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Neither Boom Nor Depression In the Offing

By RAYMOND RODGERS*
Professor of Banking, New York University

Though stating boom honeymoon is over, Dr. Rodgers predicts no severe depression in next few months and looks for government spending along with greater efficiency of management and labor, to maintain high income.

Prophets of doom are abroad in this great land of ours. On every hand there are rumors, and rumors of rumors. Even the American businessman, ordinarily the most incurable of optimists, is beginning to "see things under the bed!" In private conversation some people express the opinion that we are on the brink of an economic holocaust of atomic proportions — you know, one of those chain reaction affairs that feeds on itself until all is destroyed! They seem to think that all of the economic sins of

Raymond Rodgers

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*An address by Dr. Rodgers at Dinner Meeting of Detroit Bond Club, Detroit, Mich., March 11, 1949.

Independent Congress Paving Way for Higher Stock Market

By M. S. BENJAMIN
Senior Partner, Benjamin Hill & Co.

Market economist holds post-election fears of businessmen and investors will be dispelled by public's realization that lawmakers will "hold the fort" and not be subservient to a "mandate" for anti-capitalist planning program. Cites stocks selling below net working capital as illustrating investment opportunities created by political worry now proving unwarranted.

The outcome of last November's election was a shock to the confidence of businessmen and investors. A politician who never had amounted to much in the preliminaries entered the biggest political arena with practically no backers at the record odds of 15 to 1. He swung wildly, leading mostly with his left, at an over-confident opponent who had one foot in the ring and the other in the White House, and won by a close decision —29,000 votes in three States holding the balance. When the Republicans recovered from seeing pink elephants they were faced with a real red donkey. Interpreting this personal victory as a mandate from the people, the President, with his little-Kaiser as adviser, launched a program for a managed economy that far outstripped his predecessor's ideas for controlling our free enterprise system. Why he should think that the voters want to turn down the dangerous road toward State Socialism, seeing that no socialistic economy under any title has created the prosperity, standard of living and civil liberties that this country has so enviably enjoyed under the free enterprise

Maurice S. Benjamin

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The Business Situation—Actual and Prospective

By WESLEY LINDOW*
Vice-President, Irving Trust Company, New York City

Asserting danger lurks in generalizing from isolated cases, bank economist points out while some industries show declines, others have advanced. Predicts only small decline in equipment expenditures, and holds heavy government spending would bring increase in consumer spending. Foresees no recession such as that which developed after World War I.

Ever since the end of the war we have been subject to periodic waves of pessimism, some mild and some fairly serious. Now once again, business sentiment has become pessimistic; and the question is raised as to whether the well advertised recession is finally starting.

At the outset, I want to make it clear that I know of no magic formula to predict the future. Economists are expected to do a certain amount of crystal - gazing but I think that this type of activity has yielded pretty dismal results. I am inclined to think that the economist can make the greatest contribution by concentrating on careful analysis of what is actually going on currently. The old saying about coming events casting their shadows before them is

Wesley Lindow

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*An address by Mr. Lindow before the National Mineral Wool Association, New York City, March 10, 1949.

EDITORIAL

As We See It

Time to Get Our Feet on the Ground

It is time that the rank and file of the people of this country got their feet on the ground, figuratively speaking, in their thinking about the current state of affairs in business. We find the threat — if threat there be — of a pronounced recession or depression less disturbing than the continued lack of realism about the requirements of the situation. It was to be expected, of course, that the political powers should, at the first sign of approaching "bad times," begin to make the welkin ring about what government is doing or should do to protect the voter. One could scarcely expect them to do other than to repeat most of the New Dealish type of nonsense and to "make a showing" of applying the panaceas which the crack-pots have invented during the past decade or two to cure the economic ills of the universe.

The only cure for this sort of thing, and the only sure prevention of the very harmful public policies it is likely to bring forth, is a skeptical population, nay a definitely disbelieving population. So long as the vast majority of the voters can be "soft-soaped" into acquiescence in this sort of preventive measures, there is very little hope of greatly improving the situation by

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Back to the Gold Standard?

By WALTER E. SPAHR*
Professor of Economics, New York University
Executive Vice-President, Economists' National Committee on Monetary Policy

Dr. Spahr attacks "liability currency" and contends most serious consequence is loss of popular control over the public purse. Says irredeemable currency depreciates people's savings and investments and leads to foreign trade and foreign exchange distortions. Holds present is opportune time for return to gold redeemable currency, since gold reserve is now twice amount required by law. Denies gold standard abandonment was caused by scarcity of gold or by breakdown of gold coin standard. Scores public ignorance and apathy regarding currency problem.

A sound monetary system is an integral part of a good economy. It is a basic instrument in the assurance of human freedom. It is one of mankind's best protectors against Socialism or a governmentally-managed economy in some other form. An irredeemable paper money system is neither sound nor honest. It is one of the most potent instruments that can be employed by a government against a people's freedom. The government that authorizes its issuance is either morally or financially bankrupt, or both. Perhaps next to war, mankind has never devised a more destructive instrument of human welfare than that of irredeemable paper money.


Dr. Walter E. Spahr

I

A Description of Our Monetary System

Today, the people of the United States have an irredeemable money system in so far as direct redeemability in gold is concerned. Silver certificates are redeemable in an overvalued silver, but the silver is not redeemable directly in gold.

Our Treasury and Federal Reserve banks are authorized to issue promises to pay which they do not redeem in other irredeemable money, silver certificates excepted.

The promises to pay, or the statements as to the security underlying, or both, printed on our paper money are all inaccurate or misleading except in the case of silver certificates.

Our Federal Reserve banks are required to hold reserves in the form of gold certificates against their notes and deposits, and yet, at the same time, they are not permitted to pay out these reserves to the people of the United States. The Treasury cannot pay out to our people any of the gold which it is required to hold against part of its outstanding paper money.

This arrangement is a case of granting institutions the privilege of issuing promises to pay without at the same time imposing upon them a corresponding responsibility to redeem these promises.

Privilege without corresponding responsibility would appear to be without any valid defense. We have, in this country, a great body of contract law designed to compel people to fulfill their promises to pay. But despite the general acceptance by our people of the principle that it is the duty of the issuer of promises to pay to meet them when they mature, we have exempted from such obligation both our Treasury and our Federal Reserve banks.

Although the gold reserves held by the Treasury against part of its currency and the gold-certificate reserves held by the Federal Reserve banks against their Federal Reserve notes and deposits cannot be paid out to the people of this country, they can be, and are, paid out upon demand to foreign central banks.

The reason for this discrimination in favor of foreign central banks and against the people of the United States lies in the fact that our government can regiment the people of the United States but cannot compel foreign central banks to accept our irredeemable paper currency or overvalued silver except at a discount. Therefore, our Reserve banks must stand ready to pay out our best money, not our cheapest, on demand to foreign central banks in order to maintain the parity between our irredeemable currency and gold. Our own people, on the other hand, must be satisfied with irredeemable paper money and overvalued silver and minor coin, so long as we continue with our present system.

The peculiarities of the so-called "reserve" of the Federal Reserve banks call for emphasis. Only gold certificates are lawful reserves against Federal Reserve notes and the deposits of these banks. But these so-called "reserves," which are ostensibly held against all these notes and deposits, can in fact be used to meet the claims of foreign central banks only, some of which are under the control of governments that are either Socialist or managers of the people and their economy in some other form.

The only asset cash which the Federal Reserve banks can pay out domestically against their notes and deposits is composed of silver, silver certificates, United States notes, and minor coin. But this money is not lawful for reserves in our Federal Reserve banks, although it is treated by our government as good enough for the people of the United States in the conduct of their daily transactions.

In other words, the money that is lawful for reserves in Federal Reserve banks cannot be paid out domestically, while the only asset cash that can be paid out is not lawful money for reserves in these banks.

It is also important to understand that the only asset cash which the Reserve banks can pay out against their Federal Reserve notes and deposits at any time is generally a relatively small item. For example, on February 2, the Federal Reserve banks held only $370,000,000, approximately, of asset cash against $46,000,000,000, roughly, of Federal Reserve notes and deposits. On that same date, they held in gold certificate reserves over $23,000,000,000 against their $46,000,000,000 of notes and deposits. They could not pay out the gold certificate reserves which amounted to over 50% of their note and deposit liabilities of the Federal Reserve banks; all that they could pay out was the $370,000,000 of asset cash which amounted to approximately only 8/10 of 1% of their note and deposit liabilities.

A noteworthy aspect of this situation is that when it is suggested that we return to a redeemable currency and require the Federal Reserve banks to pay out their reserves to meet their note and deposit liabilities, it is promptly and vigorously urged that we do not have enough gold to go around. Nothing is said about the fact that the only asset cash that the Federal Reserve banks can pay out against their notes and deposits ranges ordinarily from 1/70 to 1/100 of what they would have to pay out if we were on a gold coin standard.

Since the argument that there is not enough gold to go around is so common, it justifies examination. Briefly, it is indefensible for two reasons:

First, there is never enough of anything to go around if it has value. Scarcity is a fundamental requisite of value. There are never enough bridges or elevators or ships to go around if all who have a right to use them demand their services at the same time. Special devices are required to meet unusual and unexpected loads thrown upon scarce and valuable goods which, in the interests of economy, are designed, ordinarily, to carry an average load or to meet a typical demand. There are enough, only, of those goods to go around that have no value.

Second, the ratio of our gold stock to money and deposits is relatively high. It is approximately 13% as compared with an average of roughly 8% for the years 1915-1932, during which time our country and our Federal Reserve System operated on a gold coin standard.

Today, private enterprisers cannot obtain gold for use in foreign trade. Our government and our governmental institutions control foreign exchange, trade, and foreign investments. The consequence is that foreign trade is tied in knots and there is no reason to suppose that it can develop properly until private enterprisers are enabled to obtain gold and silver and to go where they will, when they will, in their search for profit.

In short, we have slipped into a system of liability currency.

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*An address by Dr. Spahr before convocation at Claremont Men's College, Claremont, Cal., March 15, 1949.

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The Blundering NASD

Primary cause of recession of small business and of doldrums in securities field charged to NASD. Tabooing of discounts to non-members monopolistic. Prevents widest distribution of original issues. Causes thin markets and impairs liquidity. The bane of the 5% yardstick. Doctrine contra to our free enterprise system. Takes no account of profits. Prevents adequate statistical studies. Against public interest and interest of investors. Congress should abolish NASD.

Many are the attempts being made to determine the cause of the doldrums in which the securities business finds itself. The reasons assigned are legion and often completely miss the mark.

We think it was a woebegone day for the securities industry when the Maloney Amendment to the Securities Act of 1934 was passed.

Out of this legislation arose the only national securities association—the National Association of Securities Dealers—and to its existence is largely chargeable the current despair.

NASD was born under an inauspicious star and nurtured in the cradle of monopoly. To it, the Maloney Act gave the choice of creating for its own membership special financial monopolistic advantages. Unwisely, the destructive alternative in that choice was accepted and implemented through elaborate so called fair practice provisions,‡ so that NASD members were prevented from dealing with non-members excepting on the same basis as they dealt with the general public.

What is the effect upon securities markets of this provision and its monopolistic implementation?

Because of the NASD setup, non-member firms cannot participate in the distribution of new issues underwritten by a member of this Association unless they are willing to do so without profit to themselves. Non-members, therefore, do not get into new corporate issues, resulting in an absence of breadth of distribution that would otherwise exist—particularly so in the case of smaller issues—to the decided detriment of small business.

Here, a needless schism has been set up distinctly harmful to the public interest and to issuer corporations seeking the widest possible distribution of securities and, as just pointed out, decidedly damaging to small business. It is obvious our enterprise is best promoted by such a distribution and it is equally evident the barrier set up by the NASD in forbidding their members from giving discounts (tantamount to making it impossible for a merchant to buy at wholesale in other lines of business) to non-members impedes and hampers wide distribution.

The NASD rule of no discount by members to non-members is a blight on the securities field.

Of course, the purpose behind this special privilege is to make membership in the NASD so necessary, of

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‡Refers to NASD Rules of Fair Practice, Section 25, which reads as follows:

"(a) No member shall deal with any nonmember broker or dealer except at the same prices, for the same commissions or fees, and on the same terms and conditions as are by such member accorded to the general public.

"(b) Without limiting the generality of the foregoing, no member shall

"(1) in any transactions with any nonmember broker or dealer allow or grant to such nonmember broker or dealer any selling concession, discount or other allowance allowed by such member to a member of a registered securities association and not allowed to a member of the general public;

"(2) join with any nonmember broker or dealer in any syndicate or group contemplating the distribution to the public of any issue of securities or any part thereof; or

"(3) sell any security to or buy any security from any nonmember broker or dealer except at the same price at which at the time of such transaction such member would buy or sell such security, as the case may be, from or to a person who is a member of the general public not engaged in the investment banking or securities business."

Can the Government Maintain Full Employment?

By HAROLD G. MOULTON*
President, The Brookings Institution

Dr. Moulton cites insuperable difficulties confronting President's Council of Economic Advisers in attempts to manage economy to bring about stabilization and full employment. Maintains factor of timing will prevent effective executive or legislative action to overcome depression under present statutes. Maintains volume of contraction in private business sector may well greatly exceed any practical possibility of expansion in public sector.

Recurring depressions have been the plague of the capitalistic system—in other countries as well as in the United States. Over the course of the last century business has been more or less depressed from 25 to 30% of the time. Economists, mathematicians, astronomers, physicists, engineers, business executives and politicians alike have searched, in vain, for the cause and the cure.

Harold G. Moulton

In government circles the slogan in recent years has been the "maintenance of full employment" — which is only another way of saying, let's prevent depressions and enjoy perpetual prosperity. The original sponsors of the Employment Act of 1946 conceived that the government should be *required* to maintain or provide full employment. But, as finally passed, the term "full employment" was dropped and instead of a mandatory provision it was declared to be the "continuing policy and responsibility of the Federal Government . . . , with the assistance and cooperation of industry, agriculture, labor, and State and local governments, to coordinate and utilize all its plans, functions and resources for the purpose of creating and maintaining . . . conditions under which there will be afforded useful employment opportunities . . . for those able, willing, and seeking to work, and to promote maximum employment, production and purchasing power." A special clause was inserted which provided that government policy shall be carried out "in a manner calculated to foster and promote free competitive enterprise." It was to facilitate the carrying out of this policy that the Council of Economic Advisers to the President and also the Joint Congressional Committee to review the President's economic report were created.

