. Particularly they are not necessarily the opinions of the National Planning Association, the Committee for Economic Development, nor of R. H. Macy & Co., Inc. The Committee for Economic Development has set up a committee on tax policy for 1949, of which I am not a member, and which in due course will present its views on the tax problem of 1949. R. H. Macy & Co., Inc., of which I am a director, does not take any position with respect to budget and tax policy, its concern being with merchandising questions; accordingly Macy's is in no way to be associated with my personal views as to the Federal budget and the tax problem that faces this country in the months and years that lie ahead.

Beardsley Ruml

We have had presented to us in the past few days several statements by the Administration which deal with the economic outlook, the Federal budget and the taxation program which the Administration believes to be desirable. In the remarks which I about to make, I shall take the position that in view of the economic outlook and the budget requirements as presented, no convincing case has been made for an increase in taxation; indeed, that there is room for some adjustment downward, at least in excise taxes which are inequitable and which bear unevenly on business enterprise, a harmful and unnecessary legacy of the wartime taxation of five years ago.

Issues of Fiscal Policy

The Economic and Budget Messages of the President confirm the opinion that the question of war and peace underlies all issues of fiscal policy, just as it underlies all public policy and much private policy as well. It has been said over and over again in recent months that a shooting war in the near future is unlikely because the aggressors are unlikely to attack, probably believing that over the years their objectives can be gained without resort to the mass violence of war. Peace is even more unlikely because the aggressors have as their objective the imposition on the world of a way of life that is repugnant to freedom everywhere.

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

An adequate defense program has military, moral, political and economic aspects. The implications of such a program have budgetary consequences. The budgetary consequences of such a program though serious are not intolerable, and as long as we have no peace, a defense program, an adequate defense program, a defense program that looks both to the requirements for armament and for the strengthening of our domestic welfare, is both necessary and desirable.

The President in his message has presented a budget of expenditures which has been devised to carry out the military, political, economic and moral aspects of defense and national welfare. I do not question the aggregate sums which have been suggested for programs old and new. Obviously it is the desire of every citizen that the dollars that are spent be spent efficiently, that waste and duplication be eliminated and that the purposes toward which expenditure is directed be common purposes which represent the national will.

If we are to have efficiency in public expenditure, two measures are obviously necessary. First, the President must have an increased scope of authority in the organization and reorganization of the agencies in the executive branch of the government. And second, a higher level of compensation, as has been recommended, should be established for top government officials in order to hold in the Federal service and to attract to the Federal service the talent that is necessary for efficient managerial operation of the essential services of the executive branch of the Federal Government.

Financing Budget Expenditures

Coming back to the budget, I accept the aggregate of expenditures presented in the budget as being within small limits one way or the other the financial requirements of a prudent program for national defense and the advancement of the national welfare. If through economy and efficiency at one point reductions can be made, these amounts can well be applied to the enlargement of needed programs elsewhere. Therefore, I do not quarrel with the totals that are being suggested for the Federal budget for Fiscal 1950.

However, when we come to the question of how these expenditures should be financed—that is a different story; and it is at this point that I find myself unable to agree with the proposals which have been made. In order to explain the reasons for my disagreement, it is necessary for me to discuss certain basic questions of fiscal policy.

The time has come when statements about deficit and surplus, income and expenditure, should be made in terms of the consolidated cash budget. We will then know where we stand with respect to the Federal Government's requirements and our own responsibilities in seeing to it that they are met. The consolidated cash budget, as President Truman pointed out in his first Economic Report, is the measure of the impact of government's fiscal transactions on the economy. The consolidated cash budget does this because, first it is consolidated, that is, it includes all transactions between the government and the people, and excludes all transactions between the internal agencies of the Federal Government itself; and second, because it is a cash budget, that is, it shows the intake and outgo on a cash basis in the year in which the transaction takes place.

Tax Program and Treasury's Cash Budget

The Committee for Economic Development, in its recent report on "Taxes and the Budget" recommends that we should gear our tax program to the consolidated cash budget.

The CED in this Policy Report states that there are two budgets of the Federal Government officially compiled and in current use. These are the administrative budget and the consolidated cash budget. When we are interested in the impact of government transactions on the economy, we should look to the consolidated cash budget. If our objective is a budget that is balanced in the economic sense, then it is the consolidated cash budget that we want to balance. It is a matter of the first importance for the administration of fiscal policy in the years ahead and for public understanding of the budget and its impact on the economy, that the surpluses and deficits of the Federal Government should be evaluated in terms of the consolidated cash budget and that the conventional budget should be relegated to its proper function as an instrument of internal control of governmental financial transactions.

The time to make the changeover is now, when we are preparing to accept new fiscal responsibilities to meet our new defense requirements.

When we examine the budget as it has been presented, we note an extraordinary fact, namely that the consolidated cash budget even after assuming the expenditures projected shows a surplus of $1,475,000,000. This surplus assumes both the increase projected for Social Security benefits as well as the change of date for rate increase from Jan. 1, 1950 to July 1, 1949.

Although no discussion of this surplus appeared in the text of the budget message, it was clearly set forth in Table 13 of the Budget itself and was discussed by the President at his press conference on the budget message.

Higher Tax Rates Mean Excessive Cash Budget

If tax rates should be increased as has been recommended, to provide an additional $4,000,000,000, the excess of receipts over expenditures, that is, the surplus in the cash consolidated budget, would be some $5,500,000,000. There is no need at the present time for a surplus of this magnitude. Indeed in view of the uncertainty as to the business outlook and the level of employment, such a surplus is positively dangerous.

Fortunately, we have an alternative to an increase in taxation that is effective as a deflationary measure and which is much more flexible and much more appropriate than a tax increase to the situation in which we find ourselves in the coming year. That measure is the sale of U. S. Government Savings Bonds to the public. The sale of savings bonds picks up purchasing power that would otherwise have to be withdrawn by taxation. It has a great advantage over taxation in that it is selective and does not impose on those who cannot afford it, as taxation would, the non-recurring costs of government.

During the war we knew that the sale of war bonds to private individuals, particularly those with small and moderate incomes, was an alternative to taxation as a means of withdrawing purchasing power from the hands of the people. But in spite of the fact that we made this distinction in wartime, we do not seem to have carried this conception over to the problem of financing the present necessities of national defense.

A savings bond program is much more flexible than a tax program both as to timing and as to its intensity of impact. In days such as these when we are uncertain as to whether we are facing inflation or deflation, we need in our fiscal planning the kind of flexibility that a well-organized savings bond program would provide.

Providing for Non-Recurring Emergencies

In principle, we shall be on sounder ground if our commitments that are directed to non-recurring emergencies or to increase of productivity, capital requirements as distinguished from ordinary expenditures, are covered by sales of bonds to the public rather than by taxation. The tax burden will be lower if savings bonds are sold to meet budgetary expenditures of a constructive nature whether at home or abroad.

To sum up, the budget shows that we shall have a surplus in the cash consolidated budget without imposing any increase in the rate of taxation. If we wish to protect ourselves against possible inflationary pressures we can do so if it becomes necessary by the sale of savings bonds to the public. If we will plan to sell $4,000,000,000 of savings bonds net to the public, we shall have accomplished all that is necessary in the administration's tax proposals. In addition we shall have the flexibility that is so essential at the present time when we do not know whether inflation or deflation lies ahead.

*An address by Mr. Ruml before the National-American Wholesale Grocers' Association, Atlantic City, N. J., Jan. 13, 1949.

Railroad Securities

When Great Northern declared its second semi-annual dividend in 1948, increasing the rate to $2.00 compared with the $1.50 paid semi-annually since 1945, a break with tradition was also announced. It was stated that henceforth directors would give consideration to dividends quarterly. Nothing was said as to what rate might be expected but it was generally hoped and believed that a $4.00 annual rate was in prospect. Such expectations have been bolstered by recent action of the directors. The first dividend declared on a quarterly basis was for $1.00.

Declaration of this dividend, with its implication that the stock can now be considered on a straight $4.00 basis, had little influence on the stock marketwise. The stock continued to trade in the low 40s with an indicated income return of 9.52%. To railroad security analysts this depressed price level appears as at least slightly ridiculous, particularly in the light of the high credit standing of the road and the investment status of its shares. Moreover, considering the highly seasonal nature of the road's operations, the decision of the directors to put the stock on a quarterly basis is generally accepted as sign of increasing confidence of the management in the earnings outlook.

The management of Great Northern was one of the first in the industry to recognize the necessity for putting the debt structure in order. Early in the recovery period following the deep recession of the middle 1930s, it started an aggressive campaign to strengthen the road's status in this respect. With substantial debt retirement, augmented by comprehensive lower coupon refunding of callable bonds, fixed charges have been reduced to under $7,500,000. In the early 1930s they had been above $19,500,000. Just as important, in doing its refunding the company evolved a very healthy maturity schedule, running, for non-equipment debt, from 1952 to 2010. Operation of the sinking fund will moderate the impact of the successive maturities, the largest of which is for $40 million in 1982.

Great Northern is fundamentally one of the stronger railroads in the country. Traffic and revenue trends have been favorable, and indications are that they will continue so. The company is heavily dependent on three major traffic sources. They are iron ore, wheat, and lumber products. Normally they supply an average of around 40%, or more, of total freight revenues. Indirectly, in influencing the general economy of territories served, they affect an even larger share of the company's business. In general, these items have been relatively immune to the inroads of non-rail competition. Moreover, the outlook for all of them continues bright. Another favorable factor has been the industrial growth of the Pacific Northwest. Prospective opening up of a substantial acreage of new irrigated farm lands also augurs well for the development of new traffic sources.

Great Northern has traditionally been an efficient property to operate. To a considerable degree this efficiency is inherent in the type of business done, with a large volume of bulk full train load freight. Over a long period of years the company has consistently carried a larger proportion of gross through to net operating income before Federal income taxes than have the Class I carriers as a whole. The transportation ratio has also been well below the average. This factor of efficiency affords a substantial cushion against possible further unit cost increases and against the inevitable decline in freight traffic.

Great Northern has had an enviable long-term earnings record. Even in the 1938 recession, and when fixed charges were above $14 million, earnings on the stock amounted to more than $1.00 a share. Average earnings for the ten years 1938-1947 were $6.55 a share, with $7.28 earned in the last year of that period. There was a modest year-to-year improvement in results for the 11 months through November, 1948, despite heavy charge-offs on account of previous years. For 1948 as a whole it seems likely that earnings topped $8.50 a share.

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Urges Overall Competitive Bidding in Securities Sales

A. F. Whitney, President of the Brotherhood of Railroad Trainmen, in booklet issued by his organization, wants Congress to pass enabling legislation requiring competitive bidding for "non-monopolistic as well as monopolistic industries." Attacks banker-corporation relationship and privately negotiated securities sales to insurance companies.

In a pamphlet entitled "Competitive Bidding in the Sale of Securities," issued and distributed by the Brotherhood of Railroad Trainmen, A. F. Whitney, President of this labor organization, strongly advocates extending compulsory competitive bidding in the sale of securities to the public issues of all classes of corporations. He calls for enactment by Congress of "enabling legislation" that would make competitive bidding a matter of requirement of Federal law instead of as at present being limited to public utilities and railroad flotations and existing only by discretion and orders of Federal administrative bodies.

A. F. Whitney

The text of Mr. Whitney's statement follows:

I

Scope of Present Regulations

It appears that the principle of competitive bidding has been required by statute only in the case of public utility securities. Since 1870, Massachusetts has had laws requiring the sale of certain public utility issues at competitive bidding. There is no organic or enabling Federal legislation requiring competitive bidding. Such competitive bidding as is required by Federal law is through administrative interpretation, but there is no Federal law requiring bidding, as such, in the sale of any securities. Such Federal requirements for competitive bidding as are in existence are applied only to public utilities and railroad flotations and exist only by discretion of Federal administrative bodies.

Since 1926, the Interstate Commerce Commission has required that railroad equipment trust certificates be sold at competitive bidding. In 1939, the Federal Power Commission adopted competitive bidding regulations. In 1941, the Securities and Exchange Commission adopted a ruling known as Rule U-50, requiring competitive bidding on the sale of securities for public utility holding companies and their subsidiaries. In 1939, the Federal Communications Commission, in recommending to Congress that it be given authority to regulate the issuance of telephone securities, suggested that competitive bidding be adopted as a method of marketing such securities.

On June 1, 1944, the Interstate Commerce Commission issued an order under the provisions of Section 20-a of the Interstate Commerce Act, requiring competitive bidding for railroad securities other than equipment trust certificates. Provision is made for exemptions from this order and the following specific exceptions were made in the order:

(1) Common and preferred stocks;

(2) Securities sold or otherwise issued pro rata to existing holders of securities of the issuing company pursuant to any preemptive right or privilege or in exchange for or extension of outstanding securities, or in connection with any liquidation, reorganization, or financial adjustment;

(3) Any note or other security maturing in not more than three years;

(4) Securities sold or otherwise issued when the total issue does not exceed $1,000,000, principal amount;

(5) Securities of any railroad company issued in exchange for the securities or properties of any other railroad company acquired pursuant to authority granted under the provisions of section 5 (2) of the Act, and any securities of such other company to be acquired by any other person pursuant to such authority;

(6) Securities sold or otherwise issued to a railroad company by any of its subsidiary companies pursuant to authority granted under section 20-a of the Act where such securities are not to be sold by the parent company, but are to be held subject to our further order; and

(7) Any securities as to which we shall find, upon due showing by a railroad company, either upon application under the provisions of section 20-a or upon special application preliminary to the filing of such application under section 20-a, that sale at competitive bidding should not be required.

There are rather extensive exemptions to the competitive bidding Rule U-50 of the Securities and Exchange Commission, but see text of that rule for the exceptions.

II

Is the Principle of Competitive Bidding Sound?

There are, of course, elaborate arguments pro and con on the subject of requiring competitive bidding by law. In general, the large financial houses are opposed to any legal requirements for competitive bidding. It is striking to note that large banking houses offer as one argument that such a law would injure the small dealer in securities. The monopolistic tendency of large financial houses in the past has been such as to induce the belief that these large houses are not so solicitous of the welfare of small traders. Their opposition to legal requirements for competitive bidding on the grounds of solicitude for small dealers cannot be regarded as emanating from any sincerity of purpose.

It is also contended that financial houses bring something of the confidential relationship of a doctor or lawyer to their clients. A forceful answer to this contention was given in a communication addressed to the Securities and Exchange Commission and others by Otis & Co. under date of Jan. 23, 1941. It was there stated:

"Investment banking, after all, is not a profession. The investment banker is primarily a merchant, who buys securities at wholesale for resale at a profit. The fact that he is in a position to profit by the advice he gives invalidates any claim he may make to stand in the same position with reference to the issuer that a doctor or lawyer does to his client. Neither the doctor nor the lawyer is a middleman. Let those bankers who, in the face of these facts, claim a professional status answer a question. Are they willing to assume, as do the members of the legal and medical professions, liability for disasters resulting from advice which is not disinterested?"

Experience has shown that the cost of private negotiations as against the principle of competitive bidding is not worth any claimed advantages because of the continuing confidential relationship between a corporation and its bankers. High bonded indebtedness is a serious liability for any corporation. The ideal corporation is one which has only common stock outstanding. Traditional bankers find bonds the easiest and most profitable type of security to sell. In no industry has the bankers' monopoly asserted such disastrous influence as in the railroad industry. Bankers' domination of railroads is undoubtedly responsible for the disproportionate debt burden found in the financial structure of railroads. Two financial houses have had an all powerful monopoly over the financing of American railroads. A corporation should do its financing on the same prudent basis as it buys its equipment, that is, on competitive bidding.

Competitive bidding is financial democracy. It prevents monopoly and totalitarianism in corporate financing. It gives strength and vitality to the free enterprise system. Investment bankers are more interested in the conservation of existing assets than in the creation of new ones through the processes of corporate expansion. Consequently, banker domination of corporations lays a dead hand on economic progress. The railroad industry is a persuasive example of this.

Although dire predictions were made by financial houses in 1926, when the Interstate Commerce Commission required competitive bidding on equipment trust certificates, experience under that requirement has proven that such bankers' predictions were without merit. Competitive bidding widens the market for corporate securities and lowers the cost of raising capital. It is interesting to note that opponents of competitive bidding argue both that competitive bidding results in "overpricing" and in "underpricing" of securities. As Commissioner Robert E. Healy put it, the Securities and Exchange Commission concluded that "there was no way short of competitive bidding that would afford us satisfactory means of determining the reasonableness of spreads or the fairness of prices, assure disinterested advice in financial matters to the companies concerned and effectively control their dealing with affiliates."

With reference to the Senate railroad investigation of 1937 and 1938, President Harry S. Truman, when Senator, said the following:

"The significant thing about our 23-volume record (Senate Railroad Investigating Committee) is that while it is replete with instances of financial abuses resulting from continuing banker relationship, I do not recall a single instance of such abuses in the case of the tens of millions of dollars of equipment trust certificates issued under competitive bidding. So far as this class of securities is concerned, the competitive bidding requirement seems to have wiped out with one stroke the many types of abuse which, as our record abundantly illustrates, clusters about the traditional type of underwriting arrangements."—Congressional Record Appendix for Feb. 6, 1941, pp. A-465-6.

In Railway Progress for November, 1948, page 9, Robert R. Young said:

"That the road to progress in railroads is quickened, not retraded, by the lash of criticism has been demonstrated over the intervening years by certain highly constructive, if long delayed, reversals of ICC policy. We have, for example:

"1. The Competitive Bidding Rule for railroad securities adopted by the ICC on July 1, 1944, after it had advised Congress on April 15, 1943, that such a law was undesirable and unnecessary. It is estimated the rule has already saved the railroads alone, hence the shipper, $183,000,000."

Commissioner Healy of the Securities and Exchange Commission in his address on Aug. 28, 1941, before the National Association of Railroad and Utilities Commissioners said:

"The insistence upon competition in the sale of this particular kind of merchandise follows the traditional American pattern of the Sherman Act, the Clayton Act, and the Federal Trade Commission Act. All of them aim to preserve competition and to keep that competition fair. The laws, backed by both major political parties, are among the foundation stones of our democratic system of capitalism. Let it not be thought that Rule U-50 (competitive bidding) is merely a matter of business procedure. Ours is a system of free enterprise and when practices are allowed to develop which eliminate or suppress competition, the very fundamentals of that system are endangered. The liberating influence of our competitive bidding rule will foster free enterprise and competition in a field which has long been characterized by concentration of the management and underwriting of new securities in the hands of a few firms."

In his message of April 29, 1938, Senate Document No. 173, 75th Congress, 3rd Session, President Roosevelt declared that "strengthening and enforcement of antitrust laws" called for "more effective methods for breaking up interlocking relationships and like devices for bestowing business by favor." The President referred to "banker control of industry" and the "close financial control, through interlocking spheres of influence over channels of investment" and stated: "Interlocking financial controls have taken from American business much of its traditional virility, independence, dependability and daring—without compensating advantages. They have not given the stability they promised."

One of the most serious developments tending toward monopoly in finance has been the trend toward private sale of corporate bond issues to insurance companies. In the first ten months of 1948, 48.2% of all corporate bond financing consisted of private placements with insurance companies. The increasing control of the insurance companies over corporate financing has already attracted the attention of Congress. The "Big Five" insurance companies control billions of dollars of the nation's savings. With almost half of the nation's corporate bonds sold directly to insurance companies, it is evident that a very few private individuals in these companies hold an enormous power over our economy. The adoption of a universal competitive bidding requirement would, at one stroke, break this monopoly.

The trend toward private placements has increased the influence of that small group of Wall Street banking houses which have traditionally monopolized the corporate financing field. Such houses frequently act as intermediaries in negotiating private placements with insurance companies, often at fees which exceeded the profit they would have made on the small underwriting participation which they customarily take in public offerings. A typical example is the $250,000,000 Shell-Caribbean Petroleum Co. 4% bonds, recently placed with insurance companies by J. P. Morgan & Co.

A Federal law requiring competitive bidding would go far in solving America's serious monopoly problem It would release the forces of progress in corporate enterprise from the deadening domination of banker influence which by nature and by fundamental purpose is ultra-conservative, if not consistently reactionary.

III

Need for Enabling Legislation on Competitive Bidding

It must be remembered that there is no Federal enabling legislation requiring competitive bidding. Such competitive bidding as may be required today exists only by administrative discretion, and changes in the thinking or personnel of the administrative body can result in elimination of the competitive bidding requirement. Competitive bidding, for the most part, is required only in the case of public utility securities and, even there, there are many exceptions and exemptions and many opportunities for seeking exemption by petition to the administrative body.

Having in mind what the late Franklin D. Roosevelt said about interlocking directorates and interlocking financial controls, it should be obvious that assuring financial prudence only with respect to public utility corporations does not fully protect the public or adequately promote the free enterprise capitalistic system. Even those public utlity corporations that are subject to the competitive bidding rule are frequently controlled by the same interests that control many non-public utility corporations. The theory of requiring competitive bidding in the case of securities of public utilities is that extravagance in the financial transactions of these corporations is reflected in the rates of service of such corporations and protection to the consumer therefore justifies the requirement of competitive bidding.

It would appear to make little difference to the consumer whether, though corporate financial mismanagement, he pays too much for his electric or gas service or whether he pays too much for his clothing, his automobile or the many other things which he consumes. The consumer should be protected in all things which he consumes, not merely in those services he obtains from public utility corporations. Especially is this true when it is considered that through interlocking financial controls the financial management of public utility and non-public utility corporations is frequently identical. Through the purchase of their supplies, public utility corporations pay a heavy tribute to banker domination of supplier corporations.

If competitive bidding prevents extravagance and mismanagement of public utilities, and experience has shown that it does, then there is no reason why competitive bidding in the sale of non-public utility corporations would not achieve like desirable results. Furthermore, the desirable principle of free enterprise would be benefited if competitive bidding were required generally in the sale of corporate securities.

If enabling legislation were enacted, obviously administrative bodies would be more fortified and undoubtedly more vigorous in their administration of the requirement of competitive bidding. A mandate from Congress to require competitive bidding would naturally bring a more vigorous enforcement of the principle than where all organic laws are silent on the subject of competitive bidding and this principle is applied only by administrative discretion which is, of course, subject to constant change and impairment through changes in administration or changes in the thinking of the administrative body. Enabling legislation would give the principle of competitive bidding the strength and stability of law and would accomplish much in breaking down the monopolistic, interlocking, dominating financial forces that now largely determine not only the destiny of corporations, but the destiny of our free enterprise system.

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The Business Prospects for 1949

By MALCOLM P. McNAIR*
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Though asserting nation's basic economic health is good, Harvard economist points out as soft spots: (1) price declines; (2) tightening of money and credit; and (3) balanced supply and demand for specific goods. Says there are no signs yet these factors will have a chain reaction and foresees no likelihood of further inflation. Contends business spending will be restricted by stock market conditions and President's proposed increased taxes and holds consumer spending in 1949 is big conundrum, which will determine extent of business readjustment.

The purpose of these remarks is, first, to take a good, sober, realistic look at what is happening to business today; secondly, in the light of this situation to hazard a forecast of the outlook for 1949; and, thirdly, to consider what you as department store executives need to be doing to meet the situation.

Prof. M. P. McNair

The starting point for any appraisal of what is happening in business today must certainly be the recognition that the basic economic health of this country is good: we have been achieving a record volume of physical production, with the Federal Reserve Index standing at 194; the gross national product in the year just closed made a new all-time high at $253 billion; personal income at the end of the year was running at the rate of $215 billion; we still have 59½ million jobs, with only 2 million unemployed; agricultural income, in spite of price declines, attained a new high for 1948; steel production is running at a rate close to 100% of capacity; electric power output continues to make new highs; total retail sales for 1948 achieved a new high record, with department store sales making a sharp recovery just before Christmas to top 1947 volume by 5%.

Nevertheless there are some very definite signs of business readjustment. We are all aware of certain soft spots in the economy: I do not need to remind you that department store sales for seven weeks after the election ran steadily behind the 1947 figures; sales of the mail order houses fell below the preceding year in November for the first time in the postwar period; car loadings have been falling behind last year by a small percentage; specific weak situations exist in apparel, textiles, and shoes, where layoffs have been increasing in recent weeks; the used car market has declined sharply; the real estate market has edged off, and foreclosures are up; radios, records, luggage, tires, jewelry, furs, theaters, movies and night clubs have all shown signs of weakness if not distress. For many lines of merchandise it is apparent that the pipelines finally have been filled, and in some instance are flowing over; the increase of 12% in department store inventories as of the first of December is one of the significant pieces of evidence.

Price Behavior

In addition to the emergence of these soft spots in the economy it is to be noted that prices during recent months have behaved in a manner which characteristically presages a downturn. The general wholesale price index, lately at about 164, is slightly lower than it was a year ago. During the past year this index twice came up to a peak and then fell off. At the same time several of the indexes of sensitive prices are well below the high ground where they stood last year; for instance, Moody's Spot Commodity Index is 396 against 458 a year ago. Especially is this true of the indexes reflecting agricultural prices. In many respects prices have been making the characteristic pattern which frequently appears at a major turning point. While prices of many finished goods have still been rising, prices of semi-finished goods have faltered or stood still, and prices of many raw materials have declined. This is commonly the way in which prices behave when the whole complicated price structure comes to a major turning point. (Though metals have not been conforming to this general pattern, it is to be noted that the price of steel scrap began to drop on Jan. 8.) Thus price behavior reinforces the evidence arising from the soft spots in the supply and demand situation.

Then there is a third area in which signals of business readjustment are flying, and that is the all-important area of money and credit. All thinking persons are aware that inflation is primarily a monetary phenomenon. Prices have been high because the total supply of money has been increased by roughly two and one-half to three times whereas the total physical output of goods has increased only perhaps 75%. It is definitely significant, therefore, that in recent months there has been, for the time being at least, a basic reversal of the trend toward an increased money supply which has been in evidence since 1940. This reversal takes the form of a less-than-seasonal advance in business loans. Thus the mild credit restrictions are having some effect: the requirement of one-third down is deterring some purchases of durable goods; banks are not making loans quite so readily; credit costs a little more and is not quite so easily available.

Thus in three important economic sectors, namely, money and credit, price behavior, and balance of supply and demand for specific goods, evidences are daily becoming stronger that the inflation has passed its peak.

No Chain Reaction Yet

But before we go any farther, just to keep the record straight it had better be pointed out that ever since V-J Day we have had among us the dispensers of gloom and the prophets of disaster, and that thus far in the postwar period their prognostications of business downturn have invariably been confounded by the event. The economy has gone through at least two previous periods of marked hesitation, after which in each instance the upward trend of prices and inflationary pressures has been renewed. How do we know that this won't happen again? What has been taking place apparently is that the economy has been undergoing successive adjustments; one industry after another has succeeded in getting its pipelines filled. Yet the economy as a whole has been strong enough and broad enough to absorb these successive adjustments without stumbling into a general decline. To borrow a phrase popularized by nuclear physics, we have not as yet at any time experienced a "chain reaction" of the type which pulled down the whole economic structure in 1920 and again after 1929.

What might cause such a chain reaction, or general business downturn? Study of such basic causes of business downturns has of course long occupied the talents of economists, and numerous theories have been developed. At some risk of over-simplification, perhaps it is fair to say that there is fairly general agreement on three basic potential causes of a general business depression: (1) a really vigorous effort to curtail credit and to reduce the money supply such as was initiated by the Federal Reserve authorities in 1920 and again in 1929; (2) a sharp general drop in business spending; and (3) a general decline in consumer spending occasioned either by a drop in the disposable income of consumers or by a general decision on the part of consumers to save money rather than spend it.

So much for theories of business depressions, on which today you will find considerable agreement among economists. Now which, if any, of these things is it that is actually happening currently? In the first place we are not undergoing a severe restriction of money and credit; the mild measures taken by the Federal Reserve authorities have perhaps had some effect, but nothing has happened resembling the sharply restrictive credit policies which were invoked in 1920 and again in 1929. In the second place, we are not experiencing a decline in business spending; the figure for the fourth quarter of 1948 for business investment in capital equipment topped $5 billion, the highest quarterly figure on record. In the third place, we are not experiencing a decline in consumer disposable income; as already indicated, the spendable money flowing into the hands of consumers has thus far exhibited no falling off. Thus only one possible explanation remains, namely, that there has been a decrease in consumer willingness to spend, that out of their disposable income consumers are now undertaking to save somewhat more and spend less. Certainly this is not news to those of you who were watching consumer behavior during November and early December. Also this hypothesis is supported by the figures: the rate of consumer saving even as early as the third quarter of 1948 exhibited a substantial advance from an annual rate of $11 billion to an annual rate of $15 billion.

Why Consumers Have Reduced Spending

Thus the question is posed, "Why have consumers, who by and large still have the money to spend, tended to hold back in their spending?" There are two alternative explanations, one of which is more optimistic than the other. This more optimistic hypothesis is that present consumer behavior simply is a reversion to a more nearly normal pattern of consumer spending. This hypothesis has considerable statistical support. During the period from 1929 through 1941 retail sales normally tended to absorb between 55% and 60% of consumer disposable income. (This figure for retail sales of course does not include expenditures for rent, travel, education, and numerous other services.) But during the period since 1946, retail sales have been running at a rate of approximately 70% of consumer disposable income. Reasons for this bulge of course are primarily associated with war shortages and the accumulation of wartime savings that enabled consumers to make good those shortages. Thus this hypothesis maintains that the current situation, which has caused so much anxiety in retail circles, is in reality nothing more than one further step in the series of readjustments which the economy has been undergoing ever since the end of 1946; only this time the brunt of this particular readjustment happens to fall on the retailer. According to this view retail sales and profits may undergo some impairment in 1949, but there will not be any general business depression; there will be no great price declines, no mass unemployment, no general economic distress. I think it is a fair statement that this is the conclusion presently supported by the weight of economic opinion. At the recent meeting of about a dozen economists, who met for the purpose of discussion the business outlook for 1949, this belief that we are today facing nothing more critical than another of a continuing series of mild business readjustments had the support of more than two-thirds of those present.

The other alternative explanation for the present drop in consumers' propensity to spend, or increase in their propensity to save, is less reassuring. It is, in brief, that consumers have finally been priced out of the market, that we are faced with what is essentially an incipient buyers' strike, that having elected Mr. Truman on the strength of his promise to reduce prices, the American people are going to sit back and wait for him to perform according to schedule. We all know that a general tendency to stay out of the market waiting for lower prices could have some serious business repercussions. We also know that a very substantial proportion of consumer expenditures nowadays is directed to consumer durable goods, purchases of which is essentially deferrable. If now, with the keen edge taken off their demand for durable goods, consumers are going to stand off and wait for lower prices, those lower prices will probably be realized all right; but they may be realized as a result of severe economic dislocation, general unemployment, sharp declines in consumer income, and great damage to our economic and political structure. Those who place this gloomier interpretation on present business trends, among whom certainly are numbered a good many business executives in the industries where soft spots have appeared, are skeptical of the argument that the drop in consumer spending is merely a readjustment to a normal pattern. They inquire, "How do we know what is a normal pattern of consumer expenditure today? How do we know that 70% isn't more nearly normal than 55% or 60%?" They point to numerous changes in the spending pattern, such as lower outgo for rent, domestic services, public utility rates, interest on personal debt, foreign travel, and so on. They point also to the increased spending power from full employment and enhanced productivity. They cite the increase of 33% in real per capita purchasing power since 1940[1], which means a shift of millions of families into higher income groups with consequently altered patterns of purchasing. Which of these changes are temporary; they ask, and which are permanent? Should we not therefore, they inquire, view with considerable alarm such a decrease in consumer spending as appeared during the seven weeks following the election? Doesn't it portend something more serious than a mere readjustment of an abnormally high rate of consumer spending?

Now, keeping in the back of our minds these two differing interpretations of what is going on in business today, let's look specifically at the prospect for half a dozen major groups of factors in 1949. These half dozen important segments of the economy are money and credit, business spending, construction, exports, consumer spending, and government taxation and expenditure. For each of these certain comments are in order.

1. **Money and Credit**—Present moderate restriction, such as the new Regulation W, will continue, but there is not likely to be much further tightening of credit controls in 1949.

For the longer-run period the election results constitute a definite forecast of continued inflationary tendencies, via social benefits, government subsidies and supports, and high wages, all leading to an eventual future decline in the value of the dollar.

These longer-run results of inflationary policies endorsed by the electorate last November are not likely, however, to appear soon enough to top the scales toward further inflation in 1949.

2. **Business Spending** — Total capital outlays in 1948 were nearly $19 billion; figures for the last quarter exceeded $5 billion.

In any appraisal of prospects of spending either by business or by consumers, attention has to be given to three things: the need, the availability of funds, and the attitude of the buyers.

Needs for capital expansion are still large. Deficiencies of the war period and the earlier depression period are still not completely made up. At the same time increased population, enhanced purchasing power, and advances in technology all combine to call for additional capital expansion.

Requirements for capital expansion in many specific situations are still strong, notably public utilities, petroleum, railroads, mining machinery, heavy electrical equipment, and so on.

In contrast to 1947 and 1948, however, there will not be the need in 1949 to build up additional inventories.

Availability of funds is a somewhat greater question mark for 1949. Retained profits constitute an important source of business funds. Following the record profits of 1948, the prospect is for considerably reduced profits in 1949.

The President's tax proposals, if enacted, will tend to impair profits as a source of funds for capital expenditure.

At the same time it is scarcely likely that the stock market will be favorably to new issues.

With respect to the attitude of businessmen toward capital expansion, the effects of the election are most certain to exert a restrictive influence. This influence arises not only from the prospect of increased taxes, stepped-up government controls, repeal of the Taft-Hartley law, and increased spending for social benefits, but also it arises from the profound shock to business sentiment in discovering on the day after election that, contrary to all the high hopes entertained by business during the early postwar period, the New Deal is here to stay, and a labor government steering left of center will be in power for the next four years.

The probable upshot of all this is some decline in business spending in 1949, perhaps on the order of 15%.

3. **Construction**—The edge is off the urgent need for private and business construction; but this is not quite so true of the need for

(Continued on page 28)

*An address by Professor McNair before the National Retail Dry Goods Association, New York City, Jan. 12, 1949.

1 Arno H. Johnson, "Market Potentials, 1948," *Harvard Business Review*, Vol. XXVI, No. 1, January, 1948, p. 11.

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The Business Prospects for 1949

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commercial construction, stores, hotels, garages, and so on.

With respect to availability of funds, savings have been drawn down and banks are tightening up on real estate loans.

As to attitudes, the uncertainties of the outlook will presumably increase caution in making commitments.

The probable result in some decline in private construction (public construction not included) in 1949.

4. **Exports**—The increase in net exports was one of the important factors which buoyed up the economy in the second half of 1947 and in the first half of 1948.

After some decline, exports are once more rising; and since the election virtually guarantees the continuation of present United States policies in Europe, and since additional funds will soon be required for ERP, it is altogether likely that exports will rise in 1949.

At the same time, however, imports also may be expected to increase.

On balance, the net export situation in 1949 will not be deflationary and may lend some support to the total economy.

5. **Consumer Spending**—This is the big conundrum, at least for 1949.

Consumer needs for nondurables are very high indeed with a full-employment economy; in fact, we have been prone to underestimate this aspect of the consumer market. For consumer durable goods, although the keen edge is off the demand, the needs are still substantially high.

With respect to funds, the outlook for consumer disposable income at present seems good. There will be a small decline in agricultural income because of the price drop, but some part of this may be a transfer (in the form of lower food prices) to other sectors of the population, who will thereby have more to spend. The agricultural price support policy will prevent any severe drop in farm income.

In regard to wages, a moderate fourth round of wage advances seems to be in prospect, although lower food prices will strengthen the employers' position in bargaining. The effect of any strikes at this stage will be deflationary.

One specific minus factor with respect to consumer durable income is the possibility of higher taxes on individuals.

On the other hand, there are some specific plus factors which can be taken into account, such as income tax refunds after March 15 and state veterans' bonuses.

Obviously a major factor in maintaining consumer disposable income will be the continuation of high employment, and that, of course is contingent on the whole general mix of the situation which we are discussing.

Willingness to spend at the moment seems to be the crux of the matter. For the early part of 1949 the key question is how large a part of disposal income consumers are going to spend. In some degree the answer to consumer willingness to spend depends on the behavior of business itself and particularly the policies followed by retailers.

One of the reasons why consumer spending is so critical is the increase in the percentage of consumer income that is available for goods and services other than necessities. In 1949 it is estimated by Arno Johnson that $100 billion of consumer income more than in 1940 will be available for purchase of goods other than the basic necessities of food, clothing and shelter (after allowance for higher prices for the basic standard of living). Because such additional purchases are optional and deferrable, consumer spending may tend more and more to resemble business spending in its susceptibility to wide fluctuations.

6. **Government taxation and spending.**—State and local government spending will both rise in 1949, to a total of about $15 billion.

State spending in particular for roads and public buildings will increase.

President Truman's budget apparently will call for a total of about $44 billion, and it is quite possible that Congress will increase this budget with respect to military needs. At the same time it is unlikely that Congress will cut down much, if any, of the proposed spending for social benefits.

(Parenthetically, it may be remarked that just as the problem of 1942 was "guns versus butter," it looks as though one of the problems of 1949 may be "guns versus gravy.")

To balance this budget additional taxes are requested of $4 billion from business and from individual taxpayers in middle and upper brackets.

If we assume a balanced budget, then the effect of government taxation and spending on business income and consumer income is a question of how much is taken by the government in taxes, whom it is taken from, and what the government does with it. For instance, heavier taxes on business profits such as proposed may tend to dry up business spending because they will decrease the funds available for capital outlays and will reduce the incentive of businessmen to make such outlays. Also, heavier taxes on upper-bracket incomes may cause individuals to be reluctant to invest in productive enterprise. At the other end of the scale any increased taxes on the lower brackets will cause a decline in consumer disposable income.

On the other hand it must be recognized that the government may spend funds in such a way as to increase both business spending (through plant expansion for armament, for example) and consumer spending (by means of increased employment).

What has just been said is based on the assumption of a balanced budget. It is distinctly possible, however, that the budget might become unbalanced in 1949; this might happen for two reasons: (1) increased expenditures for armament, for ERP, and for European Lend-Lease, or (2) unwillingness of Congress to impose taxes to effect a balance.

Obviously any such unbalanced budget situation would tend to revive inflationary influences in 1949:

On the other hand, it should be kept in mind that with a balanced budget some aspects of government financing may well be deflationary in 1949. For instance, business and individuals must accumulate funds between now and March 15 to pay income taxes. Then with the large flow of funds into the Treasury the government for some time after March 15 will not be spending money as rapidly as it comes in. Therefore government fiscal operations may well exert a deflationary force in the early part of 1949.

The effect of government taxation and expenditure in 1949 is clearly one of the most difficult parts of the picture puzzle to put together. If the budget should become widely unbalanced, inflationary trends would be resumed. On the other hand the kind of tax program which may be enacted for achieving a balanced budget may well have a deflationary effect in 1949. But still another way of looking at it is that increased government spending in 1949 may well serve to compensate for some decline in both business spending and consumer spending.

Practically any one of these views can be cogently argued; a great deal hinges on the action of Congress; and back of it all, of course, lies the big question mark of what our relations with Russia are going to be in 1949.

From this quick survey of half a dozen important segments of the economy, what is likely to be the net result for 1949 in terms of business activity, employment, price level, and profits? It is frankly anybody's guess; but this reviewer will hazard the humble opinion that the straws right now point to, first, a somewhat lower rate of business activity in 1949 than in 1948, secondly, some moderate declines in employment, thirdly, a somewhat lower price level, and, fourthly, a somewhat less favorable profit performance.

If it turns out that we face some sort of business recession during 1949, how far can it be expected to run? This question naturally will be uppermost in the minds of many as we watch the business events of the next two or three months.

There are a number of reassuring factors. In the first place it can be argued that the general business situation is far less vulnerable than it has been at previous historical turning points. One of the first things to assess with respect to vulnerability is the debt structure. Clearly that is not now the menace which it has sometimes been in the past: stock market borrowings are negligible; the farm mortgage situation is not serious; the residential mortgage burden may be heavy, but these mortgages have been written with more safeguards than in the past; consumer credit, though high absolutely, is not out of line with sales; and in any event, the historical experience is that this kind of debt is not characteristically a vulnerable factor. Looking at the debt situation over-all, the data are in no sense alarming. It has been estimated that at the end of 1948 individual debt is only 35% of disposable income as against a figure of 60% in 1929 (Arno Johnson of the J. Walter Thompson Company). Likewise, taking the total of all private debt, corporate as well as individual, that total amounts to only 86% of national income as against 185% in 1929 (Northern Trust Company of Chicago).

Closely related to the debt picture is the factor of inventory speculation. Again the situation is not nearly so vulnerable as at various turning points in the past. There has not been any great amount of inventory speculation as compared, for example, with 1919-1920. Retail merchants in particular can take a justifiable pride in the fact that during this greatest inflation in our history they have not given way to the temptation to speculate in inventory. The lessons of 1921 were well learned.

A third factor of vulnerability that can likewise be crossed off so far as the present situation is concerned is the kind of weakness in the banking structure which had such devastating effects in the early 1930's. Today the banking structure is far stronger than it was after 1929, and the possibility probably can be dismissed that banking weaknesses would operate, as they so often have in the past, to accelerate any declines in business activity, prices, and employment.

In addition to emphasizing the absence in 1949 of some of these historical factors of vulnerability, one can point on the positive side to some very significant stabilizing influences. The probable extent of government spending for armament, ERP, European lend-lease, and so on, has already been commented on; but the general fact should not be lost sight of that whether or not we approve of such widespread participation by government in the economic life of the nation, nevertheless the simple fact that such a substantial part of the total outgo of the national economy is in the hands of the government does in itself constitute a stabilizing influence. It operates as a ballast to reduce the amplitude of the ship's rolling in stormy economic seas.

Other stabilizing influences which have been universally commented on of course include agricultural price supports, the high level of wages, and the existence of so many union wage contracts (The latter two factors, however, can also be argued to point in another direction, as we will note in a moment.) Basically, of course, the clear need for further capital goods expansion and the still unsatisfied long-run requirements of consumers for many types of durable goods are important factors of stability.

But this is only one side of the picture, and before you repose too great confidence in the apparent reduced vulnerability of our situation and the presence of so many stabilizing factors, there are two sobering considerations that must be painted into the background. The first of these is the undeniable fact that historically at every major downward turn of the economy there has been an impressive array of evidence purporting to show the existence of numerous factors of strength and stability, and yet on every one of those major downturns, such as 1920 and 1930, those factors faded out very rapidly once the toboggan slide had started. All the historical evidence is that in the United States we never yet have made a smooth transition from wartime boom to a high level economy. That doesn't say that it can't be done; but if we do it now it will be the first time.

The other sobering consideration is that today there is a new factor of vulnerability present, namely, the high break-even point for numerous businesses, both in manufacturing and in distribution. This high break-even point coupled with the as yet untested rigidities in cost that have been introduced in the business structure, largely by the high wage levels and the union contracts referred to above, presents a new problem. Conceivably we may have here a new type of vulnerability, one that will be conducive to a rapid spread of layoffs and unemployment.

So if the boom really is over, we can't be too sure of making a smooth transition to a high-level economy; we can't be too sure that a business dip in 1949 might not turn out to be a fairly substantial one. But the general balance of all these basic factors for the time being hinges very definitely on what consumers are going to do with their money. Consumer willingness to spend is the key question in the months ahead, and it is a question to which the skill and ability of retail management in 1949 may go far in furnishing an answer.

Whichever hypothesis is more nearly correct in regard to the basic causes of the recent decline in consumer spending, that is, whether it is merely readjustment to a normal pattern that we are facing or whether it is the beginning of a basic downturn because consumers are essentially on a buyers' strike, the situation which we are going to be looking at in the department store business in the first half of 1949 sizes up something like this:

Sales will run about even with last year or a little under; the size of the average transaction will decline, and retailers will have to do a first-class merchandising job to maintain or increase the number of transactions.

Markon will continue to be under pressure, but the market will offer opportunities to merchants who keep their open-to-buy flexible.

Markdowns will quite probably increase because of the necessity of offering values to maintain sales.

Expense dollars unless sharply controlled will tend to increase. Expense percentages are almost certain to rise.

Profits, both in dollars and in percentages, will probably be lower.

To put it another way, the creeping buyers' market which we have been observing for several months, first in one industry and then in another, has now crept over the top. So what are we going to do about it? I think there are three watchwords for alert retail management in 1949. They are: "Push Merchandise Values," "Control Those Stocks," and "Fight That Expense." Let me say just a word about each of these.

Merchandising Watchwords

On merchandising the ball has been passed to you. It is up to you to coax those consumer dollars back into the market. You are the purchasing agents for your communities, and it is the job of purchasing agents to bargain and haggle, if necessary, but always to get values. Insist that manufacturers produce goods priced at the levels that consumers will be willing to pay. Cut out the frills and go after the mass markets. This is the only way in which there will be a fighting chance for the economy to make the transition from postwar boom to high-level consumption without taking a bad bump.

The next thing is to watch those stocks, keep flexible, hold back some open-to-buy for market opportunities and profitable recorders. Many of you people on merchandising jobs haven't had experience in a buyers' market. This is it. In too many stores the rate of stock-turn slowed up in 1948. In 1949 you have got to get those stocks back in line with sales and keep them there.

The next of the three obvious jobs for 1949 is to fight that expense. Comfortable increases in dollar sales volume will no longer be present to act as an automatic cushion to absorb dollar expense increases. The Harvard Bureau figures and the Controllers' Congress figures all show a very sharp rise in the cost of handling the average transaction over each of the last several years. That rise has got to be halted. Now I recognize that you are merchandise people, and you may be tempted to say: "What has expense control got to do with me?" Today expense control is everybody's job. The decisions you make as merchandise people affect expenses, and the job of expense control can be accomplished only if everybody in the organization is expense conscious. I know this job of expense control can be done, because here and there you will note from the published statements of certain retail organizations during this past year that some of them are getting on top of this expense problem. But it is a battle that can be won only by everybody taking a

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sharply different attitude toward expense from that which characterized the inflation period.