A New Program for Full Employment

These developments have now in turn led to a more comprehensive conception and program which are embodied in the provisions of the Spence Bill (H. R. 2753), recently introduced, "to implement the established national policy of promoting maximum employment, production and purchasing power, and for other purposes." The provision with respect to the fostering of private enterprise is omitted.

*Copy of an address made by Dr. Moulton before The Economic Club of New York, New York City, March 10, 1949.

This bill has been developed by and has the confident backing of the Administration. It is not so much concerned with depressions as with controlling and participating in long-term development of the economy in order to realize national economic goals formulated by the government. The scope and mandatory character of the program is indicated by the testimony of Mr. Clark of the Council of Economic Advisers in interpreting the President's conception to the Joint Committee of Congress. In his words:

"Encouragement of productive capacity is so essential to continued maximum employment and production that neither the concealed dangers in any given plan nor the required scope of government intervention should prevent action which will be effective. The President has shown how earnestly he seeks effective action by declaring that if it comes to the point where the people cannot be furnished goods which they need in any other way and it is possible for them to secure them by having the government itself become a producer, he is not afraid to take that final step."

Is There a Current Crisis?

With reference to the present business situation the Administration is at once reassuring and alarming. We are told that the business outlook is excellent because production and employment and income are still high, that the best estimates for business investments this year are very high, and that government demands for goods and services will increase considerably, and that the only real danger spot at the present is a development of a psychology of fear on the part of businessmen and consumers. We are informed that the recent development of soft spots accompanied by price readjustments is simply a leveling off process conducive to health in the economy.

On the other hand, we are admonished by Mr. Keyserling that very serious maladjustments exist, "some of which are on the surface and others of which are still hidden deep beneath the surface." We are told that the dangers of grievous inflation are still with us and that we are in equal danger of deflation. In short, there is inflation here, deflation there, reflation hither, and disinflation yon. "The problem is at one and the same time to prevent the inflationary cast or the deflationary cast from becoming so pronounced and so prominent that the whole economy becomes seriously affected . . . It is perilous to delay action."

It is argued from these premises that we must produce deflation where there has recently been inflation and produce reflation where there has recently been disinflation. In short, we should not allow any extensive readjustments to occur.

We seem to have reached an impasse with respect to prices. Those who raise prices are guilty of profiteering; those who reduce prices are seeking to undermine stability in the economy, and those who maintain prices are guilty of monopolistic collusion.

Criteria for Judging Stability

The new program evisages a state of "balance" throughout the economy. To quote from Mr. Keyserling's testimony before the Joint Committee of Congress on the Economic Report:

"This balance is attained when useful jobs in accord with abilities are available for practically all who are able and willing to work, and when the vast output created by the combination of maximum employment with our unrivaled resources and managerial skills can be absorbed promptly by a sufficiency of purchasing power. This sufficiency of purchasing power in turn depends upon how national income is flowing to various groups. Business should receive enough income to encourage the highest sustainable levels of investment and production but not so much income as to result in 'frozen savings' or lead to so-called 'over-production.' Consumers should receive enough income to buy their full share of total output, but not so much income as to cause either inflation or the impoverishment of investment in plant and equipment. Farmers should receive enough income to carry them closer toward genuine parity of income, opportunity and living standards for the rest of the country. Personal income should be distributed, not to achieve equality of income to carry them closer to enough *equity* (italics mine) into the income structure so that large parts of the population do not suffer want in the land of plenty. . . ."

We may pause here to observe that despite the super-prosperity of the past three years this happy state of balance appears never to have existed. It will be recalled that at the beginning of 1946 the Administration regarded the imbalance as so serious as to forecast an unemployment aggregating at least 10 millions. At the beginning of 1947 we were* told that profits were dangerously high, that the masses of the people were suffering from restricted buying power, and contrariwise that excessive purchasing power was causing such serious inflation that price controls were indispensable. At the beginning of 1948 the situation was grave because of rapidly mounting food prices and growing disparities in the structure of wages and prices.

It is pointed out further that the achievement and maintenance of the essential balance in the economy involve both adjustments in the relationships between prices, wages, and profits, and also government policies which affect the flow and use of income such as taxation, public expenditures, and credit regulations. One grows confused about the possibility of obtaining a satisfactory balance when he reads the Third Annual Report of the Council of Economic Advisers (December, 1948), which takes a stand fundamentally at variance with that just quoted. This report, which bears the signature of Messrs. Keyserling and Clark, as well as Mr. Nourse states definitely that there are no adequate criteria by which to determine what policies would sustain full employment.

"A condition which has given the Council great difficulty is the lack of criteria by which to determine the relationships among prices, wages, and profits which are workable, in the sense that they contribute in the largest possible degree to economic stability. . . .

"The principal limitations (to the functioning of the Council) are imposed by the fact that no collection of data can comprehend the enormous variety of economic relationships and no techniques of analysis can forecast with assurance the actions and reactions of a free people."

More specifically, the Council expresses a lack of confidence with respect to programs for capital expansion as a means of maintaining continuous prosperity.

"Notwithstanding the great amount of attention given to the influence of capital investment upon economic conditions, the Council has not found adequate quantitative analyses that determine a sustainable relationship between the increase in productive capacity and the increase in consumers' markets. . . .

"It is important to know whether the continued good health of our free economy requires capital investment at a rate which bears some ascertainable relation to national income or to some other economic landmark. . . ."

Experience has clearly demonstrated that we cannot with any assurance tell whether depression is imminent or in early prospect. It is notorious that depressions have had a way of beginning when few expected them. This was the case, for example, in 1929 and again in 1937. Moreover, they often begin when there has been no rampant antecedent inflation with accompanying stresses and strains. The 1929 depression came at the end of a period of moderately declining prices and at a time when there was substantial unused capacity and considerable unemployment; the 1937 depression occurred at a time when we had unemployment running to the magnitude of 6 to 8 million.

If there are no reliable indicators of a coming recession and no criteria—as the Council of Economic Advisers contend—by which to determine what policies would sustain employment, it would seem that we shall have to be reconciled to the recurrence of business reactions. However, the Employment Act assumes that positive action should be taken. Accordingly, it is still necessary to consider what types of action are possible.

Suggested Means of Checking Depressions

The principal measures designed to correct "dangerous" tendencies involve: (1) banking policy; (2) fiscal policy; and (3) price control. No great importance is attached to the first in view of the demonstrated inability of central banking institutions in this and other countries to prevent fluctuations in business activity. Price control is also of secondary importance, aimed at the prevention of rampant inflation. Primary reliance is placed upon fiscal policies. In a boom period emphasis is placed upon increased taxes as a means of checking inflation. When recession begins emphasis is shifted to an expansion of expenditures to prevent deflation. At the present juncture an increase in taxes is item No. 1 in the program.

The view is widely held that rising commodity prices are directly caused by an increase in the national money supply, and that this in turn is primarily due to government fiscal policy. Concretely, it is contended that when the government has a deficit it pumps money into the channels of circulation, which raises prices, and when it has a surplus it subtracts money from the channels of circulation, which lowers prices. Accordingly, the obvious way to control inflation would appear to be to replace a budget deficit by a surplus. This is the principle on which the government is now proceeding.

The evidence shows conclusively that there is no correlation between changes in the fiscal situation and the movements of commodity prices. In the prosperity period of the '20s there were substantial government surpluses every year, but the trend of prices was only slightly downward. In the early '30s there were large deficits, yet the price trend was sharply downward. From 1934 to 1936 the deficits increased and prices rose somewhat. In the prosperity period of 1936-37 the budget was virtually brought into balance, yet prices advanced. From 1938 to 1940 deficits again increased but the price level remained virtually stable. The vast deficits of the war period were accompanied by rising commodity prices. A deficit of nearly $18 billion in fiscal 1946 was replaced by a surplus of roughly $7 billion in fiscal 1947 and $9 billion in fiscal 1948; yet prices rose sharply. The most rapid advance in prices occurred in the first half of fiscal 1948, at the very time when the budget surplus was reaching maximum proportions. Now we are again approaching a deficit situation; and prices are receding.

The explanation of the lack of correlation is found in the fact that the Treasury controls neither the principal pipe lines by which money gets into circulation nor the principal price motivating factors. Money enters the hands of the people through the medium of wage, salary, interest, rent, and dividend payments; and the amount of such payments is governed chiefly by wage and other contractual agreements. An increase in wage rates, unaccompanied by an increase in output, naturally involves paying out more money for the same volume of goods produced. On the one side this means that the money cost of production has increased, which commonly necessitates an advance in prices in order to preserve the margin of profit. On the other side, the higher money incomes received by workers enable them to purchase the higher-priced goods. The so-called spiral of rising costs — rising prices — rising costs — rising prices lies beyond the control of the fiscal authorities. The determining contractual agreements are made in the realm of business; and the additional money required to finance the expanding requirements is obtained chiefly from bank credit expansion.

At the beginning of a depression Treasury outlays cannot be expanded with sufficient speed to check the shrinkage in the private sector. Whereas the latter proceeds weekly and even daily, some time must elapse before a corresponding expansion in public disbursements can take place. In 1937, for example, the government sought to arrest the recession by means of increased outlays for: general relief, transient relief, rural relief and rehabilitation, student aid, old age assistance, dependent children, aid to the blind, Civilian Conservation Corps, Civil Works Administration, Works Progress Administration, Bureau of Public Roads, Public Works Administration, and self-liquidating projects of the Reconstruction Finance Corporation. Despite this vigorous and extensive effort to arrest the recession, the decline

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Observations . . . .

By A. WILFRED MAY

The Investor's Attitude—'29 and '49

Part One

In today's investing atmosphere American business is worth more dead than alive, in the apt words of Howard Vultee, securities expert of the Marine Midland Corp. While the truth of this observation is becoming generally realized, it is also worthwhile to point out the remarkable *oscillation* in securities appraisal which has occurred over the years. Clearly and dramatically portraying this is the contrast between the public's present attitude and that which prevailed in the late 1920's, toward two important investing media: the investment trust and the utility holding company.

A. Wilfred May

THEN

For typification of the valuation of assets in the late 1920s, a time when the mere use of a Wall Street address was good for a multiplication of underlying values, let us review the ramifications of a trust organized by one of the most seasoned and respected investment banking houses, whom we shall call "G." In January, 1929, this firm organized the "G Trading Corporation" for expert stock market investing, securing for this purpose $100,000,000 from an avid public. Six months thereafter this "trust" together with an already super-inflated public utility holding company, which we shall call the "C Corporation," organized a new subsidiary which we shall call the "S Corporation" the common stock of which had a maximum but highly doubtful asset value of $6 per share, which stock they jointly sold to the public for $17.50 a share. Just one month thereafter our "S Corporation" concocted still another corporate vehicle, which we call "B Corporation." "S Corporation" bought 6¾ million shares of "B Corporation" at $10 per share while the public was offered and snapped up 1,000,000 shares of its common at double that figure, or $20; in addition to 1,000,000 shares of preferred at $50.

Apart from other steps in inflating this pyramid, one particular stunt was outstanding in exemplifying the public's appetite of that time. Our "B Corporation," the top rung, announced that instead of subscriptions in cash, it would accept from the public in payment for its own unseasoned stock at the $20 price (double its asset value), certain leading common stocks, as U. S. Steel, which was selling at 238, Allied Chemical at 324, and General Electric (old) at 395. Thus not only were those dizzy heights endorsed as the valuation of the underlying assets, but the public in exchanging them for "B" stock at double its asset value for the privilege of expert trust management, was really re-buying Steel at twice 238 or 476, General Electric at 790, and Allied Chemical at 648. Such subscriptions by the public amounted to $16,000,000, and before the October crash the market attached a value of $1 200,000,000 to the above-described assets comprising the "G" chain of trusts. Not by any means an isolated incident of the time!

* * *

NOW

Since that New Era period when the public was rushing in to pay thousand per cent premiums on underlying assets (already vastly inflated), not only have the general market's valuations of such assets undergone a 20-year deflation to a sound investment level, but the trusts holding them have also gone through the wringer of drastic legitimization under the aegis of legislation supplemented by minute SEC supervision. Not the least of the advantageous aspects of the trusts' new look is the fish-bowl of public scrutiny to which the Investment Company Act of 1940 subjects each of their transactions as well as major policies.

Nevertheless—today's investing public persists in appraising the reformed trusts operating under genuine investment standards, at sizable discounts from asset value in lieu of the previous multiple-premiums.

These prevailing discounts are highly significant in revealing today's investor's complete disdain for management, in appraising it as a liability rather than in its previous role of invaluable additional asset. One way of portraying this current write-off of management is by comparing the discounts in the market's pricing of the trusts' own shares, with the ratio of management expenses to the gross investment income. This approach merely makes the presumably plausible assumption that the *gross* income is not diminished by "inexpertness" of expert management.

The following table shows in the case of 10 leading closed-end investing companies, the percentages of 1948 gross investment income which were taken by management expense, together with the respective market discounts at the end of the year. Brokerage commissions are included in management expense.

Company—	Ratio of Expense to Gross Invest. Inc.	Discount from Asset Value in Market Price of Trust Shs.
Adams-Am. Int'l	16%	32%
Atlas Corp.	43	25
Blue Ridge	15	16
Cons. Inv. Trust	5	11
Gen. Amer. Inv.	15	21
Lehman	12	3
Newmont Mining	10	29
Pennroad Corp.	10	37
U. S. & Foreign	13	36
Niagara Share	20	41
Aver. of 10 cos.	16%	25%

We see that in the case of all but two of the ten funds the expense ratio was exceeded by the market's discount on the assets, the latter exceeding the former by 55% on the average. At the end of 1947 such excess was 90%, and in 1946 87%.

If the market discount were just to equal the expense, it might be said that the public is presented with the opportunity of acquiring expert management *gratis*. Actually, with the discount appreciably exceeding the management's charge, the investor is receiving a substantial *bonus* for accepting the services of the managers.

Another way of viewing the public's present valuation of holding company functioning lies in comparing management expenses calculated as a percentage of the assets managed, with the size of the market price's discounting of those assets. This comparison as of the close of last year follows:

Company—	Ratio of Expenses to Average Net Assets	Discount from Asset Value in Market Price of Trust Shares
Adams-Am. Int.	0.74%	32%
Atlas	1.87	25
Blue Ridge	0.75	16
Consolidated	0.40	11
General Amer.	0.71	21
Lehman	0.63	3
Newmont	0.72	29
Pennroad	0.61	37
U. S. & Foreign	0.49	36
Niagara	0.89	41
Aver. of 10 cos.	0.78%	25%

So the additional conclusion might be drawn that under present market valuation of the funds' shares, their expert management is offered for hire completely free of charge for 31 years on the average.