Expense control involves planning and budgeting and checking performance, but those are only the surface aspects. Basically expense control goes much deeper than that. In the first instance, it involves ideas and concepts. Expenses are incurred to carry out jobs. Jobs in a retail organization are done for customers, are done for employees, are done for management. In every instance somebody should be weighing the importance and necessity of these jobs. "Does that particular type of merchandise have to be marked?" "Can we avoid making certain deliveries?" "Is that statistical report necessary?" Many times the basic step in expense control is the revamping of management thinking about the jobs that have to be done. Next it is necessary to apply imagination to the methods of doing those jobs. Everywhere we must press the search for better and improved methods, whether by mechanical means, altered physical layouts, improved systems, or other means. Finally, people are of tremendous importance in expense control. It is people who do jobs; and if you can develop real interest on the part of people in doing things better and accomplishing more output for a given period of time, that is half the battle.

Now if you look at expense control in that way, in terms of ideas, concepts, methods, and people, those are all aspects of expense control to which every body in the organization can contribute and must contribute if expenses are going to be kept within bounds in 1949.

These are difficult times to interpret. We are in the midst of transition from postwar boom to some kind of period of leveling off or readjustment. In itself this is difficult enough; but the situation is complicated by the fact that we are also in transition to a new phase of the cold war, a period of greater preparedness to defend ourselves, greater expenditures to organize and sustain the peace-seeking nations. On top of this, furthermore, we are seemingly in transition to a second phase of the New Deal, with increased emphasis on social benefits, with increased government taxing and spending, and with the threat, at least, of substantially increased government controls of industry.

In view of this total situation some readjustment in business, particularly some drop in prices, is to be regarded as healthy. If with the business boom going full tilt we were to take on the jobs of augmenting our armament, rearming western Europe, restoring European productivity, and at the same time conferring vast new social benefits and special subsidies in the domestic economy, we should indeed find ourselves in a precarious situation where the rapid imposition of controls would be inevitable. Hence some business readjustment is a necessary safety factor. But in this period of readjustment it is vitally important that business should not lose courage and slink back into the dog house. I say to you as emphatically as I can that our social salvation and the perservation of our liberties depend in no small degree on business at this particular juncture keeping itself strong, vigorous, and healthy. Let's see how well we can measure up to that standard in department stores in 1949.

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(Special to THE FINANCIAL CHRONICLE)

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Conflicting Forces in 1949

By C. A. SIENKIEWICZ*

President, Central-Penn National Bank of Philadelphia

As against favorable factors of high industrial production, employment and income and large consumer and government spending power, prominent Philadelphia banker lists as unfavorable forces: (1) growing resistance to high prices; (2) higher break-even points in business operations; and (3) declining trend in flow of equity capital to industry. Says government fiscal and monetary policies give rise to artificial situations and create business uncertainties.

We have just ended the third postwar year of unprecedented business activity. Never before in peacetime have so many people been at work earning higher incomes and buying goods in such large volumes. Output of our industries and farms reached record levels.

C. A. Sienkiewicz

Consumers spent at the rate of $175 billion last year to satisfy their needs and wants.

In spite of high prices, our standard of living has been advanced considerably. This is clearly shown by the physical volume of goods produced and marketed. We have also made substantial additions to our plant and equipment, as well as housing. Such additions are real wealth and should assure us of further gains in our living standards if our approach to current problems is on a cooperative basis.

This fundamental accomplishment, however, should not lull us into wishful thinking or into a sense of false optimism or security. We have yet a big job to do. Not all distortions in our economy have yet been removed and we are still in a state of armed truce rather than of stable peace. Approximately 70% of our national expenditures are directly or indirectly attributable to war and the present tensions in the world are anything but encouraging.

Our economy is full of mixed trends even though there are signs that it is on the way to more normal relationships in free competitive markets. Conflicting forces at home and abroad becloud the picture and make any forecasting, or any application of forecasts, rather precarious business. The best one can do is to analyze favorable and unfavorable factors in the current situation in the hope that understanding of these factors will help business to plan, make decisions and go on producing and selling goods which the people need and want.

What are these conflicting forces?

First, let us look at the favorable factors. Industrial production, employment and income continue at peak levels, although the rate of expansion has been declining and some increase in unemployment is in evidence. There are still backlogs of orders for hard goods and shortages of supplies in some lines. But on the whole the supply and demand factors reflect a better balance than was the case at any time since the end of the war. Selling and buying policies are becoming more conservative and such inventory losses as occurred here and there are being rapidly adjusted. Both business units and individuals are in a strong credit position although their debts increased somewhat in the past year. The rate of savings is substantially below the wartime level, but it continues well above the prewar rate.

The decline in capital expenditures, which were unusually large last year, may be more than offset by public capital expenditures—Federal, State and municipal—so that it might strengthen the demand for capital goods and thus sustain job opportunity. Many deferred public projects may be put into operation this year.

Foreign aid and defense requirements may also become large factors, depending on the turn of events abroad.

The cost of living, particularly food items, has been declining, and disparities among individual commodities and groups of commodities are being gradually adjusted. This correction in price relationships has been well under way since the third quarter of last year and it promises to be orderly or without violence, such as took place in the early 1920's. It is important to allow and encourage this adjustment so that a proper equilibrium can be established as soon as possible. We cannot go back to the prewar price level, but we can stabilize it so that our cost-price relationship will cease to be as disturbing a factor as it has been since the war.

There is a reasonable assurance that the present administration will view current economic problems in a spirit of moderation and perhaps will initiate cooperative efforts directed toward stabilizing production, employment and income at high levels. Such an approach would mean more goods, more jobs, more money to spend, and therefore good business for manufacturers, wholesalers and retailers.

Unfavorable Factors

Second, let us now consider those factors that are less favorable and emphasize the seriousness of the job ahead of us. There is a growing resistance on the part of consumers to high prices—not only high prices but also low quality of goods. The consumer is becoming very conscious of both. There is also evidence to show that in some markets a saturation point has been reached. Latest reports show that inventories in all kinds of plants have been unusually large. At the end of November, stocks of goods at factories totaled over $31.1 billion, at retail $15.6 billion and at wholesale $8.5 billion. Increases in all instances were substantial. These inventories, of course, may have been worked down over the turn of the year, but the fact is that they were large and called for skillful handling to avoid losses through price adjustments which have been in progress.

Whereas, before the war break-even points generally ranged from 40 to 60%, now they are running anywhere from 60 to 85% or even higher. This means that a plant must be operated at a very high level before a business breaks even and begins to earn income for current and future needs. Pressure for higher wages without reference to productivity in many instances has tended to upset cost-price relationships thereby dampening business plans and decisions to go ahead. In addition, the expectation of higher taxes and the growing inability of industry to pass on wage increases in the form of price increases tend to lessen business incentive to expand.

Less Flow of Equity Capital

One of the most disturbing factors at present is the declining trend in the flow of equity capital to industry. Partly because of the discriminatory effects of taxation and general clamor for economic security, investors are loath to take risks in the market and prefer to seek other ways for assuring their future. They have been reluctant to buy stocks so that corporate financing has been restricted to retained earnings, sale of bonds and bank credit. For example: in the 1920's stock flotations averaged about 35% of all corporate security issues for new capital, while in the past two years they accounted for only 25% of the total. Under the present tax system it is advantageous for corporations to meet their needs through debt or credit rather than equity financing because as an expense it is deductible for tax income purposes.

Controls which are set up to implement our fiscal and monetary policies give rise to many artificial situations. The determined support of the government bond market, for example, raises doubts in the minds of investors regarding the stability of present prices and creates uncertainties with respect to the availabiltiy and cost of credit.

A large volume of floating debt—about $45 billion of government securities maturing within one year—also adds to these uncertainties because in general such debt is inflationary. It would seem that a program of refunding rather than "unfunding" would assist the situation; it would certainly better prepare us to meet any eventuality that might arise from present world tensions. Keeping interest rates low and underwriting the government bond market is a questionable approach to credit problems in an inflationary period because the method adds to the supply of money which is already very large.

Right or wrong, there prevails a considerable feeling of uneasiness, if not distrust, of increasing public intervention in the operation of a free competitive economy. This attitude is real, particularly in the light of clouded prospects for profits, the vast demand upon industry to contribute to the social welfare program, and the drain on national resources as a result of international commitments.

These are among the basic factors which combine to produce hesitation to venture, a desire to conserve rather than to expand, and a delay in business planning and action.

The immediate prospect is for the gradual return of normal price relationships of individual commodities and groups of commodities. The cost of living has been declining and is likely to drop further this year. The overall volume of business and profits may slip off 5 or 10% and in some cases more. This general prediction, of which you heard before, must necessarily be only a guess. In any event, a downward adjustment of this size would mean no more than a mild correction; certainly not an indication of an early serious recession or depression.

The longer range outlook is good. The state of our economy shows health and vigor, not signs of any fundamental weakness. Our population shows growth and vitality; our technological progress in marching on with respect to new power, new products and better methods of producing and selling goods. Our industrial leaders continue dreaming dreams with the result that we have new inventions and new discoveries.

With cooperative efforts of government, management, labor, farmers and the consuming public, we are bound to go forward under a system of resilient, competitive economy.

*An address by Mr. Seinkiewicz at the Second Annual Forecasting Conference of the Philadelphia Chamber of Commerce, Philadelphia, Pa., Jan. 13, 1949.

NASD Elects Seven New Governors

WASHINGTON, D. C.—The National Association of Securities Dealers, Inc., announces the election of seven new Governors. They are:

Howard E. Buhse Warren H. Crowell

F. H. MacDonald Charles H. Pinkerton

James J. Lee Jesse A. Sanders, Jr.

Sampson Rogers, Jr.

Howard E. Buhse of Hornblower & Weeks, Chicago.

Warren H. Crowell of Crowell, Weedon & Co., Los Angeles.

Frederick H. MacDonald of Burke & MacDonald, Kansas City.

Charles H. Pinkerton of Baker, Watts & Co., Baltimore.

James J. Lee of Lee Higginson Corporation, New York.

Sampson Rogers, Jr., of McMaster, Hutchinson & Co., Chicago.

Jesse A. Sanders, Jr., of Sanders & Newsom, Dallas.

They will serve until the annual meeting in January, 1952.

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Rocking the Boat of Prosperity

By CHARLES E. WILSON*
President, General Electric Company

Leading industrialist lists as measures which might cause depression: (1) revival of excess profits taxes; (2) increased income taxes; (3) rationing and allocation of materials; (4) price controls; and (5) a fourth round of wage increases. Attacks CIO's program as "markedly socialistic" and defends competitive profit system as having a built-in corrective factor for high prices. Holds fourth round of wage increases, unless accompanied by higher man-hour production, can only result in higher prices. Concludes, despite proposals of extremists, there has been a movement toward a middle ground.

Most of the jokes have long since been told and retold at the expense of the unhappy takers of the polls, the unfortunate feelers of the public pulse who either neglected to first take off their mittens or ended up counting the beats of their own hearts and not the patient's. It is some little time since November, and yet your committee, in picking my subject, should have foreseen that such a title as "Prospects for 1949" might well set my teeth on edge. After all, Syracuse is no one-night stand for me, to be brushed off tomorrow. All year long, like Schenectady and Bridgeport and Erie and several other familiar places, Syracuse is just over my shoulder, and I can hear what it says and occasionally feel its nudges. The limb of "future prospects" can be a cold and windy place on which to sit, but I shall do my best.

Charles E. Wilson

We might well have selected for our text those familiar lines from Reginald Heber's famous "Missionary Hymn", — "Though every prospect pleases, and only man is vile."

I say that because, in all honesty, notwithstanding the spoken threats and the silent uncertainties which beset the business picture, I find the prospects for our common growth and success very favorable—the markets we all serve, the standards by which we live, the temper of the great mass of human beings who bring industry to life through their efforts, and the climate of the United States, which continues to be kind to the ambitious, the talented, the industrious, and the tolerant. I am sure that the hymn-writer classified all of these things as "prospects." Perhaps he was only being a bit pessimistic in his characterization of man. Given all of these natural advantages, man could be careless, or fearful, or selfish. What he wrought was going to be largely in his own hands. That is fundamentally our situation in 1949. We can take it from there.

It is not my intention to speak very specifically to you about General Electric and its business in Syracuse, or even about you and your own ventures here. You know those things—the plants, the people, and the products—like the palms of your own hands, and certainly Dr. Baker is your most qualified authority in respect to the concerns of General Electric. One of the greatest of those concerns is the recognition of our interdependence as economic factors in this community.

Outlines of Our Profit System

Rather I would like to examine with you our future prospects in terms of the broad outlines of the profit system, in terms of the important forces which make it work. It is these fundamental things that are being challenged, and first of all we must get them clear in our own minds, then confidently and strenuously assert them in the open forums wherever those might be. You will find such forums in the committees of the Congress, in the administrative agencies of the executive branch of government, in the union hall and on the shop floor, and at the corner drug store. Today we seem to find ourselves involved in a great national debate over profits, prices, controls, and other economic policies—the debate as to what government should do, and what labor should do, and what consumers should do, to curb inflation and keep our economy from flying to pieces. Perhaps you resent, as I find myself resenting, the fact there is a debate at all, because it seems so clear to us in business that there is only one course to pursue in the operation of our proved economy, just as it seems clear that a four-legged table will wobble when you take one leg away and fall if you remove another leg. But we forget all too readily, in management, that we have a distinct advantage. We have access to the records, to the facts and the figures, to the accumulated experience of generations of operating men. While we seem to be speaking from instinct or prejudice we are actually going according to the book. Now we must review the lessons of that book, and open it to others whose training has been of a different sort. Somehow, through our sincerity and our logic, repeated over and over, we must convince the doubters and the antagonists that we make sense.

You have undoubtedly followed the testimony of at least some of the witnesses before the recent hearings conducted in Washington by the profits subcommittee of the joint Congressional Committee on the Economic Report. I was one of those asked to testify, and I am going to take advantage of your invitation tonight to repeat a few of the things that were said, primarily because it seems to me that our prospects in 1949 and thereafter can only be looked at realistically in the light of these proceedings.

One of the questions asked by Senator O'Mahoney was what I thought should be recommended by the committee in the way of a legislative program, and my answer was that nothing should be done. That was too short an answer, and on later reflection I wrote Senator Flanders and the committee members along these lines:

"The action of the entire business community during the past month has been a most disturbing one. Not only in the stock market, where the owners of American business have shown so much more eagerness to sell than to buy that the overall market value of that business has depreciated in staggering amounts, but in the more fundamental customer market has that action been disturbing. Industrial customers have cut back their buying of equipment for expansion, improvement and replacement. Similarly, the individual consumer, apparently sensing storm signals ahead—which mean fewer jobs and less security—has become suddenly frugal in his buying, so that consumer goods are backing up through retailers and distributors, and production people are being laid off. This trend, should it continue, must obviously lead to the very cycle of unemployment and depression which we are all seeking so strenuously to avoid. . . . I have tried, with every possible effort toward objectivity, to accumulate and judge the evidence as to why such an expression of uncertainty and insecurity should have taken hold of the entire business community from consumer to producer. It is my conclusion that the public is becoming more and more alarmed at some of the specific measures that have been increasingly emphasized by some of the members of the new Congress. There is a definite feeling that some of these measures aimed at inflation might well cause a depression; that in the effort to control profits and prices, the measures adopted may cripple business activity critically. Those proposals which seem most alarming are as follows:

(1) A revival of the excess profits tax in peacetime.

(2) Higher taxes on individual incomes.

(3) Rationing or allocation of materials.

(4) Price control.

(5) A fourth round of wage increases.

Fear of Excess Profits Tax

"Specifically in regard to the proposal for peacetime excess profits tax, just the fear of such revival has already caused the damage noted here. This is despite the fact that a great many people do not believe the Congress will pass such a law. The accomplished fact of such a law would have a shocking effect on the creation of possible savings of production over consumption, as it would put a penalty on efficiency rather than a reward. There is a broad feeling that it would make the government the only source of funds for expansion or employment, and it would make the government's only source of such funds the printing press. . . . These factors that I have noted indicate that the historic fear of fear which can be so disastrous is creeping into a commanding role in business decisions. This is not the time for drastic action of any sort calculated to increase this fear which could so easily culminate in an hysteria bordering on panic. There are times when the most constructive program which can be adopted is one of abstaining from the imposition of ill-advised or ill-timed measures which are likely to achieve less in the way of beneficial results than they do in the destruction of confidence and the fostering of fear. . . ."

CIO Program Socialistic

So much for the letter on that one point. Not only from individual legislators, of course, have come the suggestions that would be dangerous to the healthy continuation of the business cycle. In the last few days you may have seen an expression of what the CIO recommends to and expects from Congress in the way of a legislative program, presented by Philip Murray. If you did see it, you were probably no more surprised than I was. Our feeling should rather be one of dismay, for this is no collection of idle remarks, flowing from the circumstances of the moment, but a calculated program. At least we have the right to believe that it is calculated and objective, that it reflects the soundest thinking, the most careful research and the utmost consideration for the public interest and the economic progress of the nation of which the leaders of this great labor organization are capable. And yet, in my honest opinion, and I am running for no office and making no bid for votes, it is nakedly socialistic; it is utterly foreign to every traditional concept of the relations between American government and American business; it is political opportunism in callous disregard of inevitable consequences; and it won't work. He speaks with considerable hostility of the "pricing practices of industry" as if a handful of powerful business men got together and established a policy of charging all the traffic would bear. We who are in business would hardly dignify that with a denial. The "pricing practices of industry" today, if they reflect anything, reflect first and foremost the constantly increased costs of labor and materials. Our system has demonstrated over the years that it has a built-in corrective factor for too-high prices in the nature of the competitive market itself. If the price is too high, the consumer won't buy, and what can Congress possibly evolve that will work more surely than that?

Mr. Murray talks of the "underlying pressure" for greater inflation as if it were something which industry has in its power to turn on or off, at choice. The principal underlying pressure for greater inflation, so far as I can see, lies in the continuing threat of ceaseless rounds of wage increases.

Mr. Murray also says that expenditures for European reconstruction and military preparedness will also continue to exert inflationary pressure, and that is true. They will do so principally because they will reproduce wartime conditions, swelling the total of national wages without providing at the same time the complementary domestic goods on which those wages can be spent, thus bidding up the price on what there is. This may be unavoidable, but certainly we will only make the money supply bigger, and prices higher, by piling a fourth round of increases on top of it.

Finally, Mr. Murray declares that if the program advocated by the CIO *does* produce further inflationary pressure, it can be curtailed by imposing price controls. This is simply to say that we should let the causes of inflation run wild—but not let the effects take place. Blow up the balloon—but don't let it get any bigger. It is a neat trick if you can do it. Here is the program itself:

(1) Price control of products for which prices are rising.

(2) Stand-by price controls for other areas. (There is no mention of accompanying wage controls in either case.)

(3) Roll-back of food prices where reductions at the farm level have not been passed along to consumers.

(4) Allocation and rationing authority for those areas where inflationary pressures exist.

(5) Extension of consumer credit controls.

(6) Authority to increase demand and time deposit reserves. (Thus making the flow of private capital for expansion even more difficult.)

(7) Excess and undistributed profits taxes.

(8) Attack against monopoly to break present price policies. (This, of course, depends on somebody's definition of "monopoly" and "price policy." It belongs in the "Stop beating your wife" category.)

Added to the foregoing, the CIO chief puts forward a plant-expansion program which, boiled down, consists of three elements: government financing of new plant; government construction of new plant; government operation of new plant, in the event that the operators resist controls.

Other Socialist Propaganda

Business men, some columnist said the other day, are always too quick to raise the cry of "socialism." Is that so wrong, under such circumstances as these? Whence comes the philosophy that stands behind any such program for peacetime Americans? Let us not only raise the cry but nail the charge right on Mr. Murray's front door.

And just to illustrate that there are other spokesmen with correspondingly similar ideas, here are two other recent quotations. A president of one of the larger CIO unions, addressing the National Conference of Social Workers, said:

"Clearly, our only hope of economic salvation is sound over-all planning. This planning must be done by the Federal Government or under its direction; and the decisions of the planners must be enforceable by law."

And to sum up the case, here is Harry Bridges, of the Longshoreman's Union on the Pacific Coast:

"My view is that the government should take over the industry and take all the profits out of it."

Is this what the country wants? If it is, then the process of liquidating the same competitive system that has given us our great strength, and our great achievement has already begun. I do not believe that it has.

The real secret of our industrial civilization today lies in the continuing liberation of men by the substitution of machines for manual labor, by the development of still more efficient machines so that men may devote their time to the development of new products and the increased production of the old products at lower prices. It is this problem of sharing the benefits of progress which is fundamental and critical in our system. These benefits are claimed by customers in lower prices, by workers in higher wages and shorter hours, and by shareholders in increased income. We can deny none of these groups their wants without discarding the system itself.

Role of Price in the Economy

Let us consider the multiple role played by *price* in our economy. First, it is a factor bearing on whether a consumer will buy your product, or spend his money to satisfy some entirely different need or want. Second, price is a factor which determines whether or not a manufacturer will even make the product. Third, whether or not the consumer has the money to spend in the first place controls the decision of a potential manufacturer. You can summarize these three things as: *Will he buy it? Will I make it? Can he buy it?* These are the primary considerations that go to make up "industry's pricing policy." It is in the interest of every company to seek to pass on to the customer as many as possible of the savings resulting from increased efficiency and output, from the economies of mass production and standardization, in order thus to increase the demand, enlarge the sales, create new jobs, and again reduce the costs of production. This is not evidence of the Golden Rule in business. It is enlightened selfishness.

This objective, of passing on to the consumer his proper share of the benefits of progress through

*An address by Mr. Wilson before the Annual Dinner of the Manufacturers Association of Syracuse, Syracuse, N. Y., Jan. 6, 1949.

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price reductions, has—particularly since the war—been greatly impeded by the erroneous belief of some that all such gains belong to employees, to the exclusion of consumer and owner alike. It is desirable and just that a fair part of these benefits should accrue to the worker—but not all. We have considerable evidence that the substantial part of our productive economies have been paid off in the form of higher wages, rather than in lower prices or increased dividends. In our own company, recent increases in wage rates have exceeded many times any savings that could have been justified by any possible increasing efficiency.

A familiar example of this practice can be found in the recent controversy over the so-called "ability-to-pay" theory, under which all rises in profits were to be siphoned off into wage increases. If labor is given all the gains from technological improvement—and it has been given far more than that—the incentive for future risk-taking on the part of capital is eliminated and the consumer is deprived of lower prices and increased purchasing power.

Wages and Prices

Constant raises in wages and salaries, to the extent that they are not balanced by a comparable increase in output per man-hour, can only result in higher prices. It follows that unless prices are to keep on climbing, higher wages can be paid only out of the increased productivity of labor. To achieve that there must be greater capital investment per worker, from satisfied stockholders. So in the long run, labor can gain only as American industry itself continues to prosper and expand. This—admittedly at some length—is what you and I mean when we tell our workers and the public today that we are against a fourth round. It is not easy, but it is sound and true, and we must find a way to spell it out.

One of our major economic problems today is to induce individuals to provide risk capital to meet the needs of an expanding economy. This important concept is even more difficult to translate in popular language. Expansion of plant and equipment in recent years has been financed in large part by plowing back corporate earnings and by the sale of bonds and notes, because the average small stockholder is not having any part of it. It is fundamental to the whole subject of profits that the investment of risk capital must be accompanied by a reasonable expectation of return. There are 12 million corporate stockholders in America today—typical Americans—and they own business. Yet these men and women have no real assurance of any earnings at all. The amount of their earnings will depend on the relation of the various cost and price factors arising from the whole picture of economic conditions. Unless these conditions look good, individuals will not invest—which is what I was trying to tell the Congressional subcommittee in my letter quoted earlier. It is abundantly apparent that the interests of each of the three groups are substantially intermingled, and no one of them can be given the exclusive benefits of our progress. The greatest long-range benefit to both consumer and worker will result from the preservation of the proper share of the stockholder. Unless investment is encouraged, the national economy will suffer.

There is nothing antisocial in profit, but there are thousands who have grown to maturity today who are not aware of that. The profit earned by a wise businessman is a measure of the service he has rendered his market, in terms of value placed on those services by the buyers themselves. The price that a customer pays to a supplier, to the extent that it covers more than the cost of making and selling the product, is compensation to that supplier for having undertaken to solve the customer's problem, for having it available at the right time and place, for the customer's right to **not** buy it. The supplier had to take that risk—and the risk was underwritten only to the extent of the **possibility** of a profit—not a certainty.

It is the aim and purpose of most of us to so conduct our business that our customers will be better served at lower prices, that our employees will have more and better jobs at high wages, and that we can continue to contribute to the needs of an expanding economy through the products and services we offer. We believe that to fulfill this objective we must seek to make more profits for our stockholders. All of this, of course, must be done by efficient operation within the prices set by the first of these purposes and by the force of competitive conditions.

The significance of prices and profits, incidentally, does not end with our employees, customers, and stockholders, as independent groups. More important is the impact upon these individuals as members of our national economy, in peace and in war. As we argue and plead and expound, with the Congress, with the Administration, with our employees and their unions, with that man in the corner drug store, this fact of national welfare and well-being is paramount.

Productive Power

Next to manpower and spirit of its people, the greatest asset of any country is the strength and productive power of its industry and agriculture. Profit, whether plowed back or paid out in dividends and reinvested, is the food on which American industry has grown to an unchallenged position of leadership and usefulness in the world's economy. With the population increasing faster than at any previous time in its history, and with that population demanding both a higher standard of living and greater security, we think American industry has its biggest job ahead. In the General Electric Co. we know that we have. Profits sufficient not only to keep facilities up to date in an expanding economy, but also to underwrite that security and to help to provide that standard of living, must be our goal in the public interest as well as our own. Industry does not ask that these profits be guaranteed. It will earn them, if given a fair chance. It has in the past. And the free play of competition—not some half-baked and socialistic set of controls—plus the long-range interests of the producer, as he seeks the consumer market, will assure that the profits which are earned are not excessive and are equitably divided among the appropriate groups. It is with this realization of its grave responsibilities that industry asks that profits be not condemned or prevented.

Many countries of the world are striving to replace their industrial capital that was destroyed by the war. Others are seeking the capital to provide an industrial base for their economy. How to provide an adequate capital structure seems to be the most demanding economic problem in the world today. In this country we already have a substantial capital structure. We know that it can be maintained and expanded only through the reinvestment of the savings of business and of individuals. We know it can best be accomplished by ever-increasing efficiency which will result in added reward to all sections of our community.

As an industrial economy we are still far from attaining our peak. It is my belief that we have only begun to realize our full power. There is fundamentally no reason why we should not continue to go on to greater heights. We have seen how wrong were those gloomy prophets of disaster who toward the end of the war and thereafter predicted a shrinkage in our standard of living—a falling backward rather than a steady march ahead. Certainly we have and will always have an ever-expanding market for new and better products so long as our system is not thwarted or impaired, and is able to produce those products at prices which consumers can afford.

Prospects for 1949

Our prospects for 1949—to answer your question—are good. They are just as good as our prospects for real national unity of thought and feeling are good; as good as our prospects for understanding each other and not blowing away on a wind of political opportunism and class-conscious economics are good. They are just as good as you and I will make them. I believe we have seen the scales tip sharply each way in the last 15 years or so. We have seen business serving a long sentence at the whipping post, and we have also seen the extremists and adventurers of labor brought up short for their excesses. There has been a measure of recovery toward a middle ground. The way into the future may not be entirely clear—it seldom is. As Mr. Gallup remarked ruefully after the November returns, "The polls were right, but it was the people have changed!" So I am certain that the people will always change, they will always be open to conviction and proof. The achievements of American business have been no accident of history. It is now up to us, who know the facts and have the tools in our hands, to interpret those achievements, to project them, and to surpass them, in this land where "every prospect pleases" but only man, by his judgment and his actions, can call the final turn.

Alters Resolution on Restoring Gold Standard

Dr. Edward J. W. Proffitt at meeting of the Chamber of Commerce of State of New York introduces revised measure to be considered by its Committee on Finance and Currency.

At the meeting of the Chamber of Commerce of the State of New York in New York City on Jan. 6, Dr. Edward J. W. Proffitt, offered a new resolution urging the restoration of the gold standard, a matter now under consideration by the Chamber's Committee on Finance and Currency. In presenting the resolution, Dr. Proffitt stated:

Dr. E. J. W. Proffitt

"We enter the New Year, under clouded economic skies. Unemployment is spreading fast. Labor is becoming increasingly dissatisfied with the buying power of the paper dollars it currently is being paid and is agitating for a fourth round of wage increases. Prices, however, have been climbing more rapidly than wages. Faster and faster the vicious circle speeds—maybe, toward a maelstrom of collapse and bust, disorder and disruption. History repeats itself, time and again, but how few take time to study the lessons of the past, and how few do comprehend the threat; or, if sensing danger, how few pay heed to the warning.

"The Chamber's Committee on Finance and Currency, which numbers among its members some of the outstanding financial leaders of the nation, has under consideration a Resolution urging a return to the Gold Standard. The Committee has been conducting a thorough study.

"However, the Resolution before the Committee is somewhat complicated. It lists, specifically, various sections of the laws of 1933, which, I hold, have started this nation, unfortunately, upon a course of dishonoring its pledges, and repudiating its obligations.

"Like the fabled egg, fried into an omelette, the 1933 monetary monstrosities, which have been cooking for 15 years, may appear difficult to unscramble—to separate the white of the egg from the yolk, as it were. Likewise, it may appear difficult, I believe, to restore the *status quo ante* 1933, if it were desirable to do so. Uncertain and fearful as the future may appear to be, under conditions as they now exist, it is but natural to encounter hesitation, before embarking upon the unknown. It might be even more dreadful.

"Furthermore, inasmuch as it may require considerable more study to trace the ramification of these various sections of the laws I have listed, and their relationships to our financial structure, perhaps we should await the appointment of the organization which has been proposed by our distinguished former President of the Chamber, Winthrop Aldrich,—the National Monetary Commission.

"Therefore, for the present, permit me to withdraw the Resolution now before the Committee and seek to obtain action upon a simpler Resolution, which, I am confident, will have material influence upon the convening Congress. However, as we all are eager to listen to the message of our notable world dispensor of the fruits of American industry and self-denial, I will avoid discussion of the Resolution and respectfully present it for your consideration."

The text of Dr. Proffitt's resolution follows:

Whereas, The Congress of the United States reassembled this month in its 81st Session, and

Whereas, of paramount importance to the stability and progress of our Nation will be the reconsideration by the Congress of our National Monetary policy, our international fiscal relations, and the public debt; and

Whereas, the Chamber of Commerce of the State of New York, in its Committee on Finance and Currency, has had under consideration a Resolution, urging Congress to restore the gold standard, (ante 1933), by specifically repealing certain banking and currency laws enacted that year, whereby gold was outlawed as money, and the printing and issue of irredeemable paper currency was authorized; and

Whereas, said Finance of Currency Committee of the Chamber, has been conducting a thorough study of the problem, and will require, perhaps, further time for consideration; and

Whereas, it appears timely that, as the incoming Congress begins its consideration of these matters, his Chamber reiterate its position, particularly as to the gold standard, by readopting its Resolution of 3 November 1933, to wit:

"Resolved, That the Chamber of the State of New York . . . reaffirms its conviction that a gold standard is the most satisfactory monetary system . . . and expresses the belief that, as a delay in the declaration of a definite policy will make the policy more difficult, measures should be taken with the utmost promptness, looking toward the restoration of a permanent gold standard in the United States."

Ullman Defends Commodity Exchanges

President of Chicago Board of Trade assails critics. Says exchanges are bulwarks and symbols of free markets, and, if destroyed, the "extinction of free elections cannot be far behind."

Richard F. Uhlmann, on Jan. 17 at the annual meeting of the Chicago Board of Trade, when he began his second term as President of the largest grain exchange in the world, took occasion to answer critics of organized central commodity exchanges.

Richard F. Uhlmann

"Those who attack organized exchanges do not do themselves credit," Mr. Uhlmann stated. "Judging by what has happened in Europe and elsewhere in the world, when free markets, whether in grain, stock, or other products, are no longer permitted, then the extinction of free elections cannot be far behind.

"During the past year, we celebrated our 100th anniversary, which was an outstanding event in the history of our country and city and was a great testimonial to free markets everywhere. People came from all parts of this country and from Canada to pay tribute to a marketing system which had served many millions of people so faithfully since its inception.

"A symposium was also inaugurated so that professors from 33 colleges and universities could come here to learn first hand the functions and accomplishments of the Chicago Board of Trade. It had been felt for some time that education was the only method to better acquaint the public that an exchange was not an individual to be loved, hated, feared, laughed at, or wept about. It is an inanimate thing, an institution, an apparatus, an auction establishment, a device, an arena, or a scoreboard. It plays precisely the role that a polling place, a voting booth or a ballot box does in an election. One difference is that the votes or opinions thereon are made known instantly for nearly four hours a day, and about 1,200 hours a year. The public has been taught that a seismograph records earth tremors, a thermometer temperature, a barometer air pressure, and a Geiger counter radioactivity. These instruments measure physical facts, but the public does not yet recognize that as these instruments do measure physical facts, quotations on the great central grain exchanges measure opinions and do so just as accurately and efficiently.

"Looking ahead, the important question will be the handling of farm price supports. The preliminary estimate of the Department of Agriculture indicates an 8% increase in winter wheat acreage instead of a small decline which had been sought. There is a possibility of another banner yield for 1949. Even assuming some decline in export demand, we should derive benefits from surpluses because food costs have taken too large a share of the budget of the average family in recent years. Thus an adjustment in agricultural prices, which has been long overdue, should help rather than injure the economy up to a certain point."

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Problems of International Economic Recovery

By JOHN J. McCLOY*
President, International Bank for Reconstruction and Development

World Bank head reviews world economic maladjustments and efforts to bring about a recovery. Says solution of Europe's long-term problems depends not so much on amount of ERP aid as upon effectiveness of efforts to rectify fundamental maladjustments. Points out both European and non-European nations must take steps to put their fiscal and economic affairs in order, and calls upon U. S. to encourage greater imports and modify restrictions on foreign shipping and other foreign services. Holds international exchange rates cannot be stabilized until nations live within their revenues. Concludes reducing Europe's dollar deficit will mean less drain on our own resources.

At the close of the war we were all faced with the dangerous condition which afflicted an area that for the previous two centuries had grown to be the nerve center of the world's economic, political and cultural development. The two great wars that had been fought over Europe were not solely responsible for the disruptions which occurred. There were seeds of disintegration apparent for those whose intelligence was keen enough to discern them even before the wars took place. To be sure, the process was, at least, vastly accelerated and heightened by the work of the twentieth century aggressors whose depredations it required so much energy and wealth to curb.

John J. McCloy

The great cohesive influence of the British Empire was diluted by losses of a staggering character. This influence had been sustained by a combination of the toughness of British human values, very favorable terms of trade, large accumulated reserves and the maintenance of a rather complex nervous system of international trade and finance, of which the wars seriously impaired all but the human qualities.

Germany, which for years had been one of the area's chief suppliers and purchasers, was almost completely destroyed economically and politically. France, Holland, Italy, and to a considerably lesser extent Belgium, were demoralized by occupation and destruction to a point where people could not be continuously fed and clothed, much less be expected to sustain their former economic vigor. We rather blandly assumed that after this devastation there would emerge a period of calm and cooperation. We might have known better since the pattern of history shows that unity and cooperation among the victors seldom survive the urgency of war.

In all this welter of confusion and despair the United States has emerged as the wealthiest and most potent economic factor in the world scene. This in itself carries great implications. Even were it not for the great political issue which the rise to power of the Soviet Union has created, it was the remains inevitable that the amounts and extent of aid the United States might render to those less fortunate was bound to be in the forefront of all men's minds.

The United States was faced with a somewhat similar situation after the first World War and credits were then given—large government credits—very few of which were ever repaid. And substantial private capital, gradually gaining confidence in the then hope of European recovery, moved to Europe, but in large degree with disastrous results for the American investor.

This tendency in the midst of disaster for the strong to aid the afflicted is a compelling human tendency. It is powerful and righteous. To fail to respond would be more unnatural than to do so. The fact that the United States responded in a manner unprecedented in history will stand as a great milestone in the march of human progress, despite all the efforts of the villifiers to decry it. Whether that response has been motivated by self-interest or pure humanitarianism, or a mixture of both, it does not seem worthwhile now to debate. The important thing is to appraise objectively the effects of the aid given and to be given and take the measures best designed to ensure that it accomplishes the purposes intended.

In our experimentation with these problems during and after the first war we relied primarily on loans—government and private. If those then responsible had then known the relation of exports and imports and invisibles to the prospects of loan repayment they gave little evidence of it and the result was the ill-will which the debt repudiation period engendered. The United States by a number of examples had shown that it has now accepted the doctrine that the necessity or the urge to give aid may outdistance the possibilities of repayment, at least in tangible form. The lend-lease legislation, the UNRRA grants and, more recently, the large ECA grants are the chief examples of the new thinking in this regard. But all admit that this cannot be carried to an extreme and there are some things which a mere plentitude of dollars cannot achieve. There comes a point when both the grantor and the receiver of aid must think in terms of the grantee supporting himself, unless we are prepared to accept the concept that his weakness is fatal and there is no hope of any recovery. In such a case only death can relieve the burden of dependence from the shoulders of both the giver and the taker.

The Instinct to Restore and Repair

But we know that there is vitality in the human race of a rather extraordinary character. All the ravages of war have failed to quench the ever-present human instinct to restore and repair, to stand erect and unsupported. We may talk with some reason of inadequate effort and lack of cooperative spirit among the European countries and of assumptions too easily made concerning continued and easy aid, yet we have to bear in mind that in spite of the vast assistance which the United States has rendered to other areas of the world in the postwar period, by far the largest contributions to recovery have been made by the recipients themselves. The greatly increased production figures which Sir Stafford Cripps was able to announce to the House of Commons and to the world, the general accomplishments of the bulk of the European countries in arriving at prewar or better production figures, is due primarily to this instinct. It has only been strengthened and stimulated by the aid which has thus far been given from the United States.

Many people have attempted to estimate the total figure external aid must reach in order to generate the proper take-off speed to enable countries to reconstruct and to develop on their own accord. This figure is not capable of as nice calculation as can be applied, let us say, to the amount of thrust that is needed from a jet booster in order to enable a plane of certain flying characteristics to be maintained in flight. The United States in relation to one section of the world, Western Europe, has taken a good guess at the amount of extra propulsion that is needed and the length of time that it should be applied in order to make Western Europe air-borne. Though the real test of flight has yet to be made, there seems to be as yet no clear indication that the guess is not a reasonable one.

There is much discussion now going on in Washington as to how much Congress ought to appropriate for the second year of ERP —whether it should be the full $4.3 billion figure suggested by the ERP countries themselves, or some figure slightly less. I do not propose to enter into that discussion here. For the solution of Europe's long-term problem depends, as I see it, not so much upon the precise size of the appropriation to be made, important as that may be, but rather upon action on both sides of the Atlantic to rectify the fundamental economic maladjustments which create the need for that appropriation. I say both sides of the Atlantic because obviously this is a common problem. Much money has been made available by the United States and more will probably be forthcoming, but anyone who knows anything about giving away money or lending money knows that money itself never solves the whole problem. There are many steps to be taken, by both the giver and receivers of the aid, if the money made available is to be fully effective.

I think my first suggestion for the recipient countries would be to avoid, as one would avoid the plague, the tendency to rationalize the solution of all or most of their problems in terms of further action on the part of the grantor. One of the major problems harassing the administrators of the recovery program is the negative incentive which it partially induces. Those who have the greatest need, that is those with the greatest deficits, receive the largest grants. Those who have the least need, in many cases due to their own determined efforts, receive the least. The political nettles attending upon straightforward financial steps seem the more difficult to grasp the greater the amount of external aid available. Nations, like individuals, postpone difficult decisions, some longer than others. If it is pointed out that the United States itself is strongly subject to this tendency, this scarcely constitutes justification for procrastination on the part of the recipient if only for the reason that it is a greater hazard for the recipient than it is for the grantor.

Crucial Year 1952 Not Far Off

There is need to correct a tendency to feel that 1952 is a long way off and that therefore a relatively long period remains in which to make the adjustments which it is recognized must some day be made. In respect of non-European countries the same tendency exists though it takes a somewhat different but equally dangerous form. The fact is that 1952 is just around the corner for Europe, and for the non-European countries the period of peak export prices may be even shorter One of the most encouraging things about the recent interim report of the Organization for European Economic Cooperation is that the European nations themselves are beginning to recognize that they now have to make determined readjustments in their programs if they are to avoid a much more serious readjustment at a later date. It needs no similar report to demonstrate that if non-European countries are not taking steps to put their fiscal and economic affairs in order in a period when export prices are the highest in history, it will be much more painful to do so when this may no longer be the case.

The Western European countries have achieved some striking increases in production and exports. In some countries the standard of living has risen sharply, in a few cases perhaps too sharply. These are important gains, but they must not be allowed to conceal the need for even more sustained and intelligent effort in the direction of increasing production and stimulating exports, which, of course, includes the necessity of facing the problem of costs and less resistance to change in method. These things require readjustments which can be effected smoothly only if there is a broader education of the people of Europe as to the realities of their position. It is not sufficient that the economist or even the politician show know these realities. It is important that the workers should know and understand them. Barring a few areas, I think the significance of the Marshall Plan has been much more widely discussed and expounded in the United States than has been the case in Europe, yet the need for a full understanding of its necessity and its implications is much more important to Europe than to the people of the United States.

When so much depends upon attaining a balance of trade, particularly with the Western Hemisphere, one would expect that greater steps would have been taken by the European countries to reach the American market. During the last three years the proportion of European exports going to the Western Hemisphere has been smaller than before the war even though the exporter has enjoyed a seller's market here. European exports have been attracted to other regions where prices were higher and market conditions easier. I realize that there are many difficulties in the way of exporting to the United States, but it is a mistake either to exaggerate the obstacles or to underrate the extent of the American demand. British automobile sales in the United States were greater than anyone expected in 1948. There were special circumstances to be sure, but the fact that British cars in any quantity could sell in the United States, particularly with the relatively high cost of the cars, shows the possibilities which exist. Sustained effort, good quality, reasonable prices, will find a response in the American market, and when it is borne in mind that the problem for Europe is not to capture a large share of the market, but only to achieve a volume of sales amounting to a fringe of the American demand it would seem that greater efforts in this direction could profitably be made.

Problem of Exchange Rates

It has frequently been urged that the recovery of Europe and the development of other areas is a matter of adjusting exchange rates. It is true, and I think no one can seriously deny it, that the dollar is under-valued in relation to many other currencies, or, to put it another way, that such currencies are over-valued in relation to the dollar. This means that the foreign importer is frequently stimulated to buy goods in the United States and conversely the prospective exporter is induced to sell his goods not in the United States, but in the areas where prices are higher. To reverse this tendency is one of the great objectives of the recovery program. But this recovery problem cannot be solved by the application out of hand of a single exchange rate formula. The condition which creates such rates and not the rates themselves must first be dealt with. It would serve no purpose to adjust rates without first coping with the problem of inflation by recognizing the homely need of living within your income. An adjustment of foreign exchange in relation to the dollar would spell real harm if such an adjustment could not be made to stick, as it certainly would not, if national expenditures constantly out-distanced national revenues. The important thing is to move toward the solution of the problem on both fronts and not postpone action on each front because of failure to act on the other.

One particularly effective method of dealing with inflation is by means of the imposition and enforcement of an appropriate system of taxes. It has been proven that appropriate taxes can be levied in a free society. It is the essence of a free society that they be fairly levied. Certainly it is true that nations which do not impose a fair system of taxation upon their citizens cannot in the long run rely upon the tax collections of other nations that do so. I am not fully convinced that all countries have recognized this truism.

For a time I think most of the news from Europe was discouraging in so far as it related to cooperative action. Long established patterns of trade and diverse and isolated national traditions blocked all efforts to bring out into the open national plans for recovery. However, in the last few months, through the pressure of logic and the gradual realization of the necessity, officials of the respective recipient countries finally have put their plans upon the table where they were subjected to real scrutiny and cross-examination by the experts of the various nations. It is not to be wondered that the plans disclosed many incongruities and that each was poised in the direction of selling much and buying little. Nor is it surprising that they disclose a continuing deficit of $3 billion for 1952.

It is disappointing to be sure, but now the ECA and the nations themselves can see by how much their plans are inadequate. With this approach we can feel we really are beginning to get somewhere and, if it is continued it may well mark the turn of Europe toward true recovery.

I have referred only briefly to the non-European area, yet all areas are related economically in this recovery program. As Europe recovers more purchases can be made from non-European areas, and conversely as underdeveloped areas expand their productivity they become both a better source of supply and a better customer for Europe. To take part in a vigorous trade the non-European

*An address by John J. McCloy before the Foreign Policy Association, Minneapolis, Minn., Jan. 19, 1949.

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countries have likewise many things to do. They must check inflation, press exports, diversify their products; they must truly encourage the flow of private capital and they must not incur over-burdensome debt.

The Interests of the United States

I have talked of what other countries must do if recovery is to be achieved but, as I have indicated, there are steps which the United States itself can well afford to take to complement the efforts of its neighbors across the Atlantic. If we are disposed to feel that having given such large sums of money the United States cannot reasonably be called upon to do anything else, there is some justification for that attitude. But if we look at the matter purely from the point of view of fundamental United States interests this is not really the answer.

We must never forget that Europe's dollar problem is America's dollar problem as well; the extent of Europe's deficit in its dollar balance of payments is a measure of the amount of goods and services this country is sending to Europe for which it is not receiving payment. It follows that any steps which the United States can take to enable Europe to reduce its dollar deficit will mean a smaller overall drain on this country's resources. Such steps cannot be regarded simply as an added measure of generosity to Europe. They are justifiable only as they conform to the economic self-interest of the United States.