This writer does not presume to express his opinion whether expert investment management is worth having for nothing. But he will venture the guess that at some future time the market will again believe so.

* * *

The above data and reasoning of course do not embody precise mathematical or logical validity. But at the very least they do quite dramatically illustrate the oscillation in investor psychology over Wall Street's 20-year span from *Blue Sky* to *Cemetery*.

(This is the first of two instalments on investment trusts and holding companies "then and now." The public's similarly oscillating attitude as it has applied to the utility holding companies, will be described in next week's column.—Ed.)

Robt. Podesta Partner In Cruttenden & Co.

CHICAGO, ILL.—Cruttenden & Co., 209 South La Salle Street, members New York and Chicago Stock Exchanges, announce the admission to general partnership of Robert A. Podesta, former Vice - President and Director of Julien Collins & Co.

Robert A. Podesta

Mr. Podesta's admission to the firm was previously reported in the "Chronicle" of March 3.

The State of Trade and Industry

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

Overall industrial production for the country at large edged slightly higher in the past week and was very moderately above the level of the comparable week of 1948. This increase in output was attained despite sporadic walkouts and the grim specter of unemployment looming in the background.

Increasing the concern of business and industry over the future prospects of our national economy was the action taken by John L. Lewis last week in ordering a shutdown of both bituminous and anthracite coal mines east of the Mississippi, starting on Monday of this week. The purported purpose of the shutdown was to protest to President Truman over his appointment almost two years ago of James Boyd as head of the Bureau of Mines. In trade circles cognizance was given to the adverse effect this scheduled closing will have on present coal stocks and the apparent advantageous bargaining position which will have been created for the United Mine Workers Union when discussions are opened for a new wage agreement.

The present mine workers contract with the operators terminates on June 30 and, according to reports, coal producers are presently being confronted with stiff resistance to current prices in negotiations for sales contracts covering the year beginning April 1.

The immediate effects of the coal mine stoppage brought forth the announcement of the Pennsylvania Railroad on Saturday last, that it will furlough approximately 20,000 employees. Elaborating further, it said, the suspension of mining operations will cause a serious decline in the road's traffic and will cut gross revenues between $5,000,000 and $6,000,000. The Pennsylvania hauls some 112,000,000 tons of coal annually.

On Tuesday of this week the New York Central Railroad stated that 5,055 workers who were scheduled to return to work on Wednesday following furloughs, which began on Feb. 11, will again have to leave their jobs after Saturday along with 455 workers of the Jersey Central Lines as a consequence of the miners' walkout.

Current estimates place the number of railroad workers at 62,000 who will be out of jobs by the close of the week because of the coal industry.

Plant shutdowns, layoffs and reduction in work hours per week increased last week with announcements of such action being made by General Electric, Hoosac Mills Corp., International Shoe Co., and the Rome, New York division of the Revere Copper & Brass, Inc.

For the week ended Feb. 26, continued claims for unemployment insurance dropped 2%, while initial claims declined 7%. This was the first decline in continued claims in three months. Total claims were reported at about 68% above one year ago.

* * *

The January, 1949, payroll of the iron and steel industry established a record for the month at $202,057,000, according to estimates of the American Iron and Steel Institute and made known on Friday of last week. It represented the highest payroll on record for that month and was 12% higher than in January, 1948. In fact, it was only exceeded by the monthly payroll in December, 1948, when wage earners worked an average of one hour per week longer.

Employment set a postwar record of 650,200 workers in January with earnings of hourly piecework and tonnage workers averaging $1.713 per hour compared with $1.573 in January, 1948, and $1.694 in December, 1948.

The foregoing figures are based on reports from companies representing 93% of the capacity of the steel industry and cover employees engaged only in the production and marketing of iron and steel excluding mining, shipbuilding and other non-steel-making activities.

* * *

January output of United States automotive firms declined slightly below the December rate, but truck and bus production increased, according to the February issue of "Automobile Facts," published by the Automobile Manufacturers Association.

Output was estimated at 441,300 vehicles, including 109,000 trucks and buses. This compares with the December total of 486,981 vehicles, including 108,526 trucks and buses.

Curtailment of car output for major model changes by two large firms accounted for the drop in car production. But the January output was 35,600 above vehicle output in the same month of 1948.

Final 1948 production totals showed that 5,285,425 vehicles were made in the United States, including 1,376,155 trucks and buses. Several leading industry executives have predicted a 10% increase in 1949 output because of more steel becoming available.

STEEL OUTPUT SCHEDULED AT NEW HIGH LEVEL FOR CURRENT WEEK

The two-week coal mine shutdown ordered by John L. Lewis, President of the United Mine Workers Union, effective on Monday of this week, will not hurt the steel rate, but if it should last longer

(Continued on page 35)

Monetary Policy and Economic Stability

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

Governor Szymczak points out changing role of monetary policy from rigid stabilization based on international exchange rates under a gold standard to a system of measures to maintain internal economic stability. Says principal aim of postwar monetary policy is to attain high level of business and employment, without resort to inflation. Stresses price stability as objective and contends there should be flexibility in formulating monetary policies. Sees crucial problem in regulating monetary supply by creation of government Treasury surpluses or deficits in right amount at right time.

Those who have the task of making policy decisions sometimes admonish the academic economist to avoid theorizing in a vacuum. However that may be, the policy maker himself must beware of making decisions in a theoretical vacuum. Absorbed as he must be in day-to-day operations, the policy maker can easily lose perspective. If he fails to relate each new problem to what has gone before and to what may come after, the result will be inferior policy.

M. S. Szymczak

Let me take this opportunity to heed my own warning and review contemporary policy broadly in the light of experience in this country with both theory and practice. In so doing, I realize that I may not say anything new. But my purpose is to provide perspective for consideration of more immediate monetary issues, which I shall come to in my second lecture and in the seminar between the two lectures.

Gold Standard Background of Modern Monetary Policy

Our conception of the responsibilities of monetary policy has been continuously evolving and broadening for the last-half century or so. During the nineteenth century and the early years of the twentieth century, the theory of the gold standard dominated most thinking about monetary affairs. This theory was preoccupied with the rigid stabilization of the international exchanges, rather than with the internal stability of the nations adhering to the gold standard. The domestic money supply of individual nations was thus assumed to be determined automatically by international market forces and the responsibilities of monetary policy were relatively meager.

Under established gold standard rules, monetary or central banking policy was regarded as largely passive. The primary function accorded the monetary authorities was to facilitate the smooth operation of the gold standard mechanism and the rules for action were simple and unambiguous. A net inflow of gold was a signal to ease monetary and credit controls, a net outflow was a signal to tighten controls. Response to both of these signals involved immediate use of the discount rate, the chief instrument of monetary policy. It is a fair generalization that monetary policy under the gold standard was primarily expressed through the discount activities of central banks.

Popular Basis of the Gold Standard System

The popularity of the gold standard system, in theory and in practice, was due to several factors. The impersonal and automatic fashion in which the gold standard mechanism was supposed to operate had an appealing elegance to the nineteenth century mind. It seemed to place the mysteries of money matters in Olympian hands and to protect them from erring mortals. Also, it fitted well into the mechanistic view of organized society which dominated scientific thought in the nineteenth century.

The emphasis placed on the stability of international exchanges attracted support from all those who were especially impressed with the advantages of an expanding volume of international trade. Economists in particular supported the gold standard because they saw in the development of world markets the possibility of greater specialization in the use of resources than would be possible within the limits of a national economy. Active support also came from the commercially minded enterprisers who were so influential in the nineteenth century, particularly in England. This group clearly saw the connection between national and individual prosperity and the unhampered flow of international trade at stable exchange values.

Still another reason for the popularity of the gold standard was a widespread fear of inflation. By the nineteenth century, as you know, the civilized world has had many, many sad experiences with inflation. There was comfort in the idea that fiat money could be avoided by maintaining a constant relationship between the currency unit and a fixed quantity of the scarce metal.

Finally, the wide acceptance of the gold standard theory reflected the assumption of a high degree of flexibility in domestic prices and wages. Whether such flexibility obtained in practice was little questioned. The real fact was that people quite generally thought that prices and wages were flexible and they regarded price and wage flexibility as a good thing.

Changing Role of Monetary Policy

The operation of the gold standard mechanism was not without its hardships. Gold standard countries experiencing a contraction in gold stocks found themselves confronted with deflationary pressures. These harsh effects necessarily put the rules of the game to severe test. After a succession of such tests, it was inevitable that a more flexible concept of monetary policy would emerge. It eventually became the practice of the monetary authorities—that is, the central bankers, who after all had to come into direct contact with the human problems of adjustment—to act in a way that would mitigate some of the harsher effects of the gold flow mechanism.

Little by little, such practices became the rationale of modern central banking. By 1914 when the Federal Reserve System was established, the special contribution of central banking was conceived to be that of preventing undesirable monetary and credit stringency during periods of transient emergency, such as might arise from a temporary drain of gold or from seasonal swings in commerce, industry, and agriculture. As a result, the originally narrow concept of monetary or central banking policy under the gold standard theory had to be broadened to take more account of internal consequences.

After the disruptive effects of World War I, the gold standard never regained the form it had had in the prewar era. In those countries where its suspension had been considered only a wartime measure, its reestablishment was on substantially modified lines. In the new environment, monetary authorities were acknowledged to have even more extensive and flexible responsibilities. As a matter of fact, they were assigned the double role of functioning as an overt buffer against the upsetting consequences of gold flows and as the means of continuously adjusting monetary and credit conditions to the needs of domestic trade and industry. The Federal Reserve Board's Annual Report for 1923 is a classic example of the newer thinking with regard to monetary or central banking policy. At that time, when gold was flowing to the United States, the Board indicated that the increasing gold ratio of the System was not a signal for an automatic easing of Reserve Bank credit. The report stated: "It is its (i.e., the Federal Reserve's) responsibility to regulate the flows of new and additional credit from its reservoirs in accordance with solid indications of the economic needs of trade and industry."

In this climate of thought, stability of the international exchanges as a primary preoccupation of monetary policy became definitely subordinate to domestic economic stability. Accordingly, during the Twenties, major gold movements were interpreted as calling for deliberate measures to counteract rather than to reinforce their effects. And to fulfill the broader responsibilities of monetary policy more effectively, new policy techniques were developed—including, in our country, open-market operations, a more systematic bank supervisory policy, formally issued policy statements for public information, and the publicizing of relevant statistical facts.

With this background of developing ideas about monetary management, it was only to be expected that the great financial collapse of the late Twenties and early Thirties would further change the character of monetary policy. The breakdown of the gold standard internationally, involving widespread depreciation and devaluation of currencies in relation to gold, put monetary policy in many countries into direct control over foreign exchange transactions, particularly over capital movements. Subsequent monetary reorganization brought about a position of more positive influence over the activities of banks and other financial institutions.

You are acquainted with developments during this period in our own country. We devalued the dollar and undertook a comprehensive overhauling of our monetary machinery. Time does not permit a review of these fundamental reorganization measures. I want only to remind you that two new techniques of continuing monetary policy were introduced

(Continued on page 28)

*The first of two lectures by Governor Szymczak under auspices of the Charles E. Walgreen Foundation for the Study of American Institutions, University of Chicago, Chicago, Ill., March 9, 1949. The second and concluding lecture will appear in next week's issue.

From Washington Ahead of the News

By CARLISLE BARGERON

An official of an aircraft manufacturing firm came to see your correspondent recently in a most anxious frame of mind. Whether Congress was to appropriate for a 70-group air force, a 55-group or some other size was of vital importance to him. He is no defense expert, either. Indeed, he has only a hazy knowledge of what our defense requirements are, just what it will take to perform our global leadership—to which by common consent of the nations of the world, we have been elevated—or just what it will take to defend ourselves against that tremendously "efficient and civilized country," Soviet Russia.

Carlisle Bargeron

But he did know that with a 55-group force his firm could probably squeeze by and with any lesser size force he would be sunk. A 70-group force would mean prosperity.

It is this sort of influence that is responsible for the continual agitation in favor of the Air Force to the detriment of the other branches of the armed forces, and it is this sort of influence that is making it impossible for Congress to determine what is really needed by way of a balanced fighting force.

Back of the Air Force is a tremendous industry, representing an investment of millions of dollars. It cannot exist unless we continue to spend billions on the building and destruction of planes. Thus it has developed a tremendous lobby to agitate that we can't build too many planes but we don't need anything else.

It is not a new lobby. The aviation industry has been a tremendous pressure group on our national affairs for many years. It has contributed generously to the campaigns of candidates for Congress on the grounds they were "air-minded," or alive to the needs of aviation. The campaign of one such candidate got $100,000 from the industry. This candidate's only issue, in fact, was that he was "air-minded," while his opponent, an older man, was steeped in the older modes of travel.

There was a time, of course, when advocating a "Big Navy" constituted a big and profitable business. Steel and Shipbuilding industries were behind it.

A blow-up came in the Hoover Administration when a "Big Navy" lobbyist brought suit against them for money he claimed they owed him for "breaking up" the Geneva arms limitation conference in 1927. The shipbuilding and related Steel firms were raked over the coals by a Senate investigating committee, and since that time the Navy seems to have had no outside, pocket-book influence behind it. For one thing, presumably, the Steel industry is busy enough without having to fall back on the building of Navy vessels.

The other branches of the Armed Forces have more or less always had to go along on their own, developing friends in Congress as best they could. George C. Marshall, as the prewar Chief of Staff, was an unusually good missionary for them.

I am not arguing against the government assisting the aviation industry. It is a serious question, though, as to whether the industry shouldn't pursue its problems openly and not cloud them in a lot of agitation having to do with National Defense and to the detriment of the other services.

Not only this, but at this time with the Military appropriation bill pending in Congress, it will be little less than remarkable if the propaganda in behalf of the Air Force does not precipitate war. The Air Force propagandists seem to have thrown all restraint to the winds.

Recently, there was a tremendous and questionable propaganda about a B-50 bomber that circumnavigated the globe without stopping. This propaganda included responsible statements that we are now in position to bomb any nation in the world from this country. The statements were not true in the first instance, or at least they were deceptive, because this plane was enabled to remain in the air for so long only through being refueled several times on its flight. The refueling planes, of course came from relatively nearby bases.