Let's take a look at what some of these steps are. The first and most obvious is action to stimulate imports into the United States—to get additional goods and services in return for those we are sending abroad. There are many legislative restrictions on the ability of other countries to sell or perform services in or for the United States. We all know about the tariff. It is not as high as it used to be but it is still a deterrent. There continue to be severe restrictions on the type of activities which can be carried on in the United States by foreign banks and insurance companies. And you are all aware of the restrictions which exist on the use of foreign shipping to carry American goods. Now it is true that particular groups within this country are helped by these restrictions and perhaps in the case of shipping there are certain strategic advantages to be derived but they do not aid the United States economy as a whole. To the extent that they prevent the European countries from providing goods and services to the United States in return for dollars, they prevent the United States from receiving a return on the excess of exports it sends abroad. In plain words, these restrictions cause America to give away things for which, in the absence of restrictions, it would be paid, for either the taxpayer must pay for that excess or the foreigners must be allowed to earn it. To put it another way, every dollar earned by foreign commerce is used sooner or later to buy something else in the United States.

There is another field in which the United States might help to solve its own problem of having to give away its goods and that is to encourage other countries to look elsewhere than to the United States for goods which can be procured elsewhere. A high volume of exports, far from being an asset, is a decided liability if, as at present, a large percentage of those exports is being financed by grants. It is therefore in the interest of the United States that other sources of supply be developed and the dependence of other countries on United States exports be reduced.

Translated into practical terms, that means that the United States should look with favor upon the efforts of other countries to limit their purchases in the United States to essential goods they cannot make themselves or procure from other sources. Call this discrimination against American goods if you will, but it is a way to avoid giving away goods. Certainly it would seem better that goods be purchased in countries where they can be paid for in currencies earned by the purchaser rather than in the United States where they can be paid for only in dollars which the purchaser has not been able to earn. The world is not yet at a stage of economic health where it can afford the luxury of unrestricted multilateral trade.

If it is important to the United States to reduce the Marshall Plan bill it is important that all efforts to use American foreign assistance as a vehicle to dump surplus American production be resisted. The purpose of the foreign aid is to help the recipient countries to get back on their own feet, not to subsidize un-economic exports from the United States. To the extent that that purpose is distorted European recovery will be delayed and American taxpayers as a whole will be penalized for the benefit of particular producing groups.

U. S. Foreign Investment Should Be Stimulated

Finally, I believe that American private investment abroad should be stimulated by every possible means so that there will not be any undue protraction of the period of necessary inter-governmental financing. This is desirable not only from the standpoint of alleviating the burden on the American taxpayer, important as that consideration is, but also because private investment is far healthier, economically and politically, than governmental loans and grants.

Little could, in my judgment, be more productive of hostility towards the United States, or little could be more demoralizing than to have the other nations of the world over a long period of time regard the United States Government as their principal source of foreign capital. Under such circumstances, those receiving financial aid would not regard it as exceptional but as a matter of right, while those who received nothing, or less than they thought they were entitled to, would consider the United States guilty of unfriendly discrimination. There would be no end to the calls made upon the United States and, should the United States itself decide to halt the program, it would be confronted by outcries from every side.

That brings me to the International Bank, for the Bank, as I have had occasion to say many times, is essentially a bridge between inter-governmental lending and private investment. Although the Bank is an inter-governmental agency, it has a mandate to conduct its affairs on a non-political and objective basis, it operates for the most part with funds raised by it in the private investment market and its lending activities are and must be carried on in a businesslike manner. The short-run objective of the Bank is to provide capital for the most urgent and productive reconstruction and development projects in its member countries. The long-run, and what I regard as the more important objective of the Bank, is to blaze the trail for sound investments in far greater amounts by private capital.

The Bank is not in the business of making political loans or relief loans or loans to cover current balance of payment deficits. Our field of operation is rather the financing of specific productive projects in cases where reasonable prospects of repayment exist but where the risks involved, for one reason or another, are too great for private capital to assume. We hope that the character of our loans will be such that, on the one hand, they will create in the borrowing countries an economic base and an economic climate conducive to the flow of foreign private capital; and, on the other, that they will help to restore the confidence of investors which was so badly shaken by the careless international lending and borrowing of the 1920's.

World Bank to Supplement ERP

During the ERP period, the Bank's activities in Europe will necessarily be dwarfed by ECA; all we can hope to do is to supplement the ERP program by financing certain of the longer-term projects for which ECA funds may be insufficient. Our primary emphasis will necessarily be, therefore, on the financing of productive projects in the underdeveloped countries and colonial areas of the world. There is ample scope here for all the imagination, ingenuity and vigor we can bring to bear. The success we achieve will be important not only for the underdeveloped areas themselves but also for Europe and for the United States. For to the extent that we can help to increase the productivity of Latin America, of Africa, of the Middle and Far East, the dependence of Europe and of other countries on American exports will be diminished and there will be a smaller United States export surplus for the American taxpayer to finance.

All of these problems of international economic recovery which I have touched upon are complicated and baffling. It is much easier to state the difficulties than to find the solution, much easier to give way to pessimism than to sustain the hope of success.

Progress has been made and very real progress—the important thing is to maintain and accelerate it. The year 1949 will be another crucial year and at the end of it we should know whether affirmative forces have really been generated on the basis of the very greatly increased productive capacities which now exist. The values which will have to be applied in the coming year will at least be as much moral as physical.

Let the Government Not Upset the Stock Market!

(Continued from page 2)

1950 without the imposition of additional taxes.

Going back to January, 1948, the President estimated receipts of \$44.5 billion. In his Budget Review of August he projected revenues in this fiscal year at \$40.7 billion, \$3.7 billion less, giving as a reason the impact of the Revenue Act of 1948. He now uses \$39.5 billion, which is the equivalent of \$42.2 billion before allowing for the new accounting whereby refunds are deducted from revenues instead of being included in expenditures. Except to deflate the receipts and thus tend to bring them into line in the public mind with the earlier estimates of the President and his advisers, the purpose of the change is obscure. Revised estimates of last August compared with the budget recently submitted in two of the principal categories follow:

	August 1948	January, 1949	Increase
		In Millions	
Budget Receipts			
Direct taxes on individuals	\$18,369	\$19,327	\$958
Direct taxes on corporations	11,233	11,709	476
Total Increase			\$1,434

We think it is significant that the President glides over receipts in fiscal 1949 by stating merely: "The Revenue Act of 1948, passed over my veto, is causing a sharp reduction of individual income tax collections." The fact is that budgetary receipts are much better than had been anticipated owing to the rise in wages and national income, which in November was at the annual rate of \$216 billion, whereas the President declared in August that the "estimates resume a continuation of approximately the present level of incomes," which in June were at the annual rate of about \$209 billion.

Our studies lead us to believe that receipts in fiscal 1949 (new basis) will range between \$41 and \$42 billion, providing a sizable surplus over the expenditures of \$40.2 billion instead of the \$600 million projected deficit. Furthermore, assuming continued high employment, as does the administration, the present revenue system will furnish receipts at least equal to the \$41.9 billion expenditures projected for fiscal 1950, instead of the estimated \$873 million deficit. Does anyone familiar with government maintain with a straight face that in a budget exceeding \$40 billion, alleged deficits of about 2% cannot be cured by paring down expenditures, taking the President's figures at their face value?

In this way, a beginning could be made on social welfare legislation without unbalancing the budget. The Hoover report will pave the way for important economies. The budget as submitted includes \$600 million for universal military training, which it is extremely unlikely will be instituted unless the international situation deteriorates. We cite this fact because it illustrates that in a budget of the dimensions which the country is now dealing with, relatively slight changes are sufficient to eliminate a deficit (or a surplus) of \$600-\$900 million. The size of the tax increase requested by the President seems to be entirely out of proportion even to the size of the estimated deficit in the budget prepared by the Bureau of the Budget itself.

Considering the discrepancy in the President's revenue estimates of 16% in 1947 and 27% the year before, we conclude the Congress will resist the request for \$4 billion additional revenue.

The balancing of production and consumption at best is a supremely difficult task and it is being over-optimistic to look for a perfect balance.

Toward Stability

As we examine the Economic Report and the other state papers, supplemented by our own studies, we arrive at a different conclusion from both the administration and its severest critics; namely, the years since V-J Day, with all the deficiencies of government policy, mistakes of labor and occasional shortsightedness of business, have been years of splendid achievement in employment, production and well being. Incidentally, per capita disposable income, adjusted for changes in the purchasing power of the dollar, is estimated by the Council at \$1,226 in the fourth quarter of 1948, against \$1,201 in the first quarter. The distribution of income, furthermore, has improved compared with the prewar period.

Supply shortages are growing less numerous. Efficiency is improving. The money supply has not been reduced and a cumulative process of contraction will not be generated by tight credit or financial crises. Caution has generally prevailed in the placing of new orders. Price weaknesses have occurred, mainly in out-of-line agricultural commodities. The economy has adjusted itself better than might have been expected to present taxes, wages and prices. Adjustments in process seem likely to improve the balance.

The nation's economic health in fact is amazing. Re-arrangement of the tax structure to remove barriers to capital accumulation and investment in ownership rather than the injection of added taxes likely to arrest economic growth, should be undertaken. The maximum personal effort of industrious individuals of unusual talent and ability is needed and cannot be summoned without permitting them to acquire a financial state.

"The national tax policy should be flexible and should be promptly adjusted to the changing needs of business and consumers in the course of evolving economic events," says the President. But the proposed changes would jar rather than promote proper adjustment to current economic tendencies which we interpret to be neither in the direction of violent inflation nor drastic deflation.

In view of readjustments taking place of themselves, touching a wider area of industry, and the recession in the cost of living, especially food prices, the natural question which both the Congress and public opinion will ask, to put it bluntly, is: "Why upset the apple cart?" In brief, we expect the Congress: (a) recognizing the emergency nature of the budget, to reduce the cost of government and to cut down new social welfare proposals, and (b) recognizing past errors in estimating revenues, to "wait and see" and grant only a small part, if any, of the President's tax recommendations.

Conclusion

Our investment policy remains consistent with this underlying standpoint. It is guided by these assumptions:

(1) That risks in sound common stocks are minor;

(2) That continued readjustments and uncertainties favor confining investment to industry leaders well entrenched financially and with low costs;

(3) That the margin between dividends and earnings is so great that increased dividend payments will be made this year compared with 1948 conceding a possible moderate increase in corporate tax rates and some reduction in earnings;

(4) That there will be no increase in individual income tax rates and the recent expansion in saving will be maintained.

The keynote for 1949 is stability rather than boom or bust. Increasing confidence, first reflected as we expected, in conservative investment — money bonds and high grade preferred stock—should sooner or later be reflected in good common stocks.

Blair & Co. Opens Los Angeles Branch

LOS ANGELES, CALIF.—Blair & Co., Inc., of New York, has opened a Los Angeles office at 639 South Spring Street under the management of Carl E. Apponyi, it is announced.

Mr. Apponyi was formerly with Edgerton Wykoff & Co.

Hunt Elected Trustee

Alfred H. Hunt, Jr., Vice-President and Treasurer of the American Surety Group, has been elected a member of the board of trustees of American Surety Co., the parent company, it has been announced. Mr. Hunt, who was formerly with the banking firm of Brown Bros. Harriman & Co., joined American Surety Co, in 1940 in charge of portfolio investments.

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The Future of the Securities Business

(Continued from page 19)

nothing short of disastrous. As a result of persecution, vilification and lack of incentive, **very little new blood is being attracted and, I am sorry to say, a large proportion of the old blood is coagulating.** It is extremely difficult to get a new idea across because of that natural resistance to change that often comes with age. Our industry is lacking virility and, in my opinion, one of the reasons why this is so is the average age of the blood in the industry. I would venture to say that 90% of the personnel of the security business is lacking that self-respect and that sincerity which comes with a deep conviction that their jobs are of vital importance to the welfare of the nation.

Our industry really is one of the most dynamic of the forces that make for improvement in the standard of living; we have to perform that vital function of helping the surplus savings of individuals to find their way back into the most creative channel of the economic stream. Certainly this is an honorable and vital function that rebounds to the benefit of labor and the rest of our fellow citizens. From the economist's point of view, the intelligent and aggressive member of the security fraternity has every reason to throw his shoulders back and be proud of the constructive job that he is doing for civilization. If we can sincerely make him feel that pride, then he is going to blossom forth with creative ideas.

As matters stand at the moment, most of the members of our industry are lacking in courage and everyone is afraid to get his chin out; whereas if the industry were in a condition where it was performing its true function, we would be creating that vital leadership that is so necessary in combatting the world trends toward state socialism.

In my view, this subcommittee on morale would be one of the most important in my whole idea of a coordinated group representing our entire industry; if the representatives of the industry do not have confidence in themselves, how can they expect anyone else to have confidence in them?

(f) **Merchandising Methods**—This subcommittee would necessarily be sub-divided into two sections, namely primary distribution of new securities and secondary markets. In regard to the first item, the Investment Bankers Association would have an important part and it is to be hoped that, if our structure is to remain strong and permanent, due diligence would be exercised in the quality of securities that are distributed to the investing public. If the new issue represents venture capital, it can be so stated because the American public is noted for its willingness to take a gamble, and if it is presented to them as a gamble in the first place, by and large they will take their possible losses philosophically.

The matter of secondary markets is just as vital, however, and perhaps more intricate in many ways. In my experience I have witnessed so very frequently a lack of complete understanding of the objectives of the investor or speculator. Believe it or not, there are a great many people in this country who want to buy securities on a more or less permanent basis (whereas so many representatives in the security business presume that their interest is very heavily on the market appreciation side). I think the security business at large, perhaps subconsciously, has tended to put too much stress on the appreciation or depreciation angle.

One of the greatest merchandising problems of the moment involves the fact that there really has been a certain re-distribution of the wealth. Regardless of social implications, it used to be a fact that certain family funds held an inventory of blue chip stocks through booms and depressions. Due to the incidence of progressive income taxation and estate taxes, these holdings have been broken up. The latest available statistics suggest that one-half of the outstanding common stocks now are in the hands of individuals whose income is below $12,000. (An interesting statistic from a social viewpoint!) Whereas savings used to be fairly well concentrated in the hands of a comparatively few people, they are now spread out into millions of small pieces, probably held by individuals who know little or nothing about common stock investment.

In my opinion, one of the several reasons why we currently have low price-earnings ratios and high common stock yields is because of this condition. I think it must be admitted that the market for securities has changed but I question whether the methods of the security business have changed with it. It must be obvious to all of us that a 6% yield on a common stock to a person in an income bracket exceeding $25,000 per year used to mean 4½% after an effective 25% tax rate, whereas it now only means 3% after an effective 50% tax rate. Due to the progressive nature of taxation, a common stock dividend return to someone in the lower brackets is relatively more valuable than it is to someone in the higher brackets. This certainly is a fundamental change and I fail to see where the security business has revised its merchandising methods to cope with the change.

Herein it seems to me we have to recognize one of our immediate problems. I notice that the life insurance companies are spending $¾ billion per year in an effort to get their fair share of disposable income. Frankly, I don't know what the security business is spending in its merchandising efforts, but I do know that we are failing to make the public aware of the returns that can be obtained on the common stocks of some of the soundest companies in the world. I am considered somewhat radical in my views on this subject but it seems to me that if we are to go after the mass market of millions of comparatively small pieces of savings, we should use some of the merchandising methods which we demand from the managements of the companies in which we like to invest. My idea of an advertisement on security values would be a display ad sandwiched in between those of Macy's and Gimbel's I don't know that my ideas on this subject would go as far as using sky-writing, but I am prone to bring up the thought because of my conviction that there should be some startling changes in the merchandising methods of the security business.

It is broadly recognized that the public knows very little about the intricate matter of investing its surplus savings; it cannot be expected that each individual who has accumulated savings in excess of the rainy day reserve of $5,000 could probably appraise the value of the common stocks of our prominent enterprises. That is a matter that properly falls within the naural functions of the security business. In this connection, it is often suggested that the open-end investment trust provides the proper answer. Theoretically, I agree that this is true for certain purposes, but in connection with these investment companies, I do think that our broad subcommittee on merchandising has certain police duties to perform. At one time I was asked by the head of one of these companies if I would write a bullish article for him semimonthly. I asked him what I would do if I were not bullish. He indignantly replied that I must be a jackass if I did not realize that he could not sell his investment company shares to the public unless he maintained a bullish attitude. All of which demonstrates to me a very keen necessity for the separation of the investment committee of any of these companies from the sales department.

But, after all, the investment companies are not the only answer to the merchandising problem. There will always be those who want to direct their own investments with the assistance of people who are well versed in relative security values. I am thinking now of registered customers brokers and investment counsel firms. Every effort must be made by this particular subcommittee to keep these people well informed and to keep the personnel in this division constantly aware of their responsibilities to the public.

(g) **Corporation Relationships**—Although my particular organization has had the wholehearted cooperation of 90% of the corporation managements that we contact, we still feel that these managements have to be made conscious of their stockholder relationships. I might go so far as to say that we see some evidence of "managerial revolution." The proportion of incomes over $25,000 that is attributed to salaries has been increasing and the proportion that is attributable to dividends has been decreasing, which might be interpreted as a greater interest by management in salaries than in the welfare of the stockholder. The relationships must be kept in proper balance or the economy is going to run into trouble. It is a fact that dividends and interest as a proportion of national income have been decreasing and there is some evidence that management was perfectly willing to finance expansion out of earnings at the expense of dividends, rather than by new financing. These and various other points of similar nature should be the function of our subcommittee on relationships with corporation managements.

(h) **Coordination**—If time had permitted, I would have gone into a great deal more detail in outlining the functions of all of the foregoing subcommittees because **I would like to emphasize the tremendous scope of the problems that we are facing**—problems that are important not only to each of us as members of the security fraternity but, of a great deal more importance, to our way of life. Either through some subcommittee on coordination or as a function of the central board of governors, there must necessarily be a balancing and integration of the solution and action proposed by each of the major subdivisions. Among other functions of this coordinating procedure would be matters pertaining to legislation. The suggested new organization, **earning and commanding the respect of the public,** would be in a position to suggest legislative changes that may be warranted in the interests of the public welfare, which, in turn, should be to the best interests of the security business if these proposals are to be soundly conceived.

I thoroughly realize that all of the foregoing is in need of refinement. Nevertheless, I am perfectly willing to set up a target for someone to shoot at because, so far as I can ascertain, many individuals among us are in emphatic agreement that something should be done but, unfortunately, nobody does anything about it. If in my discussion and suggestions on the future of the security business some one of you may have obtained an idea and has the courage and energy to add to it, then something constructive will have been accomplished.

But, gentlemen, on this one point I must express my deepest convictions: to the extent that we continue the present do-nothing policy, then to the industry collectively and to each of us individually there accrues a just criticism that we have failed at a critical time to do our part in perpetuating a free enterprise economic system that has brought to the world the greatest degree of freedom and the greatest progress in civilization of any system that has ever existed in history.

Investments as Bank Income

(Continued from page 21)

making is part of successful banking, surely must not be too dependent upon the uncertain future course of interest rates. In my opinion, it is a matter which can be profitably relegated to the background by the average banker.

In England, where I received my earliest financial training, there was considerably greater emphasis upon the securing of income than in the making of capital gains. This is obviously not a plea for the slightest relaxing of quality standards, but nevertheless represents an investment philosophy of a sort which provides probably a better basis for judgment than would be provided by the relatively unpredictable turns of prices.

Investing Funds

Let us call the first half of my philosophy the calculated risk of the deposit level. The second half concerns the calculated risk in actually investing funds.

Bank investing is not what it used to be and many rule-of-thumb bank investment views, yardsticks of measurement and standards, which functioned successfully in the past are now regarded as obsolete by sophisticated investors and the closest students of good investment values. Other changes, such as abandonment of the prewar gold standard with its automatic influences on the international gold flow which impinged on the level of business commodity prices and interest rates, have had their influences. Government debt was once a fraction of what it is now, banks were often indebted to the reserve banks as a normal matter with eligible paper available. The ratio of loans to deposits was much higher than now. Central bank credit management was relatively crude in its operations largely through the operation of the rediscount rate. All this is dead and appears to be permanently so.

While all that is changed, the need for bank investment remains The long-term downward trend of loans of a century of banking appears to signify that commercial banks will continue to be substantial investors at all times as well as lending institutions and while the need for bank investment continues, with the rules of the game changed, we need more than ever before to have a professional knowledge of those facts which govern our investing operations.

Intelligent bank investment, then, should utilize the wealth of available facts if it is to be successful. It must not be supposed that Federal policy and attitude towards our making or withholding loans, or examining agencies' comments on the length of a bank's bond portfolio, will relieve the banker of his responsibility. By the same token, it should not be permitted to stultify the formulation of a bond investment policy in accord with a factual study of his own bank and his own community.

I think no one will deny the importance of the research and statistical aspect in our work. Where to obtain the facts is another matter, but that, too, has changed measurably in the past 25 years. As far as statistics, fieldwork, and the following of details and ramifications of investments are concerned, our investment banking houses today appear to me to be more efficient and sophisticated than they were a few years ago. The government issues much more useful statistics than formerly, and there are skilled services available which interpret the political and economic background purely from the investor's viewpoint. Some institutions of higher learning—with a bow to my friend Dr. Nadler—are well known in Wall Street for their expositions of investment facts and logic. The larger commercial banks are, for obvious reasons, able to devote more time and money not only to the actual study of investments, but to all the facts pertaining to bank portfolio investment than are the less fortunate and smaller commercial banks. You pay commissions to dealers—use them. They will be genuinely glad to help you and, from my experience with them, they will frankly tell you if they have no opinion or have not sufficient facts available to their firm to formulate an opinion. You have deposits with correspondent banks. Use these banks. That is what they are there for. The willingness to be of service is undeniable and I have the feeling that a large number of banks outside the metropolitan areas do not, from the investment viewpoint, avail themselves sufficiently of these good friends.

In many banks, investing is perforce a part-time function and my observation—and I believe I am correct in this—is that a large number of banks have not yet quite grasped the importance of the investment portfolio in its relation to income. If a man is good enough to hold down a responsible position in a bank, he is intelligent enough to acquire the facts and the knowledge upon which to base responsible investment judgment—if the bank will give him the time to devote to this study. If a man's background in such matters is deficient, there is an abundance of sound and conservative texts and training courses, both inside and outside of the commercial banking system, where that background can be acquired. In my not too humble opinion, it is money well spent—and tax deductible in the bargain—to train an investment man in every bank, whether full or part-time. It may be that in some cases a bank would have to take a somewhat long-term viewpoint on this such as training a younger employee for such work in which case he could be absent from the bank in order to go to such places where he would acquire investment knowledge. For example, if you do not have a statistical department in a bank, you cannot teach practical statistics. I feel certain that there are many correspondent banks and large and well equipped investment houses who would be only too glad to give any such bank employees an intensive course of training, with subsequent "refresher" courses.

Judging Investment Results

Now, having this machinery set up and in use, how can we judge investment results? The limitations on doing so are obvious. Hindsight being what it is, it is somewhat, but not much, easier, to say quantitatively what

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would have happened had we done differently, than it is in most other human vicissitudes. More serious, however, is that investment results may be quite fortuitous or the result of genuinely sound judgment fortified by sound facts. A man or an institution may ride a period of rising business conditions for almost a decade for wholly inadequate reasons, and secure good results on second-grade risks. Such good results, however, become woeful errors of judgment when "the moving wheel" turns, the cycle reverses and the true inadequacy of investment knowledge and philosophy and also watchfulness is revealed.

Further to this point, may I make a plea for the exercise of what could be called the "actuarial viewpoint" in judging investment results. Just as in insurance underwriting, average and overall results must be the basis of the appraisal of the degree of success attained, not the emphasis upon the occasional insurance risk which resulted in loss. In this vital respect, bank portfolio investing differs from trust investing where accountability is by item and not on the overall reckoning.

I have spent enough years in the financial world now to be convinced that this emphasis upon the evaluation of investment results on a net or overall basis is necessary. However, this is not in the least to be taken as any advocacy on my part of substandard bonds from which a superior total result might be attained at the risk of some large individual item losses. The superiority of the results of such a policy is debatable as the outcome is so dependent upon highly personalized talents as to render any generalizations perilous. More than that, I have observed the work and results of some bankers of outstanding ability and I have yet to see one who attained his high standing through an addiction to speculating in low-grade securities. Rather, it has been more through the consistent pursuit of quality.

The characteristics of high-grade investments are easily recognized and relatively little training in the investment field is needed to recognize with equal ease investments which are wholly unsuited for bank investment. There is, however, a middle field and one in which is found the greatest proportion of our securities. Many of these bonds are neither demonstrably good nor visibly bad and some, during long periods of business stability, even acquire the characteristics of bonds of good investment merit. This area of the bond market is where the greatest danger lies for the less skilled and careless, for while such securities are not bad credit risks—in the sense that risk of principal loss is incurred—they are poor investments for a bank of deposit because of the unpredictable market fluctuations to which they are subjected.

The first of my ideas, which is the calculation of one's own institution's future deposit position, community risks, and so forth, is not impossible, nor even difficult. The second, which I call the calculated risk in investing, is a matter of investment education—technique, if you prefer it—coupled with taking intelligent advantage of the help of willing friends. The third is not easy and that is to learn not to fear reaping the full income advantages of very high-grade medium and long-term investment, being constantly reminded of the fact that if the intrinsics of a bond are essentially sound, you must not worry too much about its quoted value between the time it is purchased and the day when it matures, providing that the structure of your investment portfolio is carefully devised within the limits of your own capital funds.

The State of Trade and Industry

(Continued from page 5)

can place his order and get it in a few weeks, according to "The Iron Age," national metalworking weekly, in its current survey of the steel trade.

In all the welter of gossip, guesses, chartist statements and sales reports, states this trade magazine, it appears that the steel business is reaching a plateau in the unusual demand of the last few years and is poised for a market based on growth and replacements.

The downward movement of scrap prices is alarming some people this week. But others agree that for the first time since before the war scrap grades are coming into better balance pricewise. Recent purchases have served to place a price differential between No. 1 heavy melting steel scrap—a prime grade before the war—and No. 2 heavy melting which generally is not as good.

In Pittsburgh, Chicago and Philadelphia, leading scrap consumption markets, the prewar differential has been established. The actual difference between the two grades is now greater than it was in 1939, but, adds this trade paper, market conditions will take care of this. A drop of $1 a ton in No. 1 heavy melting steel in Philadelphia caused "The Iron Age" scrap composite price to ease off to $40.58 a gross ton, a decrease of 34 cents a gross ton from the price a week ago.

There is no sign that the scrap market will slide off the deep end in the near future, states this trade authority, but it is clear that the good weather, the heavy stocks and the increase in pig iron output will force a sensitive situation pricewise. It can be expected that consumer pressure will stay on scrap prices.

This week the steel industry astounded even its worst critics by making steel at an annual rate of 97,000,000 tons of steel ingots. This rate cannot continue for months on end, but it can and probably will stay close to that rate for many months.

Recent developments in steel have added new zip to the efforts of New Englanders to increase steelmaking facilities there with the newest strongest effort coming from the New England Council.

This organization has the figures to show that (1) New England produces only one-fourth to one-third of the steel it consumes, (2) the change to f.o.b. mill selling has created a "protected market" in New England and (3) raw material logistics point to this region as a natural for more steel output.

The New England Council, concludes "The Iron Age," is convinced that a new integrated mill will eventually be built somewhere on East Coast tide water and that they want it in New England.

The American Iron and Steel Institute announced that steel production this week is scheduled to break another new record which will be 18,400 tons larger than the previous peak reported in the week beginning Jan. 17, 1949. The operating rate of steel companies having 94% of the steel-making capacity of the industry will be 101.1% of capacity for the week beginning Jan. 24, 1949, as against 100.1% in the preceding week, the new rate at the start of 1949. The Institute reports the schedule of operations is up 1 point, or 1% from the previous week.

This week's operating rate is equivalent to 1,863,800 tons of steel ingots and castings compared to 1,845,400 tons a week ago, 1,753,800 tons or 97.3% a month ago and 1,716,000 tons, or 95.2% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, highest prewar year.

The current percentage rate of operation is based upon the total annual steel-making capacity of 96,120,930 tons as reported by the producing companies at the start of 1949.

ELECTRIC OUTPUT RISES IN WEEK ENDED JAN. 22

The amount of electrical energy distributed by the electric light and power industry for the week ended Jan. 22 was estimated at 5,768,934,000 kwh., according to the Edison Electric Institute. This represented an increase of 42,226,000 kwh. above output in the preceding week; 332,504,000 kwh. or 6.1% higher than the figure reported for the week ended Jan. 24, 1948 and 912,530,000 kwh. in excess of the output reported for the corresponding period two years ago.

CARLOADINGS ADVANCE SLIGHTLY IN LATEST WEEK

Loadings of revenue freight for the week ended Jan. 15, 1949, totaled 733,272 cars, according to the Association of American Railroads. This was an increase of 11,765 cars, or 1.6% above the preceding week, but a decrease of 75,036 cars, or 9.3% under the corresponding week in 1948. It also represented a decrease of 94,788 cars, or 11.4% below the similar period in 1947.

AUTO OUTPUT CLIMBS FURTHER

Production of cars and trucks in the United States and Canada for the past week was estimated to be 114,247 units compared to 112,587 (revised) units in the week preceding, according to "Ward's Automotive Reports."

Higher schedules were reported for Chevrolet and Pontiac, with the latter producing nearly five times as many of its 1949 models as in the previous week. Buick output also was up from last week, because of six-day operations.

Output in the similar period a year ago was 110,774 units and in the like week of 1941, 121,948 units.

Last week's output consisted of 82,511 cars and 27,431 trucks built in the United States and 2,236 cars and 2,069 trucks in Canada.

BUSINESS FAILURES AT HIGHEST LEVEL IN SIX YEARS

Commercial and industrial failures rose sharply to 142, the highest level in six years, in the week ended Jan. 20, Dun & Bradstreet, Inc. reported. This compared with 127 in the preceding week, 109 in the corresponding week of 1948, and 51 in 1947. Casualties numbered 367 in the comparable week of 1939.

Failures involving liabilities of $5,000 or more increased to 128 from 103 last week and exceeded the 95 which occurred in the comparable week a year ago. Small failures with liabilities under $5,000 declined to 14, the same number as a year ago, from 24 in the previous week.

Retail failures reached the largest total since February, 1943 and wholesale failures were the most numerous since October, 1942. Manufacturing failures rose in the week, while construction and commercial service casualties declined slightly.

Pacific States casualties were higher for the week but Middle Atlantic, East North Central and New England failures declined.

FOOD PRICE INDEX DROPS TO NEW 20-MONTH LOW IN LATEST WEEK

The steady downward pressure in foods continued in evidence last week and the Dun & Bradstreet wholesale food price index fell to $6.02 on Jan. 18. This was a drop of 1.0% from the $6.08 of a week earlier, and a decline of 17.0% from $7.25 recorded a year ago at this time. The latest index represents a new 20-month low; it is only 1.2% above the 1947 low of $5.95 registered on May 20, 1947.

The index represents the sum total of the price per pound of 31 foods in general use.

COMMODITY PRICE INDEX CONTINUES MILDLY LOWER TREND FOR WEEK

The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., continued its mildly downward course during the past week. The index fell to a new 17-month low of 266.13 on Jan. 18, down 2.75 points from 268.88 a week previous. The current figure represents a decline of 12.4% from the comparative 1948 index of 303.86.

Activity on the Chicago Board of Trade quickened in the past week as the result of continued liquidation in grain and lard markets.

Prices were somewhat irregular but moved in a fairly narrow range and the general trend was again downward.

Wheat displayed considerable resistance to pressure at times on buying by mills and cash interests, the latter reflecting sales of the actual grain to the government.

The new crop outlook showed some improvement; reports from the West and Southwest indicated an ample supply of moisture in most sections. Government buying of cash corn was relatively light with shipping demand reported very slow and bookings with the country spotty. Stocks of corn on farms as of Jan. 1, 1949 were reported at 2,520 million bushels, the largest on record for that date.

The export flour market was quite active during the week. Trading in the domestic market was featured by large purchases of hard winter wheat flours by a chain baker for March and April delivery. The cocoa market continued weak with prices again sharply lower. Manufacturers remained on the sidelines, reflecting the reported decline in chocolate consumption. All fats and oils continued their downward trend with lard selling at new low prices since March, 1946.

Cotton prices continued to move within narrow limits with closing spot values up slightly over a week ago.

Dominant supporting factors included price-fixing against sales to Korea, prospects of increased buying for export, continued large entries of cotton into the government loan and indications that domestic consumption of the staple during December was better than had been generally anticipated.

Spot market activity increased in volume and reported sales in the 10 spot markets totalled 226,100 bales in the latest week, against 143,200 the previous week, and 189,300 in the corresponding week a year ago. Consumption of cotton during December, as estimated by the New York Cotton Exchange, amounted to 695,000 bales, compared with 685,000 bales in November and 755,000 bales in December a year ago.

RETAIL AND WHOLESALE TRADE COMPARES FAVORABLY WITH LIKE PERIOD A YEAR AGO

As many apparel and household goods continued to be offered at attractive reductions, retail dollar volume increased fractionally in the period ended on Wednesday of last week. The aggregate of retail purchases slightly surpassed that of the comparable week last year and selectivity continued to characterize the shopping habits of most consumers, states Dun & Bradstreet, Inc., in its current summary of trade.

With the prevalence of unseasonably moderate weather in many areas last week shoppers decreased their purchases of heavy clothing. However, some sections reported an increase in the consumer interest in price-reduced furs. Promotions of men's wear became more widespread with the response generally moderate. Clearance sales of men's shoes attracted favorable attention. Boys' wear sold in an increased volume.

Consumers fractionally increased their food purchases the past week and total dollar volume slightly exceeded that of the comparable week last year.

Shoppers displayed a more active interest in furniture than in recent weeks. There was a slight rise in the demand for floor coverings. Retail purchases of radio and television sets increased fractionally as consumers responded to markdown sales. The demand for most electrical appliances continued to be limited and total volume was moderately below that of the corresponding week last year. However, the sales volume of household soft goods continued to mount.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from 2 to 6% above that of a year ago.

Regional estimates varied from the corresponding levels of a year ago by the following percentages: New England and Midwest up 4 to up 8, East up 3 to up 7, South down 2 to up 2, Northwest unchanged to up 4, Southwest down 1 to up 3 and Pacific Coast up 1 to up 5.

The total dollar volume of wholesale orders rose fractionally in the week approximating that of the corresponding week a year ago. The number of buyers attending many wholesale markets dipped moderately in the period but was more than half again as large as that in the comparable week last year.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Jan. 15, 1949, showed an increase of 6% from the like period of last year. This compared with an increase of 8% (revised) recorded in the preceding week. For the four weeks ended Jan. 15, 1949, sales increased by 14% and for the year to date increased by 5%.

Retail trade here in New York last week made a good showing with department store sales reporting an increase of 2% for the period.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Jan. 15, 1949, advanced by 7% from the same period last year. In the preceding week a decrease of 1% (revised) was registered over the similar week of 1947. For the four weeks ended Jan. 15, 1949, a rise of 17% was recorded over that of last year and for the year to date volume increased by 4%.

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1949 Business Outlook and Retail Problems

(Continued from page 23)

family must continue to make against sales that have already been recorded.

(c) Finally, do not overlook the competition between items in your own establishments. The average family has just so much to spend. Even if we assume that it will spend this amount in your own individual establishment, there is still the problem of distributing this spending among the different items that you have on display.

There are, of course, certain basic needs that must be satisfied. In the main, however, these needs, particularly for merchandise that has any durability whatsoever, have already been well satisfied. Your problem at the moment is to tempt the consumer with better values, or with improvements in style and quality.

Certain of your buyers will be successful in reaching this objective. They will find individual items that will sell very well and that will help your entire operation. To some extent this success will be due to their own capabilities, but to some extent it will also reflect changing conditions in wholesale markets.

Retail management must make every allowance for this last factor. A trained buyer, who has a highly developed sense of merchandise values, will be a jewel of rare value in the years ahead. But, however well-trained he is, and however well-developed his sense of values, he cannot accomplish the impossible. We are still in a period of transition. Values will be better in one market than they will be in another, and the balance will shift continuously. No buyer can accomplish the impossible, and you should not expect him to.

You will find that some buyers will bring in exceptional values, which can be promoted and which will create for you a favorable and welcome volume of sales. Remember, however, that the consumer has only so much to spend. The successes achieved by buyers in one department, where wholesale conditions are advantageous, may have an adverse effect on your own sales in some other department. The buyer there may have been handicapped by market conditions, and allowances must be made for this fact.

(4) There will be only minor changes in total sales, but the performance of individual items will be highly erratic.—Fortunately, in most wholesale markets conditions are such that you no longer need to make long-term sales forecasts and place orders far in advance. When sales are unexpectedly favorable, your buyers in most cases will be able to meet this unexpected demand. Your entire policy, consequently, must be one of conservative sales estimates, so that the inventory increases coming from unexpected and unpredictable sales disappointments can be offset by a high level of turnover in departments where merchandise quality has had a particular appeal to the buying public.

(5) Pressure on distribution profit margins will continue.—It would be over-optimistic to expect the consuming public to abandon its critical attitude toward price and quality. Holiday volume was achieved at the expense of extensive promotion. Retailers have played their own part in convincing the consumer that supplies of most goods are adequate and that prices, if the consumer waits long enough, will be marked down. There will be many cases where replacement values will compare unfavorably with the values that have been advertised at great expense in the past month or two. And in these cases you must not expect unit volume to be too favorable.

However, I consciously refrain from painting too black a picture at this point. After all, markdowns are nothing new to retailers. For a year and a half now they have marked items down, without being able to come back into wholesale markets and replace at corresponding prices.

To a much greater extent than in the past, wholesale markets have now suffered a considerable degree of liquidation. Manufacturers, too, are beginning to feel the pressure of price resistance. Narrowing of profit margins will not be a unique occurrence at the retail level, but will spread throughout manufacturing circles.

In all fairness it must be said that manufacturers still have a cost problem, which is similar in many respects to that of retailers. No index of raw material prices shows a major decline at this point, although there have been sharp drops in some cases. Labor costs are still high. Any marked decrease in labor costs can only come when there are marked gains in output per man-hour. And in most cases these do not develop until individual plants have curtailed operations and discharged some of their employees.

Nevertheless, although cost reductions of a size that would restore confidence in values are not likely in the next few months, at least the burden of cost reduction will be shared more equitably by the producer than has been the case during the past 12 to 18 months. This, of course, is another reason for operating with a high turnover.

Cost Problems

Cost is your number one problem. There is no single line of attack on it. Unless you put every effort, and unless you coordinate all these efforts, high costs will be tough to beat.

You are paying higher wages than ever before. This is not an unmixed disadvantage, since retail distribution before the war was losing out in the competition for the most talented young people. But you are not getting the efficiency out of this high paid force that you should be getting.

To some extent this is no doubt the fault of the individual organizations. Sales forces, like buying forces, are in many cases inexperienced; although profit margins have been narrowing, sales in many departments have been easy enough to make so that intensive sales training has been neglected.

In another sense, a considerable degree of selling inefficiency is no doubt due to external conditions. The labor market has been relatively tight and employees have had little difficulty in changing jobs. Even in cases where the entire staff feels normal good-will toward the employer, the incentive of competitive conditions has been largely lacking.

This situation is changing. Such changes will probably be gradual during the first part of the year, but there is at least a fair chance that they will become more rapid in the last half. I have little doubt that sales training programs can be put over much more effectively now than they could have been even a few months ago, and that they will become still more effective as the year progresses.

It goes without saying that attempts to increase selling efficiency have a broader aim than that merely of expense control important though this is. The selling force is the store's direct contact with the public, and on it depends the store's standing in the community.

I want to emphasize again the fact that buying policies are important not merely from the financial viewpoint, but in a much broader sense.

Every buyer will be under increasing pressure to analyze individual supply-demand conditions and to anticipate changes in price and quality. It is in this respect that the p r a c t i c a l economist, working with the store's merchandising staff, can be of such value.

Every buyer will be under increasing pressure to distinguish ahead of time between potentially slow selling items, and to apply his merchandise sense to the task of maintaining turnover.

It should be recognized and emphasized, however, that efficient buying also makes a direct contribution to selling efficiency and to a reduced selling cost. A well-trained and competent sales force will make a much better showing if the merchandise it presents to the public is fresh, well-selected and bought to sell at the right price, than it will if the stock is old and of poor general quality.

Other efforts to increase selling efficiency will fail unless inventory control and merchandising policy can produce and maintain a maximum salability for stock on hand and for incoming merchandise. If buying and merchandising policies can accomplish this, on the other hand, worthwhile increases in selling efficiency will be much easier to achieve.

Internal Public Relations

Serious difficulties are sometimes encountered when it is necessary to exercise financial restraints because of outside conditions, while at the same time trying to stimulate the interest and aggressiveness of the entire merchandising and selling staff to meet the i n t e r n a l need for stronger efforts and greater efficiency. This is an important challange to management.

Financial considerations are important to the store's key personnel, just as they are to the store itself. In so far as possible, financial restraints that are necessary from an overall viewpoint should not be allowed to conflict with the personal opportunities of the merchandising and selling staff.

In some cases a certain amount of ruthlessness may be necessary in attempts to increase overall efficiency; yet these attempts will be automatically defeated if they have an adverse impact on general morale.

The problems ahead are ones that must be dealt with by the entire staff, and the entire staff must have an incentive and encouragement to deal with them. These problems in many respects are serious and difficult. But they are not impossible. If management, in exercising caution, gives the impression that they are, it will damage morale to such an extent that every constructive effort will face a serious handicap.

Summary

A downward readjustment in prices is overdue, and it will probably be accompanied by some decline in sales and some increase in unemployment.

There are no reasons yet apparent for believing, however, that what is developing will be a depression of major importance.

The common goal in the year ahead is not only to minimize losses or to maintain profits, but to prepare and strengthen the establishment for an improvement in conditions when the present readjustment has run its course.

No one line of effort can accomplish this result.

It will not be enough merely to be cautious in buying and aggressive in selling. You must do both.

It will not be enough merely to tighten financial controls. You must do that, but at the same time you must create incentives that will inspire and stimulate your entire staff.

What is called for, in short, is a coordination of effort, a combination of economic, psychological and merchandising intelligence, to guide every phase of your operation.

Bleak Prospect For Corporate Financing

(Continued from page 17)

country the total amount of such windfalls runs to large figures. Nowadays, any unexpected increment in a man's income is of purely negligible proportions, because it is taxed away.

I have been told that the president of one of our largest corporations a few years ago promised somewhat carelessly to undertake to send two children of close relatives through finishing school. When the time came to pay the $4,000 per annum which was involved, he was startled to find that after taxes his budget simply did not permit such an additional outlay. Like all other executives, his annual income had been enormously reduced by the higher surtaxes, and on the other hand, as the president of a great corporation he was not free to make drastic cuts in the scale of his living habits. Nor could he properly sell the stock of his company which he owned. After exploring every possibility, he concluded that there was only one thing to do. He would have to ask the directors of his company to raise his salary, already somewhat in excess of $100,000. This was fair enough, for his services had been exceptionally valuable over a period of many years. Accordingly, he asked for and was granted an increase of $50,000 a year in salary. This amount was just sufficient after Federal and State taxes to provide for the annual tuition fees of $4,000. This anecdote illustrates clearly that higher gross income on the part of the wealthier classes will not result in the purchase of new securities. The wealthy do have large common stock investments, but they are not in a position to buy more.

Even if they had liquid funds, there would be no incentive for people of wealth to buy common stocks, except for defensive purposes; that is, as a hedge against inflation.

Further Tax Drawbacks

In times such as these it is difficult for the investor to forecast with any degree of assurance what the economic situation will be six months later. Yet, in the case of securities held less than six months, any profits from security sales disappear because of prohibitive surtax rates, while the losses must be absorbed by the investor himself. Short-term profits cannot, therefore, be utilized to purchase securities.

The man who feels that he is able to look ahead more than six months and realizes on long-term profits does retain 75% of his profits, though he himself must bear 100% of any losses. But, accumulated long-term profits are ultimately subject to inheritance taxes, which themselves may assume prohibitive proportions. If, on the other hand, he gives away his profits, his net long-term capital gains are further reduced by gift taxes.

In the last decade, the wealth of millions of individuals has increased in spite of taxes. Farmers have made huge profits. With full employment and higher wages, labor is prosperous as never before. Quite possibly the net worth of farmers and of laborers has increased more in the last few years than did the wealth of the rich people in any similar time in history. But the increased wealth of the farmer and the working man have no effort in absorbing new security issues. They know nothing of the stock market, nor of brokers. They are not in a position to receive financial advice. They are suspicious of everything which has to do with Wall Street.

Mutual Fund Possibilities

The only way in which the savings of the farmer and of the working man could be effectively directed to the purchase of common stocks would be through the medium of mutual investment funds. If this could be done, gigantic sums of money would be made available for the financing of business enterprise. Mutual funds have grown enormously in recent years, but not through sales to farmers and laborers, because of the high selling cost and because of distrust by these groups to a new medium of investment. It is unlikely that this can be done successfully for years to come. From a social standpoint, this is unfortunate, for investment in common stocks, wisely invested in sound issues, is in the long run profitable and such investment would revive the faith of the masses in American enterprise.

Discounting Underlying Assets

As a result of the lack of new funds available for the purchase of common stocks, we find a disparity between the market value of common stocks and the value of the underlying assets, which is one of the most extraordinary phenomena of economic history. Let me give you a few illustrations:

(1) The assets of J. P. Morgan & Co. consist mostly in cash or in the equivalent of cash. The market value of this stock is only 69% of the book value. The good-will of J. P. Morgan & Co., built up by generations of demonstrated ability and honesty, is therefore not given any positive valuation, but on the contrary, is given a negative valuation. It is deducted from the value of the liquid assets. The investor, who acquires $1 of sound assets for every 69c paid, would be much better off if the company were dissolved, the business stopped and the assets liquidated. The same applies to Guaranty Trust, Irving Trust and almost all banks.