But since that highly advertised accomplishment, the Air Force has loosed another propaganda blast about a B-36 that remained in the air for 9,000 miles and carried a bomb load for 5,000 of these miles. This propaganda stated bluntly that we thus had a bomber that could take-off from this country, drop a load of bombs on Russia and return.

The propagandists were not even content with this. They permitted to "leak out" to the press information that targets in Russia had already been marked out for just such a mission.

This seems to be bellicosity at its height. Undoubtedly there are those who feel that this sort of bullying is the way to deal with Russia. But to this writer it seems to be mighty dangerous business.

And certainly, it is not for the Air Force to be determining at this point whether or not this is the proper treatment for Russia. Indeed, this is not the purpose of the Air Force. Its motive is to impress Congress, and apparently its propagandists are not concerned with the risks involved. They have gone clean wild.

With First Trust Co.

(Special to THE FINANCIAL CHRONICLE)

LINCOLN, NEB. — John T. Brownlee, Jr. and Edith L. Althouse are with the First Trust Company of Lincoln, Trust Building.

With Bache & Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Walter J. Kulakowski is with Bache & Co., 21 Congress Street.

Baker, Simonds Adds

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—Theodore Z. Roberts is with Baker, Simonds & Co., Buhl Building, members of the Detroit Stock Exchange.

Norman Barnes Co. Formed

CHICAGO, ILL. — Norman Barnes has formed Norman Barnes & Co. with offices at 111 West Monroe Street to engage in a securities business.

Future of the Securities Market

By J. A. LIVINGSTON*
Financial Editor, Philadelphia "Bulletin"

Financial columnist says it's time the Stock Exchange and investment firms started talking about success in investing and put less emphasis on price fluctuations and pitfalls and more on dividends and high returns. Blames attacks on profits and unwillingness to take risks as injuring securities business and reveals switch to life insurance in lieu of stocks and bonds to provide individual security. Contends securities market is now largely professional and decadent, and urges more study and research of market's functions. Stresses greater importance of selling over mere trading and sees in over-the-counter market more incentive for sales efforts.

Up to now advertising by most investment firms, especially the advertising of the New York Stock Exchange, has been founded on an illusion. Maybe you remember the ad that was used two years ago headed: "Stockholders' Meeting." The text ran in part: "They come from everywhere . . . from every income group, from every community. They are women as well as men, employees as well as executives, farmers as well as businessmen. They are typical stockholders, the owners of business."

J. A. Livingston

And the hats shown were of all types—the white skull cap of the house painter, the striped denim of the railroad worker, the broadbrim of the Texas rancher, the Homburg of the well-to-do investor, the rough straw of the farmer, and so on.

The ad goes on to say: "This distribution of business ownership through the whole mass of the people is an American development. A healthy and democratic development. We believe that much of the great strength of American industry derives from the depth and breadth of its ownership. The dollars with which it has carried our standard of living up and up . . . have come from millions of our citizens." It's a stirring declaration of a faith—a declaration of faith based on an unsubstantiated assumption.

Most people don't own stocks. Most house painters never entered a broker's office. The same goes for railroad workers and farmers. So the ad just wouldn't ring true—to the many millions of persons who don't own stocks—to the $60-a-week shoe clerk, garage mechanic, or soda jerker.

The ad is propaganda that bounces back. If you say a thing often enough about your own business, you, as well as others in the business, come to believe it even if it isn't true. I think I can offer proof. Let me quote from the last annual report of Merrill Lynch, Pierce, Fenner & Beane. It says: "The Merrill Lynch customers are the kind of people who keep this country running. The men and women we serve are a cross-section of all the people who live in America. They are the men who till the fields and harvest the crops; they are machinists and longshoremen; doctors and lawyers; engineers and school teachers; business executives, bankers, merchants, artists, entertainers. Numbered among them are the housewives with modest savings and the big banks and insurance companies with millions to invest."

And yet, the Merrill Lynch report, itself, suggests how small, how limited in scope, the security business it. Merrill Lynch did about 10% of all business on the New York Stock Exchange. It has 172,000 customers on its books. This includes customers who deal in commodities as well as stocks. This suggests that all New York Stock Exchange firms together had about 1,720,000 customers, or 1.2% of the U. S. population. Sears, Roebuck alone has 14,000,000 mail order customers on its books.

Basically, a Rich Man's Business

Most of the evidence we have indicates that basically the securities business is still a rich man's business. Sure, farmhands own stocks; ditto longshoremen and machinists. But the longshoreman that owns stocks is an exception among longshoremen; ditto for farmhands among farmhands and machinists among machinists. The Federal Reserve Board is responsible for an estimate that about six million persons own securities other than government bonds. That's only about 6% of the country's adult population. It's at wide variance with the common estimates of 15 to 20 million shareholders, and it throws some perspective on the recent Presidential election.

Your customers, by and large, are persons who have surplus funds. They don't use all their money on food, clothing, and shelter. They don't scrimp and have for pennies. They have something left over to invest. You deal with the haves. You have the viewpoint of the haves. But Roosevelt and Truman got their votes from the have-nots. And these have-nots have a new influence in our society, which is affecting your livelihood. They have political power, which you don't have. And they're using their political power to get security.

The farmer musters votes in Congress for support prices for wheat, corn, and cotton, and so on. The labor leader gets votes for a minimum wage, social security, unemployment compensation, and so on. When it comes to political power—in contrast to money power—the people in the security business, the big investors, the large institutions, are have-nots. And that fact pervades and dominates the whole market.

In the 'twenties, men in the middle-income and upper-income brackets didn't spend all their income. Customarily they'd buy common stocks or bonds. Stocks used to be called the businessman's investment. But nowadays the tax collector takes too much away. The New York Stock Exchange recognizes that in its latest campaign—to go out and reach new customers who could afford to put some savings in common stocks but who have never thought of doing so or are afraid of common stocks because of what happened in '29.

Past Advertising Defective

Stock Exchange advertising in the past hasn't helped win customers or influence people. Do you remember this ad showing a man with a dunce cap on his head and the headline: "I tried to get rich quick." It emphasizes the pitfalls of investment. Another ad emphasizes FACTS, the implication being that it's easy to be goldbricked when you buy stocks. What kind of psychology is that? You don't see Gimbel's putting up a sign saying: "Beware the Merchandise." Why scare customers away? Another ad is more sensible. It shows the Wright Bros. Airplane, Kitty Hawk, with the headline "Nothing Ventured, Nothing Gained." It's time the Stock Exchange and investment firms started talking about success in investing. You ought to put less emphasis on fluctuations and pitfalls, more on long-term dividends and high returns.

Social and economic changes have hurt the security business. Perhaps some of you saw a headline in the "Sunday Bulletin": "CIO Asks Boost in Wages, Cut in Profits." That epitomizes the temper of the times. Profits are under attack. And profits are the heart, soul, and lifeblood of stocks and bonds. You sell profits and anticipations of profits. The mere fact that in September a subcommittee of the Joint Economic Committee of Congress held a hearing on profits—Are they too high?—is a sign of great social change. Unlike 30 years ago, profits—*per se*—are not proof of achievement. They're something to be apologized for.

Importance of Profits

Large corporations are undertaking big campaigns to make workers realize that profits are important. A good philosophical case can be made out. Profits—private property—are the *sine quo non* of a free society. As long as a man can save up money and go into business—as a grocer, as a druggist, as a manufacturer, or as a security dealer—there's freedom. Money—capital—makes it possible to cross all kinds of barriers: Social barriers, political barriers, racial barriers, religious barriers, yes even territorial barriers—barring the Iron Curtain. Without profits, without capitalism, people become pawns of the State; the only way of going into business is through a certificate of conven-

(Continued on page 43)

*An address by Mr. Livingston at a luncheon meeting of the Philadelphia Securities Association, Philadelphia, Pa., March 15, 1949.

Our National Security Organization

By FERDINAND EBERSTADT*

Chairman of Board, F. Eberstadt & Co. Inc., Investment Bankers
Chairman, Committee on National Security Organization, Hoover Commission

Prominent investment banker describes work of Committee on National Security Organization appointed by Hoover Commission and lays down requisites for sound policies. Stresses importance of clear, sound and integrated national security policy, and calls for more economy and efficiency in armed services and overhauling of military budget. Says disputes have marred harmony of our military establishment, but objects to single chief of staff as causing loss of civilian control essential to both economy and efficiency.

I hope you will not think me presumptuous if I talk with you this evening about your business. Drugs, Chemicals and the Allied Trades are not the only businesses that you are in. Whether you know it or not—whether you like it or not—the biggest business that every one of you is in, is the business of government.

Ferdinand Eberstadt

While businessmen are always proud of the growth of their companies, they are not particularly pleased at the growth of their government.

In less than a score of years, the executive branch of the Federal Government has expanded from a $4 billion business annually to one of over $40 billion. The military establishment alone claims $15 billion or about one-third of the national budget. We like to think of ourselves as peace-loving people, yet over 75% of the annual expenditures of our national government arise from current military expenditures and costs of past wars.

The magnitude of the executive branch is indicated by the fact that there are over 1,800 separate units in it—many of them individually greater than any other enterprise in the world. In the aggregate, they employ over 2 million persons—more than the entire population of Philadelphia, the nation's third largest city. The national military establishment alone employs over 887,000 civilian personnel—slightly less than the population of Washington, D.C.

It is futile to expect that the size of our government can be reduced to what it was a score of years ago. Internal and external developments preclude that. But we can—and should try to make our government as economical and as efficient as possible.

The Hoover Commission

The Hoover Commission has rendered its reports to Congress. Its recommendations have received strong public approval.

However, unless the people firmly and insistently back the sound recommendations of that Commission, very little positive action will ensue. President Truman and Ex-President Hoover have set an example of cooperation in the public interest. The Commission has done its part. Congress and the Executive Branch will do their part if the people indicate beyond question—and regardless of party affiliations and ideologies—that they want, and will insist on having, an efficient and economical government.

The reports of the Hoover Commission are "must" reading for every American citizen. They are not exactly light reading, but they are lighter and far more agreeable reading than the reports each of you makes to the government on "15th of March and quarterly thereafter." The Hoover Commission reports have a very close relation to the size of the final figure which you enter in your tax returns.

They are printed in large and easily readable type and are in handy pocket form. I would not say that you can get the whole set in your pocket, but, don't worry, you will have more room in your pockets after March 15—and each succeeding year you will have more and more room in your pockets unless these recommendations are put into effect.

The entire set consists of 24 small booklets. The shortest is 19 pages (on the post office), the longest 73 pages (on the State Department). Their cost ranges from 10c to 25c apiece. They are obtainable from the Government Printing Office in Washington. I suggest that you get them and study them and, if you agree with them, that you write your Senator and Representative that you want prompt action.

In the great work of the Hoover Commission, I was privileged to participate in a modest way as Chairman of the Commission's task force committee on the National Security Organization. Ours was a hard-working committee. We assembled for our first session on the 8th of June, 1948, and delivered our report to the Commission by the middle of November. During this period, our Committee was in session for 25 full days and 10 long evenings. Of the 14 members of the Committee, an average of 9 attended part or all of every session. The long distance attendance record went to Dr. Raymond B. Allen, President of the University of Washington, who came all the way from Seattle to attend practically every meeting. He traveled a distance about equal to a couple of trips around the world.

National Security Organization

The function of our Committee was to examine the National Security Organization, with a view to exploring how its product could be improved, and at the same time its costs reduced—how to obtain the maximum national security at the minimum cost in terms of our resources and our liberties.

I would like to emphasize the distinction between the National Security Organization and the military establishment, because these two are often confused. The military establishment is a part of the National Security Organization, but not necessarily the most important part.

The main purpose of the national security organization is to marshal all our resources, civilian and military, in a constant and continuing effort to maintain peace on terms acceptable to a strong, self-respecting, peace-loving, democratic people. Its secondary, but perhaps no less important, purpose is, in default of the maintenance of peace, to marshal all of our assets promptly and effectively in defense of our national security.

In the past we have been accustomed to think of peace as the normal condition of society—at least of our society. To the extent that we considered it at all, we viewed the provision in the Constitution laying upon Congress the duty "to provide for the common defense" as, at most, an intermittent function. Unhappily, neither our experience nor that of other nations justifies this comforting view. Wars are but explosive manifestations of a ceaseless international struggle and, until we discover a successful means of disposing of international disputes without resort to war, this condition will continue.

Our generation has received particularly bitter and expensive instruction along these lines. When the Kaiser was defeated, we dropped our guard, confident that long years of peace lay ahead. Disillusionment ended in another and more frightful war. This catastrophe was generally ascribed to our failure to enter the League of Nations. The defeat of Hitler, Mussolini, and the Japanese War Lords rekindled bright hopes of lasting world peace—particularly as this time we became an active member of the United Nations.

Again hope is giving way to disillusionment. Again we are inclined to think that beyond the settlement of our problems with Russia lies a long, bright vista of peace. I certainly hope it does, but history indicates that even when this happy result has been achieved, other problems involving our national security will not be absent.

And so, as our country reaches international manhood, we have come to realize that national security is a relentless and ever-present problem and, that if we are to survive, we must recognize it as such and deal with it accordingly.

A second and equally important condition is that military strength is only one of our national security resources. The armed forces are but the cutting edge of national policy — an element of strength in the background in times of peace, in times of war a last and desperate resort. A sound national security policy cannot be based on military strength alone. It involves the wise and constant use of all of our national resources, political, civilian, military, industrial, psychologcal, scientific—in fact, all categories of human, material and spiritual strength.

Congress recognized these two fundamental conditions in passing the National Security Act of 1947 and they undertook to supply a long-standing and costly deficiency in our government organization and procedures. The purpose of the Act is to provide, upon a permanent and continuing basis, a comprehensive program for the security of the United States. Its objective is not merely to create a technically efficient military establishment, but to bridge the gaps between all of the various departments and government agencies concerned with national security; to bring them together as an organic whole so as to produce unified policies and action all along the entire security front—in time of peace, as well as in time of war.

The National Security Organization thus embodies a new concept in Federal administration. It attempts to discharge a new function in our affairs. It has established new methods of policy formation, administration, coordination and control. The system operates through a series of policy-forming coordinating and operating agencies. Contact between them is maintained, not only through interlocking memberships

(Continued on page 34)

*Address by Mr. Eberstadt at 23rd Annual Dinner of the Drug, Chemical and Allied Trades Section of New York Board of Trade, New York City, March 10, 1949.

Dealer-Broker Investment Recommendations and Literature

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

Chemicals—Circular—Hirsch & Co., 25 Broad Street, New York 4, N. Y.

Common Stock Program for Investors—Prepared for investors interested in revising their equity portfolios—G. H. Walker & Co., 1 Wall Street, New York 5, N. Y.

Fire Insurance Stocks—Bulletin —White & Co., Mississippi Valley Trust Building, St. Louis 1, Mo.

Investment Companies—Analysis of investment trust companies —William R. Staats Co., 640 South Spring Street, Los Angeles 14, Calif.

New York City Banks—Breakdowns of government bond portfolios and sources of growth income 1948 on 19 New York City Bank Stocks — Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Over-the-Counter — Brochure surveying the market—J. Arthur Warner & Co., Inc., 120 Broadway, New York 5, N. Y.

In the issue are contained reviews of **Atlantic City Electric, Detroit Harvester, Texas Eastern Transmission, El Paso Electric, Firemen's Insurance Co., Harrisburg Steel, Kentucky Utilities, Stromberg Carlson** and **Wellman Engineering.**

Over - the - Counter Industrial Stock Index — Booklet recording 10-year performance of 35 industrial stocks—National Quotation Bureau, Inc., 46 Front Street, New York 4, N. Y.

Railroad Income Bonds—Tabular comparison—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Television Industry — Analysis with comment on some of the better situated companies in the industry—Bache & Co., 36 Wall Street, New York 5, N. Y.

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

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Aerovox Corporation — Memorandum—Granbery, Marache & Co., 52 Broadway, New York 4, N. Y.

Amerex Holding Corp.—Analysis—New York Hanseatic Corp., 120 Broadway, New York 5, N. Y.

Also available is an analysis of the possibilities for **Central Public Utility** 5½s of **1952.**

American Insurance Co. of Newark, N. J.—1948 summary—Blair & Co., Inc., 44 Wall Street, New York 5, N. Y.

Also available are memoranda on **Chase National Bank, Corroon and Reynolds Group, Great American Insurance Co.** and **National City Bank of New York.** A score sheet of 1948 insurance stock earnings may also be had.

Anglo-Palestine Bank Investment Co., Ltd.—Circular—American Palestine Securities Co., 40 Exchange Place, New York 5, N. Y.

Argus Corp. Ltd. — Memorandum—W. C. Pitfield & Co., Inc., 30 Broad Street, New York 4, N. Y.

Brooklyn Union Gas Co.—Study —Wood, Walker & Co., 63 Wall Street, New York 5, N. Y.

Brown & Bigelow—Circular— Sutro & Co., 120 Broadway, New York 5, N. Y.

Canada Dry — Circular — Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Chicago Mill & Lumber Co.— Circular—Swift, Henke & Co., 135 South La Salle Street, Chicago 3, Ill.

Chicago South Shore and South Bend Railroad—Study—Straus & Blosser, 135 South La Salle Street, Chicago 3, Ill.

Commonwealth & Southern Corp. — Memorandum — Newburger & Co., 1342 Walnut Street, Philadelpia 7, Pa.

Coral Gables, Fla.—Tax participation notes — Memorandum — Buckley Brothers, 1420 Walnut Street, Philadelphia 2, Pa.

Fernandina Port Authority, Fla. Toll Road Revenue Bonds—Circular—Allen & Co., 30 Broad Street, New York 4, N. Y.

Gerber Products Co.—Report— A. G. Becker & Co., 120 South La Salle Street, Chicago 3, Ill.

Macon, Dublin & Savanna Railroad Co.—Data—B. W. Pizzini & Co., 25 Broad Street, New York 4, N. Y.

Also available is data on **New Orleans Great Northern Railway.**

Marshall Field & Co.—Analysis —Newhard, Cook & Co., Fourth and Olive, St. Louis 1, Mo.

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

Monsanto Chemical—Analysis— Goodbody & Co., 115 Broadway, New York 6, N. Y.

Also available are studies of **Food Machinery & Chemical Corp., Polaroid Corp.,** analyses of the prospects for **Railroads,** and leaflets on **Abbott Laboratories, Brooklyn Union Gas, Continental Oil, Magnavox, Natural Gas Stocks, Northern States Power, Paramount, Public Service Electric & Gas** and **Pure Oil.**

Frank G. Shattuck Co.—Memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

Standard Dredging Corp.—Circular—David A. Noyes & Co., 208 South La Salle Street, Chicago 4, Ill.

Struthers Wells Corp.—Memorandum—Cruttenden & Co., 209 South La Salle Street, Chicago 4, Ill.

Suburban Propane Gas Corp.— Circular—Hallowell, Sulzberger & Co., Broad and Chestnut Streets, Philadelphia 7, Pa.

Wisconsin Central Railway— Brief analysis in current issue of "Financial Survey"—Peter P. McDermott & Co., 44 Wall Street, New York 5, N. Y.

In the same issue are data on **CIT Financial Corp., Chrysler Corp., Duval Texas Sulphur Co., Kennecott Copper Corp., Pure Oil Co.** and **U. S. Smelting, Refining & Mining Co.**

Missouri Brevities

Pet Milk Co., St. Louis, on March 10 announced that since the first of the year the bills payable to banks have been substantially reduced, amounting at the end of February to less than $4,000,000. At Dec. 31, 1948 notes payable to banks totaled $10,500,000. John A. Latzer, President, adds: "We shall continue to liquidate our loans, and notes payable will probably be largely wiped out by the end of the first quarter." Net sales for the calendar year 1948 totaled $153,513,696, and net earnings, after Federal income taxes, were $2,397,275, equal to $4.55 per common share. This compares with sales of $133,147,182, and net profit amounting to $3,222,916, or $5.79 per common share, for the year 1947.

* * *

The following Missouri investment bankers participated in the public offering on Feb. 16 of $40,000,000 Duke Power Co. first and refunding mortgage 2⅞% bonds, due Feb. 1, 1979, at 101.31% and accrued interest: Stifel, Nicolaus & Co., Inc. and Stix & Co., both of St. Louis, and George K. Baum & Co. and Prescott, Wright, Snider Co. of Kansas City.

* * *

On April 12, the stockholders of The Empire District Electric Co., Joplin, will consider a proposal to increase the authorized common stock from 400,000 shares to 550,000 shares, par $10, and to modify the preemptive rights of stockholders. The 350,000 shares of common stock presently outstanding are owned by 3,697 stockholders. Average earnings per share of common stock amounted in 1948 to $2.30 compared with $2.03 in 1947. Since 1944, when this company became an independently owned and operated public utility, earnings per common share have averaged $2.14.

* * *

Scherck, Richter Co., St. Louis, was included in the group of underwriters offering on Feb. 25 an issue of $20,000,000 Beneficial Industrial Loan Corp. 15-year 3¼% sinking fund debentures due 1964 at 101½ and interest.

* * *

The volume of sales of Consolidated Retail Stores, Inc., St. Louis, —$35,645,596,—was the largest in its history and its net profits were exceeded only in the year 1946. Consolidated net profit after provision for income taxes aggregated $1,501,677, equal to $3.73 per common share, against $1,317,385, or $3.23 per common share, in 1947, and $1,527,295, or $3.85 per common share, in 1946. Current assets of the corporation and its subsidiaries at Dec. 31, 1948 amounted to $8,099,915, with current liabilities at $3,108,200.

* * *

Newhard, Cook & Co. and Stix & Co. were included in a group of 51 underwriters who on March 1 publicly offered 219,196 shares of Central Maine Power Co. common stock (par $10) at $15.87½ per share. They were included in the same group which also underwrote an additional 67,300 shares of common stock which were offered to common and 6% preferred stockholders of the utility firm at the same price, the subscription privilege expiring on March 14, 1949.

* * *

The consolidated net sales of Monsanto Chemical Co. and its subsidiaries, excluding those of its British and Australian subsidiaries, amounted to $161,609,441 for the calendar year 1948, compared with $143,403,161 for the previous year. Net income was $18,042,473, including $1,097,195 recovered from insurance companies for loss of profit from the destruction of the Texas City plant. Based on the number of shares of both preference and common stocks outstanding at the end of 1948, the income was equivalent to $3.95 per common share, compared with $3.59 for 1947. As of Dec. 31, 1948 there were outstanding 4,274,945 common shares.

* * *

An issue of $2,000,000 Scruggs-Vandervoort-Barney, Inc. (St. Louis) 3½% debentures, due Nov. 1, 1963, has been privately placed through G. H. Walker & Co., St. Louis; Boettcher & Co., Denver, Colo. and Union Securities Corp., New York, N. Y., according to an announcement on March 9.

* * *

Edison Brothers Stores Co., St. Louis, operating a system of 202 women's shoe stores from coast to coast, reports a net income for the year 1948 of $2,526,307, equal to $2.67 per common share, as against $2,817,147, or $3.02 per common share, for 1947. This decline was the result of higher operating costs. Harry Edison, President, stated that the sales in 1948 amounted to a new high of $75,026,770 and represents an increase of 5.76% over 1947. The company expects to open 12 additional new units during 1949.

* * *

Total consolidated sales of Ely & Walker Dry Goods Co., St. Louis, in the fiscal year ended Nov. 30, 1948 were the highest in its history, amounting to $165,750,660, of which $28,023,681 were inter-company sales, resulting in a net profit of $5,938,599, after provision for Federal income taxes and reserve of $4,500,000 for contingencies. After payment of dividends on preferred stocks, this was equal to $6.69 per share on the common stock, compared with $6.27 per share in the previous year. Current assets at Nov. 30, 1948 were $55,108,369, against current liabilities of $21,518,218.

* * *

Net income of American Service Co. of Kansas City and its subsidiaries for the year ended Dec. 31, 1948 amounted to $497,601, or $2.26 per common share, as against $784,921, or $3.01 per common share in 1947 and $657,783, or $2.64 per common share, in 1946. On April 1, 1949, there will be deposited in the retirement fund from the net earnings of 1948 the sum of $63,183 to be used for the purchase of preferred stock for retirement and cancellation on July 1, 1949. In addition any funds received from the sale of fixed property to March 31, 1949 will be deposited for the same purpose and proper notice will be mailed to each preferred stockholder on or about April 1, 1949, as to the amount of the retirement fund available and the date, terms and conditions for making tenders for the sale of their stock to the company.

* * *

Net income of Landis Machine Co., St. Louis, after all charges and income taxes, amounted to $318,713, or $6.16 per common share, for the year ended Dec. 31, 1948, which compares with a net of $291,458, or $5.60 per common share, for 1947.

* * *

F. Burkart Manufacturing Co., St. Louis, for the year ended Nov. 30, 1948 reported a net income, after charges and Federal income taxes, of $1,007,346, equal to $3.66 per common share, compared with a net of $898,493, or $3.26 per common share, for the preceding fiscal year. Current assets at Nov. 30, 1948 totaled $4,589,378, and current liabilities amounted to $1,133,632.

* * *

Western Auto Supply Co. reports sales of $6,715,000 for Feb., 1949, compared with $6,970,000 for the same month last year, a decrease of 3.7%. For the two months ended Feb. 28, 1949, sales were $15,830,000, against $14,520,000 for the corresponding period in 1948, a decrease of 4.7%.

* * *

Current assets of Wagner Electric Corp., St. Louis, as at Dec. 31, 1948 amounted to $25,294,512, against $24,782,666 a year previous, while current liabilities totaled $8,527,790 compared with $9,018,933 at Dec. 31, 1947. Net income for the year 1948, after taxes and overhead reserves, amounted to $3,807,081, or 5.18% of the total sales of $73,405,176. This net was equal to $7.78 per share on the 489,231 shares of common stock outstanding. A 2% stock distribution was made on Feb. 15, 1949 to stockholders of record Dec. 29, 1948.

Cash or Equities?

By RICHARD D. WEINBERG
Joseph Faroll & Co.

Mr. Weinberg maintains too many people are thinking in terms of a 1932-type depression, without realizing full inflationary implications of the Truman policies and philosophy. Concludes government's spending of "fantastic billions," together with expanding status of our economy, makes present security prices most attractive on record

Gloom and despair are rampant once again in Wall Street. The volume of business currently being transacted is insufficient to pay the expenses of nine out of ten brokerage houses. Stocks, particularly those outside of the prime investment class seem to have no bottom. Every item of news, every particle of rumor, is immediately reflected one way, by inducing selling. Good news in the form of dividends, extras, earnings and prospects are completely ignored. Fear is once again beginning to dominate everyone's actions. Reason and logic are abdicating. It would seem that 1929 and the resultant train of events have left such a deep impression with the investing public that they are blind to the differences operating today in our national economy.

Richard D. Weinberg

They do not differentiate between an administration that was reluctant to spend $1 billion to stem the economic tide and an administration in which one of its top economic advisers at a recent press conference spoke in terms of a business depression costing the nation $800 billion. The present confused times call for a clear appraisal of the action to expect from a political economy such as we now have. We must bear in mind that our economy is no longer a "free" competitive one. The government dominates our business structure as never before. The government is spending and will not hesitate to spend fantastic billions of dollars to keep the ball rolling. Too many of us refuse to accept the realities of our times. Harry Truman was elected by claiming the credit for full employment, high wages and high farm prices. Time and again during the campaign the voter was warned that the continuance of these things could only be guaranteed by a Democratic victory. It is fair to assume that the Administration will do everything in its power to live up to its promise. As regards its power, we should know by now that it is unlimited.

It is more than likely that before our present economic cycle ends we shall witness an inflation that is undreamed of by many of our "sound," "sane" economists. The Administration perhaps, knowing what they have in store for us, is not so foolish in asking for extraordinary powers to curb inflation. It would be expecting too much for them to tell us that they are going to create the very inflation which they seek powers to control.

Truman Will Prevent a "1932"

The big question for investors to answer is which is going to be preferable, cash or equities? There are too many among us who are thinking in terms of 1932. They are sitting back hoarding their dollars, waiting for the bottom to drop out of everything and then they will step in with their cash and reap the harvest. Despite all the current talk and concern about "deflation," if any part of the Truman program is enacted it is difficult to envisage anything but "inflation" ahead.

We have the following recommended program: Minimum wages to be raised from 40 cents an hour to 75 cents an hour. Social Security payments to be increased and coverage expanded. Also Federal aid to be granted for public relief. National Health Insurance, embracing medical, dental, and optical care. Federal aid to education. Federal large scale slum clearance and low cost housing. Development of the Columbia River Basin along TVA lines. The passage of all or part of this program will cost the national government billions of dollars. With our huge money supply, high government spending, high employment, high personal income, high farm income, record bank deposits and insurance holdings, with a $250 billion national debt and an annual budget of $45 billion, which shows definite signs of increasing rather than decreasing, it is difficult to see how we can drop back to a deflationary level. Further, under the terms of the Full Employment Act of 1946 the Administration is pledged to take whatever steps it deems necessary to assure maximum employment, maximum production and maximum purchasing power.