(2) The investor who buys the common stock of a representative oil company such as Humble and Creole acquires, in effect, oil reserves at a price per barrel which is half the price at which new oil reserves are purchased and sold by the company in which he acquired an interest. Here we have a situation where an officer of an oil company—a man whose competence has been proved over a period of many years—buys additional reserves at a price which his experience demonstrates to be sound. Yet, the uninformed stockholder in his company buys and sells stock on the basis that oil properties are worth no more than half that figure. Whose judgment is correct? That of the oil executive or that of the average stockholder?

Strangely enough, the market value of Humble, Creole and the other Standard Oil of New Jersey subsidiaries, owned by the parent company, exceeds by about one-third the market value of the entire outstanding stock of the parent company. As in the case of J. P. Morgan & Co., the Standard Oil of New Jersey stockholder would fare better if the company

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were dissolved and the assets liquidated.

(3) New plants built by our leading steel companies cost $250 per ton. Yet the stock market appraises steel companies on the basis of computing their capacity at $17 per ton, or at about one-fifteenth of the unit cost of new properties built.

Clearly, financing expansion by common stocks is out of the question. Bonds at least bring in new capital assets dollar for dollar.

While common stocks are greatly undervalued in terms of asset value, they are also undervalued in terms of income. Common stocks of the very soundest companies yield 5%. Obscure companies, though strong financially, often yield over 10%.

Washington's Impact

The disparity between the market value of stocks and their inherent value is not only due to lack of funds available for the purchase of common stocks. Common stock prices are depressed largely as a result of the Administration in Washington. Government officials have an allergy toward the stock market and toward all those who deal in securities. For instance, the availability of credit in connection with common stock holdings is severely limited. Undoubtedly this single factor has had an important depressing effect on stock prices.

In particular, the Securities and Exchange Commission has had a powerful effect in curtailing the freedom of stock market operations. The Securities and Exchange Commission has, of course, accomplished much good and it has instituted necessary reforms, but it is a question whether the harmful effects may not outweigh the good.

Before the advent of the SEC, it was possible for an individual or a group of individuals to buy an undervalued stock and then by an organized publicity campaign call attention to the undervaluation and induce others to acquire the stock on the scale up. Sometimes such campaigns were conceived in iniquity, but often such operations were sound and thoroughly constructive. In any event, there existed an incentive to raise the market value of undervalued securities. At the present time no such organized campaign is possible. Nowadays a shrewd investor may realize that a stock is undervalued, but the most he can do is to buy it for his own account. No group of persons can cooperate in increasing the market value to its proper figure.

The primary cause of depressed stock prices is perhaps the lack of confidence in the future of corporation profits. The government plays an ever increasing part in determining the conditions under which corporations operate and in determining therefore the earnings. The uncertainty regarding the future of tax rates is only one illustration of the tremendous uncertainties which now face investors. No one knows what new handicaps will be forced on management this year or next.

Incidentally, the fact that many factors operate to depress the level of stock prices is not an indication that stock prices are unattractive as investments. On the contrary, the more stocks are depressed in market value, the more attractive investments they are on the part of the few who do have liquid funds with which to buy them at depressed prices.

In conclusion, I may say that the problem of securing in 1949 capital funds for expansion is in my opinion largely academic. We are now in the downward phase of the business cycle and it seems altogether possible that the demand for new capital funds may shrink with surprising speed.

Campaign to Increase Investor Confidence In Equity Capital

(Continued from page 4)

going to try to help these small units do their jobs better.

Our objective is to increase the amount of equity capital which is flowing to the industry and commerce of the nation. That will mean that the tremendous current demand for capital for expansion and development is being more satisfactorily met. That will mean that private capital will continue to be the means by which the progress of America is financed. An improved public understanding of how organized securities markets do their jobs will bring this objective about.

There are, of course, obstacles which are deterrents — not the least of which is the Federal tax structure. Because of these taxes potential gains and income from investments are not as commensurate with the risk involved as they should be. There are the unfair and discriminatory restrictions of the use of credit for the purchase of listed securities, perpetrated by the Federal Reserve Board. And there are some few controls under the Securities Exchange Act which are not in the best public interest.

Nevertheless we are going ahead. Private capital must be made available to industry through established channels. And the more people who encounter these obstacles and want them removed, the more likely the relief.

Our program will naturally center around the New York Stock Exchange public relations advertising campaign. We will provide our members with material which will enable them to follow through on the nation-wide program of the Exchange. For example, we now have in draft form considerable printed material for member firms to use. One of the pamphlets will be an explanation of how to buy securities, how to become part owners of our great American corporate enterprises. We believe there are many people who would like to become part owners of these many fine American corporations if they knew how to go about it.

We are going to help member firms with their own public relations problems by making available to them ideas and material representing the best thinking in public relations. We want to help them become equipped to do a good job within their own organizations.

Businessmen generally are today as concerned with the unavailability of risk capital as we are. I daresay all of you are—although you may not be in immediate need of it. I certainly hope you are concerned with the problem—you as well as the officials of all publicly owned corporations.

I hope you are concerned with it because you can be exceedingly helpful to the over-all program we are undertaking. You all have splendid lines of communication to your customers, your shareholders and your employees. Your advertising program, your annual reports and other communications to stockholders — your employee publications—all of them would be extremely effective means of reaching many, many people who should be more familiar with methods of privately financing American industry and commerce and many who should be investing their surplus funds through established and organized market places.

We sincerely hope you will agree with us that this problem is one of the major ones of this day and age. We hope you approve of our plans and we most sincerely hope we may have your active assistance.

Prospects of Railway Equipment Industry

(Continued from page 24)

picture. The ordering rate dropped to about 6,600 cars monthly. Of this total, 48% were placed in railroad shops.

Since a major railroad objective is obtaining more cars more quickly, to relieve shortages, serve shippers better and retain traffic in the face of stiff competition, this is short-sighted. Already on the books of the railroad shops are total orders for sixteen months' operation at their average rate of monthly production during last year. The car builders' backlog, on the same basis, can be run through in nine months, and some car builder shops have only a three to six months' backlog.

Furthermore, the railroad shops built 29,438 cars last year. They built 29,501 in 1923, the peak car-building year following World War I. They have been operating at their top, proved capacity. The car building industry has been operating at less than 60% of its 1923 pace.

Curious Situation

Thus we have a curious situation, defying logic. The railroad shops chock-a-block with work—and packing more orders in! Freight cars are one of the Nation's most critical needs—and especially in the face of threat of war—and more than 40% of the car builders' productive capacity **not** in use.

It would be far sounder, in the self-interest of the railroads themselves—and in the best interest of the public—if the proportion of orders in railroad shops were to be **decreased.** This would enable the railroads to speed repair and reduce the considerable number of cripples which are off line and idle while they await their turn in the shops. It would also permit the car builders to make more complete use of their **superior** facilities in putting more **new** cars on the rails, more quickly.

Particularly at this juncture the railroads should be concentrating on improving their transportation facilities, and should spend neither cash nor energies on the fallacy of increasing their **manufacturing** facilities.

In declaring before a National Meeting of Traffic Advisory Boards a few months ago that the railroads are not prepared for war, Col. Johnson, ODT chief, said we need 550,000 new freight cars "right now." Of these, he said, 250,000 are needed to replace retirements; and there should be an addition of 300,000 cars to the existing fleet. He may be correct about his "right now" but, unfortunately, freight cars cannot be produced right now.

Secretary for Air Symington has declared his conviction that our Air Force must be very strong on an instant-action basis by 1952, because beyond that time we can have no certainty that atomic war will not break against us. In the interest of railroad and national preparedness perhaps we should set for ourselves a similar transportation goal. That is, by making sure that the rail freight system is strong enough for war service, on an instant-action basis, by 1952. Then perhaps our goal should be the Johnson figure, 550,000 new cars by 1952—or, in the next three years. That would mean that we should start, immediately, a program for producing more than 180,000 cars annually—or, at the rate of at least 15,000 cars monthly. I am convinced that this should be done.

It would be unwise—and bad economy—for the railroads to make capital outlays now to expand car building facilities which would stand idle in bad years. Railroad capital expenditures might be more wisely spent on other vitally needed facilities, such as more efficient terminals. Railroad men themselves will tell you that revenue losses—and shipper loses too — arising from longer and longer terminal delays, are astronomically high.

Question of High-level Orders

This raises again the question of high-level orders. There has appeared to be some prospect of that in action taken by President Faricy of the AAR. Following sharp demands by outstanding leaders of the steel industry that their high-level production rate was threatened by car shortages. Faricy urged all Class I railroad presidents to order 60,000 additional gondolas, beyond the 18,000 on order at that time. During the following three months only about 9,000 new gondola orders were placed. I now understand that following pleas by other types of shippers, he is urging AAR members to order also 50,000 more box cars. If the railroad presidents will follow their leader in this matter we may have a 200,-000-car backlog. That should enable us to plan, obtain steel and other supplies, and produce on a high-level basis.

There has been recently a growing awareness among the armed forces and various civilian defense agencies regarding the importance of the freight car in the overall logistics problem—if war comes. Some have urged lifting the freight car goal to 12,000 cars monthly and are cautious about any higher figure because they have in mind other necessary preparedness and war uses for steel.

Because of the threat of possible war, including internal sabotage in case of war, there can be no certainty that our railway system can be protected against damage. There is probability that it would suffer serious damage.

Call it speculation if you like, but try to picture the results of major damage in the areas of so many trunk lines, around Baltimore; or of a crippling air attack on Harrisburg, bottleneck of heavy steel and war industry traffic; or of chaotic T.N.T. disruption of major Chicago railroad yards.

While specially-trained engineers and construction gangs struggled with repair, it would be necessary to route hundreds of freight trains "the long way around." Cars which wore their wheels off trying to get more transportation work done during the last war would be doing less work—probably *much* less work.

It may be that in another war we should have an over-supply, a safety margin of a quarter of a million freight cars, instead of the not-enough we now have. I don't know. But somebody had better know.

It is self-evident that a very large, long-range freight car replacement program is a national necessity—and a critical national necessity.

Cost of New Cars

Following the slump in freight car ordering rate some months ago there was discussion of the increased cost of cars. Of course prices are up. But apparently they remain among the cheaper things that the railroads must buy.

The AAR's economist recently testified that "fuels," "materials," and "supplies" are more than 120% above 1939 levels. He noted that cross ties are up 147%; car lining lumber, 241%; coal at mines, 140%; and diesel fuel has advanced 124%.

I thought of that as I noted the latest large freight car order reported in "Railway Age," 750 50-ton hoppers for the Reading. The price was $4,300 per car. That, I discovered, represented an advance of only 90% over the average price of hoppers in 1939, as given in ICC records.

I have an idea that some of the discussion about the extent of the rise in price of freight cars misses a pertinent point. Almost every time a railroad orders cars today it is buying "more car" than in 1939—bigger cars, having greater load capacity and hence able to pull in bigger earnings. Such cars weigh more, cost more, carry more—and they are a very sound and profitable investment. The railroads can afford these better transportation tools because they pay for themselves—and quickly.

Even the types of cars now long in service, nearly all of smaller load capacity, show a marked increase in gross earnings since 1939. The average annual revenue per freight car in 1947 was nearly 110% above 1939.

Looking at ourselves in the mirror, neither the railroads, nor the car builders can be proud of their accomplishments in delivering better, high-speed transportation to the freight-using public, which means everyone.

Railroad cars today are still Model T's. We are trying to meet 1950 competitive conditions with freight cars little different from those of decades past.

With all of the new developments of recent years in mechanical design, in tools, and new materials, the freight car remains virtually untouched.

And, in the meantime, the truck, the bus and the airplane are cutting into railroad revenues and, thus, into the future prosperity of the car building industry.

Better Cars Needed

We of the car building industry cannot avoid taking some of the responsibility for this situation because there must be new and better types of freight cars that research can bring to the fore. For example, a better car will carry freight more safely. The Class I railroads' bill for damage to lading in 1947 was nearly $122,-000,000.

The big job ahead is for the car builders and the railroads together to design the car of the future. I do not know what it might be. It may be many tons lighter than the present cars through use of aluminum, magnesium or other materials. It may have roller bearings. It may look as much different from today's car as does the modern Pullman car compared with that of forty years ago.

America is growing. Our economy is still expanding. People have more money to spend and that means more goods to be hauled.

The big question that confronts all of us—the railroads and the car builders—is who will carry this freight of the future.

The railroads can carry it if we jointly pool our imaginations, our engineering and production skills, and our faith in the future of rail transportation to develop a product that will be more economical for shippers to use, safer for goods handled, speedier, cheaper to buy and operate, and more flexible in use.

W. A. S. Wheeler Forms Own Investment Firm

W. A. S. Wheeler, formerly a partner in Elder, Wheeler & Co., has formed W. A. S. Wheeler & Co., with offices at 61 Broadway, New York City. The new firm will act as dealers and brokers in general market securities, specializing in soft drink bottling industry securities. Vincent M. Brown will be office manager and manager of the trading department.

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The Outlook for World Trade

(Continued from page 18)

seemed imperative that a return to the gold standard should be sought at the earliest possible moment. The severe slump caused by the attempts to return to gold created a profound effect on the makers of policy. Central bankers and statesmen came to the conclusion that the maintenance of stable conditions at home was more important than the maintenance of stable conditions in international trade and international exchange rates. The postwar changes in national policies were sharp departures from what until then had been considered sound doctrine. How well established and generally accepted the older doctrines were is illustrated by the fact that in Great Britain a Labor Party Chancellor of the Exchequer was the most vigorous proponent of a return to gold and the theory of the balanced budget.

The reactions from the economic and financial developments after the first World War, the most dramatic of which were the major inflations on the continent of Europe, gave strength to the established theories of sound finance and the necessity for maintaining hard currencies. Various European countries undertook by a series of drastic measures to reestablish gold as a standard and to stabilize the relationships among the currencies. The repercussions of these measures in the field of international trade were only too apparent. The flow of gold between countries was capricious; the flight of capital from one country to another produced important changes in the business cycle; and some countries began to manipulate their exchange rates for the purpose of increasing their export market for certain commodities or breaking down competing industries in other countries. It began to seem clear that governments would have to find an answer to the apparent dilemma: Should they take whatever steps might be necessary to preserve a hard currency, or should they permit their currencies to adjust themselves to the market and let the unemployment rolls rise?

The question almost answered itself. Foreign trade soon became an instrument for achieving the aims of national policy. The result was a rapid development of various restrictive devices, such as multiple exchange rates, import controls, export controls, tariffs, and subsidies. All of these devices were used at one time or another as economic instruments in the hands of various political governments to achieve what appeared to be, at least temporarily, sound domestic objectives. It was the appalling depression of the '30s which created the intense nationalism and the intense series of efforts by national governments to solve their own problems, and even made them forget the importance of international trading.

It now seems unbelievable that a country like Germany, with its 65 or 70 million people, could talk of being selfsufficient within its own borders; or that Italy, with its expanding population, could have imagined that its economy within Italy could be autonomous; or that as late as 1932 the British Empire should have tried to withdraw within its own boundaries by means of empire preference, when the Empire had been built on the continually broadening trade of its businessmen. In our own country, the early years of the New Deal showed certain signs of this same tendency toward isolationism. The seriousness of domestic problems focussed attention on immediate relief measures. National policy looked inward for the solution of its difficulties, and the significance of international trade in our whole economic complex was neglected. It was not unusual to hear people say that international trade accounted for only a small percentage of our national income, forgetting that this small percentage meant the employment of several million people.

Movement Toward Autarchy

The movement toward autarchy —or economic self-sufficiency— during the '30s, growing partly from the world-wide depression and partly from the new nationalism, has left its mark on our present-day attempts to revive a world trading system. It became clear that autarchy was impossible within the boundaries of any one of the great European powers. It was possible only with the expansion of political and economic control by one country over others. The second World War was the result, in part at least, of this struggle for economic control. Combined with it, of course, was the struggle between different political and cultural systems. We must be aware that this economic struggle will remain with us in varying degrees of intensity until we find a way to reestablish a smoothly flowing current of world trade.

This means more, however, than simply going back. To build a world trading system similar to the one of the late 19th Century we would have to surrender certain values and give up certain elements of security which, in our modern industrial society, we all cherish. The plain fact is that we are no longer willing to permit the unregulated flow of economic forces in international or domestic trade to produce the violent type of cataclysm that almost buried us in the early '30s.

Changes in Our Economic Life

We are moving through a period of profound change in our economic life. As a people we have, through our duly elected representatives, stated certain important social beliefs and objectives. Among them is the policy of the Employment Stabilization Act of 1946. This Act does not tell us how to solve all our problems, nor how to maintain business stability. But it is an expression of the determination of the American people that major depressions and large-scale unemployment will not be tolerated. This policy is not easy or simple to put into practice. It is an objective, and much remains to be done to translate it into full effectiveness. So far we have been fortunate. It is important to remember that other nations are also determined to avoid depressions and to maintain full employment. Our problem is to find a way to reconcile the aims of individual nations with general welfare throughout the world.

Those who were concerned with the machinery of peace following the last war recognized that a political institution such as the United Nations was an insufficient instrument for building an economic world in which stability and employment and high levels of economic activity could be maintained. They recognized that the free flow of exchange under a gold standard was no longer practical. They tried to invent a substitute, and in the course of the Bretton Woods discussions the foundation was laid for the International Monetary Fund and the International Bank. These institutions are now going concerns; but there is a third institution concerning which we are still carrying on negotiations and about which we are still struggling to clarify our thinking.

In the grand design, the purpose of the International Trade Organization is to get rid of many of the restrictions which grew up in the course of the autarchic developments in the '30s. Those who have participated in the discussions concerning the International Trade Organization have recognized quite frankly that at the present time many of the restrictions which have been carried on have been forced on the nations practicing them. Nations have placed controls on trade not because they like controls but because controls appear to be a more desirable method of regulating economic life than to submit businessmen and workers to the adjusting mechanisms of boom, depression, and unemployment.

The ITO

This is, compared with the prevailing ideas of 20 years ago, a basic change in concept concerning the relation of politics to economics. It is actually the ruling concept of most of the nations in the world at the present time, and it affects the daily business practices of everyone in this room. It was in the atmosphere of this new development in economics and politics that the International Trade Organization was created. All of its provisions take into account the new emphasis on the necessity of maintaining high levels of economic activity. The charter for an International Trade Organization is based on the assumption that full employment and the progressive development of the world's resources can best be achieved through the free movement of goods and services and people; through the free exchange and stabilization of currencies that will be made possible by the International Monetary Fund; and through the flow of investment capital between countries that will be made easier by the International Bank. All countries are agreed that the social waste that was an inevitable part of the older system of international trade must be avoided.

If businessmen are concerned with maintaining business freedom and with the building of a healthy international trade, they must also be concerned with these institutions, which carry within them the seeds of a free trading system. The seeds will not grow without attention.

Anyone who, at this stage, says that we have found the answer to our problem; anyone who says that we know how to manage these newly born or newly conceived international institutions, and that we know how to create security in our own economic institutions merely demonstrates his ignorance. We are still trying, and by we I mean everyone who is concerned with the policy of the United States, whether he holds public office or whether he is a private citizen. I mean also the citizens of other countries who have common interests with us.

Other International Actions

We have recognized these common interests not only in the institutions to which I have just referred, but also in certain other international actions which we have taken. I refer, of course, to the developments under the Marshall Plan for strengthening the nations of Europe and unifying their efforts and reestablishing a trading area which can stand as part of the free trading world. We have tended to overlook this phase of the possibilities inherent in the Marshall Plan developments. We have tended to look upon the funds made available as relief funds. We have been slowly realizing that more than relief—more even than economic recovery—is involved. The Western Union is a recognition of the common security interests of this part of the world. We feel that economic recovery in western Europe will require a thorough-going integration of national economies. The autarchic developments and the separations created by the unintegrated economic units of the separate nations cannot provide a living for the nearly 300 million people of western Europe. The Marshall Plan or its equivalent will succeed, or there will be a decline in the population of western Europe of 50%.

We are faced, then, not with a question about the success of the Marshall Plan. There is no alternative to its success. We are faced with an imperative from which there is no retreat. We and our economy can absorb many who wish to come here; any who wish to make their contribution should be welcomed. But for the great millions of Europeans the only possible economic solution lies in the redevelopment of a trading system at least as fruitful as the one which we formerly had. If we carry out our time schedule with the Marshall Plan, and the first year's results indicate that we are on time, then the possibilities of reestablishing a system with the minimum of controls is within sight. There will always be increases and decreases in the volume of particular types of exports and imports, but it will not be necessary to control them by such a clumsy device as the one which I have a part in administering in Washington—the export control system.

More Private International Organizations Needed

We are learning more about the intricacies of international finance, the structure of exchanges, the way in which trade takes place, and the significance of private and public trade; but many institutions will be needed to put our knowledge to use. Some of them I have mentioned, but it would be passing strange if the Bank and the Fund and the Trade Organization and the other organizations which have been started as part of the United Nations machinery would be the final answer. All these institutions are still far too nationalist in their management. International traders and business representatives of corporate activities with world-wide affiliates will understand what I mean when I say that the private productive institutions of an international character will be as important in the development of the new international community as those institutions which are made up only of representatives of governments. This applies to some of the international labor organizations as much as it does to international corporate organizations.

As business representatives in New York, you are only too aware of the flow of people in and out of this great port. The movement of people is as important in the development of the new international trading world as the movement of goods; and the restrictions on the movement of people can have as serious an influence on international trade as the limitations on the movement of goods.

These are the problems with which you, as businessmen concerned with international trade, are as much concerned as I, who have a certain limited responsibility with regard to the development of some of the policies of the Government. You and I have practical day-to-day dealings. I issue some of the export licenses that you want. Our offices supply information to you and we work together on common problems affecting your business. You have your own individual businesses that absorb most of your attention and your energy. But I ask that you give some attention to these broad problems. I ask that you participate more and more in the work that centers in these institutions, that you be concerned with the Bank and the Fund and the Trade Organization. I ask you also to be patient and not become downhearted with the sobering realization that the brave new world is not to be had simply for the asking.

There are those of us who need not worry very much about the new world as far as we are personally concerned. But most of us do have a concern for those who are following us. There are few who are not concerned about the world in which their children must live. What we make of this period of profound change in which we are all living is going to determine the lives of our children. I am bold enough to believe that if we work and think with their welfare in mind we will probably do pretty well for ourselves.

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Business Man's Bookshelf

American Transportation in Prosperity and Depression — Thor Hultgren — National Bureau of Economic Research, 1819 Broadway, New York 23, N. Y.—cloth —$5.00

Cause and Cure of "Dollar Shortage," The—Frank D. Graham —Department of Economics and Social Institutions, Princeton University, Princeton, N. J.—paper

Charter for World Trade, A— Clair Wilcox — The MacMillan Company, 60 Fifth Avenue, New York, N. Y.—cloth—$4.50.

Proceedings of the Annual Convention of the Commercial Finance Industry held Oct. 25-26, 1948 — contains addresses of 24 experts in the field of commercial financing and factoring—National Conference of Commercial Receivable Companies, Inc., 29 Broadway, New York 6, N. Y.— $5.00

Theory of Corporate Net Profits, The—A Study—Roy A. Foulke— Dun & Bradstreet, Inc., 290 Broadway, New York 7, N. Y.— paper

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What Can Business Expect from Congress?

(Continued from first page)

governmental controls. Today you are confronted by a double threat, the reimposition of government controls which will squeeze you as it did under OPA; and an equal threat of concentration of business into the hands of a few — who handle for themselves everything, from the manufacture to the retail level.

The program which President Truman submitted to the 81st Congress makes it crystal clear that, unless you business men and everybody else are vigilant, vocal, and active in making their views known to this Congress, we are headed for some very rocky shoals.

The President seems to think the last election was a mandate to carry forward a reckless, spendthrift, socialistic program. The Republican party learned a lesson in politics on Nov. 2. And you business man can well take the same lesson to heart. It pays to fight. It pays to slug it out.

Complacency, generated by inefficient polls of public opinion, is the real cause for our Republican defeat last November. The contest was very close, so close that a change of only 30 000 votes spread over Illinois, Ohio and California would have elected a Republican President. That is only 30,000 votes out of a total of 49 million for the entire country. Your opportunities as business men may also be determined on close decisions. Your fate is today hanging in the balance.

Did President Truman receive a mandate to socialize America? It should be borne in mind, that President Truman received a minority of the popular votes cast.

No Mandate for All Powerful Federal Government

Plainly, he received no sweeping mandate for an all-powerful Federal Government to control the lives and affairs of our people. On the contrary, a vast majority of the American people, including Republicans and Democrats, continue to stand for the traditional principles of our Republic, and are not in harmony with the extreme measures advocated by this Administration.

Given all the facts in their proper perspective, the American people will thrust aside those who would rob them of their freedom of choice and destroy competitive productive enterprise. And may I interject, with all modesty, that the good people of Nebraska reelected me in November to support constructive, forward-looking legislation. This means, the first test of every legislative proposal must be: Does it strengthen our freedoms and basic rights, or whittle them away.

As you business men would say: Let's take a look at the President's Budget Message, his State of the Union Message, and his Economic Report.

None of these sheds light on international matters or our policies in foreign affairs, except to point up the heavy expense resulting from our years of failure to win a lasting, durable peace. This failure is a crushing weight on the pockets of the American people, as we provide billions for foreign aid and more billions for defense.

It is, however, from the Budget Message that we get the most light.

The President is forced to carry out his campaign pledges by laying on the line the dollars and cents it will take to put them into effect. Just before we go into the tragic chapters of the Budget Message, let us recall one happy thought if for no other reason than just for the record.

The 80th Congress was in charge of the nation's purse strings during the years 1947 and 1948. In response to the will of the people, we voted a handsome tax reduction. We did it by balancing the budget for the first time in 16 years, and we rolled up a record-breaking surplus in the Federal Treasury of 8½ billion dollars.

Contrast that with President Truman's budget for fiscal year 1950, which provides: The biggest peacetime spending program of all time—$42 billion. Six billion dollars more in taxes; $4 billion of it in heavier corporation and personal income taxes, and $2 billion in payroll and employer taxes to cover the addition of 25 million persons to the Social Security rolls, and for socialized health insurance.

And this is only the start—this is only the beginning, in a program recommended by the President to keep his campaign promises to the pressure groups. The cost will rise by billions in succeeding years. Our national economy would be blown into as many pieces as Humpty-Dumpty.

Our country is suffering from three bigs: Big Government, Big Labor and Big Business.

During the 80th Congress, I was Chairman of the Senate Small Business Committee. That Committee was established to see that small business firms got a better break, both in their battle for survival against big business, and in securing a fair distribution of government contracts.

The future of that Committee, either as a Special Committee or a Standing Committee, in the 81st Congress has yet to be determined. If it is continued, I shall do all I can to see that it continues to operate in the interests of small business.

Problem of Big Government

But the problem of Big Government is getting more and more serious. I could cite many figures showing the tremendous increase in the cost of our Federal Government and the rise in the number of Federal employees as compared with prewar years. But, let me cite just one signal which is very important to watch.

The cost of our Federal Government is now running at the rate of about one-fourth of our people's entire income. It is zooming toward $50 billion a year. A recent report of the Joint Committee on Reduction of Non-Essential Federal Expenditures—that is the Committee headed by Senator Harry Byrd of Virginia—shows there were over 2 million employees in the Executive Branch of the Government during last November, an increase of more than 12,000 over October.

Or, another way to look at it is that during the first four months of the present fiscal year, which began July 1, 1948, the civilian Federal payroll totalled about $2 billion, or at the rate of more than $6 billion for the entire year. And if President Truman's program is approved, the number of employees on the payroll will be tremendously increased.

A decline in national income, in the face of rising taxes, would threaten our very solvency. Many governments in history have been wrecked on the rocks of loose fiscal policies. I hope the American people understand this; I hope the American people know how President Truman's program would expand our already overswollen Federal bureaucracy, and how it would greatly multiply the statutes which affect the most personal details of our everyday lives.

Here are a few of his proposals: Nationalized Medicine, Federal Aid to Education, Subsidies from the Federal Treasury for public housing and slum clearance. New controls for the commodity markets. Extension of Credit and Export Controls. Continuation of authority for the government to allocate transportation facilities. Authority to allocate commodities. Power for the President to impose wage and price ceilings and to channel the use of privately owned commodities.

It is a cunning thing for an Administration to discharge its political obligation to pressure groups by throwing a whole bundle of economic and social legislation onto the doorstep of Congress in one package, without taking into consideration importance, priorities, schedules or the costs in keeping with our ability to pay.

Government in Steel Business

But President Truman goes even further in his proposals. He asks for the authority to build steel plants and other plants for production of any commodity deemed by him to be in short supply. Your industry may be next. Is this the mandate that the pressure groups now tell the Members of Congress must be carried out?

If it is, then let me ask you: How many of you, or the 24 million who voted for President Truman, thought they were voting for a $4 billion increase in Federal taxes?

How many thought they were voting for compulsory health insurance? How many thought they were voting to socialize the steel industry or any other industry? And, just how many farmers were voting for repeal of the Taft-Hartley Act? How many of these specific proposals would have received the endorsement of the people in a direct referendum?

The President is offering them to keep faith with the many minorities which he marshalled so cleverly, but the Members of Congress are not individually committed to the interest of minorities. They have a deep responsibility and that responsibility is to protect the interests of the citizens of their state and of all of the people of America.

Unfortunately, we hear some people saying nowadays: "Our country is going socialistic anyway. Let's give up the ship. Let's do what we can to help make it work. Let's give up our way of life. Let's give up free enterprise. Let's go socialistic." But, let me tell you business men that national socialism has not worked in any country where it has ever been tried.

We have the best system of government on earth. We have more of the good things in life than any other people. We have a higher standard of living than any other country. We have proven under our system that security and opportunity go hand in hand. And we have accomplished all this within the framework of Constitutional Government. But, we are going to lose our American way of life if we don't slug it out toe to toe with the demagogues.

Anxious About Future

Business men, farmers, workers, people generally, are anxious about the future. Investors and business men, who must plan for the future, are deeply disturbed. Some lines of business already have caught up with the demand.

Prices, except for a few extremely scarce items, are leveling off. The truth is that our economic structure is resting on these artificial props: heavy demands for goods for foreign aid, heavy demand for goods for national defense, and a government managed currency.

The productive genius of American industry and agriculture has developed by leaps and bounds, spurred by the demands of war, foreign aid, and domestic consumption. But, nothwithstanding the heavy demand, supply is rapidly approaching total demand. Commodity prices generally have been turning lower and we are hearing more about a buyer's market.

We were told that ECA would continue four years from the time it began. In two and one-half years it will be concluded. Who will then take the surplus from farm and factory that we produce in America? You know that agriculture is the backbone of our national prosperity. Sixty-five percent of our wealth comes from the soil. Unless the farmers are prosperous there can be no national prosperity. That is axiomatic. But how does the Administration propose to meet these new situations? Tax and tax, and spend and spend, the same old New Deal game of trying to prime the pump and fasten tighter and tighter controls on the lives of all our people.

The Economic Report submitted to the 81st Congress is a remarkable document, remarkable because of the subtle way in which it seeks to justify the mixture of socialism, taxation and spending.

It adheres to the strange theory that if the people spend their money, the result is inflationary. But, if the government takes it from them in taxes, and spends it, the result is not inflationary.

Every proposition submitted by the President to the 81st Congress should be carefully scrutinized. We should only adopt a budget we can afford. Let's stop talking about additional legislation that will require more taxes, before we make an honest, serious effort to cut the cost of government, balance the budget, and get on a pay-as-you-go basis.

We have been able to produce a record national income, keep industry at full operation, because we have enjoyed an era of comparitvely peaceful relations between industry and labor. What will the 81st Congress do in answering the demands for repeal of the Taft-Hartley Act?

Labor-Management Relations

I see no mandate from the people to return to jungle warfare in Labor-Management Relations. When the evidence is all in and the facts on our experience under the Taft-Hartley Act have been weighed by Congress, it is my confident hope that the salutary provisions of the act will be retained.

The question of whether the labor law should be revised by a one-package or two-package approach is of vital interest to the public and the rank and file of workers as well as to business. The one-package method certainly is the sane and sound approach for a sensible consideration of the legislation.

The clamor of labor bosses for a two-package precedure is a typical pressure tactic. It is apparently the hope of self-seeking labor leaders that they can thus destroy the Taft-Hartley Act in its entirety, reestablish their special privileges under the Wagner Act, and then stand off every attempt to pass new remedial legislation.

A sense of responsibility in Congress, notwithstanding its partisan complexion, will, I believe, prevent the outright repeal of the Taft-Hartley Act. The rank and file of labor will be serving its own best interests by supporting Congress in such a program.

The Domestic Program and Our Foreign Policy

The President, in his Message on the State of the Union, said: "Our domestic programs are the foundation of our foreign policy."

The President put the cart before the horse, because our domestic economy depends entirely upon what happens in foreign affairs. In reality, our domestic economy is completely dominated by the international situation.

Of the $42 billion in expenditures requested for the fiscal year 1950, nearly half is for national defense and foreign aid. Those facts ought to jolt the American people into taking a more active interest in foreign policy and in making known their views on the subject to the Government at Washington.

Left-wingers and communist sympathizers who would depart from our personal rights and opportunities are not likely to be very emphatic in standing for such traditional American policies in foreign relations.

It is reasonable to assume that those who advocate left-wing domestic programs will veer to the left in international affairs. And, so I repeat: You will get from the Congress what the people of the United States demand of Congress. The people are sovereign in the United States; all power rests in the people; and in the final analysis our foreign and domestic policies will be shaped to the people's wishes.

But, if the people are to act wisely, they must be fully informed. They must have all the facts. And, if the Congress is to act wisely, it likewise should have all of the facts. Let us be frank about it. Our people are having to bear the burden of supplying billions for foreign aid and billions for defense because we have failed to yet win the peace. There is a need, a desperate need, yes, perhaps a critical need, for more forthright assertion of the just principles upon which the American people stand.

Those principles upon which our country was founded and upon which our country has grown, prospered, and become great, as the inspiration for freedom-loving peoples around the earth, are eternal.

We may stray temporarily from those principles, but I have an abiding faith in the American people. Time changes, but these principles do not change. They are a bulwark to which we may repair.

Here in our land, where opportunity and security go hand in hand, there is no limit to which man can rise, only the limitations of his own ability with complete freedom of choice.

Let's keep it that way.

New York Stock Exchange Weekly Firm Changes

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

Transfer of the Exchange membership of Leonard A. Goldstone to Bernard S. Wallerstein will be considered by the Exchange on Feb. 3. Mr. Wallerstein will continue as a partner of Richard E. Kohn & Co.

Transfer of the Exchange membership of Edwin M. Bulkley, Jr., to Edwin R. Wallace will be considered on Feb. 3. Mr. Wallace will act as an individual floor broker it is understood.

Transfer of the Exchange membership of Robert G. Kennedy, Jr., to George L. Maxwell will be considered on Feb. 3.

Wilfred J. Durning, limited partner in Moore & Schley, died on Jan. 20.

Charles R. Dunn Dead

Charles R. Dunn died at his home at the age of 70 after a brief illness. Mr. Dunn, who had been in the banking business for 50 years, was fiscal agent for the Federal Land Banks and the Federal Intermediate Credit Bank in New York City.

Allston Burr Dies

Allston Burr died at his home at the age of 82. Mr. Burr entered the investment business in 1898 as a member of the firm of Perry, Coffin & Burr. He had been a director of Coffin & Burr, Inc., for many years.

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As We See It

(Continued from first page)

where—fairly reeks with the assumption that Government in this country has found the formula for unending prosperity. This, of course, is not a new infirmity, the notion that a way has been found to abolish poverty. If there are any who suppose that it is we suggest that they go to their files and consult the Republican campaign addresses of 1928, and a good deal of the literature —some of it bearing rather sacred academic names— of the later years of the second Coolidge Administration. This, definitely, is not the first time that poverty has been abolished or has been about to be abolished.

What Is the Record?

But aside from the pride which so often goeth before the fall, what is the New Deal record in this matter of discovering or installing an economic millenium? Naturally, the apologists for that regime would like to be judged on the record of 1947 or 1948. They are the best years they have ever experienced, but whether the high indexes of these years are to be attributed to them or to a world catastrophe is certainly a pertinent question—as is the further consideration as to whether any or all of the current indexes of production or distribution really tell the story of what has happened during the past two or three years. But to argue the case for the moment on the ground chosen by the apologists (or the braggarts) themselves, let us look at the record.

What has become known as "disposable income" of the individual—that is, what he has of his income after paying his taxes—has just been estimated by the President's experts at an average of $1,209 for the year 1948, after allowing for price changes since 1947. On the same basis, that is after the same price adjustments, it is computed at $882 in 1929. This represents an increase over the 19-year period of roughly 37%. Statisticians generally have not been quite so bold in coming up with glib figures about such things for periods prior to 1929, but there are some estimates. The Department of Commerce has estimated per capita national income in "1939 dollars" at $552 in 1929 and at $463 in 1910. This is an increase of more than 19%. The Conference Board some years ago prepared and published a long term series entitled "Realized National Income." It is, possibly, more nearly comparable than any other to the current series published by the Department of Commerce under the title "Disposable Income." The Board's per capita figure for 1910 in "constant 1926 dollars" stood at $575 against $681 in 1929. Here we have an increase of something over 18%.

Not the Real Story

If there is anyone in the length and breadth of this land who supposes that these figures tell the whole story or the real story of the degree of progress in these two periods of equal length, let him try to find a house to live in or even an apartment for his family. Let him try to find an automobile in his normal price class. Let him compare the quality of the goods or services he buys now with what was available in 1929. It would be difficult to say whether such differences as these made up for the greater apparent gain during the past 19 years or not, but little doubt can possibly exist that they go a long way in that direction.

But what about the basic nature of the comparison we have been making? We are now, or have been during the past two or three years, struggling to get goods we have been obliged to deny ourselves more than a decade and a half. First the depression and then the war denied most of us an opportunity to keep ourselves supplied in a normal way. Both the New Deal and the war enormously enlarged the volume of money afloat. We are riding the crest of that tidal wave at the moment, and have been for two or three years, and for every dollar of demand that the New Deal with its managed economy has created—if it has created any at all—thousands upon thousands of dollars have been generated by the most expensive war creating the largest volume of potential inflation history has ever known.

Those Prewar Years

If we really want to know—so far as such figures can show us—what success the New Deal type of managed economy had in introducing an economic millenium, we must go back to the prewar years. The President's experts have provided figures for the purpose. These data are, of course, subject to considerable margins of error, but they are the best indications we have, perhaps, and in any event are the figures which the New Deal managers themselves employ to make their points. Turning again to the series entitled "per capita disposable income" expressed in "constant 1947 dollars," we find that not once prior to 1940 were the managers at Washington able to match the 1929 mark. Even in 1939, the best year they ever had, they failed by more than 2½% to reach the goal set in 1929 by the reactionary elements which, according to New Deal critics, so mismanaged everything they touched. This was six years after President Roosevelt took over and set out on his task of putting the nation on its economic feet again.

Far from Successful

In the six years ended in 1929 per capita national income expressed in constant 1939 dollars, according to the Department of Commerce, rose from $493 to $552, or 12%. The Conference Board series rose from 614 constant 1926 dollars in 1923 to $681 in 1929, or about 11%. Again, according to the President's experts, there were nine and a half million unemployed people in this country. This was about 3.4 million less than the peak in 1933. In 1929, according to these same experts, unemployment amounted to only about 1.6 million. Evidently if the New Deal is to be judged by its works during peacetime years, it must be regarded as anything but successful in accomplishing what it had set out to do, and what the President and his advisers appear to assume that it has in fact accomplished.

But at points the President and the others appear to have some doubts on the point themselves. At least they are not always quite sure that they have already abolished poverty and ushered in an endless period of continued peak prosperity. But if this is true, they do not hesitate to claim, either in so many words or else by plain implication, that they know how to do so. On the record, it would be a good thing if the rank and file developed a healthy skepticism on the subject.

Spread the True Story Of American Business!

(Continued from page 7)

peace of a planned and controlled economy? Such a step, in my opinion, would be the beginning of the road to a socialized State. Certainly each industrial concern properly can tell the business facts of its life to its foremen and other employees. Certainly each industrial concern properly can bring its story to the attention of the Senators of its State and to its Representative in Congress. Certainly each industrial concern can do a great deal toward telling the people of its own community of its own activities and achievements and of the benefits to the whole American people of the American business system. This can be accomplished through various media, such as public addresses, press releases, advertisements, radio messages, motion pictures, and in other ways.

Misunderstanding Regarding Corporate Profits

A general misunderstanding appears to exist about the extent of current corporate profits. Let me take United States Steel Corporation as an illustration. We have been charged with now realizing profits which are characterized as "exorbitant" and "of a record-breaking character." Such an accusation is without foundation in fact. Even if we treat dollars as being of the same buying value throughout the years, which of course is false, the dollar profits of the Steel Corporation were higher in some earlier years than in 1948. But the important fact, overlooked by many of our critics, is that the dollar today has a buying power of around half what it was only a few years ago. I have not before me the exact profit of the Steel Corporation for the full year 1948. That figure will not be announced until next week. But I do have the figures for the first nine months of 1948. Our profit for that period represented a return of only 5% on sales. For the full year 1948 the percentage probably will remain approximately the same. Our shipments of steel during 1948 were the largest in our peacetime history. Naturally the profit of the Steel Corporation in 1948 — a record peacetime year for shipments and sales—was larger in dollar amount than in earlier years when our sales were at a lower level. But despite this huge steel production during 1948, the income of the Steel Corporation on the basis of a percentage of sales was the smallest for any year of anywhere nearly comparable rates of operation in United States Steel's entire peacetime history.

Many people share the view that the lion's share of what a corporation receives from sales of its products goes to the owners of the business. How far from the truth is such an assumption! In the case of United States Steel Corporation, direct employment costs (that is, wages, salaries, pensions and social security taxes) took 42% of our sales dollar during the first nine months of 1948. The cost of purchased goods and services accounted for 40% additional. Taxes were the next largest cost, taking approximately 6.5% of our sales dollar. The next largest cost item is the amount set aside for wear and exhaustion of facilities. Our plant must be replaced when it wears out, if we are to continue in business. That depreciation item took 6% of the sales dollar. Interest on our long-term debt represented ½%. After taking care of all of these necessary costs, there remained only 5% of the sales dollar for the payment of dividends to our stockholders and for reinvestment in the business. Is that the lion's share? Certainly not. In contrast, payments to or for employees during these nine months were more than 14 times the amount of the dividends paid to stockholders.

All of us have heard that prices in general are now too high. I am in accord that we undoubtedly would have a sounder economy today, if prices and costs had remained at a lower level. However, the high prices of today simply reflect the higher costs of today, as well as the devaluation of the dollar which has taken place since 1933. Certainly the manufacturer cannot fairly be held responsible either for such higher costs or for such monetary debasement.

For some time past we have been told that wages can be raised generally without advances in prices. That theory has been advanced from time to time in recent days both by government officials and by labor leaders. I hardly need to point out to this experienced group of manufacturers how false and absurd is such a general contention. The only continuing source a manufacturer has out of which to pay wages and other costs is the money which he receives from the sale of his products. If costs go up and threaten to exceed his sales receipts, or to wipe out or endanger his profit, he has no alternative other than to advance his prices, if this be possible of accomplishment. Have you ever stopped to consider that labor along the whole course of the production line constitutes by far the major part of the entire cost of any manufactured product? I cannot establish the exact percentage by direct proof, but I am willing to venture the guess that if taxes are left out of the calculation, labor along the entire production line accounts on the average for at least 85% of the price of American manufactured products.

Threat of Fourth Round of Wage Increases

As I mentioned a moment ago, our direct employment costs during the first nine months of 1948 took 42% of our sales dollar. For the 20-year period, 1928 to 1947, inclusive, the percentage has been approximately the same. Any general wage increase in the Steel Corporation, as well as any other substantial advance in our costs, necessarily has a direct relationship to the adequacy of our steel prices. While we would much prefer not to be obliged to advance prices and thus mount to a higher inflationary platform, we, like all of you, cannot escape from the mathematics of our business.

Since V-J Day the industry of the nation has experienced three rounds of general wage advances, followed in each instance by higher prices for most of the products of industry. Press accounts of the past few days indicate that certain labor leaders may be setting the stage for a new fourth round. If they should be successful in their efforts to wring a new round of wage increases from American industry, I do not see how this country can avoid a still higher general price level with further inflationary dangers for all of our people. In that event, the recent trend downward in the cost of living index will prove to have been of short duration.

When in the past a new round of wage increases and other advancing costs has forced the Steel Corporation to raise its steel prices, the charge has been made against us that we took advantage of the higher labor costs and unduly raised our prices so as to obtain all that the market will bear. It has been alleged that we raised prices to a greater extent than was necessary to take care of the higher employment costs resulting from the wage increase. Although plausible to some, such an accusation is faulty in that it completely overlooks the fact that the total costs of the goods and services which we must purchase from others in order to conduct our business is almost equal to our total employment costs. As wages advance across the country, industry by industry, in a new round of wage increases, so do the prices of the goods and services purchased by United States Steel from these other industries. To illustrate, we have all learned by experience that higher wages to railroad employees soon result in higher freight rates. During recent

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years each increase of a dollar in our employment costs as a consequence of a new round of wage increases has soon been followed by an increase of about a dollar in the cost of our purchased goods and services.

Speaking generally, I should say that further increases in the nation's employment costs without offsetting price increases can be had only by seriously endangering the life of the golden goose. Business is a risky pursuit. Those who subject themselves to such risks are rightly entitled to the expectation of a fair profit, when conditions are favorable. Often too little consideration seems to be given by critics of business to the legitimate interests of stockholders. Their savings made possible the existence of American corporations. United States Steel Corporation is a publicly owned concern. It has 230,000 stockholders, located in every State of the Union. The average holding of common stock of the corporation is only 52 shares. No one can fairly question that our stockholders and the owners of other businesses are entitled to insist that their respective concerns be operated in such a way as to show a reasonable profit, if possible, especially at a time when operations approach maximum capacity. Industry should not be so denuded of profit during days of good business as to become unattractive to future investors. There will be great need for capital investment in the days to come, that is, if American business is to be permitted to keep pace with what I believe is the forward looking destiny of this great nation.