Despite all these virtual guarantees of a continuing high plateau economy, through the purchase of securities, it is possible at the present time to buy a partnership in leading national businesses giving a return ranging from 7 to 15% for less money than the net working capital per share. In almost all cases an appraisal of the company's properties would result in a valuation far above the present price of the company's stock. Despite the general fear that last year's dividends will not be maintained this year, in many cases due to the completion of capital

W. Harman Brown, Jr. With Otis in New York

W. Harman Brown, Jr., has been appointed Manager of the Syndicate Department of the New York Office of Otis & Co., 120 Broadway, according to an announcement made today. Mr. Brown, who is a native New Yorker, has spent practically his entire business career in the financial field, his first assignment having been as a runner for J. P. Morgan & Co. He became associated with Brown Bros. & Co., in 1923 and was later Manager of the Syndicate Department of Brown Harriman & Co., now Harriman, Ripley & Co.

W. H. Brown, Jr.

From 1923 to 1945 Mr. Brown was Deputy Fiscal Agent for the Federal Land Banks and the Federal Intermediate Credit Banks and more recently was Manager of the Bond and Syndicate Department of Marx & Co., New York.

expansion programs, larger rather than smaller dividends may well be the rule.

Independent Investor Thinking Needed

We here in America habitually go to extremes. Everything is either going to a thousand, or not worth the paper it is written on. We seem to be incapable of formulating our own economic opinion. The other fellow's opinion is always better than ours. At times such as these it is up to every investor to reach a sane independent conclusion as to whether he should hold cash or buy securities at current prices. Most stocks have been going down for almost three years now. This, during a period of record earnings and high dividends. Have they not just about discounted the most dire and distressing eventualities?

Let us not forget that ours is still an expanding economy. The ingenuity of business in coping with the problems and complexities of our modern civilization shows no signs of exhaustion. Our standing of living, as well as that of people all over the world, is constantly improving. Half the population of the world is emerging from the darkness of slavery and feudalism into the light of progressive civilization. A new market potential of almost a billion people may be opened via China, India, Indonesia and other backward areas, where the people are clamoring for the miracles of our capitalistic society. Pernaps we shall yet find a way to arrange the means of payment so that their emergence will be under the guidance of our own system and not that of our "friends" with the clenched fist.

In conclusion, viewing all factors from a reasonable light it is difficult to remember when securities offered a better return and a greater likelihood of appreciation of capital, than the present.

Bear, Stearns Wire to Loewi & Co., Milw.

Bear, Stearns & Co., 1 Wall Street, New York City, members of the New York Stock Exchange, announce the installation of a private wire to Loewi & Co., 225 East Mason Street, Milwaukee, Wisc.

Cohu Corporation Adds Three to Staff

John M. Egan, A. L. Zollner and Walter F. Anderson have become associated with the Cohu Corporation, 1 Wall Street, New York City, in the Retail Distribution of Mutual Funds.

Colvin & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CAL.—Ray Moreland is now connected with Colvin & Co., Russ Building.

Michigan Brevities

The directors of the Packard Motor Car Co. on Feb. 23 declared a dividend of 25 cents per share on the common stock, payable March 28 to holders of record March 5, 1949, the largest dividend in nearly 19 years. It will be equivalent to $3,750,000 on the 15,000,000 shares of common stock outstanding. In 1948, 15 cents was paid on March 29 and 20 cents on Oct. 18. George T. Christopher, President and General Manager of Packard, said: "The year 1948 was one of the most successful in the history of Packard. The company entered 1949—Packard's Golden Anniversary Year—in the best financial condition in its long history." Consolidated net earnings for 1948 were $15,109,439, equal to slightly over $1 per share on the 15,000,000 shares of common stock outstanding. This compares with net income of $1,100,691, or seven cents per share, for 1947. Consolidated net sales and other income for 1948 amounted to $233,162,258, as against $117,135,499 on an unconsolidated basis for 1947. Working capital at Dec. 31, 1948 totaled $46,957,291, compared with $34,741,499 at the same date in 1947.

* * *

The stockholders of American Box Board Co., Grand Rapids, of record Feb. 18 were recently given the right to subscribe on or before March 4, 1949 for 139,342 additional shares of $1 par common stock at $10 per share on the basis of one new share for each two shares held. This offering was underwritten by Paine, Webber, Jackson & Curtis, investment bankers of Boston, Mass. The same bankers also headed a group of underwriters who publicly offered and sold for account of American Box Board an issue of $3,000,000 15-year 4½% convertible sinking fund debentures, series A, due Jan. 15, 1964, at 100 and interest. The net proceeds are to be used to pay bank loans, and for additions and improvements to property. The company expects that it will be able to obtain about $1,000,000 additional, when and if needed at some future date, by public offering or private sale, of $1,000,000 additional debentures permitted under the indenture.

* * *

The Detroit Stock Exchange reports that trading volume in February was 213,597 shares having a dollar value of $2,805,213. This compares with January trading of 201,545 shares having a dollar value of $3,347,173, and with 294,474 shares, having a dollar value of $3,546,783, which changed hands in December, 1948.

The 10 most active stocks during February were: Detroit Edison Co., McClanahan Oil Co., Gar Wood Industries, Inc., Packard Motor Car Co., Scotten, Dillon Co., United Corp. Parke, Davis & Co., Kinsel Drug Co., General Motors Corp. and General Finance Corp.

* * *

A record peacetime physical volume of production was achieved by General Motors Corp., Detroit, in 1948, C. E. Wilson, President, and Alfred P. Sloan, Jr., Chairman of the Board, stated on March 14 in their annual report to almost 434,000 stockholders. Net sales were $4,701,770,340 and net income was $440,447,724, equivalent, after deducting dividends on the preferred stocks, to $9.72 per share of common stock. While both sales and net income were at an all-time high in terms of dollars, net income represented a lower margin on sales than prewar—9.4 cents per dollar of sales in 1948 as against an average of 11.5 cents in 1936-1941. Total taxes paid by GM in 1948 were $463,500,000, equivalent to about 10 cents for each dollar of sales. Pay rolls amounted to $1,283,865,090 last year. For 1947, net sales totaled $3,815,159,163, and net income was $287,991,373, equivalent, after preferred dividends, to $6.24 per common share. In 1948 for the first time, yearly sales of Frigidaire electric refrigerators for homes exceeded 1,000,000 units.

Net working capital amounted to $1,086,680,131 at Dec. 31, 1948, an increase of $221,307,026 over net working capital of $865,373,105 at Dec. 31, 1947.

* * *

Rex C. Jacobs, President of F. L. Jacobs Co., Detroit, automotive parts and appliance manufacturer, announced March 1 that a term loan in the amount of $3,000,000, secured by fixed assets only, has been obtained from the Reconstruction Finance Corporation. The proceeds of this loan are to be used for the payment in full of all renegotiation liability, refinancing of existing indebtedness and for working capital.

* * *

Net earnings of Gerity-Michigan Corp., Adrain, for the six months ended Dec. 31, 1948 were $474,287 (including $243,095 nonrecurring profit on sale of equipment), and equaled 61 cents per share, as compared with a net of $505,730, or 66 cents per share, for the corresponding period in 1947. Sales in the first-half of the fiscal year ended Dec. 31, 1948 totaled $7,009,318, against $6,663,732 for the six months ended Dec. 31, 1947. From cash already received from the sale of the die casting machinery and inventories to Doehler-Jarvis Corp., Gerity-Michigan Corp. has paid off $300,000 of a $650,000 bank loan.

* * *

Watling, Lerchen & Co., Detroit, participated on Feb. 25 in the public offering of $20,000,000 Beneficial Industrial Loan Corp. 15-year 3¼% sinking fund debentures due Feb. 1, 1964, at 101½ and interest.

* * *

The net profit of Baxter Laundries Corp., Grand Rapids, for the 53 weeks ended Jan. 1, 1949 amounted to $106,203 after providing $62,000 for Federal income taxes. This compares with a net of $131,856 for the preceding fiscal year and $107,331 for 1946, both after taxes. Current assets at Jan. 1, 1949 amounted to $280,227, against current liabilities of $149,059.

* * *

Lear, Incorporated, has exercised the option to buy the building and property it occupies at 110 Ionia Ave., N.W., Grand Rapids, for an undisclosed amount, according to Richard M. Mock, President. Lear has occupied this building on a rental basis since 1945, renting the building with a purchase option from the Manufacturer's Building, Inc. of Grand Rapids.

* * *

Charles L. Wood, President of River Raisin Paper Co., Monroe, points out that the extensive plant modernization program is nearing completion and the anticipated benefits from improved paper machines and new high pressure boiler, turbine and generator equipment are beginning to be realized. Net earnings after taxes amounted to $571,338, or $1.24 per share, for 1948, compared with $1,313,810, or $2.85 per share, before a reserve of $250,000 for decline in inventory prices, for the year 1947.

* * *

The requirements of the Michigan Consolidated Gas Co.'s construction program are expected to make necessary the sale of a substantial amount of additional securities during 1949. It is reported that this company has plans under consideration for the sale of $14,000,000 of new bonds and $7,000,000 of preferred stock.

* * *

Net sales of Standard Tube Co. of $6,092,925 in 1948 resulted in a net profit of $462,128, or 89.6 cents per share on the class B stock after dividend requirements on the class A stock. In 1947 net sales were $4,507,489 showing a profit of $66,023, or 12.7 cents per class B share. In both years, $1.40 per share was paid in dividends on the class A stock, while the class B stock received 15 cents per share.

* * *

M. M. Burgess, President of Sheller Manufacturing Corp., announces that the book value of the common stock at the end of 1948 was $14.10 per share, against $9.57 at the close of 1947. He added that the company expects a high volume of business in 1949. Net profit for the year 1948 was $2,677,288, or $4.77 per common share, compared with $2,400,279, or $4.27 per share, for 1947.

* * *

A plan has been approved by the directors of Detroit & Cleveland Navigation Co. whereby its employees may, if they so desire, buy shares of the capital stock of the company on either a cash or time-payment basis. The shares so purchased will be acquired by the company in the open market. It is presently planned to provide up to 15,000 shares for this purpose. There are presently issued and outstanding 499,500 shares of common stock, par $5 out of a total authorized capital of 1,000,000 shares, which will remain unchanged.

* * *

Net income of Superior Tool & Die Co. for the year ended Nov. 30, 1948 was $296,985, or 48 cents per share, as compared with $138,444, or 22½ cents per share, for the preceding fiscal year.

* * *

Hayes Manufacturing Corp., Grand Rapids, for the 12 months ended Dec. 31, 1948 reported net profit after taxes of $2,720,606, equal to $2.57 per share on 1,059,834 shares of capital stock.

* * *

Other Michigan corporations reported earnings per common share for the latest fiscal year as follows: **Allied Products Corp., Detroit,** $4.34 (against $3.69 in the preceding year); **American Seating Co., Grand Rapids,** $6.32 (against $2.52); **Clark Equipment Co., Buchanan,** $10.24 (against $8.21); **Detroit Steel Corp., Detroit,** $5.48 (against $4.59 on same number of shares outstanding); **Ex-Cell-O Corp., Detroit,** $6.26 (against $5.23); **Harry Ferguson, Inc., Detroit,** 50 cents (against $2.43); **Home Dairy Co., Saginaw,** $1.53 (against $1.83); **Kalamazoo Stove & Furnace Co., Kalamazoo,** $2.10 (against $2.66); **Kent-Moore Organization, Inc., Detroit,** $1.53 (against $1.06); **Lonergan Manufacturing Co., Albion,** $1.34 on class B stock (against $1.58); **R. H. Mahon Co., Detroit,** $6.46 (against $4.37 on present capitalization); **Muskegon Motor Specialties Co., Muskegon,** $12.58 on class A stock (against $17.40); **Rudy Manufacturing Co., Dowagiac,** 60 cents (against 54 cents); **The Udylite Corp., Detroit,** $2.74 (against $2.17); **Universal Products Co., Inc., Dearborn,** $6.48 (against $8.04).

Douglas Laird Advises on Building A Prospect List for Mutual Funds

As reported by DOUGLAS K. PORTEOUS

Quality as well as quantity of customers should be the aim. Mr. Laird advises appeal to the "Peace of Mind Instinct."

Douglas Laird, Vice-President and Director of Sales of National Securities and Research Corporation delivered a most effective address on the Salesmenship of MUTUAL INVESTMENT FUNDS on Tuesday evening, March 15, at the New York Institute of Finance.

Douglas Laird

He discussed the subjects of "Building a Prospect List" and the "Human Equation."

The highlights of Mr. Laird's suggestions were that a salesman should make not more than three or four calls on a prospect and that "Luck" in making sales is correctly spelled WORK. Have a plan and work that plan. Appeal to the prospects instincts or desires and substantial sales commissions will result.

In building a prospect list there should be an aim for both numbers and quality. The prime source naturally is ones' present clients, then relatives, friends and contacts. A good list can be obtained from the Directories in office buildings. The Stockholder list can usually be obtained from the management at the time of a proxy fight. Other stockholder lists should be obtained if you can render a service to the holder through conscientiously recommending liquidation.

Time is the big asset and one should work a limited geographic area to effect time economy. In building the necessary broad list of prospects, Mr. Laird stated that all names and addresses should be checked with current telephone books or city directories to reduce wasted efforts.

In dealing with the most important factor in selling, the Human Equation, Mr. Laird suggested that salesmen first of all should thoroughly know the business, then put that knowledge in the back of their minds—henceforth concentrating with the prospect on the selling fundamentals: Attention, Interest, Desire and Action.

As there are very few prodigies in the music world there are few born salesmen; they are developed by the study of sales principles and the daily application of these sales principles.

There is a strong personal equation in all selling; you and the client. You sell people who are human beings—they act to satisfy a demand. Reasoning power is normally of little importance in making decisions, people act according to instincts. The two instincts aiding you in the retail distribution of Mutual Investment Funds are instinct to Acquire, to profit, (Greed); are the instinct to protect, to defend (Fear). In talking with a prospect it is important to understand which of the instincts are dominant, then develop the sales attack directly toward the satisfaction of the desire promoted by the dominant instinct.

Mr. Laird, drew upon his successful selling background, in stating that you do not sell Things (items)—you sell what they will Do (Program). Illustrating for one particular prospect motivated by the instinct of fear, you should emphasize Safety and Peace of Mind through the knowledge that there has never been an obsolete Mutual fund, nor has there been an obsolete holding in a fund. This prospect can have Peace of Mind through dependence upon a dependable income and the realization he's getting the same expert advice as the very wealthy investor.

The morale of the salesman is of the utmost importance, however, they must largely build their own morale. They must believe wholeheartedly and enthusiastically in their merchandise. They must stay in physical and mental health. They must have a definite program of continually reading inspirational literature, such as, Dale Carnegie's "How to Stop Worrying."

H. B. Chichester With Farwell, Chapman & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Harry B. Chichester has become associated with Farwell, Chapman & Co., 208 South La Salle St., members of the New York and Chicago Stock Exchanges. Mr. Chichester for many years was a partner in Fred W. Fairman & Co.

H. B. Chichester

With Daniel F. Rice

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA. — Raymond A. Wilcox is now with Daniel F. Rice & Co., Ingraham Building. Mr. Wilcox was previously with Gordon Graves & Co.

With Merrill Lynch Firm

(Special to THE FINANCIAL CHRONICLE)

MACON, GA. — William H. Goolsby is with Merrill Lynch, Pierce, Fenner & Beane, Dempsey Hotel.

Business Man's Bookshelf

How to Use Your Bank—Practical suggestions for making full and profitable use of banking services — William H. Kniffin — McGraw-Hill Book Company, 330 West 42nd Street, New York 18, N. Y.—cloth—$3.00.

Revision of the Taft-Hartley Act—Selected references—Industrial Relations Section, Princeton University, Princeton, N. J.—paper—15¢.

Stock Exchange (London) Official Year-Book, The, Volume I—Thomas Skinner & Co., Gresham House, Old Broad Street, London, E. C. 2, England, and 111 Broadway, New York 6, N. Y.—cloth—$30 for vols. I and II duty paid.

What Every Corporation Director Should Know—A handbook for the corporate executive—Percival E. Jackson — The William-Frederick Press, 313 West 35th Street, New York 1, N. Y.—cloth—$3.50.

Our Shrinking Dollars

By ROGER W. BABSON

Holding threat of inflation is still here, Mr. Babson points to expense of armaments race as portending increase in government spending, chief source of inflation. Says parents should put more stress on character, as well as savings, in rearing children.

When I was a boy thrift was considered one of the greatest virtues. At a tender age we were taught to save our money and put it in a toy bank. But I can understand why some well-informed parents hesitate to offer this advice to their children at this time. The money put in the savings bank a few years ago has lost nearly 50% of its purchasing power. Literally billions in purchasing power have been lost by colleges, universities, hospitals, insurance companies, and banks owing to shrinkage in what they could buy with the funds they have invested in bonds. I wonder if the day will come when parents will counsel children to convert all surplus funds into land, clothing, jewelry, machinery, and certain common stocks?

Roger W. Babson

Threat of Inflation Still Here

Many economists believe that inflation has about run its course. This may be true; but it will be some time before we can rest assured that the likelihood of serious inflation has been eliminated. Current booming production and the strategems of the money managers in Washington may, for one or two more Presidential terms, avert a further sharp rise in prices and hold the value of money about where it is today.

Since, however, the basic cause of inflation will not have been eradicated, the threat of inflation will remain constant and vivid. It may well gradually influence millions of people to shun the savings banks and high-grade bonds, including governments. Such a retardation of the accumulation of capital could become a serious affair.

Cost of War

The greatest single factor in bringing about the recent inflation has been the terrific national debt incurred to meet the cost of war. It is the prospective mountainous cost of preparations for the next war, that renders it impossible to bring inflation to a positive halt at this time. No one can tell how many more billions our armament race with Russia may eventually cost.

Prior to 1940 the United States spent in peacetime relatively little on its armed forces. The British Navy, enforcing the "Pax Britannica" for the past couple of centuries, made it possible for us to thrive as a nation without spending much on national defense. We have been able to spend U. S. funds on developing farms and factories, building homes and educating our people.

What We Parents Should Do

But Great Britain has been forced by circumstances to transfer to us the unpleasant duty of policing the world. We must now take on the headaches and frightful expense of maintaining international order, even though we have the help of the United Nations. Will the cost of our new and fateful responsibility dangerously dissipate our capital and destroy the value of our currency? I hope not, but there are no guarantees—particularly in the age of the atomic bomb.

Hence, as my friend Tom Williams of Asheville, N. C., is constantly preaching, we parents should spend more time in teaching our children to develop character as well as to save money. Here are a few of his suggestions:

(1) Set children an example of honesty. Avoid having our children hear us speak to neighbors as if they were our best friends and then ridiculing or criticising these same neighbors when they leave our presence.

(2) Get the confidence of our children. A recent survey shows that 24% of high school children complain of parental clashes with no respect for their parents' opinions.

(3) Along with teaching them to save money we should teach them, by example, the importance of saving health, by ourselves having only good habits.

Other Things to Save

If young people neglect storing up money savings, they should all the more strive to store up knowledge and become experts in some profession or trade. We parents should set them an example of sane praying and listening to God, realizing that in meditation and quietness is power. Of course, our children differ and should be treated differently. It is a part of God's plan to have our children vary in accordance with nature's laws of diversification; but this is one reason why they are our best investments.

Connecticut Brevities

Net earnings of **Powdrell & Alexander, Inc.** for the year 1948 were $2.57 per share compared to $3.79 for the previous year. Consolidated sales amounted to $23,062,990, which was 5.4% above the 1947 level. The year marked the end of the sellers' market in the curtain industry. During the second-half of the year merchandise began to back up at the mill and the company curtailed production. Inventories on a first-in, first-out basis amounted to $4,753,039 at the year end. Working capital rose to $6,404,095 during the year.

* * *

At the annual meeting of **Billings & Spencer Company** on March 1st it was announced that Bingham - Herbrand Corporation of Toledo, Ohio controlled 153,425 shares, or about 82%, of the company's outstanding common stock. A new board of directors was elected, consisting of four men representing Bingham - Herbrand and Mr. R. J. Ahern who was reelected President. For the year 1948 the company earned $54,573 or $0.29 per share.

* * *

Scovill Manufacturing Company earned $2.43 per common share in 1948 against $3.31 in 1947. Sales for the year were up from $76,956,232 to $80,617,513 but earnings were handicapped by the large amount of construction of new plant, installation of machinery and moving expenses, as well as by rising wages and material costs. During the year, $9,317,994 was spent for new plant assets. To provide permanent financing the company plans to issue $4,985,000 of the authorized but unissued preferred stock. The present preferred stock pays 3.65% and is not convertible, but the new series may be at a different rate and may include a conversion feature. Stockholders will meet on March 21 to approve the issue. Common stockholders will probably have the right to subscribe to one share of preferred for each 24 shares owned.

* * *

Mr. Albert Sessions Redway, Executive Vice-President and General Manager of Geometric Tool Company and a director of its parent, Greenfield Tap & Die Corporation, has been elected President and General Manager, effective March 28, of **American Paper Goods Co.** William F. Doran, Treasurer and Assistant Secretary, has been elected Vice-President of the company.

* * *

Holders of warrants which were recently issued to common stockholders of **Connecticut Light & Power Co.** took up $2,433,750—48,675 shares — of common stock and $5,340,800 of 3% convertible debentures, due Jan. 1, 1959, leaving $382,100 unsubscribed debentures, which have been privately placed by the underwriters. The financing provided the company with approximately $8 million. An additional estimated $24 million of new money will be required to carry out the company's construction program scheduled through 1951.

* * *

Southern New England Telephone Company's annual report shows that net income for 1948 was $8.92 per share compared to $3.79 for the previous year. A large part of the increase was due to the rate increase granted the latter part of 1947. The company had 690,561 telephones in service at the end of the year, an increase of 44,675 during the year. Telephone service is now had by 82% of the families in the state. Expenditures for construction during 1948 amounted to $23,018,833. A total of about 22,000 telephones were changed from manual to dial operation.

* * *

New Haven Gas Light Company's petition for permission to sell $1,200,000 3¼% bonds due 1974 to eight savings banks in the state was given a hearing by the Connecticut Public Utilities Commission on March 9.

* * *

The annual report of **F. H. McGraw and Company** shows that the company's volume of construction work in 1948 rose to a peacetime record of $22,971,965. The consolidated net profit on the operations for the year was equal to $2.75 per share of common stock. Uncompleted work at the year end amounted to a little over $20 million. Despite an increase in business of almost $5 million over the 1947 volume, the company was able to reduce its short-term bank financing from $1.5 to $1.0 million.

* * *

The Arrow-Hart & Hegeman Electric Company earned $2,798,019 or $7.00 per share in 1948 compared to $7.95 in 1947. On a consolidated basis, including foreign wholly owned subsidiaries, these per share earnings would have been $0.37 higher in 1948 and $0.67 higher in 1947. Working capital at the year end was equal to $14.40 per share and the company has no debt or preferred stock outstanding.

John G. Lawlor Opens Office in Baltimore

BALTIMORE, MD. — John G. Lawlor is engaging in a securities business from offices at 1813 Edmondson Avenue. Mr. Lawlor was previously a partner in E. R. Jones & Co.

Norman F. Dacey Forms Own Firm in Bridgeport

(Special to THE FINANCIAL CHRONICLE)

BRIDGEPORT, CONN. — Norman F. Dacey is engaging in a securities business from offices at 945 Main Street, under the firm name of Norman F. Dacey & Associates. Mr. Dacey was formerly with Edward E. Mathews Co. in Boston and prior thereto was an officer of Trust Funds, Inc.

Dempsey Tegeler Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Vernon C. Badham has joined the staff of Dempsey-Tegeler & Co., 210 West Seventh Street.

COMING EVENTS

In Investment Field

March 18, 1949 (Boston, Mass.)
Boston Investment Club regular monthly meeting at the Boston Yacht Club. Speaker: W. Wendell Reuss, New York City.

March 21, 1949 (New York City)
New York Security Dealers Association first quarterly dinner at the Downtown Athletic Club.

April 20, 1949 (Washington, D. C.)
National Security Traders Association - Securities & Exchange Commission dinner.

April 22, 1949 (New York City)
Security Traders Association of New York dinner at the Waldorf-Astoria.

May 5, 1949 (St. Louis, Mo.)
St. Louis Municipal Dealers annual cocktail party.

May 9, 1949
St. Louis Municipal Dealers annual outing at Norwood Hills Country Club.

May 14-15 (San Francisco, Calif.)
San Francisco Security Traders Association Annual Outing at Mt. Diablo Country Club.

May 18-21, 1949 (White Sulphur Springs, W. Va.)
Investment Bankers Association Spring Meeting of the Board of Governors at the Greenbrier.

June 5-8, 1950 (Canada)
Investment Dealers Association of Canada 34th annual meeting at Seigniory Club, Montebello, Quebec.

June 10-12, 1949 (Minneapolis, Minn.)
Twin City Security Traders Association Summer Party at Gull Lake.

June 10, 1949 (New York City)
Municipal Bond Club of New York Field Day at Sleepy Hollow Country Club.

June 17, 1949 (Boston, Mass.)
Municipal Bond Club of Boston Annual Outing at the Concord Country Club, Concord, Mass.

June 21-24, 1949 (Canada)
Investment Dealers Association of Canada 33rd annual meeting at Minaki Lodge, Ontario.

June 24, 1949 (Toledo, Ohio)
Bond Club of Toledo 15th annual outing at Inverness Country Club.

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.

Dudley L. Hayes Joins Walston, Hoffman & Goodwin

(Special to THE FINANCIAL CHRONICLE)

FRESNO, CAL. — Dudley L. Hayes has become associated with Walston, Hoffman & Goodwin, Bank of America Building. Mr. Hayes was formerly a partner in Bailey, Selland & Davidson.

Public Utility Securities

By OWEN ELY

Middle West Corporation

Middle West has been following a leisurely dissolution program which is now almost completed. In 1947 it divested itself of Central & South West (an important subholding company), distributing one share for each share held. In February, 1948 one share of Central Illinois Public Service was distributed for each two shares of Middle West; and in November one share of Wisconsin Power & Light for each four shares, and two shares of Public Service of Indiana for each 15 shares held. In January, 1949 one share of Kentucky Utilities was distributed for each two shares held. This completed the major distributions, and the stock has been selling recently on the Curb around 2. What does the current value of the "stub" represent?

The Company still has a number of miscellaneous items in its portfolio, plus cash. The following is an attempt to compute estimated values, which of course are not guaranteed:

No. of Shares		Estimated Values Thous.	Per Share M.W.
330,740	Middle West Utilities Co. of Canada	$4,500	$1.36
4,500	Sand Springs Water	450	.14
172,000	United Public Service	155	.05
34,000	Upper Peninsula Power	400	.12
----	Miscellaneous Assets (book value)	94	.03
----	Cash (approx.)	800	.24
		$6,399	$1.94

The investment in service companies, earlier carried on the books at a figure around $521,000 (largely "Beneficial interest in insurance trust") has been omitted above, as it is understood that there is no recovery value in the insurance trust, which will be retained in Middle West Service Company. The Service Company will remain in existence, serving primarily some of the former subsidiaries, including Central & South West Co.

The stock of Sand Springs Water Co. is carried above at the book value. United Public Service is entered at the proposed selling price, less the liquidating dividend declared in the interim. Upper Peninsula Power common stock is carried at about eight times estimated share earnings.

The major problem in appraising the break-up value is Middle West Utilities of Canada. The valuation above assumes a possible break-up of this holding company. As of Oct. 31, 1948 it had net current assets (cash and Canadian Government bonds) of about $1,220,000. Also, although the balance sheet is not very clear on this item, the company at the end of 1948 had about $1,390,000 in cash or stocks constituting its miscellaneous investments. This included 24,930 remaining shares of Winnipeg Electric. Investments in subsidiary companies were carried as follows:

	Book Value	Net Income
Great Lakes Power Company (100% of common stock and $500,000 6% notes)	$3,207,293	$379,075
International Transit Company	75,000	38,540
Winnipeg Heating Company	750,387	3,884
Northern Public Service Corp.	1,773,220	4,463
Totals	$5,805,900	$425,962
Less Reserves	2,221,036	
Balance	$3,584,864	

The earnings from these investments do not seem to bear any close relation to the book values, except perhaps for Great Lakes Power. Appraising the total earnings at eight times would give an estimated market value of $3,400,000. On this basis Middle West Utilities of Canada, which has no securities ahead of its common stock, would have a breakup value (cash, marketable securities and subsidiary stocks) of about $6,000,000. However, a discount of at least 25% should be allowed for Canadian taxes and exchange, which would reduce the value to $4,500,000 (see table above).