Government in Steel Industry

Since the President's recent State of the Union message, much has been said about a possible threat contained therein of the government entering the steel business. While that may seem to many of you a remote possibility, I should not be surprised to learn that the eventual nationalization of the steel industry along proposed British lines is in the minds of some of our critics. Industry should be alert to the possible firing of an opening gun in a long-range program for the entry by government into what has heretofore been regarded as private business.

We are told that the steel industry refuses to expand its facilities; that the steel industry purposely is holding down production so as to maintain present high prices. What are the facts?

The steel industry does not exist as a unit, which can say "yes" or "no" to any nationwide expansion proposal. On the contrary, the steel industry is made up of many separate, independent competitive steel companies, each running its own affairs. Each one of these separate steel companies must decide for itself, in the exercise of its own judgment and in the light of its own situation, whether or not it will expand or modernize its facilities, and if so, where, how and to what extent. It must be apparent to anyone who gives any thought to the subject that there cannot be an industry decision about increasing the steel-making capacity of the country by 10 or 15 million tons a year, as has been proposed by certain government economists on what seem to me to be purely theoretical grounds. Unless the Federal Government intervenes, such a large expansion can only come about through individual construction programs by individual companies adding up to such a total figure.

Steel prices are among the least inflated of all present prices. Prices for iron and steel products would, for example, have to be increased by more than one-half above those now quoted in order to achieve their prewar parity with farm prices.

No Holding Back of Steel Production

How false and ridiculous it is to accuse the steel industry of deliberately holding down steel production to sustain existing prices or for any other reason. Anyone who takes the time to look at current newspapers can read that the steel industry, week after week, has been operating at almost 100% of its steel-making capacity. In 1948, the industry shipped 65,000,000 tons of finished steel products—the kind of steel which you and other manufacturers buy and use every day. I am happy to say that this constitutes a record high production for any year, wartime or peacetime, in the history of the American steel industry. That production performance—and I repeat that the high rate of steel-making operations is being maintained regularly week in and week out—in all fairness entitles the members of the steel industry to high credit for a job well done, and not to criticism or abuse.

Critics of the steel industry talk at length about the alleged insufficiency of the nation's steel capacity. To the uninformed it is made to appear from their accusations that the members of the steel industry are do-nothings; that they are blind to the growth in the population of the country and to the nation's increasing steel needs. Let's look at the record. Since V-J Day, a period of little more than three years, the various members of the steel industry have voluntarily embarked on construction programs to increase and improve their steel-producing and finishing facilities, which add up to a total cost in excess of two billion dollars. Can any fair-minded critics say that the expenditure of that vast sum of money on new plants and equipment evidences a do-nothing attitude, or a disregard of the public interest, or of the steel needs of the nation? The construction and improvement program of United Steel Corporation alone, adopted since V-J Day and now being carried to completion as rapidly as possible, calls for the spending of more than $900 million. To give you a perspective of the materiality of that sum to United States Steel, perhaps it will suffice to mention that the net book value of the entire plant and equipment of United States Steel at Dec. 31, 1947, amounted to $940 million.

So much having been said loosely about a shortage in steel-making capacity, I should like to point out that what the users of steel throughout the country are interested in is actual steel production and not a theoretical capacity figure. However, I will quote a few capacity figures. In 1929, the United States had a total steel-making capacity of 71,400,000 tons of ingots. Ten years later, in 1939, that capacity had grown to 81,800,000 tons of ingots, an increase of more than 10,000,000 tons. And now after a further lapse of 10 years, this country had, as of Jan. 1, 1949, a capacity of 96,120,930 tons of ingots. Nearly five million tons of ingot capacity have been added in the brief period since 1947. To summarize, the steel-making capacity of the nation has increased nearly 15 million tons during the past 10 years, a growth of 17.5%. Plants which will add two million tons of further steel-making capacity are scheduled for completion in 1949. About 600.000 tons of this additional steel capacity, which is expected to come into operation during 1949, will be in plants of United States Steel. I am aware that capacity figures of this character may not convey a great deal of meaning to you. Perhaps the picture which I am trying to paint will be clearer if I state that such increase of 15,000,000 tons of steel-making capacity during the past 10 years is almost equal to the total present capacity of the entire British steel industry.

Building further new steel mills at this time is bound to consume large amounts of steel of the kinds now in short supply. Such new mills cannot be constructed and placed in operation short of two or three years. By that time I am hopeful that the present unbalance between steel demand and supply will have been adjusted. If the proposed mills are to be of a sufficient size to meet the projections of the government economists, a serious problem must be met in the way of adequate raw materials and a sufficient supply of skilled labor to operate these large new plants. At times during 1948, the members of the steel industry were unable to operate their steel plants at full capacity, one of the principal reasons for this state of affairs being the scarcity of satisfactory raw materials. Construction and equipment costs are at least double what they were a few years ago. Maybe the taxpayers will be asked to foot the bill for new steel mill construction, regardless of the soundness and necessity of the individual projects.

My references to United States Steel Corporation and to the steel industry have been for the purpose of citing specific illustrations of the difference between facts as they are and fancies that are current. I suspect that there are similar divergencies in other companies and other industries. I have greater respect for the good will and common sense of the American people than I have for many of the stories that reach the general public from day to day. For that reason I conceive that opportunity and duty are open to American businessmen to acquaint their neighbors with the facts as they are and the truth as it is. I am hopeful that the truth will prevail.

Government Bond Outlook And Interest Rates

(Contniued from page 12)

private investors and by so doing to furnish them with sums that can be invested elsewhere. The influence of the Treasury is even greater when the legislative budget shows a surplus and it uses it to redeem obligations held by others than the commercial banks and the Reserve banks.

If the surplus of the Treasury is used to redeem government obligations held by the commercial banks this leads to reduction in the total volume of deposits but increases excess reserve balances. When the surplus is utilized to redeem maturing obligations held by the Federal Reserve banks it leads to a reduction in deposits as well as in reserve balances and thus prevents too drastic a decline in yields on high-grade bonds. This actually occurred during the greater part of 1947.

When the Treasury has a deficit which is not larger than the excess receipts over expenditures of the trust funds, it is unnecessary for the Treasury to offer new securities in the market and this, too, affects the supply of bonds. If the Treasury has a cash deficit and has to obtain additional funds from the market it can influence the money and capital markets materially by the type of security it offers, i.e., long-term bonds non-bank-eligible or short-term eligible obligations which will be acquired primarily by the commercial banks.

It is therefore evident that the Treasury can and does exercise a considerable influence on the money and capital markets. It can increase the supply of funds as well as reduce it, and through fixing the rate of interest, the maturity and eligibility of obligations which it offers, can determine whether they will be bought by commercial banks or institutional investors.

The policy of the government concerning guarantees of mortgages as well as the policy of the Federal Housing Authority and other lending and guaranteeing agencies also exert a great influence on the demand for capital and mortgages. Many mortgage loans have been made by institutional investors during the past few years only because they were insured by the Federal Housing Authority or guaranteed by other agencies of the government. Without this insurance and guarantees it is evident that these mortgages would not have been acquired by investors.

The Policies of the Reserve Authorities

During 1948 the money and capital markets were primarily under the influence of the policies followed by the Reserve authorities. The supply of capital, short-term as well as long-term, can be increased or decreased by the activities of the Reserve authorities This was conclusively proven during the war, when the huge demands for capital by the government were to a large extent met through the commercial banks which were enabled to absorb large amounts of newly issued government securities because of the open market operations of the Reserve banks. Should for some reason or another the government again be in need of huge sums beyond its revenue, one may take it for granted that the policies of the Reserve authorities will be repeated. The consequence of this action need not be discussed here.

Moreover, it may be assumed with a fair degree of certainty that the compensatory budget system will be followed by the Government in the future. Should business activity and employment decline, one may expect that the budget will show a deficit, that reserve requirements will be lowered, and that the banks will thus be enabled to acquire large amounts of government obligations. Again, it need not be discussed here whether or not this policy is sound. It is sufficient to recognize that the powers of the Reserve authorities to influence the money market are very great and that they did not hesitate to use them.

As far as the future policy of the Reserve authorities is concerned, one is safe in making the following statements:

(1) Government bonds will remain pegged.

(2) This will enable holders of government obligations to sell them without material loss and invest in other securities, thus increasing the supply of funds available for investment.

(3) It is fairly certain that Congress will grant new powers over the money market to the Board of Governors of the Federal Reserve System. Should the forces of inflation again become accentuated and the spiral of wages and prices be renewed, it may be assumed that the new powers will be used.

(4) If business activity should decline and the forces of deflation should be more pronounced than is now envisaged, one may expect that the Reserve Board will not hesitate to lower reserve requirements. This in turn will broaden the credit base of the country and increase the ability of the banks to absorb short- and medium-term obligations not only of the government but also of states, municipalities and corporations.

(5) A decline in business activity of proportions greater than is expected at present will by itself reduce the demand for capital and create a serious investment problem for the large institutional investors. In this event it may be expected that the Reserve Banks will sell some long-term government obligations to the institutional investors and acquire short-term obligations. It may also be anticipated under these circumstances that the agencies operated by the Treasury will sell long-term government obligations to institutional investors in order to prevent a sharp decline in yields on government obligations.

(6) Finally, since the 2½% rate on long-term government obligations may be taken for granted, this sets a pattern for rates on high-grade corporate obligations. In view of the fact that the Congress has been asked to impose new taxes, it is hard to believe that the monetary authorities will be willing to permit a further increase in rates on government obligations which will further increase the debt burden of the government.

Conclusion

No matter from what angle one looks, one cannot envisage at present any material change in money rates or in prices of government obligations. It is, however, possible that the spread between the yield on government bonds and that on AAA corporate bonds may witness a minor widening, particularly if some of the large institutional investors should continue to follow their present policy of not selling long-term government bonds. Whether or not there will be any change in the spread between short-term and long-term government obligations is impossible to predict, because to a large extent this will depend on business activity, the demand for loans and possible changes in reserve requirements. But even in this respect any change that may take place will be only minor in character. It may be expected that during the current year the Treasury, in refunding maturing or callable obligations, will offer some medium-term obligations to the banks. The stability of the government bond market and the elimination of the fear that prices of these obligations may go below par will enable the banks to establish a long-range investment policy suitable to individual needs.

Washington Stock Ex. Elects New Officers

WASHINGTON, D. C.—At the annual meeting of the Washington Stock Exchange the following officers were elected:

President, Thomas L. Anglin, Mackall & Coe; Vice-President, Joseph P. Kreeger, Robert C. Jones & Co.; Secretary, Joseph K. McCammon, Auchincloss, Parker & Redpath; Treasurer, Austin B. Rohrbaugh, Rohrbaugh & Co.

Members of the governing committee are the officers, Bernard J. Nees, Johnston, Lemon & Co., the retiring President and Chairman of the Committee, Thomas Montgomery, Ferris & Co., and Myles H. Quail, Alex. Brown & Sons.

Los Angeles Analysts Reelect Fruehling

LOS ANGELES, CALIF.—Walter Fruehling of Wagenseller & Durst, Inc., was reelected President of the Los Angeles Society of Security Analysts at the annual meeting, the Society announced.

Other new officers include: August Slater, Wm. R. Staats Co., Secretary; and Walter Podolak, Stern, Frank & Meyer, Treasurer.

Directors in addition to officers are: Hartley Smith, Dean Witter & Co.; Jack Laznick, Crowell, Weedon & Co.; Kenneth B. Samson, Bateman, Eichler & Co.; Richard Link, Blyth & Co., Inc.

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Business and Finance Speaks After the Turn of the Year

(Continued from page 6)

trical appliances. Development of the use of nickel deposits in lining steel pipe and other chemical engineering items, salvage of worn parts, plating on aluminum and on non-conductors such as plastics and wood continue to show favorable results.

Nickel Alloy Cast Irons

The amount of nickel used in the production of engineering nickel cast irons has continued to increase. These alloys, known for their strength and resistance to wear, are employed for components of machinery.

The iron and copper mining industries in particular have increased their consumption of Ni-Hard for grinding, milling and other equipment. Previous to 1947, this martensitic white iron containing nickel had been used chiefly in rolls for the steel industry which consumed 75% of the total production of these irons. Although the steel industry's roll requirements have continued at a high rate, other uses for Ni-Hard have increased so rapidly that in 1948 more than 55% of the total production was consumed in these newer fields.

Ni-Resist, a nickel-containing austenitic alloy of high corrosion-resistance, has shown expansion in the United States and Canada in new fields of application. Production items in Ni-Resist have become more numerous. Centrifugally cast Ni-Resist piping is being successfully produced in the United States and France, and the electrical grid market for Ni-Resist is also developing in those countries. Large quantities are being used in the United Kingdom and on the Continent in oil refineries and interest has been noteworthy in the textile dyeing field.

In Indiana interest in the manufacture and applications of nickel-containing cast materials is developing. One of the main fields is alloy cast irons for use in the cement and other industries.

Iron-Nickel Alloy Specialties

The iron-nickel alloys, containing from 30 to 80% nickel, were in materially increased demand by the manufacturers of electrical, electronic and control equipment. Their unusual thermal expansion properties account for their universal use for the low expansion element in the millions of thermostatic devices manufactured annually, while their uniquely high magnetic permeability makes them invaluable to the communications, electronic and radar industries.

The Alnico series of nickel-containing alloys used for permanent magnets continued to be employed in increasing quantities. Powerful magnets of relatively small size manufactured from these alloys have a myriad of applications, including loudspeakers, controls, electric motors, novelties and household appliances.

Corrosion and Heat Resistant Cast Alloys

Increased tonnages were recorded this year for the nickel-chromium-iron alloys. There also was an increase in the number of applications of these alloys where resistance to high temperature corrosion and retention of high strength are required. The alloys are employed for furnace parts in the heat treatment of steel, as well as in petroleum, chemical and ceramic industries.

Electrical Resistance Alloys

The wrought electric resistance alloys containing 80% nickel and 20% chromium have been in steady demand during 1948. The increasing dependence of the United States and Canadian household on electrical energy indicates the potential growth of the use of these alloys for heating elements in a variety of electrical appliances.

Coinage

The replacement of the emergency coinage alloys which came into use during the war years is proceeding, and while basic reforms must wait upon the stabilization of the monetary units in many countries the return to the use of nickel and nickel alloys for subsidiary coinage is a well defined trend.

During 1948, three governments adopted pure nickel for two or more of their subsidiary coins, namely, Hyderabad, Pakistan and The Netherlands, making a total of 41 countries which have used pure nickel coins to date. Many other countries have resumed the issuance of the popular cupro-nickel alloy coin, the use of which was interrupted by the war.

Mill and Foundry Nickel Alloys

Malleable nickel, Monel, Inconel and other high nickel alloys in rolled, drawn, extruded and other forms have found continued applications where their ability to withstand corrosion, heat and other severe conditions made them more economical than lower priced materials.

The chemical and allied industries were large users of these alloys, sharing a general trend toward the use of continuous methods of production which usually requires higher operating temperatures with shorter equipment life. These factors place greater emphasis on life rather than initial cost.

Industry's constant effort to recover usable by-products has led to the adoption of new processes involving the employment of high nickel alloys. Among these processes is the recovery of ammonium sulfate for fertilizing purposes from coke gas in steel plants which involves corrosion as well as erosion and exposure to moderately elevated temperatures. Monel has proved to be an economical improvement over other materials. There has been a strong demand in the transportation of chemical products for shipping drums of nickel, Monel and Inconel for batch shipments.

As a result of continued research and experiments at our Huntington Works in West Virginia, it is now possible to produce extruded seamless tubes in diameters up to 9½ inches. Prior to the war the largest extruded sizes available were 5 inches in diameter. Nickel, Monel and Inconel tubing in these large sizes are required by many industries, including petroleum processing and refining. Among other applications are table rolls for paper-making machines, sleeves for large diameter shafts, stems for large valves, pump liners, rolls in machines for pickling or cleaning steel strip, cylinders in quick freezers, rolls in glass plants, and a diversified number of uses in chemical, food processing and similar plants.

The television industry's expansion has been reflected in the increased use of nickel and nickel alloys in this field. Hot cathodes made of pure nickel are used in television camera tubes and the large picture tube in the home receiver. All the vacuum tubes in the receiver and most of the amplifying tubes in the transmitter use nickel for cathodes and structural parts.

The power, aeronautical and marine fields used large quantities of Monel during the year. Valve trim, especially where low steam pressures are involved, employed considerable amounts of Monel. Monel tubing for high and low pressure boiler water preheaters has been found to be a big factor in improved operating efficiency.

The special nickel alloys for gas turbine and jet applications, such as the Nimonic alloys and Inconel "X," are being produced in increasing quantities. The Nimonic alloys, produced at our Wiggin Works in Birmingham, England, continue to remain the standard accepted alloy for the rotor blades of all aircraft in present production in the United Kingdom. These alloys are used also for the combustion chamber components of turbo-jet and turbo-prop engines for aircraft. Inconel "X," which is produced at the company's Huntington Works, is employed in the form of large billets of approximately 1,000 pounds for forging and machining into turbine rotors, and also as bar stock for gas turbine blades and bolts.

Another product which has made important contributions to industry is Ni-Rod, a welding electrode developed primarily for the welding of cast irons. In the salvaging of new castings and the repair of old castings, Ni-Rod is saving many hundreds of thousands of dollars annually in production and operating costs.

Outlook

The present outlook is for a continued strong demand for nickel, in which event the nickel industry in 1949 should again enjoy a satisfactory year.

CHESTER D. TRIPP

Economic and Industrial Consultant, Chicago
President, Consolidated Coppermines Corporation

From the indications given by The Economic Trend Line, it is clearly apparent that the Line has truly reflected the pressures on the economy which have been accumulating week after week for one of the longest stretches in over 20 years. For three full years, we have ended our weekly Comments with a "Note of Caution." We have often tired ourselves by using the same remark, and yet, the decadence reflected by the banking figures has been unmistakable, giving us no relief from indicating the need of conservative action. This extended period has been one during which the bank figures as we use them in constructing The Economic Trend Line have indicated that we were approaching a letdown and that some readjustment, at least, was in order. This contraction, however, has been delayed and postponed for fairly obvious reasons.

Chester D. Tripp

Just what has happened to change the pattern of readjustment after World War II compared with the industrial activity that followed other well documented war periods? Literally the pattern has not been changed, but it has been extended, and this has resulted from man-made actions which at the best are only palliatives. The pattern, compared with the period after World War I, only varies in duration and degree, but the stimulating influences that have entered the scene in the last two years have been far more potent in their repercussions than in the former period.

Our economy experienced a violent uprush in commodity prices after the termination of hostilities following World War I and II. On both occasions we tried to support the world economy through foreign lending and giving. At the end of World War I, we went through a period of buying the bond issues of many of the countries that were short of dollars. We bought the securities of both friends and enemies, and it is well within the memory of many of us that these securities were eventually defaulted due to the inability of the borrowers to procure the necessary exchange in the world markets to service the debts.

Following World War II, with the default experience of World War I staring us in the face, we changed our pattern in three important particulars. First, the advances have been more or less in the form of gifts rather than loans demanding service and repayment. Secondly, the advances which we thought were generous after World War I, have faded into insignificance compared to the tremendous volume of our production that we have directed into the world economy in the past three years. Thirdly, following World War I, the aid programs were financed for the most part through private channels and the losses incurred by foreign bond defaults fell only on the investing class. However, in World War II, the rehabilitation programs have been undertaken by the Federal Government. Thus, to the extent that they have been met by heavier taxes (or deficits), the losses have been socialized and spread over a large section of the population rather than over a single group.

This international assistance has created a violent impact on our own affairs. We were faced with the stupendous problem of rebuilding our own visible and invisible inventories, but in addition we were burdened with the requirement of siphoning a large part of our output into foreign channels. The composite result of these two forces has extended our boom conditions, exaggerated a tendency toward an increasing price structure, and, in the aggregate, created a perfect background for recurring labor demands that in themselves stimulated the elation tendencies that the economy has been experiencing. A wonderful job has been done. The whole question is whether we have not done too good a job, or at least whether we have not done a good job too rapidly.

As impressive as our results have been, the necessary action to achieve these results carried seeds of great economic significance. In the first place, our 147 million people faced invisible inventory shortages of great moment. Our closet shelves were bare, but our saving accounts were bulging, and a frantic demand to make up the shortages with the funds available showed distinctly in the market places of the country. We were not only short of consumable materials but semi-durables had been unavailable for several years. With this demand facing us, substantial additions for capital goods creation also had to be faced.

During the past 12 months $18.6 billion has been spent on new plant and equipment. In the three years since 1945, the total has approached the astronomical figure of $46.8 billion. Currently, the annual rate of spending for this purpose is running more than three times the 1940 level.

As far as consumables are concerned, the invisible inventories have been built up so that this great pressure is beginning to relax. What the figure for our invisible inventory is, is impossible to determine, but it is very substantial, possibly higher than we have ever before experienced. Our total visible inventories, too, outrank anything the country has ever experienced, both in value and in units, and at all levels of production and distribution.

As impressive as all this is, we had two other musts to be added to our list of requirements. First, many billions of dollars in peace production, which might have satisfied our own wants, had to be siphoned into other economic spheres, and then, to top the matter, a new preparedness program had to be faced that already has made and which will continue to make substantial deductions from our own pool of production.

These are the undertakings that our economy faced. At first blush, the accomplishments seem worth while, but there is another side to the balance sheet that has to be considered. Through our efforts we have not only greatly increased our price structure but we have greatly increased our cost structure. As individuals, we have also added greatly to our liabilities, and we are tending to find more and more serious shortages in our working capital requirements.

It is in the realm of these negative aspects of the economy that our "Note of Caution" continues to take form. Our very accomplishments have, as it were, accentuated our weakened statistical position. Our invisible inventories in most categories are pretty well caught up with demand. Our visible inventories are the largest on record and in this factor, some elements of cutback are beginning to appear as necessary, and this period of production adjustment comes at a time when most commodities are in superabundance and when the price structure is at a level which historically has proven to be vulnerable. To be sure, some shortages still exist, but, are they more than is required to keep up the illusion of perpetual boom conditions? Any tendency toward a letdown might relieve these shortages quite substantially. Perhaps, some of the shortages themselves are only relatively serious even as the boom continues.

As we enter 1949, the need of caution is no longer an academic question. The Economic Trend Line has been warning its followers of potential trouble for a long period. Now the maladjustments are a matter of serious concern to many groups involved in soft goods production. Even the semi-durable industries are lowering their sights from those of a few months ago. The question is whether it is possible under such conditions to go into a period of minor adjustment and not disturb the whole economy, or whether a rather substantial contraction is a more reasonable expectation. Historically, the latter alternative would seem to be the greater probability. However, many still cling to the possibility that the continuing effect of the non-recurring stimulants, such as armament and foreign relief, might pose an orderly decline. It seems to us that the country

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enters the year 1949 with a declining vigor in its productive possibilities. Less is heard of inflation, and more and more is heard that governmental expenditure is a necessary requirement to support the economy and is not an actual inflationary force.

The months ahead present serious problems for many and our conclusions, as we analyze the facts, are about as follows. Price declines are in the offing and some of these declines will be rather severe. Some cutbacks in industrial production are going to be absolutely necessary and in the long run, these cutbacks will check inventory accumulation, but, at the same time, will reduce the national income and curtail consumer spending.

As the process develops, our people will tend to become realistic. Increased economies will be practiced. There will be some unemployment. Labor efficiency will tend to increase but labor demands will be insistent toward maintaining their so-called gains, either in terms of dollars or take-home pay whichever argument suits the case in point.

The facts we face clearly make it possible to have the adjustment less precipitous but longer in duration than might have been the case. It is going to complicate the problems of manufacturers and distributors and is inevitably going to produce some losses, probably substantial losses, for the holders of extended inventory positions. We think it is a fair assumption that the peak of inventories in all positions will be reached early in 1949, if it has not already been passed. As liquidation of inventory proceeds, business loans should decline. This decline should show its effect in the money markets of the country. The two-year advance that has been slowly taking place in the short-time interest rate may be temporarily checked, or at least checked for the highest grade loans. The nature of the credit risk from now on will have a greater bearing on the money market than the influence of the Federal Government in supporting money rates which has dominated trends in the past two years, and the screening of credit risk by our loaning institutions will receive progressively more emphasis. With a return to buyers' markets and growing inventory problems, the stimulus necessary to sustain the present rate of plant expansion will probably be lacking.

There are many imponderables that may delay or accelerate the adjustment that we will finally have to face. We do believe, however, that many of the difficulties that we have been referring to this past year are actually coming to the surface and are beginning to be recognized by the rank and file of our population. This may mean that the troubles of readjustment are appreciably nearer; but, to close on a note of optimism, it also may mean that the first steps toward curing some of our difficulties are being taken.

The Commercial Banker As Investment Counsellor

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which combine an underlying soundness with an attractive yield.

Common Stocks

You may well ask how, with my conservative approach, I am willing to recommend a substantial component of leading common stocks for the defensive investor. Undoubtedly these carry with them an assortment of financial and psychological hazards. But to compensate for these they offer a goodly array of advantages—substantial income yield, probability of ultimate rise in value, and some protection against future inflation. As I read our financial history of the past 50 years, it strongly vindicates a common-stock purchase policy based on the investment approach—just as it strongly discourages all forms of common-stock speculation. Furthermore, this history demonstrates clearly that high-grade common stocks bought at reasonable prices are much more satisfactory investments than second-grade bonds and most preferred stocks.

If you agree with my prescription, your advice on common stocks will contain the following factors: (a) They belong in conservative portfolios, (b) provided they are limited to a diversified list of first-line or leading companies, and (c) provided they are bought at a reasonable general-market level, and (d) provided the buyer is ready and able to take an investor's attitude towards his holdings.

Let me define such an attitude. A common-stock investor is one who regards his common-stock holdings as a proprietary interest in various businesses, not as a series of quotations in a newspaper. He has rational standards of common-stock value which are independent of market fluctuations, and he buys and sells in accordance with such standards. The only significance of stock-market gyrations to the true investor is that they give him an opportunity to buy good common stocks when they are cheap—or at least reasonably priced—and at times offer him an invitation to sell out at temptingly high levels.

The Chief Hazard

The chief hazard of a careful common-stock program is not that it may bring unexpected losses, but that its profits will turn the investor into a speculator greedy for quicker and bigger gains—and therefore headed for ultimate disaster. The commercial banker can help to inculcate a sound and sensible investment attitude towards common stocks among people of substance and of moderate means throughout this land. This would be a real service not only to the great mass of investors, but also to the national economy itself, which would benefit from the wider dispersion of equity ownership created in accordance with sound criteria of underlying value.

My experience teaches me that by far the largest losses have been sustained by investors through buying securities of inferior quality under **favorable** general conditions. These prove to be "fair-weather investments" only, and at the first breath of adversity their prices tend to collapse. (It is then that the disgusted holder sells them out—often at ridiculously low figures—to shrewd and sophisticated operators.) Next to this, as a source of loss, is the purchase of really good common stocks at the inflated values engendered in the upper reaches of a bull market. It is difficult to say exactly when the market level first moves into a dangerously high area. But your own experience is undoubtedly broad enough to tell you—at some stage of the proceedings—that the stock-market's enthusiasm is outstripping its prudence.

Thus you are as well qualified as anyone to warn your people against "bull-market investing," which is motivated largely by speculative momentum, and which justifies itself by undue emphasis on current favorable conditions. As you know, these have **not** been the characteristics of the market in the past two years. Sober analysis indicates that stock prices in general are more on the low than the high side. So—to offer one piece of concrete investment counsel—let me observe that current market levels are attractive enough for true-blue investors, regardless of what they may portend for the speculative fraternity.

Once we have established the proper psychological approach to common-stock investment, it is possible to deal more rationally with the problems of "the required rate of return." If the fund really needs an overall 4% instead of the more usual 3 to 3½%, the way to obtain it is by increasing the component of high-grade common stocks and not by throwing in lower-grade senior securities. This is untraditional, and it may seem unconservative to some of you. But it is an axiom of investment that securities should be purchased because the buyer believes in their soundness, and not because he needs a certain income. If Government bonds, good tax-exempts, and first-line common stocks comprise the sound ingredients of a security portfolio, then logic requires that the investor obtain the yield he wants by mixing these ingredients only. In simple terms, I advise you not to put that 30%-40% of a typical fund in corporate bonds and preferred stocks, but to split it in any proportion the investor pleases between more Government bonds and more common stocks.

The Business Approach

Let me recur now, briefly, to the field of aggressive investment, without detailing its principles and techniques. The aggressive investor should look for security opportunities the way the businessman looks for business opportunities. In both cases training, experience and native ability are requisite to success. In neither case is the main emphasis placed on speculative anticipations. Bona-fide investment opportunities are frequent, and they provide a fascinating field of study. They include business analysis requiring insight and foresight, also special situations of many types, and also a wide variety of "bargain-basement" issues. But you will agree with me, I hope, that it is not the function of commercial bankers to act as mentors to others in what is basically a money-making endeavor. I am, in fact, a bit skeptical as to whether anyone can with propriety profess to tell someone else how to make money—whether in securities or elsewhere. In the vast majority of cases, the aggressive investor must stand on his own feet and make his own decisions.

There is a final point to be made in the matter of common-stock investment—whether by the defensive or the aggressive group. It is notorious that stockholders do not take an alert and intelligent attitude toward stockholder-management problems. If they get good management—as they generally do, it is not because of any steps they take to assure it. Conversely they have not the faintest notion about how to determine whether their management is incompetent or is treating the outside stockholder unfairly; nor are they in any way prepared to act together to correct abuses even if they suspect their existence. The proxy machinery is theoretically perfect, but its practical value to date is virtually nil—because, bluntly, stockholders don't know what it is all about.

This situation is unwholesome. One reason, I am convinced, of the failure of common-stock investment to spread in this country along with the enormous growth of liquid assets is the vague feeling of the public that the small stockholder is at the mercy of the management. The stockholder needs help from outside sources to arrive at a sound solution of the general problem of managements versus owners. In the coming years I hope that the appropriate agencies—such as the investment funds, investment counsel, the societies of security analysts, and others—will finally bestir themselves in this important area, and take the lead in guiding stockholders in matters of controversy with their managements. You, as experienced men of affairs, can do your share in this work by giving open-minded attention to stockholders' problems as they are referred to you, and by assisting your clients to reach effective, businesslike decisions in controversial matters submitted for their vote.

The SEC and the Capital Market

(Continued from page 13)

long as the investment habits of institutions and banks remain as conservative as they have to be for safe operation, we will have to continue to look to the American private investor as a market for equities.

Importance of Substantial Equity Capital

This is a problem with which all of us have a direct and vital concern. There is no better security for debt than a substantial equity base. The most ingeniously devised security arrangement is no substitute for a capitalization which can cover its debt service and amortization by a comfortable margin even while weathering the uncertainties of the business cycle. A good equity base for industry is not the concern of management alone, but of all whose welfare depends on the sound operation of business.

I think it obvious that much of the hope for an expanding equity base for American business lies in maintaining the integrity of our securities markets, and in preserving the confidence of the American public in those markets. It is the Commission's job to help maintain that confidence through a forthright administration of the requirements of the securities laws. A sensible man may buy a pig in a poke once. But, generally, if he is being asked to take a risk he wants to take a calculated risk. With his equity he wants the protection that these laws afford through the provision of information, the prevention of fraud, protection against abuse of inside position and abuse of the proxy machinery.

You cannot maintain a sound and permanent market for equities by appeals to cupidity and the desire to take a flyer. When a company seeks additional equity capital its first recourse is, generally, to its existing security holders. And the measure of success of a rights offering is likely to be, in large part, the extent to which its equity holders have bought an interest in the growing enterprise rather than a slice of the Dow-Jones index. A steady flow of equity money and stable equity markets can come only from investors who are given a chance to know what they are buying and are assured that their rights as security holders will not be manipulated behind closed doors. I do not want to be misunderstood—I have no personal policy, and the laws we administer express no policy against honest and informed speculation. Our function is to provide the means for informed decision as to buying and selling.

In passing let me make it plain, too, that I believe that administration of these requirements must be open-minded and flexible as well as forthright. Over-regulation which impedes financing without adding significant protection to investors is a disservice rather than a service to the investor. The laws we administer assume the American system of investment; they are designed to strengthen and not to revolutionize it. To keep these laws useful, to facilitate the flow of capital, we must remember that we live in a changing world. Old problems and policies become obsolete as new problems arise and new policies are needed. Only constant vigilance to keep ourselves aware of the problems of legitimate business and to keep ourselves flexible to meet them can preserve the continuing usefulness of the securities laws.

SEC Open for Suggestions

To that end the Commission keeps itself open to conference and suggestion. It maintains continual studies of the requirements and of the way they work in practice and is constantly engaging in reviewing, revising, streamlining, and simplifying them. As an example I should like to note the recent adoption of a rule which we call the "document rule." While in itself not of major importance it indicates the trend; and it should be of some interest to those who help issuers to handle the details of rights offerings. The new rule does away with a practice of many years standing—but nevertheless not sacrosanct—which resulted in the duplication of prospectuses in offerings by issurers of additional stock to existing stockholders. By a simple adjustment, hedged with limitations we think necessary for the protection of investors, we have eliminated unnecessary effort and expense in at least one field of securities distribution.

Our efforts have not stopped with review of rules and regulations. For a long time we have been engaged in a study of the operations of the statute itself. We have been in touch with all segments of the public interested in the operation of the Securities Act. As you may have noted we have recently been conferring with a committee of interested members of the securities profession and we hope to be able to reach recommendations which would not only protect investors but substantially facilitate securities distribution by doing away with certain restraints of which securities distributors have long complained.

Taken as a whole the work of the Commission should be of direct interest to the commercial banker. To mention one phase of our work bearing directly on the commercial banking function: many companies whose internal accounting, auditing, reviewing and reporting systems were in a sorry state before passage of these laws have been forced to overhaul their record keeping and reporting systems. The path of the commercial banker in assessing and appraising a proposed loan has been materially smoothed in many cases as a result of the requirements we administer. No commercial banker would want to see a deterioration of these systems of accounting, auditing and reporting. As an investor whose transactions are likely to be large and significant he has an interest in their continual improvement.

Because our complex economy is made up of so many interdependent factors; because the lender, as well as the owner and manager, has a stake in the proper financing of business and in the maintenance of sound capital markets I think that our work at the Securities and Exchange Commission has a particular value to you. I hope I have, in the short time at my disposal, helped you to see why this is so.

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"What About the Market"

(Continued from page 3)

ernment policies that the Federal Reserve Board, in spite of the fact that the amount of credit carried on Stock Exchange securities is insignificant, continues to insist that owners of such securities may borrow only 25% of their market value. This limitation not only is applied discriminatorily to listed securities and has no justification whatever; it reduces the vitality of our market when it should be encouraged.

Obviously, none of us wishes to see another 1929. The New York Stock Exchange and that part of our business population which centers around it and around its member firms, fully realize that 1929 marked the end of an era. They are as eager, I can assure you, as any section of our national community to avoid a repetition. It is well to reflect upon the fact that none of the conditions which preceded 1929 is present today, nor is it likely that they will ever re-occur. These conditions — an excessive flow of credit, manipulation, and other factors which excited reckless speculation—are absent today and we have every reason to believe that they will remain so. We do not want to see them return. We should accept the fact with confidence that, while the "good old days," as they are known, will never come back, we are due for good new days. That is, we can look forward to good new days if we properly defend our liberties and recover our confidence in America and its way of life.

Trend Toward Controlled Economy

Make no mistake about it, the enemies of liberty have made progress in the last 20 years. When I say enemies of liberty, I mean those who advocate a controlled economy; those who believe that the government should plan and guide the course of business and otherwise restrict the legitimate rights of the individual. These enemies of liberty are opposing what has produced the America we know today. American businessmen have always believed in a free economy, free markets, and have had faith in competition as the most important principle of regulation. Most of us instinctively distrust control of economic life by government.

We believe in freedom of enterprise, but we have not been as good evangelists as our opponents. We have not brought the truth home to the members of new generations, many of whom knew only depression and war in their formative years and are consequently easy prey for collectivist doctrine.

I feel that a good part of the blame lies at our own financial feet. Industry as a whole, in its sale of products and services, seems to me more in touch with reality than does the world of finance. Investment houses, for the most part, are trying to approach the same income groups which provided their customers prior to 1929, and to approach them in the same way. It is self-evident that these people haven't got the money they had then or even the money they had ten or fifteen years ago. There are new segments of our population with investable funds, but too little has been done to interest them in the usefulness of our financial markets and in their accessibility to the thrifty who wish to have an ownership interest in the companies that provide the products with which they are acquainted. There are possibly 40 or 50 million potential investors who were not here in 1929. They are the farmers, workers and small businessmen in the North, West and the South, and everywhere else, who have profited from the redistribution of our national income. They are the people who should know of the benefits and satisfactions in the ownership of common stocks—in a stake in business and industry. For the most part, they have not yet formed the habit of investment. They should be encouraged to do so.

One of our first tasks is to dissipate the fear that has been overhanging our capital markets for these 20 years. This is a responsibility in which government should share by acts and policies which create confidence. This restoration of confidence is essential to the welfare of labor, business, finance and all other sections of our population.

Investors Should Have More Influence

The investors of this country, whose numbers should and can be greatly increased, can exert a powerful influence on government. They should do so to the end that government, particularly the policy-making branches of it, recognize the vital role of the private investor and the private capital markets in the processes which create jobs and opportunity. So far as our internal economy is concerned, the national legislature has no greater responsibility than that of revising the tax structure with the view to encouraging the flow of investor capital.

You would think that fear, inspired as long ago as 1929, would wear off, but is has not—certainly not to the extent that it should. As we know, it has been kept alive not by fact but by fiction. The depression of the 30's brought this fear home to every family in the United States and, since the war, some economists, politicians and irresponsible writers have given it new life with their constant warning of "boom and bust."

As to the hesitancy on the part of many people to buy common stocks, you investment men can find the answer in your customers' lists. A public opinion survey, published by the Federal Reserve Bank early last year, reported reasons for and against holding various types of assets. The questions were: "Suppose a man decides not to spend his money. He can either put it in a bank or bonds or he can invest it. What do you think would be the wisest thing for him to do with money nowadays—put it in the bank, buy savings bonds with it, invest it in real estate, or buy common stocks with it? Why do you make that choice?"

Although I think the survey is open to question, it attracted much attention. A surprisingly low 5% was reported as favoring investment in common stocks, compared with 9% favoring investment in real estate, 60% favoring savings bonds, and 32% preferring bank deposits. Fully 62% of those expressing themselves were opposed to common stocks, 30% because they were "not familiar" with them, 26% because they regarded them as "not safe" and 6% for other reasons.

Common Stocks Good Today

If common stocks were inferior investments, we would not have much to say in a program of information. But emphatically they are not. They are good today and they have been for the past 25 years, with the exception of that one over-advertised year of 1929.

For example, all of the dividend-paying common stocks listed on the New York Stock Exchange today are showing an average yield of about 7.5% compared with, let us say, 3% for a so-called riskless investment.

As for the past 25 years, a study made at the University of Chicago indicates that an average group of 15 better-grade common stocks purchased in 1923, would have yielded approximately 9% a year if held until the beginning of 1948.

There are many examples of instances in which common stocks would have been profitable purchases for the small investor, but you gentlemen have excellent access to such information through your research departments, and I need not repeat these instances here. There is, also, no lack of liquid savings. A statistical release by the Securities and Exchange Commission discloses that, from January, 1940, through December, 1947, individuals accumulated $86,000,000,000 in currency and bank deposits, $55,000,000,000 in savings and loan associations and in insurance and pension reserves, and $57,000,000,000 in government bonds.

Surplus funds are, as you know, available, and the supply of income-producing corporate securities is larger than it has even been before. Thus we have a set of conditions which provide an unusual opportunity for the securities business to broaden the national ownership of industry—certainly a most desirable objective.

We are fully justified in taking a constructive attitude toward common stocks and it is our duty to combat the old fear complex and the outdated thought patterns that have acted as a brake on national progress. You who are engaged in the securities business know that the New York Stock Exchange is directing a substantial advertising compaign, which is about ready to get under way, toward the restoration of confidence in the securities of our great American enterprises.

You gentlemen in the financial field have the opportunity to cooperate with us in the program which we are about to undertake. I urge you to do so to the end that a greater number of informed investors may share in the ownership of American industry, to their advantage and to the advantage of the American economy.

Managing Bank Portfolio in 1949

(Continued from page 16)

to help pull the economy out of the deflation of the '30s, to finance the war effort and to finance post-war conversion to a peacetime economy and, yet today, every conceivable type of pressure is being applied to do just the opposite. We were first told that if we didn't lend money after the war, deflation and unemployment would result. Now, we are accused of contributing to inflation and an eventual bust. Be that as it may, bank loans continue to increase. During the week ended Dec. 15, commercial, industrial and agricultural loans of weekly reporting Federal Reserve member banks jumped to a new all-time high of $15,595,000,000, reversing a previous four weeks' downward trend. The Credit Policy Commission of the American Bankers Association recently completed its semi-annual survey and reports that the increase in total loans for the first half of 1948 was only 70% of the increase for the first six months of 1947. It is estimated that for the whole year the increase will be only 58% of that made in 1947. Thirty-four percent of the 310 leading bankers whose opinion was solicited felt that loans would continue to rise in the first half of 1949. It seems to me that the relationship between the loan level at any one time and contributing factors is more important than comparisons of changes in the amount of lending. Some economists believe that the money supply, commodity prices, national income and loans are about in balance. In other words, they bear roughly the same relationships to each other as before the war, and that insofar as they are dependent on each other, room for further increase in one, as the others have gone up, is about taken up. Another way of looking at the picture is to examine the principal assets of all insured commercial banks as reported by the FPIC. In June, 1941 loans and discounts represented 27.9% of total principal assets and in June, 1948 they represented 27%. In other words, as ABA President Evans Woollen put it, "we find ourselves on a monetary dead center."

I certainly am not going to do any forecasting today, and since my sense of humor has not fully recovered from the events of last November, I will refrain from even telling any otherwise good election forecasting stories. We have plenty of assurances from government agencies that everything is fine and that the economy is in a stable condition. On the other hand, you know in your own area where soft spots have occurred and I might mention just a few from a national standpoint, namely, shoes and clothing, furs, furniture, radios, appliances and department store sales. It is rumored that Dr. Nourse's Council of Economic Advisors which reports to the President every six months, as required by the Employment Bill of 1946, is about as much concerned with the possibility of deflation at this time as further inflation. The Treasury at present has a cash balance. What policy it follows during the first quarter of 1949 as to debt retirement and money management in general will have an effect on banking and may put a good deal of pressure on deposits. All of these things are factors to be considered in the changing economic picture.

A Program of Management

Development of a sound program for the management of a bank loan portfolio in 1949 involves three basic questions.

(1) What is the appropriate level of loans for a given bank?

(2) What steps should be taken at this time in keeping with sound management of existing loans?

(3) What should be the guiding philosophy applied to the loan portfolio in the event of a general business adjustment downward this year?

Determining the appropriate level of loans is largely an individual bank problem. However, a definite formula should be established which sets some seasonable maximum loan total. Normally, loans are measured against either the deposits or the capital of the particular institution. The former is a less reliable yardstick now than before in view of the great growth in deposits during the war as a result of government debt financing. However, it is interesting to note that outstanding commercial, industrial and agricultural loans made by member banks average 29% of deposits, which is the same relationship that was obtained in 1941.

Almost everyone who discusses the question of how high loan volume should be refers to the capital buffer. At the recent ABA Credit Conference in Chicago, Mr. Lester E. Shippee, former chairman of the Credit Policy Commission in discussing credit policies for commercial loans said, "Perhaps the first point for consideration should be the size of our loan portfolio and the extent of assets at risk in relation to our capital funds." Mr. Henry E. Atwood, President of the First National Bank of Minneapolis and a member of the Federal Advisory Council of the Federal Reserve System, in discussing 1949 credit policies for banks in the north, pointed out that, "We believe that the volume of loans made and carried should be related to capital, surplus, undivided profits and reserves. Our capital structure determines the amount we can afford to put into risk assets and we keep in mind the liquidity of our credits in determining this relationship." Kenneth K. DuVall, President of the First National Bank of Appleton, Wisconsin, and formerly President of the Robert Morris Associates, states in his lecture entitled "Bank Credit in 1948" given at the School of Banking, University of Wisconsince, "The time has come for each individual bank to determine for itself a formula limiting the overall total of loans it proposes to carry." Because the same combination of factors is seldom found in two banks, it is not feasible to lay down a formula of general application. The approach obviously, is to keep capital funds in proper relationship to risk assets. With the rapid and substantial transference of funds from government bonds to loans and discounts, this ratio has changed rapidly in the past two years, and is tending to get out of line in a number of individual cases. In banking, as in all other business, the function of capital is to provide a buffer against possible losses."

Turning again to the sheet which was passed out to you, it can be seen that net loans and discounts for all insured commercial banks in the United States were 3.95 times capital accounts on June 30, 1948. This is very close to the four to one ratio which in the past has been considered a desirable maximum. In view of the thinner margin of protection because of the higher deposits to capital ratio there is good reason to question whether or not loans should go any higher based on present capital structure. The increase in capital has by no means kept pace with the rise in loans in many cases, as indicated by the figures for several states which are shown. Some states, notably Pennsylvania, Delaware, New Jersey and New York, are not as fully loaned up on this basis as the country taken as a whole. Louisiana has a ratio of 4.1, which is about in line with the average. Of course, in these calculations I have not considered net capital—(that is capital accounts less bank properties and real estate). There are also other risk assets which probably should be added to loans and discounts. Thus, the ratio shown would be considerably higher if these more conservative estimates were applied. The Annual Report of the Federal Deposit Insurance Corporation for the year ended Dec. 31, 1947 states that, "The smallness of the capital equities of banks remains a serious problem. Nearly 4,000 insured banks had capital accounts, when examined in 1947 amounting to less than 5% of their assets." Therefore, I suggest that one yardstick for determining a maximum loan limit is this national and local average ratio of net loans and discounts to capital accounts.

Any discussion of loan policy must also take into consideration the maximum amount of loans in certain categories and also the liquidity of the investment portfolio. Specific yardsticks here are even more difficult to develop than for the overall loan portfolio. However, since in some states real estate mortgage loans dare not exceed 50% of total time deposits, a rough approach might be to keep them down to 35% and not let the total long-term part of the portfolio, which would include term loans as well as mortgages, exceed 50% of basic time deposits. Certainly at this point in the business cycle, it behooves every bank to keep its investment account extremely liquid and of the highest quality.

A general consensus of the specific steps to be taken to carry out sound loan portfolio management in 1949, after the foregoing limits have been set, as gleaned from discussions with bankers and

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from reading many speeches by leading authorities, is as follows:

I

Reappraise loans in certain specific categories first:

(a) The "War Babies."

(b) Loans in lines of business in which adjustment has taken place.

(c) Loans to firms that are not old enough to have weathered at least one period of recession.

II

Grade all loans as to quality. This is particularly helpful analytically, although it may seem somewhat arbitrary. Give particular attention to the following points in your evaluation:

(a) The industry outlook as well as the loan should be rated.

(b) As an objective test for grading, assume a general business decline of limited magnitude. Then see what problems would be posed by the following: (1) Break-even points; (2) Inventories; (3) receivables and the collection period; (4) debt to worth ratio.

NOTE—This ratio has risen substantially in many businesses to a point where owners' capital is quite thin, due in part to rather cold equity markets. Such a situation cannot be viewed with complacency by either the borrower or lender because a serious set-back might force the bank to take over and banks cannot be in the position of forcing too many concerns out of business.

III

When considering new or additional applications for loans carefully weigh these points:

(a) Many concerns that thus far have not borrowed are now being caught in the inflation spiral and may seek funds which would only intensify their difficulties and further weaken their position.

(b) Others have reached the limit of their borrowing capacity. There has been a marked tendency to allow fixed assets to expand at the expense of working capital.

IV

It cannot be stressed too often that loans for speculative purposes should not be made.

V

Long term commitments for semi-completed capital expansion plans or new plant facilities should be reappraised in the light of your opinion of the general business outlook. Ask yourself whether or not the status of the borrower or industry has changed materially since the loan went on the books.

VI

Every loan should have a definite repayment schedule and this should be established at the outset. A sound program of portfolio management should include steps to make sure this is carried out.

VII

I don't think it is demanding too much from any customer to ask that periodic statements be supplied. Many companies do not know their costs, their break-even point or how to adjust prices. To do so they must have adequate financial records and reports. This is just as applicable to farmers as to anyone else. There are plenty of excellent agricultural statement and credit forms available and it is inexcusable not to use them.

VIII

Plenty of room for the proper extension of credit will always exist. Procedures should be set up to review continuously the probable demands in keeping within the limits you have set for your loan portfolio so that you can continue to render the service to your community which you are in business to perform. Only after satisfying local needs should you look elsewhere for loans.

IX

No program of a bank loan portfolio management in 1949 or for any other year in the future would be complete without a certain guiding philosophy which I think is of the utmost importance—that is the policy of sticking with the loan commitments you have made which have been determined to be sound after the evaluation suggested by the foregoing steps in bad times as well as good. It will be absolutely necessary to do this if we ever hope to maintain a reasonably stable economy characterized by full production, employment and a high level of national income. Nothing could be worse in a period of recession than wholesale liquidation of loans. You must be prepared to nurse with skill and patience the problem cases that will inevitably develop, and you should be building reserves during these lush times to take care of possible losses in the future.

Many bankers believe that business earnings in 1949 will be more spotty, instead of the more or less uniformly satisfactory earnings that have prevailed in the last two or three years. The probabilities also are that some companies are going to show losses, and consequently banks are probably going to experience more losses than they have in the last two or three years. It is highly important, therefore, that banks build their reserves so that they are prepared to meet losses which may occur. If and when we have a decline of substantial proportions, experience indicates that the reserves have to be very large to take care of the losses. The banks must meet the sound borrowing needs of the depositors, but this seems to be the time for increasing conservatism and care in the extension of credit.

	Dollars in Billions				
	1939	*1944*	*1946*	*1947*	*1948*
Gross National Product	90.4	212.2	209.6	231.6	*255.9
National Income	72.5	182.4	179.3	202.5	*227.3
National Debt	41.9	230.6	259.1	256.9	†252.5
Gross Private Domestic Investment	9.0	6.4	26.5	30.0	*39.0
	1940				
Money Supply	42.3	90.4	110.0	113.6	‡109.6
Corporate Net Profits	5.0	10.8	12.8	18.1	§15.3
Total Loans All U. S. Banks	22.2	26.0	35.6	43.0	‡47.1
Index of Industrial Production (1935-1939=100)	109.0	235.0	170.0	187.0	¶196.0
Wholesale Commodity Price Index (1926=100)	77.1	104.0	121.1	152.1	¶168.5

	Dollars in Thousands	
Louisiana:	*June 29, '40*	*1948*
Total Loans and Discounts Insured Commercial Banks	153,701	355,045
Commercial and Industrial	54,060	161,885
Agricultural	16,627	14,730
Real Estate	28,899	76,393
All Other	54,115	102,037

*3rd Quarter. †October. ‡September. §Total of 1st three Quarters. Estimates for whole year exceed 20 billion. ¶Shown in index numbers not dollars. Latest figures are for September.

NOTE: Figures are for Dec. 30 except where otherwise stated.

SOURCES: Federal Reserve Bulletin, Survey of Current Business & FDIC Reports.

NET LOANS AND DISCOUNTS x CAPITAL ACCOUNTS OPERATING INSURED COMMERCIAL BANKS

As of June 30, 1948

All States 3.95

Washington	5.6	Pennsylvania	2.6	Nevada	6.5	Idaho	5.7
Texas	4.9	Delaware	2.5	Michigan	4.6	Arizona	8.8
Utah	5.8	New Mexico	6.7	Missouri	5.2	California	6.7
Tennessee	4.9	No. Carolina	4.7	Georgia	5.3	Louisiana	4.1

Conclusions

The first step in management of a bank loan portfolio is to determine a maximum loan limit. There has been entirely too much argument about whether or not bank loans are too high and not nearly enough in the way of specific suggestions as to how a reasonable level should be determined. Therefore, I do not elect to take a stand on this highly controversial issue, but there are plenty of illustrations, some of which were mentioned, to the effect that loans are not out of line with other elements in the picture today. Sumner Slichter points out in his new book, "The American Economy," that, "the volume of commercial bank loans . . . is small in relationship to the national product—only about 20% of the national product in comparison with 40% in 1929." On the other hand, the one major point of weakness seems to be in the relatively thin capital buffer against loans for many banks in quite a few states. If the demand for desirable loans makes it impossible to maintain a comfortable position, then more capital should be raised.

I have tried to suggest a number of steps which should be taken in a continuing appraisal of the loan portfolio. Taken together they constitute a management program consisting of effective controls. These controls, I think, are objective in nature and do not represent crude attempts to fight inflation by restricting bank credit. It is the quality of credit, not the dollar amount, that is important. Arbitrary devices to prevent banks from lending in the words of Dr. Willard E. Atkins, Chairman of the Department of Economics, Washington Square College, New York University, are "akin to erecting road blocks to stop speeding automobiles. You may stop the careening car, but you may also cause a smash."

Finally, one sobering note of warning. If we don't adopt the guiding philosophy of making loan commitments that we are willing to stick within bad times as well as good, someone else will take over the task under some system of governmental controls. Sumner Slichter, again in his new book, "The American Economy," points out that "The aggravation of the ups and downs of business by the expansion and contraction of credit is intolerable. The community cannot permit the volume of spending, and hence the volume of employment, to be substantially reduced by a large contraction in the volume of private credit, such as occurred between 1929 and 1933. Hence, if the community permits the amount of money to be increased by the expansion of private bank loans during a boom, it must be prepared to prevent any subsequent decrease in bank loans from substantially reducing the volume of money and the amount of spending." This is the problem which faces us if we are to avoid again being made the whipping boys for the vagaries of our economy.

Making Profit Reports Realistic

(Continued from page 16)

counting readjustments, and anyway it would be unwise to make them until the permanent level at which prices are to be stabilized is known. Then, if certain costs are found to be out of line, appropriate action can be taken. This argument seems to me to be untenable at every point. The fact is that price levels in the United States have for eight years been rising at the rate of about 8% a year compounded annually, or conversely, on a diminishing balance basis, the value of the dollar has been falling 8% a year on the average. Mathematically, this rate of decline could continue forever. It seems pertinent to ask therefore which 8% would be the straw that breaks the camel's back? If inflation should continue at this rate, would a readjustment of accounts be called for after nine years when the dollar would have lost 50%, or after 18 years when it would have lost 75%, or after 27 years when it would have lost 87½% of its original value?

The idea of waiting for price stability, it seems to me, carries two implications, both of which are false. It implies that price levels will be stabilized even though in all our history they never have been. There is, of course, a possibility that the price-level is being stabilized now around present levels. If so, the time for adjustment is here. If not, making the accounting and business mechanism more sensitive to economic change would in itself tend to bring about greater stability. Inflation feeds on the fact that the repercussions from inflationary policies and actions are so long deferred that the people generally mistake symptoms for causes.

The second false implication is that accurate information would be more useful in a period of stability than during the turbulent period of transition. But accounting is an indispensable means of communication without which large enterprises could not be managed. Is it reasonable then to make no effort to eliminate distortion during the very periods when policy decisions are most difficult? What would one think of a general who told his subordinates not to try to restore communications until the battle was over?

Inertia and Wishful Thinking

In addition to inertia and wishful thinking, however, there are some legal difficulties. Statutes and administrative regulations require the use of specified methods for income-tax and other purposes, but there is no law as yet which forbids the reporting of real profits to stockholders and public. And accounting methods normally achieve legal recognition by becoming accepted practice. This certainly is preferable to the postponement of reforms until full legal recognition can be obtained.

There are other difficulties and obstacles which cannot be discussed here. The final responsibility for not adjusting methods of financial reporting to current economic conditions must nevertheless rest squarely upon management. While there is plenty of resistance to change on the part of accountants, backed incidentally by some very good reasons, it is still true that accountants are keenly aware of the problem and will make appropriate changes (a) when the superiority of some new method is clearly demonstrated, (b) when so-called economic costs are recognized for tax purposes, or (c) when there is a clear mandate from management. That mandate so far has been lacking. For this there are a number of reasons, but primarily in my opinion it is because no company wants to be the first or the second to take the plunge. Although the idea that maximizing profits for stockholders is the major objective of business has become pure fiction so far as large public corporations are concerned, the opportunity to report large profits, whether real or not, is rather pleasant. It would take rare courage to report losses or very low profits at a time when other firms, operating no more efficiently, were reporting exceptionally large profits. Here in fact is a real dilemma. No single corporation can change over to an economic basis of reporting without incurring the not inconsiderable risk of being out of step with other firms in the industry; and yet there are serious practical if not legal difficulties in the way of a simultaneous change-over by agreement. The fact of your presence here, however, indicates a belief or hope that something can be done.

There are many technical problems—partial replacements or improvements of existing structures, properties being depreciated on a group or composite basis, etc.—for which solutions would have to be found. If industry really wants recognition of depreciation on an economic or replacement cost basis, there is urgent need for research and consultation. Congress and the Treasury are not going to force higher depreciation deductions upon industry. They will, however, in my opinion give serious consideration to a workable plan for which there is evidence of support and acceptance.

J. A. Hogle Co. Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Denys D. Shelley has been added to the staff of J. A. Hogle & Co., 507 West Sixth Street.

With Merrill Lynch Firm

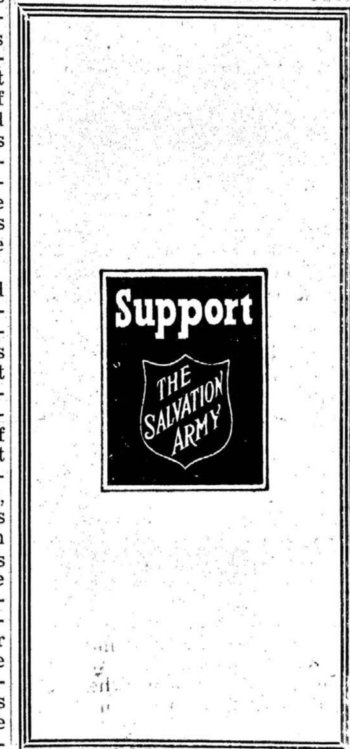
(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—George G. Gauck is with Merrill Lynch, Fierce, Fenner & Beane, 523 West Sixth Street.

Joins Sutro Co. Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—George F. Kerins has become affiliated with Sutro & Co., Van Nuys Building.



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Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Steel extra and split can well become the spark to set off new price rise.

As this was being pounded out on the Underwood, the broad tape click-clacked the news that in addition to its regular dividend Big Steel had announced a $1.25 extra and was splitting its stock three for one.

* * *

The New York market had already closed so there was no reflection of this news, except the exciting chatter in the board rooms about what this would mean. But on the West Coast the market was still doing business and there Steel was up $3 from its New York close.

* * *

I wish I could foresee the effect of Steel's action on the market. In fact I wish for a lot of things, few of which I'll ever get. In recent months wishing has been about the only pastime I can afford. But if wishing can't make me see around corners, it can't stop me from having opinions and I have two on this latest development.

* * *

The first one is that this news can be the spark to set off an advance the market has indicated for the past several weeks, but failed to prove. There are markets which do about everything but go up (or down—depending on the current trend). Frequently the catalytic agent that forces them out of their nascent stage is a piece of unexpected news. The Steel news could well be the catalyst this time around.

* * *

The second opinion is a combination of factors that aren't particularly cheering. The public has always greeted stock splits enthusiastically. Why three shares of stock, at say 20, should be nicer to own than one share of say 60, is something I haven't the answer to. I know the arguments for it—greater market mobility because of greater public participation, etc. It also be the start of major distribution.

* * *

The other pessimistic factor stems from an outgrowth of brokerage house opinion. Brokers depend on commissions. Each day's overhead must be met. An accumulation of poor trading days means that brokerage houses aren't doing too well. It's the easiest thing in the world for a person to be pessimistic about somebody else's business, if his own isn't too good.

* * *

So much for the extraneous reasons. Now back to the market: I see little in the immediate past to indicate anything but higher prices for the future. What these higher prices will be based on I don't pretend to know. But so long as the buying I think I see continues to be better than the selling, I see no point in brooding about business depressions.

* * *

Last week I suggested Cooper Bessemer, United Carbon and U. S. & Foreign. The first stock was unavailable (27-28). United Carbon between 36 and 37 was, and so was U. S. & Foreign 21-22. Stop the first at 34 and the second at 19.

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.*]

Pacific Coast Securities

Orders Executed on Pacific Coast Exchanges

Schwabacher & Co.

Members
New York Stock Exchange
New York Curb Exchange (Associate)
San Francisco Stock Exchange
Chicago Board of Trade

14 Wall Street New York 5, N. Y.
COrtlandt 7-4150 Teletype NY 1-928
Private Wires to Principal Offices
San Francisco—Santa Barbara
Monterey—Oakland—Sacramento
Fresno

Wages, Prices, Employment in 1949

(Continued from first page)

summer of 1948. The peak of the Bureau of Labor Statistics' Wholesale Price Index occurred in 1948 at 169.5, several points higher than the peak of 1920. Since that time the index has declined slowly to about 160.2 in December and to 160.5 for the week ending Jan. 11, 1949. The decline has been steady, although not spectacular.

The major factor in this decline has been the drop in the prices of farm products. These reached the postwar peak in January, 1948, when the monthly index was 199.2. There was a sharp break in February, and then a recovery to 196.0 in June, followed by a decline of 178.0 in December. The weekly index for Jan. 11, 1949 was 174.3.

By contrast, there has been comparatively little change in the prices of the industrial products represented in the index. These are down scarcely at all from the peak reached last autumn. Some breaks have occurred in the last few days in some industrial products, such as steel scrap, but these have been so far counter-balanced by increases in other products.

Retail prices have begun to respond to the declines in wholesale prices particularly of the foods. The Consumers' Price Index of the Bureau of Labor Statistics reached a postwar peak of 174.5 in August and September, 1948. It declined to 172.2 in November. The index for December is not yet available, but we do know that wholesale food prices continued to fall to the end of the year and this should be reflected in the food items of the Consumers' Price Index in December.

Likewise, there has been ample evidence of clothing sales in December and January, the first on a large scale since the war. This may indicate the beginning of a down-turn in the apparel items of the index. There has been also, by the same evidence, indications of weakening of household furnishings prices.

On the other hand, the rent item is still held down by rent control. It has been creeping upward, and would undoubtedly rise sharply if controls were eliminated. The long run prospect for the rent item is upward. Thus, while the cost of living is declining to some extent, the trends within it are somewhat mixed and there seems to be no prospect of a sharp break.

Turn in Employment Situation

Indications of a turn in the employment situation occurred as early as October. At that time, the hiring rate in manufacturing industries reached the lowest point of any October since 1939. Conversely, lay-offs increased and quits were down. This indication was borne out in November when non-agricultural employment, according to the Bureau of Labor Statistics dipped 170,000 from the preceding month. In New York State in December there was a further decline of 1.1% in manufacturing industries from the November figure. Then in January, 1949, there was a sharp up-turn in claims for unemployment compensation throughout the country. Continued claims (those which continue after the first appearance of the unemployed workers at the unemployment office) rose in the week ending Jan. 8 to a level of about 50% above a year ago. There was additional evidence of part-time in some industries.

It is important, however, to note that these declines in employment and increases in unemployment are as yet very small in relation to the total picture. While there were 1,475,000 continued claims for unemployment compensation in the week ended Jan. 8, there were approximately 45,000,000 persons employed in non-agricultural industries. This trend would have to go a great deal further before the development could be called a depression, or even a recession.

When V-J Day came, industry began immediately to reconvert to peacetime production. Hours of work were cut and the weekly earnings and the workers' pay envelopes went down sharply. There began almost immediately a struggle of the wage earners to restore their wartime purchasing power.

This took the form of demands of higher wage rates to offset the declines in weekly earnings. We have become accustomed to talking in terms of "rounds" of wage increases. In actual fact, the records of the Bureau of Labor Statistics show that these "rounds" became less and less of a pattern as time went on. What has happened is that wage rates in general have increased since the war, with some industries and skills rising faster and farther. while others lagged behind. According to the Bureau of Labor Statistics, wage rates in manufacturing industries have risen about 43% since V-J Day on the average, while weekly earnings have risen about 30%.

At the same time, the rise in the Consumers' Price Index has reflected the increased cost of living. This has roughly and approximately balanced off the increases in wage rates and earnings, so that the efforts of the last three years have just about produced a stalemate.

Now, however, the decline in farm prices, in food prices, and in the Consumers' Price Index indicates that a shift may be in prospect, namely, toward a better purchasing power of the consumer's dollar. Since many of the wage demands since the war have been based upon the cost of living, this may now be removed as an important factor in the wage picture. On the other hand, the thoughts of unemployment and possible business recession naturally cause a switch in emphasis toward social security. Thus, the outlook is for increased attention to health and welfare plans in collective bargaining as well as to broader social security legislation.

If current trends continue, there will also be increasing attention on the part of both labor and management to productivity. The true foundation of the American standard of living (and it is the highest in the world) is the output achieved per man-hour of labor. This output represents the cooperative achievement of management and labor. Faced with increasing competition, employers will be more zealous in cutting costs wherever possible. Hopeful of further long range increases in wages, unions will pay more attention to productivity. It would not be surprising, therefore, if this factor became one of the most important in our economy in the next few years.

News about Banks and Bankers

(Continued from page 14)

Fred. Gretsch, President of the **Lincoln Savings Bank of Brooklyn, N. Y.**, has announced that the board of trustees at their annual meeting appointed Mrs. Ruth Hawley to the post of Assistant Secretary and John Vogel to Assistant Cashier.

* * *

Charles F. Oswald, Assistant Cashier of the **Bayside National Bank, Bayside, N. Y.**, has been appointed Comptroller of the bank. Auditor since he joined the bank's staff in 1944, Mr. Oswald has had more than 25 years in banking. He was first associated with the Equitable Trust Co. and later was employed by the Chemical Bank & Trust Co. as branch Auditor and Chief Examiner.

* * *

The board of trustees of the **Ridgewood Savings Bank of Ridgewood, N. Y.**, at a recent meeting elected Walter J. Hess President of the bank. Mr. Hess, a graduate of Columbia Law School, was admitted to the bar in 1924. After practising law for 24 years he was elected a trustee of Ridgewood Savings Bank in November, 1938. On Jan. 1, 1948 he was elected First Vice-President of the bank. At the recent meeting, Herman Dippold was elected First Vice-President and Secretary, while John Schmid was reelected Second Vice-President of the bank. The Ridgewood Savings Bank was incorporated June 18, 1921.

* * *

At a meeting of the directors of the **State Street Trust Co. of Boston**, held Jan. 17, the following promotions were voted: Myron B. Young, and J. Stanley Lang to Assistant Treasurers, and Sargent S. Rowe to Assistant Trust Officer. Mr. Young came to the trust company at the time of the merger with the National Union Bank in 1925. Mr. Lang has been with the company since 1937 (except for three years' service in World War II) and Mr. Rowe joined the bank's forces in 1946.

* * *

Charles E. Spencer, Jr., Chairman of the board of the **First National Bank of Boston Mass.**, and retired President of that bank, has again been selected as a member of the Federal Advisory Council to serve for the current year, it was announced on Jan. 11 by the Federal Reserve Bank of Boston. The Federal Advisory Council meets at least four times a year with the Board of Governors of the Federal Reserve System in Washington to confer on general business conditions and to advise the Board with respect to money matters and the general affairs of the Federal Reserve System.

* * *

Announcement is made by the Board of Governors of the Federal Reserve System that the **Bridgewater Trust Co. of Bridgewater, Mass.**, a State member, was absorbed by **The Home National Bank of Brockton, Mass.**, effective Jan. 3. In connection with the absorption a branch was established at Bridgewater.

* * *

Effective Jan. 3 **The North End Bank & Trust Co. of Bridgeport, Conn.**, was merged into **The Bridgeport-City Trust Co. of Bridgeport**, under the charter and title of the latter institution. The Board of Governors of the Federal Reserve System reports that both were State bank members of the System. In connection with the merger a branch was established in the former location of The North End Bank & Trust Co.

* * *

At a meeting of the board of directors of the **First National Bank of Jersey City, N. J.**, held

Kelley Graham Clifford A. Spoerl

on Jan. 19, Kelley Graham was elected Chairman of the Board. Mr. Graham has been associated with the bank since 1923, first as Vice-President and as President of the institution since 1925. Mr. Graham is a director of various companies including the Hackensack Water Co. and the Firemen's Insurance Co. At the same meeting, Clifford A. Spoerl was elected President. Mr. Spoerl was elected Assistant Cashier of the bank in 1922, Vice-President in 1925 and became First Vice-President in 1944.

* * *

Effective Jan. 17, the Comptroller of the Currency has given approval to an increase in the capital stock of **Tradesmens National Bank and Trust Co., Philadelphia**, from $3,993,000 to $4,232,580, permitting the payment of the 6% stock dividend voted by the directors on Jan. 14.

* * *

Robert L. Gray, Jr., has been appointed Assistant Investment Officer of the **Land Title Bank and Trust Co. of Philadelphia.**

* * *

On Jan. 20 the directors of the **Provident Trust Co. of Philadelphia** increased the quarterly dividend from 50 cents to 68½ cents a share. The dividend is payable Feb. 1, 1949 to stockholders of record Jan. 24, 1949. The directors thus determined, it is announced, that instead of declaring the regular quarterly dividend at the rate of $2 a share per annum and declaring an extra dividend of 50 cents a share at the end of the year as has been the case during the last two years, they

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would inaugurate quarterly dividends at the rate of $2.50 per share per annum.

* * *

The promotion of Harper R. Clark from Cashier to Vice-President of the **First National Bank of Baltimore, Md.**, was announced on Jan. 12 following a meeting of the board of directors, it is learned from the Baltimore "Sun" which also reported:

"Charles F. Reese, Assistant Cashier, was at the same time elected Cashier to succeed Mr. Clark. Both Mr. Clark and Mr. Reese started their banking careers in 1923 as runners for the Citizens National Bank, which was later merged with the Merchants National to form the First National."

* * *

The stockholders of the **Bank of Virginia, at Richmond, Va.**, at their annual meeting on Jan. 15 elected W. Brooks George, Assistant to the President of Larus & Brother Co., Inc., as a new director. All former directors were reelected. At the directors' meeting Ralph F. Bagwell, Director of Savings, was elevated to Vice-President, while Thomas W. Jenkins, Assistant Cashier, was made Assistant Vice-President. All other officers were re-elected.

Miss Daphne Dailey joined the official family of The Bank of Virginia as Director of Advertising and Public Relations on Jan. 17th. Miss Dailey comes to the bank with a broad background of newspaper and editorial experience. In 1944 she received the Virginia Press Association's Distinguished Service Award, and in 1944-45 was Vice-President of the Virginia Press Association for non-dailies while in 1945-46 she was made President of the Virginia Press Association.

* * *

Ray M. Gidney, President of **Federal Reserve Bank of Cleveland**, announced on Jan. 13 five promotions at the bank. Wilbur D. Fulton, now Vice-President in Charge of Bank Examination, will be assigned as Vice-President in charge of the bank's Cincinnati branch, effective March 1, at which date Benedict J. Lazar, who has been with the bank 31 years, plans to retire; Paul C. Stetzelberger, promoted from Assistant Vice-President to Vice-President, and will be in charge of Bank Examination effective March 1. Mr. Stetzelberger has been in charge of Personnel. The Personnel functions will then be placed under the direction of Martin Morrison, Vice-President, who is also in charge of the Fiscal Agency function; Roger R. Clouse, promoted from Assistant Vice-President to Vice-President, will continue in charge of Bank and Public Relations; Phillip B. Didham, promoted from Manager of the Fiscal Agency Department, to Assistant Cashier in charge of that department; Harmen B. Flinkers, promoted to Assistant Secretary of the bank, in addition to his duties as statistician of the Bank Examination Department.

* * *

At the organization meeting of directors of the **Union Bank of Commerce of Cleveland** following the stockholders' meeting, Walter L. Kyle and Louis A. Wild were advanced from Assistant Cashiers to Assistant Vice-Presidents. Mr. Kyle joined the bank in April 1946 after returning from Army service, having previously been with the Federal Reserve Bank of New York and the Cleveland Trust Co. Mr. Wild has been with the Union Bank of Commerce since its establishment in 1938 and had formerly been associated with the Union Trust Co. and its liquidation.

Two new directors were added to the board of the Union Bank of Commerce at the annual meeting of shareholders on Jan. 12, President John K. Thompson announced. They are William C. Dunn, President of The Ohio Crankshaft Co., and Ben P. Gale, Vice-President and Treasurer of The Perry-Payne Co. All other directors were re-elected.

* * *

Election to the board of directors of the **First National Bank of Cincinnati** of Reuben B. Hays, Executive Vice-President, and approval of a stock split-up occurred at the bank's recent annual meeting. The Cincinnati "Enquirer" in its issue of Jan. 12, in its column edited by Frank J. Ruhe, said that Mr. Hays was named to succeed the late Joseph P. Thomas, who was President of the U. S. Printing & Lithographing Co. The advices indicated that approval was given by the stockholders of the directors' proposal to split the bank's stock 10 shares for one through reduction in the par value of the stock from $100 a share to $10.

* * *

Fred A. Dowd resigned on Jan. 11 as **Vice-President of the First National Bank of Cincinnati, Ohio**, to become **President** and director of the **Atlas National Bank of Cincinnati**, in which post he succeeds Joseph F. Parti, who retired on Dec. 31. In the Louisville "Courier Journal" of Jan. 12 it was stated that Mr. Dowd, a native of Owenton, Ky., and a Kentucky banker for 20 years, was with the Liberty National Bank & Trust Co. of Louisville in 1935 and 1936, and was also with the State Banking Department as an examiner; in addition he had likewise been connected in the past with several Kentucky banks. He joined the First National of Cincinnati four years ago.

* * *

Edwin G. Austin and Richard E. Pritchard were elected directors of the **Harris Trust and Savings Bank of Chicago** at the annual stockholders' meeting. Mr. Austin is a member of the law firm of Sidley, Austin, Burgess & Harper, and a director of several companies. Mr. Pritchard is Vice-President of the bank in charge of Banking Department operations. He has been associated with the bank since 1920, having served as Assistant Cashier, Assistant Vice-President, Cashier, and since 1939 as Vice-President. He is a member of the Reserve City Bankers Association, and is Treasurer of both the Chicago Better Business Bureau and the Ravinia Festival Association. Retiring from the Board in accord with his request was William P. Sidley of Sidley, Austin, Burgess & Harper, who has served as a director of the bank for 32 years.

At the meeting of the directors, following the stockholders meeting, elections and promotions included the following: Vice-Presidents: George S. Allen, John J. McDonough, Robert W. Rogers, Warren L. Fellingham and Franklin O. Mann, all previously Assistant Vice-Presidents; to Assistant Vice-Presidents: Roy A. Johnson, William F. Murray and William C. Norby, all previously Assistant Cashiers; and Walter W. Planke was advanced from Assistant Secretary to Assistant Vice-President.

* * *

Directors of **Chicago Title and Trust Co. of Chicago** on Jan. 12 elected Philip A. Paulson, Vice-President. Mr. Paulson was formerly a Trust Officer. A graduate of the University of Illinois in 1921, Mr. Paulson came with the company on Aug. 19, 1926 in the Trust Department. In April, 1929, he was appointed Assistant Trust Officer. On Jan. 9, 1945 he was made Assistant Vice-President and on Nov. 1, 1947 was appointed Trust Officer in charge of Trust operations.

* * *

An annual report written solely for its employees, believed to be the first of its kind ever made in banking circles, has been distributed by the **American National Bank and Trust Co. of Chicago** to its staff. Entitled "A Report to the Staff," it deals with general plans, benefits and the future, and is an attempt to personalize and interpret the bank's accounting statements. The 8-page report is illustrated with charts showing where the bank gets its income, what happens to the income, employee benefits, and prospects for the future.

* * *

The board of directors of the **Federal Reserve Bank of Minneapolis** at their annual meeting on Jan. 14, elected Franklin L. Parsons Associate Director of Research, and re-elected all other officers. Mr. Parsons, who joined the bank in March 1944 as Agricultural Economist and continues in that capacity, was formerly Associate Professor of Agricultural Marketing and Finance at Kansas State College.

* * *

John R. Kirk Jr. was promoted from Vice-President to President of the **Plaza Bank of St. Louis** on Jan. 11, succeeding F. R. von Windegger, who was elected Chairman of the Board of directors. Mr. von Windegger had been President since 1932, said the St. Louis "Globe Democrat" of Jan. 12, which further stated:

"William H. Duff, Cashier, becomes Vice-President and Cashier. He joined the bank in 1946. Mr. Kirk, who joined the bank as Vice-President in 1945, previously had been senior examiner in the St. Louis district for the Federal Deposit Insurance Corporation.

* * *

A resolution to shorten the name of the **Traders Gate City National Bank of Kansas City, Mo.**, to the **Traders National Bank** was adopted by the directors at the annual meeting on Jan. 11. As to this action the Kansas City "Star" of that date said:

"The decision to shorten the name of the Traders Gate City bank originally was planned shortly after 1930, when Traders National consolidated with Gate City. At that time Traders was housed in the old Bryant building which was to be razed, and Gate City owned the building at 1111 Grand Avenue. Both banks were about the same size, and since Traders needed space, a merger was effected. The change in name will become effective April 1."

* * *

Charles D. Hall retired as President of the **Linwood State Bank of Kansas City, Mo.**, at the annual meeting on Jan. 11 and was succeeded in the Presidency by his nephew, Edward G. Price, it is learned from the Kansas City "Star," which notes that Mr. Price had been Executive Vice-President for the past two years.

* * *

The board of directors of **City National Bank & Trust Co. of Kansas City, Mo.**, have voted the following advancements and new officers: Vice-Presidents: John E. Hoffmann and Jack Black; Assistant Vice-President, Charles W. Koester; Assistant Cashiers: W. B. Waterhouse, Ed. T. Arnsberger, Carl H. Schroeder and Carl L. Schupp; Assistant Comptroller, Harry Filson.

* * *

The capital of the **American National Bank & Trust Co. of Mobile, Ala.**, has become $500,000, having been raised on Dec. 28 from $375,000 to $406,250, through a stock dividend of $31,250, and from $406,250 to $500,000 through the sale of $93,750 of new stock, according to the Comptroller of the Currency's bulletin of Jan. 3

* * *

The Albuquerque National Trust & Savings Bank of Albuquerque, New Mexico, increased its capital from $600,000 to $1,000,000 on Dec. 31 by a $400,000 stock dividend and on the same date changed its title to the **Albuquerque National Bank**, it is learned from the Bulletin issued on Jan. 3 by the Office of the Comptroller of the Currency.

The promotion of A. D. Simpson from the office of President to that of Vice-Chairman of the board of the **National Bank of Commerce of Houston, Tex.**, oc-

A. D. Simpson R. P. Doherty

curred at the year-end meeting of the directors of the bank, at which time also R. P. Doherty, heretofore Executive Vice-President, was made President succeeding Mr. Simpson. Both, said the Houston "Chronicle" of Dec. 31, have been with the bank for 31 years, each having started as bookkeeper. Jesse H. Jones is Chairman of the board of the bank. From the same paper we also quote:

"Other promotions made by the board were John E. Whitmore and E. O. Buck as Vice-Presidents, and J. A. Follis and G. W. Coles as Assistant Cashiers. Mr. Simpson has been President and Mr. Doherty Executive Vice-President since 1934.

"The bank directors declared at the Friday meeting [Dec. 31] an extra dividend of 60 cents a share, making a total of $3 for the year."

At the annual meeting of the stockholders of the bank on Jan. 11, according to an announcement by Mr. Simpson, approval was given to plans to increase the capital stock of the bank from $4,000,000 to $5,000,000, such increase being provided for by the sale of additional capital stock. At the January meeting, the surplus of the bank was also increased from $4,000,000 to $5,000,000 by the transfer of funds from the undivided profits account. These increases will give the bank a total capital stock and surplus of $10,000,000. The promotions noted above were approved by the stockholders at the Jan. 11 meeting.

* * *

Directors of **California Bank of Los Angeles**, at their annual organization meeting on Jan. 12 voted to issue 40,000 additional shares, bringing the outstanding stock to 300,000 shares, Frank L. King, President, announced. Shareholders of record Jan. 15 were given an opportunity to subscribe to this additional stock at the ratio of one share for each 6½ shares held. The subscription price was fixed at $35. Shareholders had earlier approved an amendment to the bank's articles of incorporation to increase the authorized capital stock from 260,000 to 400,000 shares. Shareholders re-elected all members of the board of directors. At the meeting of directors, all officers were re-elected. Total capital funds are in excess of $18,100,000, a new high, President King reported.

* * *

The board of directors of the **Stockton Savings and Loan Bank of Stockton, Cal.**, announces the election on Jan. 13 of E. L. Wilhoit as Chairman of the Board and R. L. Eberhardt as President.

* * *

At the organization meeting of the board of directors of the **Citizens National Trust & Savings Bank of Los Angeles** on Jan. 13, President H. D. Ivey and all other officers were reelected. In addition, the following promotions were announced: W. J. Richards, R. P. Sherwood, G. E. Weber and Irene Parsons to Junior Vice-Presidents; C. N. Erling to Assistant Cashier and Assistant Secretary; E. R. Tracy, K. C. Moore and Howard Young to Assistant Cashiers; E. B. Keusink to Assistant Secretary; R. H. Hamilton to Manager of Real Estate Loan Department, and J. K. Britton to Chief Appraiser.

* * *

William W. Crocker, President of the **Crocker First National Bank of San Francisco** announced, following the annual meeting of the stockholders on Jan. 11, that Joseph A. Moore, Chairman of the Board of Directors of Moore Dry Dock Co., had retired as a Director of the bank and that his son, Joseph A. Moore, Jr., was elected to fill his place. The latter is President and General Manager of Moore Dry Dock Co. and a Director of The Paraffine Companies, Inc., and the California Insurance Co. He served as President of the California Metal Trades Association in 1947. Mr. Crocker also announced the following promotions among the officers and staff: From Assistant Vice-President to Vice-President, F. P. Gallot and F. F. Hanington; from Assistant Cashier to Assistant Vice-President, J. W. Crane, E. F. Kirchen and L. A. Wiseman. Arthur Merkt was promoted from Assistant Trust Officer to Assistant Cashier and William P. Bradford from Chief Clerk to Assistant Cashier.

"One-Way Theories"

(Continued from page 13)

postwar years of phenomenal prosperity has raised his voice to advocate lopping, say, $10,000,000,000 or $20,000,000,000 off the government's debt, it has completely escaped the attention of this writer, at least.

* * *

The farm program known as the Ever-Normal Granary is another instance of economic planning that works chiefly in one direction. The theory behind this program is both ingenious and plausible. When there is a glut of crops the Government is to step in and take the surplus off the market, feeding it out again as prices recover and the demand-supply situation returns to something like balance. The only trouble with this scheme has been that while buying operations have been enthusiastically supported, the government has run into strong political resistance when the situation called for a reversal of that policy. How it would ever have got out from under the mountains of grain and cotton accumulated under this program had World War II not come along when it did no one will ever know.

Any discussion of such "rainy day" theories as these would be incomplete which did not mention in passing that remarkable experiment in "reflation" conducted in 1933. This was based on the so-called Warren theory, which held that by raising the price of gold the government could produce a general rise in the nation's price level. If this were true, then obviously a reversal of the process might be expected to be correspondingly anti-inflationary. Yet, although nearly every conceivable plan for halting the rise in prices and living costs has been put forward at one time or another during the past three years, the onetime advocates of gold prices manipulation have been strangely silent. On such occasions as they have broken into print, it is interesting to note, it has been to urge a further increase in the price of gold because prices and living costs (and particularly the cost of mining gold) are now too high.

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Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available (dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date):

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Jan. 30	101.1	100.1	97.3	95.2
Equivalent to—					
Steel ingots and castings (net tons)	Jan. 30	1,863,800	1,845,400	1,753,800	1,716,000
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Jan. 15	5,428,300	5,453,850	5,645,250	5,326,137
Crude runs to stills—daily average (bbls.)	Jan. 15	‡5,721,000	5,752,000	5,695,000	5,344,000
Gasoline output (bbls.)	Jan. 15	18,432,000	18,278,000	17,902,000	16,236,000
Kerosene output (bbls.)	Jan. 15	2,762,000	2,493,000	2,537,000	2,489,000
Gas oil and distillate fuel oil output (bbls.)	Jan. 15	7,749,000	7,789,000	7,539,000	7,496,000
Residual fuel oil output (bbls.)	Jan. 15	9,187,000	9,153,000	9,053,000	8,880,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Jan. 15	109,219,000	107,111,000	98,225,000	98,751,000
Kerosene (bbls.) at	Jan. 15	22,593,000	23,368,000	25,342,000	12,975,000
Gas oil and distillate fuel oil (bbls.) at	Jan. 15	70,491,000	73,941,000	81,071,000	44,482,000
Residual fuel oil (bbls.) at	Jan. 15	85,609,000	85,544,000	87,217,000	51,601,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Jan. 15	733,272	721,507	754,545	808,308
Revenue freight received from connections (number of cars)	Jan. 15	640,012	594,516	666,197	691,953
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Jan. 20	$96,601,000	$132,583,000	$173,235,000	$118,943,000
Private construction	Jan. 20	60,115,000	59,243,000	111,832,000	67,823,000
Public construction	Jan. 20	36,486,000	73,340,000	61,403,000	51,126,000
State and municipal	Jan. 20	30,954,000	58,736,000	50,204,000	40,171,000
Federal	Jan. 20	5,532,000	14,604,000	11,199,000	10,955,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Jan. 15	11,880,000	*11,585,000	11,315,000	13,080,000
Pennsylvania anthracite (tons)	Jan. 15	1,050,000	1,032,000	940,000	1,210,000
Beehive coke (tons)	Jan. 15	140,800	*149,200	141,000	140,500
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Jan. 15	245	*272	576	232
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Jan. 22	5,768,934	5,726,703	5,503,240	5,436,430
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Jan. 20	142	127	116	109
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Jan. 18	3.75628c	3.75628c	3.75628c	3.22566c
Pig iron (per gross ton)	Jan. 18	$46.78	$46.82	$46.82	$40.08
Scrap steel (per gross ton)	Jan. 18	$40.92	$40.92	$43.00	$41.83
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Jan. 19	23.200c	23.200c	23.200c	21.200c
Export refinery at	Jan. 19	23.425c	23.425c	23.425c	21.500c
Straits tin (New York) at	Jan. 19	103.000c	103.000c	103.000c	94.000c
Lead (New York) at	Jan. 19	21.500c	21.500c	21.500c	15.000c
Lead (St. Louis) at	Jan. 19	21.300c	21.300c	21.300c	14.800c
Zinc (East St. Louis) at	Jan. 19	17.500c	17.500c	17.500c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Jan. 25	101.22	101.16	100.96	100.69
Average corporate	Jan. 25	113.12	112.93	111.81	110.88
Aaa	Jan. 25	119.00	118.80	117.60	116.02
Aa	Jan. 25	117.00	117.00	115.82	114.46
A	Jan. 25	112.00	111.81	110.52	110.15
Baa	Jan. 25	105.34	104.83	103.80	103.64
Railroad Group	Jan. 25	109.06	108.52	106.92	105.17
Public Utilities Group	Jan. 25	113.31	113.31	112.37	112.75
Industrials Group	Jan. 25	117.20	117.20	116.22	114.85
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Jan. 25	2.41	2.42	2.43	2.45
Average corporate	Jan. 25	3.00	3.01	3.07	3.12
Aaa	Jan. 25	2.70	2.71	2.77	2.85
Aa	Jan. 25	2.80	2.80	2.86	2.93
A	Jan. 25	3.05	3.07	3.14	3.16
Baa	Jan. 25	3.43	3.46	3.52	3.53
Railroad Group	Jan. 25	3.22	3.25	3.34	3.44
Public Utilities Group	Jan. 25	2.99	2.99	3.04	3.02
Industrials Group	Jan. 25	2.79	2.79	2.84	2.91
MOODY'S COMMODITY INDEX	Jan. 22	385.8	389.3	394.8	449.0
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	Jan. 22	222.2	223.8	226.8	239.2
Fats and oils	Jan. 22	169.2	175.4	189.6	282.0
Farm products	Jan. 22	236.2	239.6	245.9	274.4
Cotton	Jan. 22	313.4	307.8	305.7	330.2
Grains	Jan. 22	206.6	208.2	208.7	316.2
Livestock	Jan. 22	233.9	240.2	250.8	261.7
Fuels	Jan. 22	240.1	241.2	239.9	228.9
Miscellaneous commodities	Jan. 22	171.7	172.2	171.2	181.5
Textiles	Jan. 22	196.0	195.4	195.3	219.4
Metals	Jan. 22	190.4	190.4	190.6	161.5
Building materials	Jan. 22	227.1	227.1	225.8	233.3
Chemicals and drugs	Jan. 22	147.8	147.8	149.5	155.3
Fertilizer materials	Jan. 22	143.4	143.5	142.8	136.7
Fertilizers	Jan. 22	151.3	150.8	150.8	142.9
Farm machinery	Jan. 22	155.2	155.2	155.2	134.5
All groups combined	Jan. 22	214.3	215.6	217.1	226.7
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Jan. 15	172,225	204,405	155,499	162,359
Production (tons)	Jan. 15	194,092	158,780	194,503	193,150
Percentage of activity	Jan. 15	93	79	96	104
Unfilled orders (tons) at	Jan. 15	337,149	361,252	323,781	431,880
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Jan. 15	141.7	142.1	143.1	150.6
WHOLESALE PRICES NEW SERIES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Jan. 18	159.3	160.5	162.5	166.5
Farm products	Jan. 18	170.1	174.3	179.4	201.1
Foods	Jan. 18	161.9	164.4	170.0	180.1
All commodities other than farm and foods	Jan. 18	153.0	152.9	152.8	148.9
Textile products	Jan. 18	144.2	144.3	145.2	148.6
Fuel and lighting materials	Jan. 18	137.1	137.1	137.5	130.4
Metals and metal products	Jan. 18	175.3	175.3	173.7	154.2
Building materials	Jan. 18	201.8	200.9	201.6	194.7
All other	Jan. 18	133.6	133.5	133.5	140.4
Special indexes—	Jan. 18	166.6	170.1	170.1	260.1
Grains	Jan. 18	209.0	217.4	218.3	254.1
Livestock	Jan. 18	221.0	226.0	227.8	247.3
Meats	Jan. 18	202.9	197.0	193.7	240.8
Hides and skins					

*Revised figure. †Old capacity basis. ‡Includes 469,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
ALUMINUM (BUREAU OF MINES)—			
Production of primary aluminum in the U. S. (in short tons)—Month of October	54,526	53,255	43,959
Stocks of aluminum—short tons (end of Oct.)	10,263	10,455	------
ALUMINUM WROUGHT PRODUCTS (DEPT. OF COMMERCE)—Month of November:			
Total shipments (thousands of pounds)	129,754	*138,632	133,154
AMERICAN IRON AND STEEL INSTITUTE:			
Steel ingots and steel for castings produced (net tons)—Month of December	7,755,839	*7,778,612	7,375,641
Shipments of steel products, including alloy and stainless (net tons)—Month of Nov.	5,732,256	5,952,008	5,216,990
AMERICAN TRUCKING ASSOCIATION— Month of November:			
Number of motor carriers reporting	286	*286	286
Volume of freight transported (tons)	2,955,292	*3,100,182	2,606,875
BUILDING CONSTRUCTION—U. S. DEPT. OF LABOR—Month of December (in millions):			
Total new construction	$1,391	*$1,552	$1,320
Private construction	1,080	*1,178	1,097
Residential building (nonfarm)	550	*600	610
Nonresidential building (nonfarm)	312	330	284
Industrial	114	*115	134
Commercial	100	*112	91
Warehouses, office and loft buildings	38	*38	22
Stores, restaurants and garages	62	74	69
Other nonresidential building	98	103	59
Religious	28	28	13
Educational	24	25	17
Hospital and Institutional	10	*10	9
Remaining types	36	*40	20
Farm construction	13	22	15
Public utilities	205	226	188
Railroad	30	32	28
Telephone and telegraph	55	55	55
Other public utilities	120	139	105
Public construction	311	*374	223
Residential building	3	3	8
Nonresidential building (other than military or naval facilities)	106	*108	52
Industrial	1	1	--
Educational	60	*61	32
Hospital and Institutional	25	25	8
All other nonresidential	20	21	12
Military and naval facilities	10	11	17
Highways	80	*126	65
Sewer and water	40	43	28
Miscellaneous public service enterprises	6	8	8
Conservation and development	54	61	36
All other public	12	14	9
BUSINESS FAILURES—DUN & BRADSTREET INC.—Month of December:			
Manufacturing number	155	129	112
Wholesale number	59	55	33
Retail number	217	208	123
Construction number	64	37	26
Commercial service number	36	31	23
Total number	531	460	317
Manufacturing liabilities	$21,980,000	$15,933,000	$20,937,000
Wholesale liabilities	2,184,000	2,690,000	967,000
Retail liabilities	4,247,000	3,456,000	1,908,000
Construction liabilities	2,396,000	955,000	455,000
Commercial service liabilities	924,000	1,382,000	1,232,000
Total liabilities	$31,731,000	$24,416,000	$25,499,000
BUSINESS INVENTORIES, DEPT. OF COMMERCE—Month of Nov. (millions of $):			
Manufacturing	$31,104	$30,784	$27,627
Wholesale	8,536	8,423	7,467
Retail	15,605	15,223	13,487
Total	$55,245	$54,430	$48,581
COAL EXPORTS (BUREAU OF MINES)— Month of November:			
U. S. exports of Pennsylvania anthracite (net tons)	469,640	642,129	765,123
To North and Central America (net tons)	437,892	492,659	411,911
To South America (net tons)	------	------	200
To Europe (net tons)	31,664	139,308	353,012
To Asia (net tons)	84	10,162	------
To Africa (net tons)	------	------	------
COMMERCIAL STEEL FORGINGS (DEPT. OF COMMERCE)—Month of November:			
Shipments (short tons)	123,914	123,161	103,740
Unfilled orders at end of month (short tons)	620,503	604,715	585,818
COPPER INSTITUTE—For Month of Dec.:			
Copper production in U. S. A.—			
Crude (tons of 2,000 lbs.)	64,088	*58,297	80,954
Refined (tons of 2,000 lbs.)	96,117	102,779	108,816
Deliveries to customers—			
In U. S. A. (tons of 2,000 lbs.)	102,292	*99,655	113,446
Refined copper stocks at end of period (tons of 2,000 lbs.)	96,080	89,756	76,035
COTTON SPINNING (DEPT. OF COMMERCE)			
Spinning spindles in place on Dec. 31	23,751,000	23,772,000	23,730,000
Spinning spindles active on Dec. 31	20,776,000	21,231,000	21,412,000
Active spindle hours (000's omitted), Dec.	8,544,000	9,253,000	9,544,000
Active spindle hours per spindle in place, Dec.	383	389	402
INTERSTATE COMMERCE COMMISSION —			
Index of Railway Employment at middle of December (1935-39 average=100)	†130.1	†129.1	132.5
MAGNESIUM WROUGHT PRODUCTS (DEPT. OF COMMERCE)—Month of November:			
Shipments (in pounds)	532,000	519,000	269,000
MALLEABLE IRON CASTINGS (DEPT. OF COMMERCE)—Month of November:			
Shipments (short tons)	77,234	81,761	72,111
For sale (short tons)	42,241	44,305	39,969
For producers' own use (short tons)	34,993	37,456	32,142
Orders booked, less cancellation, for sale (short tons)	30,312	38,654	35,804
Unfilled orders, end of month, for sale (short tons)	146,422	158,351	206,510
STEEL CASTINGS (DEPT. OF COMMERCE)— Month of November:			
Shipments (short tons)	146,835	*152,983	130,125
For sale (short tons)	110,275	*114,819	97,143
For producers' own use (short tons)	36,560	*38,164	32,982
Unfilled orders for sale at end of month (short tons)	395,013	*424,460	493,309
TRUCK TRAILERS (DEPT. OF COMMERCE)— Month of November:			
Production (number of units)	3,831	3,725	3,241
Shipments (number of units)	3,445	3,853	3,969
Shipments (value in dollars)	$11,129,685	$11,932,830	$10,642,563

*Revised figure. †Preliminary figure.

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Use of Institutional Investment Funds in 1949

(Continued from page 14)

surance companies could affect these markets materially.

Savings and loan associations have been expanding assets at the rate of nearly $1.5 billion annually. Nearly all additional funds received are invested in real estate mortgages. No change is likely in this policy, although it has been suggested by some leaders in this field that these associations keep 15% of their assets in cash and Government securities for greater liquidity, which would be needed in the event of considerable demands for cash from shareholders. Were such a policy to be widely adopted, mortgage lending might fall temporarily below the increase in assets for some associations, as this liquidity fund is built up.

Conclusion

The volume of funds available for new private investment, and the channels into which these funds are likely to flow, can be studied best through analysis of the operations of our major groups of financial institutions. This is so because savings have been very largely institutionalized in recent years.

About half the total of gross personal liquid savings are now placed with commercial banks, savings banks, savings and loan associations, and life insurance companies, nearly another quarter flows into the Treasury through Government insurance and pension funds, and only the balance is invested directly.

The total of savings to be collected by private financial institutions in 1949 will probably vary little from the 1948 total of about $7 billion. The two major investment outlets for financial institutions receiving these savings are real estate mortgage loans and corporate bonds. Savings banks and savings and loan associations have been placing the larger part of the new savings they receive in mortgage loans, while life insurance companies have favored corporate bonds. However, the volume and quality of these investments that will be available in 1949, and the relative yields at which they are offered, are going to influence our financial institutions to a large extent in the choice of new investments for the savings that they receive.

U. S. Canadian Exchanges—Bulwarks of Free Markets

(Continued from page 8)

far outrun economic progress. This would be most unfortunate as social progress is sound only when economic progress creates the wealth to pay for it. Those who wish to enjoy the blessings of social progress should be willing to undergo the fatigue of supporting it. The ability of our two economies to bear up under the taxation already placed upon them by government subsidy rests upon the initiative, force and imagination of the entrepreneurs and bankers who established democratic capitalism on a firm foundation. They were neither starry-eyed nor angelic, but they created an industrial strength that has thus far been able to sustain a heavy burden of social legislation.

By keeping close to the capitalistic system, by recognition of the power of incentive and of the profit motive, Canada and the United States have greatly prospered in comparison with Europe which has retrogressed by drifting away from capitalism. You in Canada have been more realistic in some respects — you have no capital gains tax for example—and less so in others—as indicated by the radical character of the proposals now offered for your consideration by the Co-operative Commonwealth Federation.

The present accent on social progress does not mean that our industrial growth is past. In the field of communication, for example, which plays a most important part in world unity, we are now witnessing the rapid expansion of the best medium the world has ever seen—television.

When we look at television—when we survey the march of invention of the past 75 years, we cannot fail to reach the conclusion that within the next 75 years wonders unheard of now will be contributing importantly to the health, confidence, comfort and well-being of men everywhere.

Exchanges Afford Free Markets

The Stock Exchanges' contribution to both economic and social progress has been the provision of free markets which mobilized the savings of the two nations in the development of new inventions and discoveries. The vastly greater and better standard of living we now enjoy compared with 75 years ago is due, above all, to the development of the industries serving our every-day needs. The expansion of small business into large-scale industry to bring the telephone, electric light, the X-ray, the self-binder into the lives of the citizens of the two countries would have been impossible without parallel development of the facilities of the stock exchange.

All economic progress depends on savings. If the community as a whole consumed everything that it produced, companies would never be able to enlarge their plants or scientists to seek better methods and better products. Savings are indispensable to economic progress, but they cannot by themselves produce it. To become productive, savings must be mobilized for use by industrialists who plan new factories, engineers who build new power-plants, chemists who market new wonder drugs. This task of mobilizing and distributing savings is one of the principal functions of the Stock Exchange.

A one-man business can be financed in its expansion out of the bank account of the proprietor, but as a business grows, it becomes impossible for the proprietor to provide enough money. He must employ the savings of those who can be persuaded to invest their funds without taking part in management. To facilitate this process, a partnership is turned into a corporation in which each investor acquires a share in proportion to the funds he contributes. For a time, sufficient money can be secured from friends or business associates but, as soon as a growing business needs to go further afield for its capital, a stock exchange becomes indispensable. Very few people are willing to sink their savings permanently in a business run by others no matter how competent and trustworthy the proprietors may be. Obviously, a business that needs to buy new machines, to build new plants, cannot promise to return their savings on short notice—nor, in most cases, even after a few years.

Expanding businesses need dollars they can keep and they can't expand satisfactorily without them. Stockholders need liquidity, the possibility to turn their investments into cash at a moment's notice, and most of them will not invest without it.

It was this dilemma that brought the Stock Exchange into being.

As businesses (and governments too for that matter) cannot ordinarily return invested capital; an investor could not get his principal if he needed it unless he found someone who was ready to take over his share in the ownership of a company. A free market was the answer. The Stock Exchange and its members met that need; they brought buyers and sellers together, made an "exchange" of stock between them in as simple and as fair a process as possible.

After the widespread installation of the ticker, the Stock Exchange was in a position to supply communication throughout the world, of the price, at any moment, of a particular security. It became the responsibility of the Exchange to inform as large a number as possible of the potential buyers and sellers of a company's shares of the current quotation for the shares in order that the holder might easily sell and a fresh investor easily buy at any time.

Corporate Information

Fair prices and free markets also require, above all things, the disclosure of information by corporations. This information must be available to all rather than to a favored few. In this respect, the stock exchange of 1949 contrasts vividly with the stock exchange of 1874. In that day, as history records, there were promoters and market operators who took advantage of the slow communication with the public and maneuvered the prices of stocks to serve their purposes. Today, clean dealing, both by professionals and by the public, is fostered by the strict self-discipline of Stock Exchange members and by the law of the land.

To realize how far we have come in making information available to the prospective investor, compare a modern prospectus with a railroad prospectus issued 75 years ago. The investor was told then how large the new financing was to be, how many miles of track the company operated, and a few other scattered and inconclusive scraps of information. No balance sheets nor income statements were included. There was no regular and dependable information regarding dividends. Earnings were top secret. One old gentleman, who was a director of a leading chemical company in the '90's, told me that at a meeting of the company's board the Chairman whispered to him. "We earned $5 this quarter but don't tell anyone."

Anyone who purchased securities 75 years ago, and much later than that—even when the securities represented the most substantial companies—had to depend on gossip or blind faith rather than on analysis and sober business judgment which he can exercise today on the basis of facts. Today, the Exchange insists that a company's board of directors keep its shareholders and prospective shareholders fully and reliably informed through frequent reports. Quarterly reports are a prerequisite of listing and are issued by most companies whose shares are dealt in on the New York Stock Exchange.

The Stock Exchange has become a catalyst between the investor and management merging them into a solid unit of ownership. This function is of material importance to the small shareholder as there is a tendency in the modern corporation to divide ownership and management, and this tendency, if unchecked, might lead to operations which benefitted the management at the expense of the stockholder.

In summary, the Stock Exchange's primary and most vital function is to provide a market that mobilizes the nation's savings and channels their flow into industry under conditions which are fair to both stockholder and management. Secondarily, an Exchange serves as a guide post to direct the flow of savings to the best use. In a free, competitive market the relative yields obtainable on stocks reflect the profitability and the prospects of the businesses they represent. A good business which has met the test of time in its usefulness to the public is able to borrow cheaply. A less efficient business has to pay more. A bad business serving no economic purpose may find the cost so high that it cannot obtain new funds. Under the full publicity of a free market, bad prospects are rejected or penalized and good prospects are rated on their margin of safety.

If a market is not badly handicapped by unnecessary legislation and regulation, it directs the flow of savings through proper channels. If stock exchanges didn't exist, good companies would get less and bad companies might get more money than they deserve. The savings of a nation would be misdirected and wasted, investors would incur losses which they might otherwise avoid and the unscrupulous would reap profits which would not otherwise have been made.

During the middle part of the 75 years we are celebrating tonight, few people in Canada or the United States had the slightest doubt about the future of our two countries or of the world. I was a boy then. I hope you will not think of the time as too long ago. Everyday glorious achievements, marvelous new inventions were announced, we were coming into the golden age and everybody was filled with the spirit of expectation regarding the future. Every school boy was educated on the proposition that great days were ahead. It was a time of optimism and growth. Then we had a war and a long depression, then another war, and somebody discovered atomic power. Today many are cynical and pessimistic. I do not choose to join them. Rather let us re-dig the wells of optimism and friendship our forefathers dug. The state of friendship we have reached in Canada and the United States is an example of what we may expect in the future, a preview, if you please, of the goodwill possible when all of us learn to live together as citizens of the world.

For 134 years Canada and the United States have lived as neighbors with only an imaginary line dividing them for 3,000 miles. Not a fort, a vessel of war, nor any other military evidence of adjoining nations exists. No passports are necessary for either people to pass freely across the boundary lines. There is a free exchange of postal regulations. There are no other nations enjoying such mutual confidence.

Would that all neighboring nations might establish a similar friendship, one with another, and the world would live in peace.

In conclusion permit me to enact the role of a wise old Knickerbocker born in the spring of 1792 under a spreading buttonwood tree near the corner of Wall and Broad Streets in New York. He is more than twice the age of his Canadian friend; has passed the grand climacteric, so you can forgive the loquacity in these parting words of advice from the New York Stock Exchange to the Montreal Stock Exchange: "Canada's youth and vigor offer you great opportunity but you will have your jolts and jogs, your complaints and criticisms, just as I do. Don't let troubles get you down. People have been telling me off for 157 years. The first 75 years were the hardest. After that I learned to grin and bear it. People love us when the market goes up and hate us when the market goes down. They are saying the same things about me today they said 75 years ago. My face doesn't get red. I can take it and so can you. Let responsibility and service continue to be your guiding star and like old man river—'Just keep rolling along'."

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Municipal Bond Market Prospects

(Continued from first page)

to the latter, it should be noted that short-term loans of housing authority issues totaling nearly $500,000,000 in 1948 were not included in the bond total cited. The total amount of short-term financing, including these housing issues, was just over $1 billion. Thus, the total of all tax-exempt financing was nearly $4 billion.

Volume Affect on Price

Most of us, I believe, who are actively interested in the municipal bond market have been rather amazed at the ability of the market to absorb this extraordinary volume of new issues without the price level being affected more adversely than has been the case. Actually, volume did have a part in depressing the market in March when New York State sold on March 2nd $300,000,000 Bonus Bonds and Ohio followed on March 16th with $200,000,000. The low point in the market for the year was the first week in March when some uncertainty existed as to how satisfactorily the market could digest these two large issues.

The "Bond Buyer" Index on 20 General Market Bonds showed a yield range during the year of approximately ¼ of 1%. It is significant that for six different months during the year the yield averaged better than 2⅜%. This invited and secured some insurance company and savings bank buying interest which at the level prevailing today of slightly under 2.20%, fades away in most cases. In spite of the importance of life insurance buying interest with assets approximating $55 billion and savings banks with assets nearing $20 billion, the market has evidenced a disposition and ability to take high grade tax-exempt issues in impressive volume at price levels higher and yield levels lower than the 2.16% now prevailing. This was demonstrated in the year 1947 when yields ranged on the 20 General Market Municipal Bonds above-mentioned, from 1.81% to 2.09% with the yield under the 2.00% level for all but the last two months of the year.

Tax Ex mption Benefits—Not Appreciated

The benefits of tax exemption are becoming more widely understood and appreciated, although there are still large areas in the field of both individual and corporate investors, I am sure, where tax exemption would mean a great deal in improving net income and they don't even suspect that there is such a thing as a bond, the income from which is free from Federal income taxes.

In addition to the many investors who do not know of the possible advantages for themselves of the exemptions enjoyed by State and municipal securities, there is also a host of people who know about tax-exempt securities, but just can't believe they belong in the group that should logically buy them. The reasoning, or lack of reasoning, in general runs—"these bonds are for millionaires," "they are intended for large trusts and estates," "I need a larger return on my investment." Most of us don't consider very accurately what our probable net income will be when we purchase some stock or other taxable securities. Neither do we make a true comparison of the risk element present in stock or other purchases in relation to the natural protections afforded by a wide range of municipal securities.

Corporate vs. Municipal Securities

Buyers of equity securities are frequently seeking the advantage of capital gains. While these may be realized, a good slice again goes for taxes and a well-balanced investment position should include some tax-exempt municipal bonds in a tremendous number of cases where they are not at present given a moment's consideration.

The fact that many municipal bonds are non-callable has in years past paid extraordinary benefits to the holders of such securities. While the rates prevailing today do not hold great promise of substantial profits, I recall very well a sale to an institutional customer of a sizable block of City of Louisville, Kentucky 4½s of 1969 at 102½ in 1932. We bought these same bonds back in 1941 at a price of 159⅛. Here was a 50% profit in practically a riskless investment as far as security of principal was concerned. A substantial change in interest rates can, of course, result in a material change in the market value of any long-term bonds, but the risk of any loss of principal or interest in the case of any reasonably well selected municipal obligation is small. The experience in equities in poor markets has been less favorable and this may also be said of corporate bonds.

As an advocate of the merits of municipal securities and in pointing out the benefits of tax exemption, I do not wish to be misunderstood. I would not have you believe that I do not approve of stock purchases on appropriate occasions, nor would I deprecate the value of corporate bond issues. One of the serious shortcomings, in my judgment, in our present national economy is the difficulty which surrounds desirable equity financing. There are many reasons for this which I will not attempt to discuss here other than to point out that one of the most important is the high level of Federal Income taxes on individuals and corporations. It is because of these taxes that much money that should and under other circumstances would go into equities is seeking the shelter of tax exempt securities.

Prices

As we seek to deal more specifically with the trend of municipal prices I am not persuaded that the prospective volume of tax exempt issues will of itself force the price level much below present rates. The related volume of corporate financing and the willingness of buyers to continue to purchase at prices in line with present day values will, in my judgment, have an important bearing on the ultimate trend of municipal bond prices. There will be an ample, if not an abundant supply, of new issues. The accumulation of needs for public improvements during the past decade, in spite of substantial Federal grants and assistance during the preceding years, is tremendous. Added to these are new requirements such as housing and bonus financing, some of which is as yet unauthorized.

Demands on State Governments

The increasing demands that are being made in some instances, particularly upon our state governments and the obligations they have been willing to assume, is deserving of both study and attention.

Housing

The housing problem is unquestionably acute in many areas and the large amount of public funds which has been directed by both the Federal and state governments to alleviate this need, has brought great assistance and long range relief. Anyone who has seen some of these larger projects in operation must be impressed with the constructive health and social gains which they have made possible. Veterans and their families have appropriately received preferencial treatment. Large new housing projects in turn create needs for relocated school facilities, water and sewer extensions, new roads and parking accommodations.

School Aid

School capital and operating needs and cost have of necessity made claims upon state revenues as never before. Local units of government cannot in many cases adequately support the higher costs prevailing today without a greater share of state aid. The increasing difficulty of the higher educational institutions, which to date have been privately supported and operated, is likely ultimately to place heavier responsibilities upon state or local municipal colleges and universities. The possibility exists that some public assistance to private institutions may have to be given if our educational standards and facilities are to be maintained at an appropriate level.

A public policy is shortsighted indeed that provides acceptable physical properties for education, but fails to support a teaching staff that assures a character of personnel suitable to direct the reasoning processes and thinking of our youth today. Some of the social problems that plague us today are due in part, I believe, to lack of suitable leadership and instruction in our educational standards at various levels.

The individual freedoms and the independent thinking which have helped make this nation great in opportunities and privileges must be recognized as requiring as well individual restraints and a measure of wisdom and consideration for others if we are to deserve the benefits of these blessings, and continue to enjoy them. I am of the opinion that with the encouragement that is given to protect the personal and civic liberties that we enjoy in this favored land of ours, there should go hand in hand a form of instruction that will emphasize the extent of these benefits and privileges as compared with those available to citizens of other countries. With all of our shortcomings and the costliness of political maneuvering in our democratic form of government which we are so free to and do criticize as a subject of daily banter, we belittle, ignore and forget the incomparable value of the priceless and hard won possessions which are our heritage.

It is a human failing too frequently to accept as our natural right the good things of life and to raise our voices only when we can complain or criticize. It is especially desirable therefore that our educational program develop in young people a respect for, as well as an understanding and appreciation of, the unusual liberties and privileges that we have as citizens of the U. S. A., as well as an ability to distiguish our imperfections and constructively to criticize our errors and wrong doings.

School and educational costs are a big subject and I have spent more time in discussing the importance of leadership and guidance by the teaching staff than I intended.

State Institutions

State institutional care, including hospitalization for the mentally ill, and penal institutions probably need little comment beyond the fact that in most states little, if anything, was done during the war period in improving institutional facilities, if indeed adequate provision was made for maintenance and replacements. Attention to many such needs, I am told, must not be longer delayed.

Local Hospitals

A related subject, however, is local hospital operations, which is a vital factor in our national health. This problem is an increasingly difficult one because of greatly stepped up costs and an inability to make charges that will cover for all patients the overall costs. Patients in private and semi-private rooms are now charged as much as can be reasonably asked, but substantial deficits are plaguing, in many cases, both public and privately supported hospitals, with no relief in sight other than assistance from the state government, as local-government units are unable to make provision for such costs in their greatly crowded budgets.

This trend and dependence of essential local service agencies whereby they are leaning more and more on state, and in some case on Federal assistance, should be recognized as unfortunate and away from the fundamental concepts of our democracy in action. A more wholesome local support is engendered both financially and in volunteer service when a community feels that the hospital is its own project and it must in some way succeed. Constructive and systematic encouragement for joint employer and employee insurance against hospital and doctors or medical costs is one means of giving effective assistance.

The cost of a long and protracted illness requiring hospitalization and special nursing is a frightening thing to families even in a fairly liberal income bracket, and where protections can be availed of it is desirable that this be done.

Highways

The constantly expanding use of the automobile and the financial ability today of such an increased proportion of our population to operate their own cars, is placing a strain on our highway facilities of which we are all aware. The Federal government has for years been giving effective and substantial assistance to the states with the view to furthering greatly improved highway systems. This aid will be continued and encourage a certain amount of state financing for highway purposes.

Parking

Parking facilities have become almost a national problem and it is not confined to the continental United States. Within the past two weeks I visited our Insular possession, Puerto Rico, and I can assure you the narrow and historic streets of San Juan present a parking problem of prime importance. I can speak with knowledge because after attending a reception for the newly inaugurated Governor at the Governor's palace, it took me a full half hour to locate the cab that had been thoughtfully assigned to me by the Reception Committee. While this is primarily a problem for local units of government, it is one that ultimately will call for a considerable amount of financing in one form or another.

Veterans' Bonus

We now come to the subject of bonus financing. Because of a natural desire to express appreciation to the returned veterans by a specific act, there has been a reluctance on the part of both the public at large and public officials to attempt to balance the essential need of bonus payments against other demands, such as those already discussed, which serve the veterans and the public as well.

When all of the various public needs that are pressing for attention are listed in their appropriate order, depending upon the circumstances and the state involved, one cannot but admire the realistic and forthright position taken by the newly elected Governor of North Carolina, the Honorable William Kerr Scott. On the subject of a State bond issue to pay a cash bonus to the veterans of World War II, he said:

"These men and women merit every consideration the State can show them in gratitude for their sacrifice, but I am convinced that the majority of veterans do not desire to be set apart as a special class. A great many of them have told me that, and also that the best bonus their State can grant them is better government and improved public services that will bring about better living conditions and open greater avenues of opportunity. That, also, is my belief."

Even those who may not agree with him will respect his courage in stating thus clearly his views on a subject, which although it should not involve political considerations, we know it has and does in varying degrees.

The State of California has dealt with the question of veterans' needs in an interesting way. Recognizing the acute situation in housing and the establishment of returned veterans in productive occupations, a veterans loan plan, under the title of Veterans' Farm and Home Purchase plan, was financed by the sale of general obligation bonds of the State. This plan was inaugurated in 1921 and was simply expanded to meet present day needs. Through 1947 approximately 7,500 veterans of World War II had purchased properties by means of this assistance. This plan has functioned very successfully and has aided veterans in a most constructive way, helping them to secure both a home and farm, thereby meeting the problem of housing and occupation. Furthermore, the loans are reported as being maintained in satisfactory form, thus placing the operation on a sound business basis.

California Initiative

While we are mentioning California it is not inappropriate to speak of Constitutional Amendment Proposition No. 4 approved by a majority of the voters on Nov. 2 last. We have had very little experience with this form of legal enactment in eastern States and may therefore not be fully cognizant of the possible significance of this act. The true significance is not yet determined in California, but the possibilities have developed a good deal of consternation and apprehension.

It was proposed as a Constitutional Amendment and was approved by the voters as such. Briefly, it provides for an increase in pension allowances for persons defined in the Initiative measure which will add an undetermined annual charge on the State Treasury estimated to run from $110 million to $163 million. Not only were no specific provisions made for these additional revenues in the Initiative, but more important still is the fact that the language was so vague as to raise some doubt as to whether this claim against the State Treasury may not rank equally or even ahead of the State's allocation of school aid to local governmental units, the payment of wages to State employees or State debt service.

This sounds too fantastic to deserve any credence. I do not claim to have any special knowledge on the subject. I feel justified in mentioning it only because I know that some people in California, whose opinion I value highly, are quite concerned about the uncertainties present. Time will have to resolve these. If these doubts are in any degree justified, certainly the country at large should better understand the threat of unsound measures being advanced by a self interest group by means of an initiative without appropriate checking as to practicability, language used, and simultaneous provision for adequate

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revenues. It is important to understand in this connection that it is too early to jump to any conclusions. There is some possibility of the whole proposition being repealed by referendum vote.

Local Relief—New York State

There are other demands or assumed obligations that might be discussed if time permitted, but I will mention only one, and that briefly. As recommended by the Moore Committee, New York State voluntarily assumed among other obligations, a commitment to provide for 80% of the cost of social welfare needs for local units of government. This embraces home relief (the most important item), old age assistance, aid to dependent children and aid to the blind. The total Social Welfare payments by the State for the fiscal year 1947-1948 was $132,-401,431.

The Federal Government in turn matches the costs assumed by State for old age assistance, aid to dependent children and aid to the blind, but not for home relief. This has the distinct advantage for the municipalities of absorbing a major portion of the shock which come at a time when they are apt to be wrestling with decreasing revenues. The State is in a far better position to anticipate such demands by setting aside reserve funds and its sources of revenues are also more elastic. The obligation, nevertheless, is one that should be noted as a possible important factor in the State's budget.

Summary

I have taken time to mention primarily the financial demands on state governments because I believe they will be more varied than in times past and more significant in their effect upon our economic and social life than may be at present fully recognized.

It is my opinion in general that states will not be inclined to assume obligations which will cause undue strain on their ability to meet then. I do feel in some instances, however, that some state credits and high grade municipal obligations will tend to draw closer together than has been the case in years past.

Dealer-Broker Investment Recommendations and Literature

(Continued from page 8)

H. C. Bohack Co., Inc.—Analysis—Peter P. McDermott & Co., 44 Wall Street, New York 5, N. Y.

Boston & Maine Railroad—New recapitalization plan—Price, McNeal & Co., 165 Broadway, New York 6, N. Y.

Brown & Bigelow — Analysis — Stanley Heller & Co., 30 Pine Street, New York 5, N. Y.

Celanese Corporation of America—Special memorandum—Newhard, Cook & Co., Fourth and Olive Streets, St. Louis 1, Mo.

Central Arizona Light & Power Co.—Discussion in current issue of "Public Utility Stock Guide" —G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

Denver & Rio Grande Western —Memorandum—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Dow Chemical — Analysis — Cohu & Co., 1 Wall Street, New York 5, N. Y.

Ft. Lauderdale, Fla. 4% municipal recreation revenue bonds (new issue) — Circular — Municipal Department, Allen & Co., 30 Broad Street, New York 4, N. Y.

Gaspe Oil Ventures, Ltd.—Circular—Hiscox, Van Meter & Co., Lewis Tower, Philadelphia 2, Pa.

Greer Hydraulics, Inc.—Circular — Raymond & Co., 148 State Street, Boston 9, Mass.

Madison Gas & Electric Co. — Circular—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

Lehman Corporation—Bulletin on changes in portfolio — Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Minnesota and Ontario Paper Company — Study — William A. Fuller & Co., 209 South La Salle Street, Chicago 4, Ill.

Also available are studies on **Clearing Machine Corporation, National Aluminate Corporation, Philip Carey Manufacturing Company, Fuller Manufacturing Company, Black, Sivalls & Bryson, Inc., Webster-Chicago Corporation, Time, Incorporated, Tennessee Gas Transmission Company, Central Illinois Public Service Company,** and **Wisconsin Power & Light Company.**

Motorola, Inc. — Analysis — Hickey & Co., Inc., 135 South La Salle Street, Chicago 3, Ill.

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

Oklahoma City Ada-Atoka Railway — Descriptive circular— George Birkins Company, 40 Exchange Place, New York 5, N. Y.

Palmyra, N. J.—Memorandum —Fidelity Union Trust Co., 735 Broad Street, Newark, N. J.

Chas. Pfizer & Co., Inc.—Analysis — Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Also available is a list of common stocks yielding over 8%, a comparative tabulation of high grade **preferred** stocks, and a bulletin on current developments in **railroads.**

Republic of Italy External Dollar Bonds—Circular—Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

Also available is a circular on external dollar bonds of the **Republic of Mexico.**

Reynolds Metals Company — Special review—John H. Lewis & Co., 63 Wall Street, New York 5, New York.

Southern Indiana Gas & Electric Co.—Analysis—Kiser, Cohn & Shumaker, Inc., Circle Tower, Indianapolis 4, Ind.

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

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

Why This Pessimism?

(Continued from page 4)

vention in that field is now taken for granted even by the conservatives. Sometimes I think that if Mr. Stalin had landed me by submarine on Long Island in 1930 with unlimited funds and instructions to communize housing in America I could go back and claim the highest honors for what has been done in that direction. First we discouraged the lending of private capital on homes by imposing a mortgage moratorium. We made a joke of the idea that the mortgage moratorium was an emergency measure by keeping it in effect until quite recently when our economy as a whole was operating at a new high record. We discouraged the investment of money directly in housing by imposing rent ceilings. Those rent ceilings limited the owners of housing as to what they might charge but left them unprotected against rising wages, rising fuel costs, rising paint and wallpaper costs and rising taxes. We made the owners of rental housing carry their own cross by taxing them, along with everyone else, to put up so-called low-cost public housing projects, which in reality are high-cost housing developments subsidized out of funds from the public treasury. We gilded this communistic lily by encouraging in the building industry a degree of labor monopoly, featherbedding and make-work practices unsurpassed in any industry in any country in the world.

Financial Advertising Responsibility

So much for the State of the Union. What is financial advertising's responsibility for it? Sometimes it has seemed to me, as a layman trying to make a living in this business, that most Wall Street financial advertising could be divided readily into two categories:

(1) Positively bad.

(2) Harmless.

Consciously or otherwise much of our advertising has played into the hands of those who are making capital out of our national pessimism to promote an alien collectivism incompatible with the free enterprise system on which our military as well as our economic strength depends.

In advertising, it seems to me we have done those things we ought not to have done, and we have left undone those things we ought to have done. The fault has not been yours alone because as advertising men you have called attention to the activities of your clients, and your clients, of whom I am one, have been no less guilty of doing those things they ought not to have done, and leaving undone those things they ought to have done.

First let me heap a few ashes on my own head. Speaking as a broker, and as an occasional market forecaster, I regret our overemphasis on timing. Doubtless as a result of the great depression of 1929-32, when leading stocks lost 90% of their market value in less than three years, there has arisen in this country a profound conviction that the way to invest money is to hop in and out of the market at the bottom and top respectively of our recurring stock market cycles. The result of that philosophy has been pretty nearly catastrophic for our business.

Am I urging that as brokers and financial advertisers we should urge the public to buy, buy, buy all the time regardless of our sincere convictions that prices will be lower next month? It is not as easy to answer that question as you might think. If we knew what was going to happen in the securities markets it is mathematically certain that at times we could benefit our customers by telling them to wait. But a glance at the financial advertising columns any Sunday demonstrates that we do not know. Just recently a Sunday newspaper carried three-column ads on the financial page, one on top of the other, the top one forecasting an imminent collapse and the other an early sharp rise in stock prices. Such advertising simply confuses the public, and a confused public does nothing. If we want bigger volume and greater public participation in our stock market we must find some way to spray with financial DDT the horde of soothsayers who always are telling the public in effect to wait for the right moment to buy or sell. The only thing they agree on is that there is a right moment and that you should wait for it. Since they do not agree as to what is the right moment, the public does the only thing that they do agree on, which is wait. Actually, even in the bright light of hindsight, there have been approximately eight years out of the last 15 in which the trend of the market as a whole was so nearly horizontal that no one's opinion as to whether we were in a bull or bear market mattered very much. What do you think it would do to the sales of automobiles if General Motors and Ford used their display space for simultaneous predictions that prices shortly would go up and down?

It seems to me that financial advertising has been guilty of a second sin of commission. That sin has been the attempt to capitalize on the mistakes of others and on the mistakes of the past. All of you, as advertising men, will remember an ad showing a man wearing a dunce cap across which was printed, "I tried to get rich quick." I do not quarrel with the soundness of that message, but I do inquire, "What is the purpose of advertising?" Some 30,000 people are killed each year in automobile accidents. It would be thoroughly sound for General Motors to warn people about the dangers in riding in automobiles. But did you ever see a General Motors ad portraying an automobile wrapped around a lamppost with the legend across it, "He tried to get home quick"?

Open to the same type of criticism, it seems to me, was a recent ad entitled "A Letter We Hated to Write." The story beneath that ad was that an investor came into a brokerage house with a hat full of securities which he had not examined for a long time. The broker looked them over and regretfully reported to the customer that all of them were worthless. By now I don't need to repeat that I know nothing about advertising. You have observed that for yourselves. But I am reporting to you, as John Q. Public, that if American Airlines tried to sell me the idea of riding on its planes by showing me pictures of a crash on United Airlines, I'd take a train.

Value of Proper Selection of Investments

Under the heading of the things we have not done that we ought to have done, I put first our failure to tell the success stories of Wall Street. In our preoccupation with timing, for example, we have neglected to point out that proper selection of our investments would have enabled us to multiply our money no matter when we started in the last 30 years. I wonder how many of you realize, for example, that $1,000 invested in Coca Cola in January of 1920 would be worth more than $25,000 today. Or that $1,000 invested in International Business Machines in February of 1921 would be worth nearly $50,000 today, or that $1,000 invested in Sears, Roebuck in March of 1922 would be worth more than $2,500 today or that $1,000 invested in General Motors in April of 1923 would be worth more than $4,500 today, or that $1,000 invested in J. I. Case in May of 1924 would be worth $10,000 today, or that $1,000 invested in du Pont in June of 1925 would be worth nearly $10,000 today. I do not want to bore you by reading more such examples, but it has been possible to buy a stock in January of 1920, February of 1921, March of 1922, and so on through all the months and all the years up to and including 1947 with highly gratifying profits on every purchase. For instance, the investment of $1,000 in Abbott Laboratories in October of 1929 would be worth more than $9,000 today. The investment of $1,000 in Monsanto Chemical in November of 1930 would be worth more than $11,000 today. The investment of $1,000 in Celanese in December of 1931 would be worth more than $25,000 today. I mention those pre-1932 purchases because those were the years now commonly regarded as evidence that the way to make money in securities is to be out of the market at the right time and in the market at the right time. Might it not be better for us as brokers, for you as financial advertisers, and for the public which we are both trying to serve, if we occasionally stopped this game of musical chairs that we are playing in Wall Street and focused our attention on values instead of price fluctuations?

Basically any business is simple, no matter how difficult it might be to operate successfully. After all, what is business? To my mind, it is making or getting something that people want, and selling it to them at a profit. The great success of the life insurance business and the considerable success of the investment trust business—both financial activities—should tell those of us in the more strictly Wall Street end of finance that the answers to at least part of our troubles must be found within ourselves. A Federal Reserve Board survey last summer showed young family heads less inclined to buy stocks than their elders, and gave as their principal reason that common stocks were too risky. Yet a recent "Fortune" survey found more than half of the young people interviewed between the ages of 18 and 25 in favor of taking jobs paying a good income but involving risk over jobs paying a low income with no risk. In other words the oncoming generation still wants to take a chance but prudently wants to be shown that it is a good chance. I never saw a selling job more clearly indicated.

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Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

• Allied Western Oil Corp., New York
Jan. 19 (letter of notification) 1,200,000 shares of common stock (par 1c). **Underwriter**—Atlantic Securities Co., New York. **Price**—25c per share. Acquisition of oil leases, properties, drilling, etc.

American Box Board Co. (2/2-4)
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 Light & Traction Co., Chicago
Jan. 10 United Light & Railways Co. filed 634,667 shares of American Light common ($25 par). **Underwriter**—None. **Offering**—The shares will be offered at $12 per share to holders of United Light common of record at the close of business Jan. 31, on the basis of one share of American Light common for each five shares of United Light common. Rights will expire March 2.

American Steel & Pump Corp.
Sept. 21 filed 200,000 shares ($2 par) convertible class A stock. **Underwriters**—Herrick, Waddell & Reed, Inc. and Bills, Minton & Co., Inc. **Price**—$8 per share. **Proceeds**—To retire indebtedness and for working capital. Expected financing plan will be revised.

• Animal Foundation, Inc., Buffalo, N. Y.
Jan. 20 (letter of notification) 2,750 shares of 6% cumulative participating preferred stock (par $100) and 550 shares of common stock (no par). **Price**—$500 per unit of five preferred shares and one common. **Underwriters**—Walter E. Armstrong, President, New York, and Kenneth S. Duffes, Buffalo. Working capital, etc.

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.

Badad 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) comomn 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.

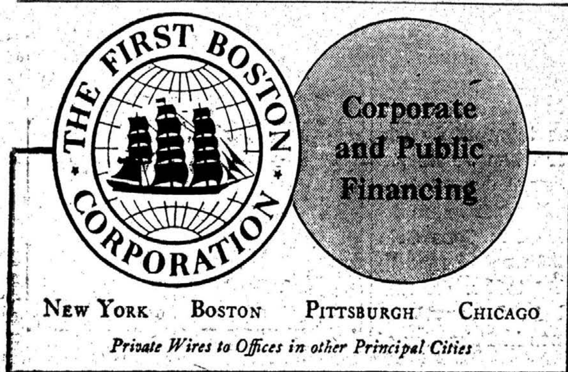
• Botany Mills, Inc., Passaic, N. J.
Jan. 20 (letter of notification) 4,000 shares of common stock (par $1). **Underwriters**—L. F. Rothschild & Co. and John P. White & Co., New York. Proceeds to selling stockholder.

• Bowser Engineering Co., Baltimore, Md.
Jan. 18 (letter of notification) 350 shares of 5% cumulative preferred (par $100) and 650 shares of common stock (par $100). Price par. No underwriter. To develop patents on a combination use of elevator and crane for the handling of motor cars in garages.

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.

• California Electric Power Co.
Jan. 24 filed 100,000 shares of 5½% convertible preference stock, 1949 series ($20 par). **Underwriter**—William R. Staats Co., San Francisco, Calif. **Proceeds**—To finance property additions and betterments.

Capital City Boating Corp., Washington, D. C.
Jan. 4 (letter of notification) 50,000 shares ($2 par) 6% non-cumulative preferred stock. Price, $3 per share. **Underwriter**—Lawrence R. Shepherd & Co., Washington, D. C. To operate company, purchase an excursion boat and invest in the securities of other transportation or amusement companies.



• Catholic Pictures International, Inc., N. Y.
Jan. 21 (letter of notification) 25,000 shares of non-cumulative 5% preferred stock (par $10). Price, par. **Underwriters**—Directors of the company. Promotional expenses.

Central Maine Power Co.
Jan. 10 (by amendment) 286,496 shares ($10 par) common stock. **Offering**—Company's common and 6% preferred stockholders have preemptive rights to purchase such stock. However, company states that it believes New England Public Service Co., which holds 77.8% of the common stock, will waive its preemptive right to purchase 219,196 shares of the total issue, making such shares available for immediate sale to an underwriter. Company proposes to offer the remaining 67,300 shares to its other common and to its 6% preferred stockholders pursuant to their preemptive rights in the ratio of one share of common stock for each six shares of common stock presently held and five shares of common stock for each six shares of 6% preferred stock. It is proposed that the subscription rights be negotiable. **Underwriter**—Company proposes to enter into a contract with an underwriter for the purchase by the underwriter of the shares made available for sale to the public by the waiver by New England Public Service Co. of its preemptive rights in the proposed issue and in addition, for the purchase by the underwriter at the conclusion of the subscription period of those shares offered to stockholders, the rights to subscribe to which have not been exercised. **Proceeds**—The net proceeds are to be applied by company to reduce its outstanding short-term notes, the proceeds of which were used for the acquisition of property, the construction of facilities, and other lawful purposes.

Citizens Credit Corp., Washington, D. C.
Jan. 3 (letter of notification) 2,200 shares of Class A common stock, ($12.50 par) and 2,200 shares of Class B common ($25c par). To be sold in units of one share of Class A and one share of Class B at $15 per unit. **Underwriter**—Emory S. Warren & Co., Washington, D. C. For general funds of company.

Clarostat Mfg. Co., Inc., Brooklyn, N. Y.
Aug. 26 (letter of notification) 37,400 shares of 50¢ cumulative convertible preferred stock. **Underwriter**—Cantor, Fitzgerald & Co., Inc., New York. **Price**—$8 per share. Working capital, etc.

Coleraine Asbestos Co. Ltd., Montreal, Canada
Aug. 16 filed 200,000 shares of capital stock. **Price**—50 cents per share in Canadian Currency. **Underwriter**—P. E. Frechette. **Proceeds**—For drilling operations.

• Crader Oil Co., Inc., Ft. Worth, Texas
Jan. 17 (letter of notification) 30,000 shares of common stock (par $1). Price par. No underwriter. To maintain an oil company.

• Duke Power Co., Charlotte, N. C.
Jan. 24 filed $40,000,000 first and refunding mortgage bonds, due 1979. **Underwriters**—Names to be determined through competitive bidding. Possible bidders include: Morgan Stanley & Co.; The First Boston Corp.; Halsey, Stuart & Co. Inc.; Stone & Webster Securities Corp. **Proceeds**—To complete part of the company's construction program, reimburse its treasury for past construction expenses and to pay off bank borrowings.

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.

Farnsworth Television & Radio Corp.
Jan. 12 filed 270,000 shares ($1 par) common stock. **Underwriter** — The First Guardian Securities Corp., New York. **Proceeds** — To pay past due debts, to reestablish the corporation's credit position and for general corporate purposes. **Price**—The ceiling price will be $5.75, or market if lower, based on the closing or last sales on the date of offering, but not below $4.25 per share.

• Gauley Mountain Coal Co., New York
Jan. 19, filed 10,666 shares of capital stock, of which 1,381 shares will be sold in behalf of the company and 9,285 shares will be sold by five stockholders. **Underwriting**—None. **Proceeds**—Company will use its proceeds for additional working capital.

• Golden Ensign Mining Co., Salt Lake City, Utah
Jan. 17 (letter of notification) 100,000 shares of common stock (par 10c). Price, par. **Underwriters**—Herman Zobrist, Phil M. Anderson and Willis T. Williams. To continue mining operations.

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.

Heidelberg Sports Enterprises, Inc., Pittsburgh, Pa.
June 25 filed 5,000 shares of class B common stock (par $100). **Price**—$100 per share. **Underwriter**—None. **Proceeds**—$600,000 to be used for spectator grandstand and balance for related purposes.

Heyden Chemical Corp., New York, N. Y.
June 29 filed 59,579 shares of cumulative convertible preferred stock (no par) to be offered common stockholders in the ratio of one share of preferred for each 20 shares of common stock held. **Price**—By amendment. **Underwriter**—A. G. Becker & Co. will acquire the unsubscribed shares. **Proceeds**—To be used in part for improvement and expansion of manufacturing facilities. Withdrawal request filed Jan. 24.

Horwood Lake Gold Mines Corp. (1/31)
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., L. I. City, N. Y. (2/2-4)
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 late in January or early in February.

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.

Kentucky Utilities Co., Lexington, Ky. (1/31)
Jan. 13 filed $10,000,000 30-year first mortgage bonds, series B. **Underwriters**—Names to be determined by competitive bidding. Probable bidders include: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co.; Equitable Securities Corp.; Union Securities Corp., and Merrill Lynch, Pierce, Fenner & Beane (jointly). **Proceeds**—To pay off $1,500,000 of bank notes and for construction purposes. **Bids**—Bids for purchase of bonds will be received up to 11:30 a.m. (CST) Jan. 31 at office of Middle West Service Co., 20 N. Wacker Drive, Chicago.

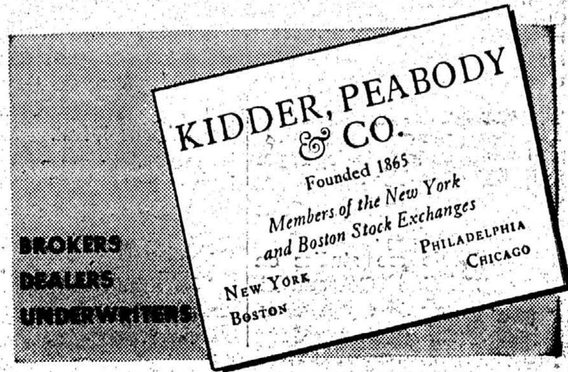
• Magma Copper Co., New York
Jan. 25 filed 204,000 shares of common stock. **Offering**—To be offered for subscription by stockholders in ratio of one new share for each two shares held. Lazard Freres & Co. and Newmont Mining Corp. have agreed to purchase any unsubscribed shares, but have no intention of making any public offering thereof. **Proceeds**—Provide funds with which company may increase its investment in San Manuel Copper Corp., a subsidiary.

• Maxson (W. L.) Corp., New York
Jan. 20 (letter of notification) 12,533 shares capital stock (par $3). **Price**—Market (but not more than $6, nor less than $4 per share). **Underwriter**—Eastman, Dillon & Co. Proceeds to selling stockholder.

• Mayflower Co., Salt Lake City, Utah
Jan. 17 (letter of notification) 100,000 shares (1c par) common stock. Price at market. **Underwriter**—Cromer Brokerage Co., Salt Lake City. To liquidate a loan which was obtained to pay rentals on leases and to pay future rentals.

Mississippi Chemical Corp., Jackson, Miss.
Jan. 3 filed 1,200,000 shares common stock (par $5). No underwriting. **Offering**—Of the total 660,000 shares are subject to delivery under the stock subscriptions now existent. **Price**—$5 per share. **Proceeds** — To construct ammonia plant.

• Mohawk Business Machines Corp., N. Y. (2/1)
Jan. 21 (letter of notification) 299,000 shares of common stock (par $10c). **Underwriter**—Mercer Hicks & Co., New York. **Price**—$1 per share. Corporate purposes.



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NEW ISSUE CALENDAR

January 27, 1949

Maywood Chemical Works, 1:30 p.m. (EST) Stocks

January 31, 1949

Horwood Lake Gold Mines Corp. Capital Stock
Kentucky Utilities Co., 11:30 a.m. (CST) Bonds

February 1, 1949

Erie RR., noon (EST) Equip. Trust Ctfs.
Mohawk Business Machines Corp. Common
Union Light Heat & Power Co. 11 a.m. (EST) Bonds

February 2, 1949

American Box Board Co. Debentures
Atlantic Coast Line RR. Equip. Trust Ctfs.
Hotelevision, Inc. Class A Stock
Wheeling & Lake Erie Ry., Noon Equip. Trust Ctfs.

February 3, 1949

Television Equipment Corp. Common

February 8, 1949

Chicago Indianapolis & Louisville Ry. Noon (CST) Equip. Trust Ctfs.

February 10, 1949

Texas & Pacific Ry. Trust Ctfs.

February 15, 1949

Monongahela Power Co. Bonds

February 24, 1949

Northern Pacific Ry. Equip. Trust Ctfs.

March 3, 1949

Delaware & Hudson RR. Corp. Equip. Trust Ctfs.

March 7, 1949

Minnesota Power & Light Co. Bonds

March 8, 1949

West Penn Power Co. Bonds and Preferred

March 9, 1949

Southern Ry. Equip. Trust Ctfs.

March 15, 1949

Columbia Gas System, Inc. Debentures

March 22, 1949

New England Tel. & Tel. Co. Debentures

Monarch Machine Tool Co.

Sept. 13 filed 26,000 shares of common stock (no par). **Underwriters**—F. Eberstadt & Co., Inc. and Prescott, Hawley, Shepard & Co., Inc. **Proceeds**—Stock being sold by certain stockholders. Offering indefinitely postponed.

Monongahela Power Co. (2/15)

Jan. 18 filed $6,000,000 30-year first mortgage bonds to be sold through competitive bidding and 67,000 shares of common stock to be sold to West Penn Electric Co. (parent). Probable bidders for bonds: 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. Bids for the bonds expected to be opened on or about Feb. 15.

National Battery Co.

July 14 filed 65,000 shares ($50 par) convertible preferred stock. Price and dividend, by amendment. **Underwriters**—Goldman, Sachs & Co., New York; Piper, Jaffray & Hopwood, Minneapolis. **Proceeds**—To retire $3,000,000 of bank loans and general corporate purposes. Temporarily deferred.

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.

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.

● **Prism, Inc., New York**

Jan. 19 (letter of notification) $65,000 6% debentures and 2,600 shares 6% preferred stock (par $25). Price, par. No underwriting. Pay current operating expenses, etc.

Renaissance Films Distribution, Inc., Montreal, Que.

Oct. 29 filed 40,000 shares (par $25) 5% cumulative convertible class B preferred stock and 10,000 shares of C stock (no par). **Underwriting**—None. **Offering**—Class B preferred will be offered at $25 per share with one share of class C given as a bonus with each 4 shares of class B purchased. **Proceeds**—To pay balance of current liabilities and working capital.

Robinson Plywood & Timber Co., Everett, Washington

Nov. 17 filed 271,025 shares ($1 par) common stock, of which 105,000 shares are to be offered by company, and 166,025 shares by 15 selling stockholders. **Underwriter**—Blyth & Co., Inc. **Proceeds**—To company from the sale of the 105,000 shares will be added to working capital, except about $275,000 may be advanced to a new subsidiary to be used by it in making part payment of the option purchase price of one-half of the stock of Conifer Timber Co., Fortson, Wash. 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.

St. Anthony Mines Ltd., Toronto, Can.

Aug. 6 filed 1,088,843 common shares (par $1). Price, 40 cents per share. **Underwriter**—Old Colony Securities Ltd. of Toronto. Proceeds for gold mining operations.

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.

Sport Centers, Inc., Lynn, Mass.

Jan. 14 (letter of notification) 48,000 shares ($1 par) common stock. **Price**—$5 per share. **Underwriter**—Mann & Gould, Salem, Mass. For construction of ice arena and other corporate uses.

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.

Television Equipment Corp., N. Y. (2/3)

Jan. 11 (letter of notification) 300,000 shares of common stock (par 10¢). **Underwriter**—Henry P. Rosenfeld & Co., New York. **Price**—$1 per share. Additional equipment, working capital, etc.

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.

Union Light, Heat & Power Co. (2/1)

Dec. 30 filed $5,000,000 first mortgage bonds and 20,000 shares of common stock. **Underwriters**—Bonds will be sold through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp. and Blyth & Co., Inc. (jointly); Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly); Harriman Ripley & Co.; White, Weld & Co. and Shields & Co. (jointly); Equitable Securities Corp.; Union Securities Corp. and Glore, Forgan & Co. (jointly); W. E. Hutton & Co. Stock will be offered for subscription by common stockholders at $100 per share at rate of 4/94ths of a share for each share held. Cincinnati Gas & Electric owns 98.42% of outstanding common and will purchase its pro rata proportion or 19,683 shares. **Proceeds**—For prepayment of first mortgage bonds owned by parent and for construction. **Bids**—Bids for purchase of $5,000,000 first mortgage bonds, series due 1979, will be received by the company up to 11 a.m. (EST) on Feb. 1.

United Utilities & Specialty Corp.

Oct. 15 (by amendment) 125,000 shares of common stock (par $1) and 33,000 stock purchase warrants (to be sold to underwriter at 10 cents each). **Underwriters**—George R. Cooley & Co., Inc., Albany, N. Y., and others to be named by amendment. Price, market. **Proceeds**—To repay bank loans, working capital, etc.

Upper Peninsula Power Co.

Sept. 28 filed 200,000 shares of common stock (par $9). **Underwriters** — Names to be determined through competitive bidding. Probable bidders include Kidder, Peabody & Co., Merrill Lynch, Pierce, Fenner & Beane and Paine, Webber, Jackson & Curtis (jointly). **Proceeds**—Will go to selling stockholders. Consolidated Electric & Gas Co. and Middle West Corp. will sell 120,000 shares and 34,000 shares, respectively; Copper Range Co., 34,000 shares and several individual owners 11,200 shares.

Waburn Oil Corp., Shawnee, Okla.

Jan. 10 (letter of notification) 980,000 shares (10¢ par) common stock, together with 150,000 option warrants. Stock will be sold at 30 cents per share. **Underwriter**—Dennis H. Petty & Co., Oklahoma City, Okla. For drilling and cost of completing wells.
penses.

● **Westchester County Club, Inc., Rye, N. Y.**

Jan. 21 (letter of notification) 600 certificates of interest to be offered at $500 each. No underwriter. To purchase class B preferred and common stock of Harrison-Rye Realty Corp.

Western Oil Fields, Inc., Denver, Colo.

Jan. 5 (letter of notification) 1,000,000 shares (1c par) common. Price, 10 cents per share. **Underwriter** — John G. Perry & Co., Inc., Denver, Colo. To drill a well and acquire additional properties.

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.

Wiegand (Edwin L.) Co., Pittsburgh

Sept. 28 filed 200,000 shares (no par) common stock. **Underwriter**—Hemphill, Noyes & Co., New York. Price, by amendment. **Proceeds**—Will go to selling stockholders. Offering postponed.

● **Worthington Pump & Machinery Corp.**

Jan. 20 (letter of notification) 1,000 shares of common stock (no par). **Price**—Market (about $14 per share). **Underwriter**—L. F. Rothschild & Co. Proceeds to selling stockholder.

Prospective Offerings

● **Atlantic Coast Line RR. (2/7)**

Bids for the purchase of $10,665,000 equipment trust certificates will be received Feb. 7. Probable bidders include: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; The First Boston Corp.; Harriman Ripley & Co. and Lehman Brothers (jointly).

● **California Electric Power Co.**

Jan. 24 officially stated company intends, as soon as practicable, to sell 3,000,000 first mortgage bonds, 3% series, due 1978, at competitive bidding. Probable bidders include Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.

● **Chicago Indianapolis & Louisville Ry. (2/8)**

The company has issued invitations for bids to be received by noon (CST) Feb. 8 at its office 608 So. Dearborn St., Chicago, for the purchase of $4,500,000 equipment trust certificates to be dated March 1, 1949 and to mature in 15 equal annual instalments from March 1, 1950, to March 1, 1964. Probable bidders: Halsey, Stuart & Co., Inc.; Harriman Ripley & Co. and Lehman Brothers (jointly), Harris Hall & Co. (Inc.); Salomon Bros. & Hutzler.

Columbia Gas System, Inc. (3/15)

Jan. 14 company announced plans to sell approximately $20,000,000 of debentures due 1974. It is presently contemplated that competitive bids for the debentures will be opened on or about March 15. Proceeds from the proposed sale will be used to finance part of the company's construction program. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce, Fenner & Beane, and White, Weld & Co. (jointly); Lehman Brothers, Goldman, Sachs & Co., and Union Securities Corp. (jointly); The First Boston Corp.

● **Delaware & Hudson RR. Corp. (3/3)**

Jan. 21 reported company expects to ask for bids about the middle of February on an equipment trust issue of $4,800,000. The date for opening of bids will probably be about March 3. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co. and Lehman Brothers (jointly).

● **Erie RR. (2/1)**

Bids will be received until noon Feb. 1 at company's office, Cleveland, for the purchase of $6,300,000 equipment trust certificates, dated Dec. 15, 1948 and due $630,000 each Dec. 15, 1949-1958. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman, Ripley & Co. and Lehman Brothers (jointly); Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Lee Higginson Corp.

● **Fitchburg Gas & Electric Light Co.**

Jan. 24 company petitioned the Massachusetts Department of Public Utilities for authority to issue $3,500,000 10-year 3¼% notes. The notes are to be dated March 1, 1949, and will mature March 1, 1959. Proceeds will be used to retire $1,300,000 short-term notes and provide the company with $2,200,000 for plant additions. Company plans to issue the notes at par privately to two institutional investors.

● **Great Northern Paper Co.**

Jan. 19 stockholders voted to increase capital stock from 1,000,000 to 1,200,000 shares. The management said that there were no plans at this time for selling the new stock, which will be held in reserve.

● **Liggett & Myers Tobacco Co.**

Jan. 24 reported company planning equity financing, details of which will be announced in a few months.

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.

(Continued on page 54)

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(Continued from page 53)

Minnesota Power & Light Co. (3/7)

Jan. 14 reported company plans the sale in March of some $4,000,000 bonds. Probable bidders: Shields & Co.; The First Boston Corp.; Halsey, Stuart & Co. Inc.; Lehman Brothers; Kidder, Peabody & Co.; Glore, Forgan & Co.; Harriman Ripley & Co. Expected about March 7.

New England Telephone Co. (3/22)

Jan. 18 directors authorized the preparation of a registration statement covering $35,000,000 25-year debentures, to be sold at competitive bidding in March. Proceeds will be used to redeem on June 1, 1949, $35,000,000 outstanding first mortgage 5s. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc. Expected company will open bids March 22.

Northern Pacific Railway (2/24)

Jan. 12 reported company will issue invitations shortly for bids to be received Feb. 24 for $6,000,000 in equipment trust certificates, to be dated March 15, 1949, and to mature in 15 equal annual instalments from March 15, 1950, to March 15, 1964. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co. and Lehman Brothers (jointly); Salomon Bros. & Hutzler; Harris, Hall & Co. Inc.); Kidder, Peabody & Co.

● **Pacific Gas & Electric Co.**

Jan. 21 company plans offering of 754,038 common shares to stockholders of record Feb. 25 at par ($25) per share in ratio of one new share for each 10 shares held. Issue will not be underwritten.

● **Public Service Electric & Gas Co.**

Jan. 25 reported company may be in the market, possibly in April, with some $42,000,000 first and refunding mortgage bonds. Proceeds will be used to provide company with funds to retire obligations of units in its utility system. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp; Morgan Stanley & Co.; Kuhn, Loeb & Co.

● **South Carolina Electric & Gas Co.**

March 9 stockholders will vote on increasing authorized common from 2,021,460 shares to 3,021,460 shares. Company plans to issue rights to present stockholders to subscribe for part of the new stock. Traditional underwriter—Kidder, Peabody & Co.

Southern Ry. (3/9)

Bids for the purchase of $11,850,000 equipment trust certificates will be received March 9. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co. and Lehman Brothers (jointly); The First Boston Corp.; Salomon Bros. & Hutzler.

● **Texas & Pacific Ry. (2/10)**

The company has invited bids by Feb. 10 for the purchase of $2,250,000 equipment trust certificates series F to be dated March 1, 1949 and due $225,000 annually March 1, 1950-1959. Proceeds will be used to finance purchase of four 6,000 hp. diesel road freight locomotives and one 4,000 hp. passenger locomotive. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. and Lehman Brothers (jointly).

● **Transcontinental & Western Air Inc.**

Jan. 27 directors authorized the management to proceed with the financing program under discussion for weeks. Company is planning to file a registration statement shortly for approximately 400,000 additional shares of stock, which will be offered to existing stockholders at rate of one new share for each five owned. Merrill Lynch, Pierce, Fenner & Beane will head the underwriters.

● **Utah Power & Light Co.**

Jan. 21 reported company is expected to sell $6,000,000 bonds in April to finance its plant expansion. Probable bidders: Lehman Brothers and Bear, Stearns & Co. (jointly); Halsey, Stuart & Co. Inc.; White, Weld & Co.; Harriman Ripley & Co., Inc.; Salomon Bros. & Hutzler; The First Boston Corp.; Blyth & Co., Inc. Company is expected to raise new money through sale, probably in May, of 148,000 additional shares of common stock. The stock will first be offered for subscription by present stockholders.

● **Virginian Ry.**

Jan. 22 reported company expects to send out invitations Feb. 10 for bids on a $3,300,000 equipment trust issue. The equipment to be covered by the certificates will consist of 1,000 steel hopper cars and 25 cabooses. Probable bidders: Haley, Stuart & Co. Inc.; Harriman Ripley & Co. and Lehman Brothers (jointly); Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.).

● **West Penn Power Co. (3/8)**

Jan. 26 directors approved a financing plan for its 1949 construction program. The plan includes $10,000,000 of new first mortgage bonds and $5,000,000 of new preferred stock, to be sold through competitive bidding, and approximately $2,000,000 to be obtained by the sale of additional common stock to The West Penn Electric Co. (parent) and to the public holders of outstanding common stock against the exercise of subscription warrants. Present plan is to open bids for the bonds and preferred stock on or about March 8, 1949. Probable bidders: Halsey, Stuart & Co. Inc. (bonds only); Kidder, Peabody & Co.; Lehman Brothers; The First Boston Corp.; W. C. Langley & Co.; Smith, Barney & Co.

Wheeling & Lake Erie Ry. (2/2)

The company will receive bids up to noon Feb. 2 for the purchase of $2,120,000 equipment trust certificates, dated Feb. 15, 1949 and due in 20 equal semi-annual instalments from Aug. 15, 1949-Feb. 15, 1959. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co. and Lehman Brothers (jointly); Harris, Hall & Co. (Inc.); The First Boston Corp.

Annual Summary of
UNDERWRITINGS AND CAPITAL FLOTATIONS
For Year 1948

Following our usual custom, we will publish in the **Monday, Jan. 31st issue** of The Chronicle, a complete Annual Summary of Corporate, Foreign Government, Farm Loan and Municipal financing in the United States for the Year 1948.

Besides this Summary, the compilation will include a detailed list of the underwriting houses, banks and insurance companies which participated in the placement of the December flotations of securities in keeping with our regular monthly practice.

Private placements in 1948 with institutional investors approximated 40.1% or $2,512,029,545 of the total new corporate financing, involving 389 separate private transactions.

Sees Common Shares Still Attractive

Despite a statement that Administration's program is but another step toward a managed currency and governmental paternalism, the New York Stock Exchange firm of Halle & Stieglitz holds that common shares of well managed and financially strong companies, with further growth potentialities, afford a medium for the employment of funds at an attractive rate of return. For the guidance of the investor wshing to obtain a more liberal income, Halle & Stieglitz suggests the following selected fixed income and common shares of ably managed and financially sound companies whose earnings, they feel, should be reasonably well maintained.

COMMON STOCKS

		Per Common Share		
	Appr. Price	Indicated Dividend	Est. 1948 Earns.	Some Divd. Since
Autos and Parts—				
Chrysler Corp.	57	$5.00	$9.50	1926
Electric Auto Lite	42	3.00	7.50	1935
General Motors	60	4.50	9.25	1917
Libbey-Owens	47	3.50	5.50	1933
Building Material—				
Johns-Manville	40½	2.00	5.25	1935
National Lead	33½	a1.25	3.25	1906
Pitts. Plate Glass	34	1.75	3.25	1899
Sherwin Williams	55½	3.00	m7.00	1885
Chemicals and Related Products—				
Dow Chemical	48	b1.00	m4.11	1911
duPont	187	c9.75	13.00	1904
Eastman Kodak	45	a1.60	4.25	1902
Koppers Co.	31	2.00	6.50	1945
Sterling Drug	37½	2.25	3.35	1902
Union Carbide	41½	2.00	3.50	1918
Farm Equipment and Fertilizer—				
Amer. Agric. Chemical	38	4.50	n6.37	1934
International Harvester	27½	1.70	4.00	1918
Metals—				
International Nickel	30½	f2.00	2.90	1934
Kennecott Copper	56½	5.00	8.50	1934
New Jersey Zinc	66½	4.25	5.00	1882
Phelps Dodge	52	5.00	10.00	1934
Oils—				
Amerada Petroleum	97	6.00	15.00	1922
Continental Oil	55½	4.00	11.50	1934
Gulf Oil	69½	g3.00	14.00	1936
Humble Oil	78½	5.00	10.00	1918
Ohio Oil	32½	2.60	8.00	1940
Socony Vacuum	17	p1.00	4.50	1911
S. O. Indiana	40½	h2.12½	9.00	1894
S. O. New Jersey	72½	a2.00	14.00	1882
Paper—				
International Paper	50½	5.00	13.50	1946
Railroads—				
Atchison Topeka & Santa Fe	102	8.00	23.00	1940
Canadian Pacific	14	j1.25	2.20	1944
Southern Pacific	48½	5.00	10.80	1942
Union Pacific	84½	6.00	15.00	1900
Retail Trade—				
W. T. Grant	23½	1.50	4.00	1907
Sears Roebuck	39½	2.25	5.50	1935
F. W. Woolworth	45½	2.50	4.35	1912
Rubber—				
B. F. Goodrich	61	5.50	15.50	1939
U. S. Rubber	41	4.00	9.00	1943
Tobacco—				
American Tobacco	64	3.75	7.00	1905
Liggett & Myers	87	5.00	8.75	1912
Utilities—				
American Gas & Electric	38	k1.00	4.40	1910
Central & South West	11	0.80	1.45	1947
Consolidated Natural Gas	43	2.00	4.20	1944
West Penn Electric	15½	1.00	3.20	1935

a Plus 5% stock.
b Plus 2½% stock.
c Stockholders will vote April 11 on four-for-one stock-split.
f Less 15% Canadian tax.
g Plus 1 share Texas Gulf Sulphur for each 65 shares.
h Plus 1 share S. O. New Jersey for each 100 shares.
j In Canadian funds less 15% tax.
k Plus 9 shares Atlantic City Electric for each 100 shares.
m Actual year ended Aug. 31.
n Actual 12 months ended Sept. 30.
p Plus 2% stock.

FIXED INCOME SECURITIES

	Appr. Price	Call Price	% Yield
American Cyanamid 3½% ($100 par) cum. conv. (T) pfd.	102	u105½	3.4
American Metal 4½% ($100 par) cum. pfd.	97	105	4.6
Atchison, T. & Santa Fe 5% ($100 par) non-cum. pfd.	102½	N.C.	4.9
Bethlehem Steel 7% ($100 par) cum. pfd.	134	N.C.	5.2
Crown Cork & Seal $2 (no par) cum. pfd.	40	v51	5.0
Goodyear Tire & Rubber $5 (no par) cum. pfd.	101	105	5.0
Koppers Co. 4% ($100 par) cum. pfd.	92	‡110½	4.4
Missouri Pacific 1st & ref. 5% due 1977 "F"	81	x	6.2
Radio Corp. $3.50 (no par) first cum. pfd.	71	100	4.9
Solvay American 4% ($100 par) cum. pfd.	99½	z103	4.0
Southern Pacific 4½% debenture due 1981	90	y110	5.0
Sylvania Electric $4 (no par) cum. pfd.	83½	103½	4.8
Union Pacific 4% ($50 par) non-cum. pfd.	50½	N.C.	3.9
U. S. Rubber 8% ($100 par) non-cum. pfd.	128½	N.C.	6.2

N.C. Non-callable.
‡Through July 1, 1949; at 110 through Jan. 1, 1951; 109½ through July 1, 1952; 109 through Jan. 1, 1954; 108½ through July 1, 1955; 108 through July 1, 1956; 107¾ thereafter.
t Each preferred share is convertible into 2.353 common shares (price 39½) before July 1, 1957.
u Through June 30, 1949, less ½ each year thereafter through June 30, 1955; at 100 thereafter.
v Through June 14, 1951; at 50 thereafter.
x In reorganization.
y As a whole only through May 1, 1951; at 105 through May 1, 1976; less ½ each six months thereafter.
z Through April 1, 1950; at 102 through April 1, 1953; 101 through April 1, 1958; 100 thereafter; for sinking fund at 100 only after 1958.

Interest Payment on Chile's External Debt

Holders of Chile's external obligations in dollars, pounds sterling and Swiss francs who assented to a recently announced plan for service readjustment will receive interest for the year 1948 at the rate of 1½% of the principal amount of the bonds, it was announced on Jan. 17 by the Caja Autonoma de Amortizacion de la Deuda Publica (Institute of Amortization of the Public Debt). The announcement adds:

"The interest rate is equivalent to $15 per $1,000 bond for holders of the U. S. dollar bonds, compared with $11.09 which will be paid to holders who do not assent to the readjustment plan. The readjustment plan calls for the exchange of dollar bonds for an equal principal amount of new bonds dated Jan. 1, 1948, and maturing Dec. 31, 1993. The following principal amounts of bonds were amortized during the year 1948 with the sum of U. S. $2,531,000 assigned under Law No. 8962 for amortization: £1,260,000, U. S. $5,577,000 and Swiss francs, 1,058,500. These bonds were retired from circulation.

"Holders of bonds assented to Law No. 5580 who do not assent to the readjustment plan, will be entitled to receive payment of $11.09 per $1,000 bonds, on and after Feb. 1, 1949, at the office of Schroder Trust Company, Trust Department, 48 Wall Street, New York."

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Our Reporter's Report

The seasoned bond market is developing a noticeably firmer tone, according to observers whose daily job requires them to keep tabs on the movement of investment issues.

Several influences are considered at work, not the least important the outcome of the presidential election in November.

Victory of the Democrats apparently is accepted as making it certain that money rates will not be allowed to harden appreciably if the Treasury and the Federal Reserve Board can avoid such a development.

That may be the fundamental factor in the firming, but close students of the market are satisfied that other elements, almost as basic, are having their effect. Not the least of these is the veritable dearth of new issues since the turn of the year, following a relatively quiet period late in 1948.

Institutional investors are no more keen at the moment for breaking the three per cent yield rule, which they appear to have been observing, than they were a few months ago.

But they evidently find themselves faced with a serious problem in the form of their steady flow of income which must be invested and thereby put to work.

This, it is observed, generates a certain amount of investment demand, even though portfolio managers doubtless keep their operations to a minimum in the hope of encountering somewhat more satisfactory conditions as the new year wears along.

Consol. Edison 3s

Indications are that the bankers may have set their sights just a trifle too high in going after Consolidated Edison Co. of N. Y.'s $50,000,000 new first and refunding mortgage bonds.

At any rate the issue was reported somewhat slow in moving out to investors, judging by reports of those watching the progress of distribution.

The successful group bid 101.69 for a 3% interest rate, with the runner-up making an offer of 101.45999 and the third bidder offering 101.43.

Barely a quarter of a point separated the high and low bids, but with the reoffering price set at 102.399 to yield 2.88%, institutions apparently were in no rush to take the issue down.

Public Service Electric & Gas

Reports indicate that the Public Service Electric & Gas Co. may be in the market for $42,000,000 some time in April, via the mortgage bond route.

Funds which would be raised would be for the purpose of retiring outstanding obligations of operating subsidiaries, several of which are due at the beginning of June.

There is an expectation in banking circles that the company also may seek additional new money later in the year.

SITUATION WANTED

EXPERIENCED TRADER

15 years diversified trading experience with good organizations, is desirous representing Out-of-town Bank or Dealer in small New York Office. For further details write Post Office Box 226, Church St. Station, New York 8, N. Y. Dept. 5M.

Dull Spot Ahead

Next week has little to offer in the way of new issues it is indicated by a glance at the calendar. And there is not much in the way of actual new business immediately in sight. February could prove relatively quiet.

March, however, shapes up as likely to witness something of a revival in activity, provided of course, the seasoned markets provided the proper setting.

Investment bankers now are getting together their syndicates to compete for New England Telephone & Telegraph Co.'s projected $35,000,000 of new debentures, due out the third week in March and it looks as though at least three groups will be represented.

Equipment Trusts

With more firms turning their eyes toward railroad equipment trust issues, in lieu of other corporate material on which to bid, it looks as though competition for such financing will continue keen.

Financing of this type is expected to roll up to goodly sized figures in the months ahead. Next sizable offering is $10,665,000 certificates for which Atlantic Coast Line will open bids on Feb. 7.

Percy J. Ebbott Named President of Chase National Bank

(Continued from page 5)

areas. During the 1930's, he was one of the bankers who developed the program of "term" loans covering a period of years, a type of bank credit which previously was seldom used. Mr. Ebbott has been active in the Association of Reserve City Bankers and is a former President of that Association.

Mr. Ebbott started his banking career with the National Park Bank in New York in 1913 but left his desk in 1917 for 18 months of military service in World War I, serving as a Captain in the Army Air Force. He returned after the war as an Assistant Vice-President of that bank, and in 1923 was appointed Vice-President of the Seaboard National Bank. He came to Chase in 1930 as a Vice-President, after mergers of the Seaboard and the Equitable Trust Company into the Chase.

DIVIDEND NOTICES

The American Tobacco Company
INCORPORATED

111 Fifth Avenue New York 3, N. Y.

174th Common Dividend and an Extra Dividend

A regular dividend of Seventy-five Cents (75¢) per share and an extra dividend of One Dollar ($1.00) per share have been declared upon the Common Stock of The American Tobacco Company, payable in cash on March 1, 1949, to stockholders of record at the close of business February 10, 1949. Checks will be mailed.

Edmund A. Harvey, *Treasurer*

January 25, 1949

Dividend Notice

January 25, 1949

Burlington Mills
CORPORATION

The Board of Directors of Burlington Mills Corporation has declared the following regular dividends:

4% CUMULATIVE PREFERRED STOCK
$1 per share

3½% CUMULATIVE PREFERRED STOCK
87½ cents per share

3½% CONVERTIBLE SECOND PREFERRED STOCK
87½ cents per share

COMMON STOCK ($1 par value)
(47th Consecutive Dividend)
37½ cents per share

Each dividend is payable March 1, 1949, to Stockholders of record at the close of business February 3, 1949.

STEPHEN L. UPSON, *Secretary*

Hooker Electrochemical Company

$4.25 Cumulative Preferred Stock Dividend

The Board of Directors of Hooker Electrochemical Company on January 14, 1949 declared a quarterly dividend of $1.0625 per share upon its $4.25 Cumulative Preferred Stock, payable March 29, 1949 to stockholders of record as of the close of business March 2, 1949.

Cumulative Second Preferred Stock, Series A, Dividend

The Board of Directors of Hooker Electrochemical Company on January 14, 1949 declared a quarterly dividend of $1.125 per share upon its Cumulative Second Preferred Stock, Series A, ($4.50 dividend), payable March 29, 1949 to stockholders of record as of the close of business March 2, 1949.

Common Stock Dividend

The Board of Directors of Hooker Electrochemical Company on January 14, 1949 declared a dividend of Thirty Cents ($.30) per share upon its Common Stock ($5 Par Value), payable February 25, 1949 to stockholders of record as of the close of business February 2, 1949.

ANSLEY WILCOX 2nd,
Secretary.

HOOKER CHEMICALS

DIVIDEND NOTICES

Borden's

DIVIDEND No. 156

An interim dividend of sixty cents (60¢) per share has been declared on the capital stock of *The Borden Company,* payable March 1, 1949, to stockholders of record at the close of business February 11, 1949.

E. L. NOETZEL
January 25, 1949 *Treasurer*

Burroughs

192nd CONSECUTIVE CASH DIVIDEND

A dividend of twenty cents ($.20) a share has been declared upon the stock of BURROUGHS ADDING MACHINE COMPANY, payable March 10, 1949, to shareholders of record at the close of business January 31, 1949.

Detroit, Michigan S. F. HALL,
January 19, 1949 *Secretary*

Edison

SOUTHERN CALIFORNIA EDISON COMPANY

Cumulative Preferred
Stock 4.88% Series
Dividend No. 5

The Board of Directors has authorized the payment of a dividend of 30½ cents per share on the Cumulative Preferred Stock, 4.88% Series, payable February 28, 1949 to stockholders of record on February 5, 1949.

O. V. SHOWERS
Secretary

January 21, 1949

Southern Railway Company

DIVIDEND NOTICE

New York, January 25, 1949.

Dividends aggregating $3.75 per share on the Preferred Stock of Southern Railway Company have today been declared, payable as follows:

Amount	Date of Payment	To Stockholders of Record at the Close of Business on:
$1.25	Mar. 15, 1949	Feb. 15, 1949
1.25	June 15, 1949	May 13, 1949
1.25	Sept. 15, 1949	Aug. 15, 1949

A regular quarterly dividend of $1.00 per share on 1,298,200 shares of Common Stock without par value of Southern Railway Company has today been declared, out of the surplus of net profits of the Company for the fiscal year ended December 31, 1948, payable on March 15, 1949, to stockholders of record at the close of business on February 15, 1949.

Checks in payment of these dividends on the Preferred and Common Stocks will be mailed to all stockholders of record at their addresses as they appear on the books of the Company unless otherwise instructed in writing.

J. J. MAHER, *Secretary.*

DIVIDEND NOTICES

CITY INVESTING COMPANY
25 BROAD STREET, NEW YORK 4, N. Y.

The Board of Directors of this Company on January 21, 1949, declared the regular quarterly dividend of $1.375 per share on the outstanding 5½% Series Cumulative Preferred Stock of the Company, payable April 1, 1949, to holders of record as at the close of business March 17, 1949.

The Board of Directors of this Company on January 21, 1949, declared a dividend of 15c per share on the outstanding Common Stock of the Company, payable February 15, 1949, to holders of record as at the close of business February 4, 1949.

EDWARD FRAHER, Secretary

Magma Copper Company

Dividend No. 106

On January 24, 1949, a dividend of Twenty-five Cents (25c) per share was declared on the Capital Stock of MAGMA COPPER COMPANY, payable March 15, 1949, to stockholders of record at the close of business February 9, 1949.

H. E. DODGE, *Treasurer.*

NATIONAL CONTAINER CORPORATION

A regular quarterly dividend of $0.296875 was declared on the 4¾% Cumulative Convertible Preferred Stock of National Container Corporation, payable February 1, 1949 to stockholders of record January 25, 1949.

* * * * *

The Board of Directors of National Container Corporation yesterday declared a regular quarterly dividend, in the amount of twenty cents per share, on the Common Stock of the company, payable March 10, 1949 to stockholders of record as of February 15, 1949.

Samuel Kipnis, President, announced that the company anticipated negotiating a term loan in order to partially reimburse the treasury of the company for the unusually heavy expenditures made for plant additions and improvements.

PEQUOT

NAUMKEAG
Steam Cotton Company
SALEM, MASSACHUSETTS

DIVIDEND No. 223

January 19, 1949

The board of Directors of Naumkeag Steam Cotton Company at a meeting held on January 19, 1949, declared a dividend of Fifty Cents (.50) a share, payable on February 25, 1949 to holders of record at the close of business February 16, 1949. Old Colony Trust Company, of Boston will mail checks.

RUDOLPH C. DICK
President and Treasurer

PEQUOT SHEETS & PILLOW CASES pay daily dividends of luxurious and restful sleep.

"*The Nation Sleeps on PEQUOT SHEETS*

BRITISH-AMERICAN TOBACCO COMPANY LIMITED

NOTICE OF DIVIDENDS TO HOLDERS OF ORDINARY AND PREFERENCE STOCK WARRANTS TO BEARER.

A first interim dividend on the Ordinary Stock for the year ending 30th September 1949 of one shilling for each £1 of Ordinary Stock, free of United Kingdom Income Tax will be payable on 31st March 1949.

Holders of Bearer Stock to obtain this dividend must deposit Coupon No. 203 with the Guaranty Trust Company of New York, 32 Lombard Street, London, E. C. 3., for examination five clear business days (excluding Saturday) before payment is made.

The usual half-yearly dividend of 2½% on the 5% Preference Stock (less Income Tax) for the year ending 30th September next will also be payable on the 31st March 1949.

Coupon No. 91 must be deposited with the National Provincial Bank Limited, Savoy Court, Strand, London, W. C. 2., for examination five clear business days (excluding Saturday) before payment is made.

DATED: 18th January 1949,
BY ORDER OF THE BOARD
E. G. LANGFORD, Secretary.
Rushman House, Egham, Surrey.

DIVIDEND NOTICES

THE GAMEWELL CO.

At a meeting of the Board of Directors of The Gamewell Company held today, January 21, 1949, a dividend of $.25 per share was declared on the Common Stock of the Company payable on February 15, 1949, to stockholders of record at the close of business on February 5, 1949.

W. C. BECK, Treasurer.

UNITED STATES LINES COMPANY

Common Stock DIVIDEND

The Board of Directors has authorized the payment of a quarterly dividend of fifty cents ($.50) per share payable March 10, 1949 to holders of Common Stock of record February 25, 1949 who on that date hold regularly issued Common Stock ($1.00 par) of this Company.

Holders of former stock issues of the Company entitled to issuance of Common Stock ($1.00 par) in exchange for their holdings will be paid this dividend when exchange is made.

CHAS. F. BRADLEY, *Secretary*
One Broadway, New York 4, N. Y.

WOODALL INDUSTRIES INC.

A regular quarterly dividend of 31¼¢ per share on the 5% Convertible Preferred Stock has been declared payable March 1, 1949, to stockholders of record February 15, 1949.

A regular quarterly dividend of 25¢ per share on the Common Stock has been declared payable February 28, 1949, to stockholders of record February 15, 1949.

M. E. GRIFFIN,
Secretary-Treasurer.

BRITISH-AMERICAN TOBACCO COMPANY, LIMITED

At a meeting of Directors held January 18, 1949 in London it was decided to pay on March 31, 1949 first Interim Dividend of One Shilling for each One Pound of Ordinary Stock for the year ending September 30, 1949 on the issued Ordinary Stock of the Company, free of United Kingdom Income Tax.

Also decided to pay on the same day half-yearly dividend of 2½% (less tax) on issued 5% Preference Stock.

Coupon No. 203 must be used for dividend on the Ordinary Stock and Coupon No. 91 must be used for dividend on the 5% Preference Stock. All transfers received in London on or before February 25th will be in time for payment of dividends to transferees.

Also decided to pay on April 30, 1949 half-yearly dividend of 3% (less tax) on issued 6% Preference Stock. All transfers received in London on or before April 4, 1949 will be in time for payment of dividends to transferees.

Stockholders who may be entitled by virtue of Article XIII(1) of the Double Taxation Treaty between the United States and the United Kingdom, to a tax credit under Section 131 of the United States Internal Revenue Code can by application to Guaranty Trust Company of New York obtain certificates giving particulars of rates of United Kingdom Income Tax appropriate to all the above mentioned dividends.

SPECIAL ANNOUNCEMENT

It has been the practice of the Directors in the past to declare the first Interim Dividend on Ordinary Stock for the current year at the time of signing the accounts of the company for the preceding year and announcing the recommendation for Final Dividend.

Considerable additional work has been involved in the preparation of consolidated accounts as required by the Companies Act 1948, and the completion of the audited accounts in respect of last year has been delayed.

It is hoped that the Accounts will be completed by the end of March and circulated to the shareholders by the middle of April, in which case the Annual General Meeting will be convened to be held early in May, and the Final Dividend (if any) recommended by the Directors will (subject to confirmation by the shareholders at the General Meeting) be paid on the 30th June.

BRITISH-AMERICAN TOBACCO COMPANY, Limited

January 18, 1949.

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Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—There is enough political dynamite in the "secret" report of the Hoover Commission task force on government lending agencies to rock all the big, polished brass cuspidors on Capitol Hill when the text of the report is published.

This is true notwithstanding the probability, as previously related in the column, that the Commission's whole effort may be of no greater ultimate significance than to back up Harry Truman in his request for power to effect a number of economies the better to be able to launch his own New, now called "Fair" Deal.

* * *

For one thing, the task force group would abolish the Reconstruction Finance Corp. For another it would make the Federal Deposit Insurance Corp. a subsidiary of the Federal Reserve Board. The reading about what goes on in the way of lending practices in some of the two-score government lending agencies is not only droll, but will stir up many heated arguments, regardless of the unlikelihood that the entire Hoover Commission will go along with the recommendation to wipe out whole lending functions.

There may be some significance to the fact that the Commission, which has made public several other task force reports, has kept this one closely to its own breast. All task force group recommendations are only task force recommendations. They may or may not be adopted in whole or part in the overall Commission recommendations now being drafted. However, there is a presumption that the Commission looks kindly upon those task group reports hitherto made public by the Commission itself.

* * *

With respect to the RFC, the task force feels that as an agency making direct government loans, it should be liquidated. The group praises the RFC's record during the depression emergency. The chief reason usually advanced for continuing the agency on a reduced basis is that it shall be on hand to meet a future emergency. In the opinion of the task force the present functions of RFC are not such as to train its staff for some future emergency, the time, duration, and character of which are unpredictable.

At the same time the task group offers a substitute for the RFC, and the substitute will stir up controversy. It is proposed that the Federal Reserve Banks be granted authority to guarantee certain types of loans for commercial banks. The type of loan which would be guaranteed is the long-term, capital loan for productive purposes, which is of a marginal nature, inasmuch as a commercial bank would be unwilling in any particular case to take the entire risk itself.

This is, in appearance at least, the very recommendation which the Federal Reserve Board itself advocates, and which got a favorable report from the Senate Banking Committee during the 80th Congress, but without action on the floor.

In the days of Rexford Guy Tugwell the Federal Government set up the Rural Resettlement Administration, which later became the Farm Security Administration, which finally has become the Farmers Home Administration, an agency of the Department of Agriculture. Its theoretical job is to provide credit for farmers whose rating creditwise is so poor that they cannot get accommodation either from private lending agencies or from the Farm Credit Administration, another government lending group. Farmers Home Administration's particular job is to lend and insure mortgage loans to finance tenants in the purchase of farms.

The task group finds itself unimpressed with evidence to support the agency's claims that it is improving the economic lot of its borrowers or is making by its own effort any improvement in the tenancy problem. So it is proposed to turn over to the Federal Land banks the job of liquidating the agency and to other service agencies of the Department of Agriculture the free service functions afforded to borrowers.

It is noted that so strong is the political backing for Farmers Home Administration, that it was found impossible to get favorable committee action in 1948 on a bill to merge that agency with FCA, for fear FCA would subordinate the services of Farmers Home Administration.

* * *

Administration of FDIC by the Federal Reserve Board is expected to stir up controversy in banking circles, since the large non-member clientele of the FDIC fears that the Reserve Board might operate FDIC in such a way as to endanger the dual banking system.

* * *

Among its other proposals, the task force proposes that all government lending corporations should have similar charters with certain uniform provisions.

One of the provisions of incorporation would require that agencies report to Congress each year the losses in interest or capital or other forms of subsidy. Then Congress would be asked to appropriate for the deficit so reported. This proposal is advanced by the task group to avoid years, perhaps decades of delay in revealing the hidden subsidy, a delay which might last until the agency is liquidated.

If this recommendation were followed, there would be an annual casting up of the losses of Commodity Credit Corp., in price support operations, and in the operation of the public housing setup. Only part of the subsidy losses of the proposed public housing program would be made known to Congress and the public in the Administration's new housing-slum clearance program.

* * *

Among other things, the task group on government lending agencies recommended:

That loans from one government agency to another be abolished and that such requirements, if necessary, be met by appropriations by Congress.

That several minor lending agencies whose activities have ceased, should be wound up.

That the Federal Savings and Loan Insurance Corp., the Federal National Mortgage Association (now a part of RFC), and the Federal Housing Administration, should all be placed under the jurisdiction of the Home Loan Bank Board for purposes of administration, and that the regional Home Loan banks be used as field agencies for these merged activities.

Finally, and in a different direction, the task group wants set up a national system of mortgage discount banks, with some government capital initially, but capable of raising private capital through sale of their own securities. The National System of Mortgage Discount Banks would be patterned after the Home Loan Bank System, but would do business in all real estate mortgages, not merely home mortgages, and would be accessible to all types of institutions in the real estate mortgage field.

* * *

There are a couple of side twists in the Administration-written wage-hour bill now pending before the Senate Labor Committee. This is the bill which is designed to raise the statutory minimum wage from 40 cents to 75 cents per hour.

One of the twists is that the proposed new minimum wage isn't securely pegged at 75 cents per hour. In some cases it may go substantially higher. The bill has a provision that when "industry committees" so recommend, the Secretary of Labor may set a higher minimum wage for any particular industry. Obviously if the bill is passed in this form, the Secretary of Labor may be expected to encourage the selection of "industry committees" which will lean toward a higher minimum, and to lend all aid and comfort to labor to seek the higher minimum. What hasn't been written into the bill, and probably won't be settled until the bill is ready for final passage, is how high above the minimum of 75 cents the Secretary of Labor can set new minimum wages. It is reported that the President wants that figure at $1.00 per hour. Congress will probably approve less.

* * *

It was the President's request for a new minimum of 75 cents, expressed in his annual message to Congress, which with other things created the impression that Mr. Truman was somewhat more "moderate" in his requests than had been anticipated. He apparently is backing an actual minimum wage of $1.00 per hour, subject to industry approval, if those informants who so report this are correct.

* * *

Another of the twists slipped into the Administration wage-hour bill is the removal of the exemption from the bill's terms for first processors of food and dairy products. Some 10 years ago the farm lobby fought bitterly to exclude the employees of cotton gins, dairies, canneries, and other food processors, from the statutory minimum wage. The farm group ostensibly won, although the Wage-Hour division of the Department of Labor has been hacking away at this exemption and has been narrowing its scope by administrative interpretations.

At the moment farm groups do not appear to be fully aware that their exemption from the minimum wage would be abolished in the Administration draft of the bill. Those who had heard about it expressed the opinion that the grand old fight between the labor crowd and the farm crowd will be renewed on this issue.

Thus, in the first Administration-drafted bill, the White House is presumably backing a proposition which will pit its farm and labor Administration supporters against one another.

* * *

While the Administration draft of the wage-hour bill includes these twists, it does seemingly propose to do away with the "overtime on overtime" situation created by the Supreme Court decision on the longshoremen's case. It appears to define "regular" rate of wage in such a way as to avoid computation of premium time for unusual hours, as part of the regular pay upon which overtime is figured.

* * *

What President Truman may have in mind in promising to spread throughout the world, the benefits of the U. S. New Deal, is still a mystery to not less than 99% of Washington, including the State Department, Congressional leaders, and government agencies. His taking flight along that line in his inaugural address was a complete surprise to the town.

There is a great deal of speculation about the World New Deal program. Some think this talk may have been nothing more serious than one of the sudden Truman hunches about foreign affairs. Others think that it is bait to counter Russian penetration of backward areas. Others, more cynical, think that the President dreamed up this idea as something which, by subsidizing foreign development, could keep prosperity a la inflation alive indefintely in the U. S.

On the other hand, if the President is serious, his inaugural speech may prove as much of a harbinger of a whole new Administration program as the Marshall speech at Harvard was of the foreign aid program.

Until the President reveals more of his thinking and planning, however, it will not be possible accurately to appraise his intentions.

(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.)

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