Because of the trend toward government ownership of utilities in Canada there have been long-standing proposals for the sale of Winnipeg Electric and Great Lakes Power to government agencies. As Middle West Utilities at the end of 1948 retained only 24,930 shares of Winnipeg Electric it does not appear likely that it can obtain any substantial profit through sale of this remaining investment. The stock is currently selling around 28½ on the Montreal Exchange, or a market value of $700,000.

There might, however, be a potential profit in the Great Lakes Power Company, in which Middle West owns the entire equity. Sale to a government agency might recognize reproduction cost, or might use a relatively high multiple of earnings. It is conceivable that such additional value, for both the Great Lakes Power and the Winnipeg Electric, might yield another $1-3,000,000 or some 30-90c additional value for Middle West (American company). On this basis liquidating value might be said to lie in the approximate range of $2-3. Some estimates have been reported to exceed even $4 a share, but this seems unreasonably high unless there are very substantial "hidden values" overlooked in the above analysis.

With Courts & Co.

(Special to THE FINANCIAL CHRONICLE)

BURLINGTON, N. C.—Robert J. Powell and Robert J. Powell, Jr., have become associated with Courts & Co., members of the New York Stock Exchange. Mr. Powell, Sr., was previously Burlington representative for R. S. Dickson & Co., Inc.

With Ames, Emerich & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Paul S. Leichenger has been added to the staff of Ames, Emerich & Co., Inc., 105 South La Salle Street, members of the Chicago Stock Exchange.

Investment Dealers and Brokers Should Get Behind the Byrnes Bill

By JOHN DUTTON

Writer urges all in securities business, as well as investors, to lend support to measure which proposes tax credit of 20% on annual dividends up to $2,000 per year.

On March 7, the New York "Times" reported that Representative John W. Byrnes, Republican, Wisconsin, (see the "Chronicle," March 10, 1949, p. 29) offered a bill granting a tax credit of 20% of annual dividends up to $2,000 a year. The effect of the legislation would be to forgive the tax on dividend earnings entirely for the smaller investor, and it would provide a tax rebate up to $400 for all big investors.

On the morning this item appeared I received a telephone call from an alert security dealer here in New York. He asked me if I would help him in any way that I could in getting behind this bill and he offered the following suggestion:

First, those of us who are in the securities business should write to Representative Byrnes in Washington and tell him that we are behind him and that we want this legislation enacted. Here is a copy of the letter he sent:

"Representative John W. Byrnes,
"Washington, D. C.

"The writer was very much impressed with the item in the New York 'Times' concerning the bill you offered for the granting of a tax credit on annual dividends up to $2,000 a year.

"As one who has been engaged in the securities field since 1926, I readily appreciate the enormous incentive of capital expansion that your bill offers. At this time the equity markets of the country are stagnated. Your bill would open up the capital markets for an industrial expansion that we so sorely need.

"Would you please send me a copy of the bill and let me know whatever I can do to further its course toward passage.

"Very truly yours."

His second suggestion was that we should each one of us write to our own representative in the House and tell him that we are favorable toward this bill, explain what it would mean in encouraging investment and opening up of the capitial markets, as relief to the sorely pressed investors, both large and small, in this country.

His third suggestion was that we should arm ourselves with penny postcards and we should go out to see our customers and prospects, and tell them about this bill. Then we should ask them to write a message in their own words that they are behind it. Then we should take the card out and mail it for them, just to make sure that it was done. He said, too, that if we asked everyone we know, our friends, neighbors, suppliers, as well as customers, to do this, that the security business could make its force felt for a change in Washington. In this connection, it would be up to us to find out the name of our Representative in Washington, and the representative of those upon whom we call, in case we too, like many others, do not know who he is. Do you think anyone in the security business doesn't know his Congressman? COULD BE!

In his letter to me, he writes: "This is a wonderful medium for contacting clients and especially good for qualifying prospects. Need I say more to you?" Here too, is a sound sales approach. Here is a chance to go to your customers and new prospects for a change and offer them cooperation in an unselfish effort to help them, as well as yourself, in achieving a desirable goal. If we all got together behind this bill and worked along the lines this alert, progressive dealer here in New York suggests, we could stimulate business for ourselves while we are trying to do a constructive job for investors, for our country as a whole, and for our business. When you go out to help people on something like this YOU ARE BOUND TO CREATE GOODWILL, MAKE FRIENDS AND OPEN THE DOOR FOR NEW ACCOUNTS.

Every organization connected with the securities business should get busy and push this bill. Here is an opportunity to do something worthwhile. How about it?

With Leason & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Miles R. DuKet has joined the staff of Leason & Co., 39 South La Salle Street. He was previously with Harris, Upham & Co.

With Herrick, Waddell Co.

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CAL.—Irene E. Atkins has been added to the staff of Herrick, Waddell & Reed, Inc., 8943 Wilshire Boulevard.

Halsey, Stuart Group Offers Lackawanna Equipment Trust Ctfs.

Halsey, Stuart & Co. Inc. and associates won the award yesterday (Wednesday) of $3,780,000 The Delaware, Lackawanna and Western RR. 2½% equipment trust certificates, due $126,000 semi-annually Sept. 15, 1949 to March 15, 1964, inclusive. The certificates, issued under the Philadelphia plan, were immediately reoffered, subject to authorization by the Interstate Commerce Commission, at prices to yield from 1.40% to 2.80%, according to maturity.

Proceeds from the sale of the certificates will be used to provide for the following new standard-gauge railroad equipment estimated to cost not less than $4,725,000: 10 1,000-h.p. Diesel electric switching locomotives, 300 box cars and 500 hopper cars.

Associated in the offering were R. W. Pressprich & Co.; A. G. Becker & Co. Inc.; Otis & Co.; Freeman & Co.; McMaster Hutchinson & Co.; and Wm. E. Pollock & Co. Inc.

James McKillips, Jr. With Shearson, Hammill & Co.

(Special to THE FINANCIAL CHRONICLE)

NEW ORLEANS, LA.—James F. McKillips, Jr., has become associated with Shearson, Hammill & Co., Cotton Exchange Building. He was formerly with Steiner, Rouse & Co. and Charles E. Corrigan, Jr.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

Since the first of the year the market for bank shares has been relatively quiet. With the exception of occasional demands from institutional investors, investment interest has been lacking and as there has been no great pressure to liquidate or lighten existing positions, most stocks have moved within a narrow range.

Although at one time the increase in the dividend of J. P. Morgan & Co. from an annual rate of $8.00 to $10.00 provided a spark to the otherwise dull market and even though there seems to be little difficulty in distributing sizable blocks of bank securities through secondary offerings, banks stocks have continued to reflect the investment psychology evident in the market action of listed shares.

Because of their characteristic stability of earnings and dividends, however, the range of the fluctuations for most bank stocks has been smaller than for most equities. In a number of cases current prices are higher than at the end of last year. Since Dec. 31, 1948, the Dow-Jones Industrial Average has declined from 177.30 to 176.02 on March 15, 1949. At the same time, Standard & Poor's index of nineteen New York City bank stocks rose from approximately 91 on Dec. 31, 1948 to about 94 at the end of last week.

The individual market records of 18 New York banks showing the range in 1949, the price Dec. 31, 1948 and the current market is tabulated in the following comparison. Also presented are the annual dividend rates and current yield.

	1949 Price Range		Bid Price Dec. 31, 1948	Current Bid Price	Current Dividend Rate	Yield
	High	Low				
Bank of Manhattan	$25½	$24½	$25¼	$25	$1.30	5.20%
Bank of New York & Fifth Ave.	329	308	310	323	14.00	4.33
Bankers Trust	39½	38	38½	39⅜	1.80	4.57
Brooklyn Trust	99½	97½	98	99	5.00	5.05
Central Hanover	90	82½	83¼	89¾	4.00	4.46
Chase National	35¾	32¾	33½	35¾	1.60	4.48
Chemical Bank	40¾	38¼	40¾	38¾	1.80	4.65
Commercial National	39¼	38	38½	39¼	2.00	5.10
Corn Exchange	53¾	49½	52¾	50¾	2.80	5.52
First National	1,218	1,145	1,150	1,200	80,00	6.67
Guaranty Trust	267	252	254	260	12.00	4.62
Irving Trust	15⅞	15⅛	15⅛	15¾	0.80	5.08
Manufacturers Trust	54⅛	48¾	52½	49¼	2.40	4.87
Morgan (J. P.)	227	199	201	227	10.00	4.41
National City	40	37⅞	37⅞	39¾	1.60	4.03
New York Trust	84¼	80	81	83½	4.00	4.79
Public National	38¾	37¼	37¾	38¾	2.00	5.16
U. S. Trust	590	540	540	585	35.00	5.98

From an examination of the above figures the narrow fluctuations of most stocks is apparent. With the exception of some of the higher priced shares and one or two of the others, the price changes over the past 2½ months have been confined to two or three points.

However, as previously mentioned, most of the stocks are higher than on Dec. 31, last. At present prices yields range from a low of 4.03% for National City to a high of 6.67% for First National.

While the outlook for bank earnings is primarily dependent upon the conditions of general business, new banking regulations, taxes and credit manipulations will also play an important part in operating results.

The trend of business for the past several months has been downward. It is believed, however, that a moderately lower level of business than prevailed in 1948 would have little effect on bank operating earnings. Also the recent slackening in the pace of business could be beneficial from the standpoint of regulation and taxes.

If, as seems evident, the inflationary pressures of the past two years have run their course, no further demands for additional reserves would likely be made by the regulatory authorities. Also the pressure for higher taxes on corporations may be relaxed if the Congress were convinced that such action would have a beneficial effect on the economy. Inasmuch as the possibility of enacting such legislation has tended to dampen interest in bank shares, the elimination of this threat could have a favorable effect.

Alfred J. Casazza to Address Bank Group

The Savings Banks Round Table of New York Chapter, American Institute of Banking, on March 23 will hear an address by Alfred J. Casazza, Vice-President of the Savings Banks Trust Co.

Two With Bache & Co.

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, OHIO—John G. Dunlap and William B. Jackson are now connected with Bache & Co., Dixie Terminal Bldg.

Asserts Government Steel Plants Will Not Relieve Shortage

Irving S. Olds, Chairman of U. S. Steel Corporation, says additional steel needed for plants would only aggravate present situation. Says 5 million-ton capacity was added in nation since 1947.

In releasing the 1948 Annual Report of the United States Steel Corporation, Irving S. Olds, Chairman of its Board of Directors, took occasion to criticize President Truman's proposal that the Federal Government build steel plants as a means of increasing output.


Irving S. Olds

"The central fact stands out," Mr. Olds stated, "that the steel industry, on the initiative of its own members, has been and is now moving as rapidly as possible to carry out, step by step, rational plans for the expansion and improvement of its facilities. This is no suddenly established policy. In U. S. Steel's case, for example, such programs have been under way for many years."

Pointing out that the American steel industry has added nearly 5,000,000 tons of ingot capacity in the brief period since 1947, and that plants which will add another 2,000,000 tons of steel capacity are scheduled for completion by various steel companies by the end of the year 1949, Mr. Olds says: "Any government plan for adding many millions of tons of new ingot capacity, as has been suggested, could not be carried out in time to be a factor in satisfying the current abnormal demand.

"Building further new steel mills of great size at this time is bound to consume large amounts of steel of the kinds now in short supply," Mr. Olds continues. "Such new mills, in all probability, cannot be constructed and placed in operation in less than two or three years. By that time it is expected that much of the present unbalance between steel demand and supply will have been adjusted. If the proposed mills are to be of sufficient size to meet the projections of certain critics, 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. . . . Construction and equipment costs are about double what they were a few years ago. Higher prices for steel products would appear to be inevitable in order to provide an adequate return on the huge investment needed for these proposed large mills."

Dewar, Robertson & Pancoast Become NYSE Members

DALLAS, TEX.—Dewar, Robertson & Pancoast, National Bank of Commerce Building, announce that their firm has become a member of the New York Stock Exchange. Partners are H. H. Dewar, Alton E. Robertson, John W. Pancoast, W. Lewis Hart, Creston A. King and Edward H. Austin. Mr. Dewar is President of the Investment Bankers Association of America.


Hal H. Dewar

NSTA Notes

TWIN CITY SECURITY TRADERS ASSOCIATION

The Twin City Bond Traders Association will hold its annual outing June 10, 11, and 12 at Grand View Lodge, Gull Lake, a resort 140 miles north of Minneapolis. "Operation Fishbite" is limited to 125 reservations in lodges and cabins and members are urged to make reservations with R. K. Pillsbury of the First National Bank of Minneapolis before May 1. Tariff, covering transportation, greens fees, food, lodging, boats, etc., is $30.

NATIONAL SECURITY TRADERS ASSOCIATION

Edward H. Welch of Sincere & Co., Chicago, President of the National Security Traders Association, informed the members of its 28 Affiliates, the Associations' activities during last year and also gave them the highlights of some of the Associations' plans for this year.

He set the date of the Annual Convention at The Broadmoor located in Colorado Springs as Oct. 5 to Oct. 9. Full details will be announced later.

On April 20 the Association will again honor all the members of the Securities & Exchange Commission and key members of their staff at a dinner in Washington. This will be the third annual dinner in honor of the Commission and will be attended by all National Security Traders Association Officers, National Security Traders Association Committee Chairman, Presidents of the local Affiliates and all past National Security Traders Association Officers and former members of the Executive Council. The President is anxious that each Affiliate be represented at this dinner.

The President also reports having attended winter meetings of several of the Affiliates and being gratified at the great interest shown in the National Security Traders Association.

Also included with President Welch's letter was a report by the 1948 Treasurer H. Frank Burkholder of Equitable Securities Corp., Nashville, Tenn., which made very pleasant reading and some suggestions to all National Security Traders Association members by Morton A. Cayne of Cunningham & Co., Cleveland, Secretary of the National Security Traders Association.

NYSE Seeks Views Of Membership on Seat Retirements

Chairman Boylan notifies members of adverse report of Special Committee made last April, but says matter is still under consideration, and invites membership opinion.

Robert P. Boylan, Chairman of the Board of Governors of the New York Stock Exchange, on March 8 addressed a letter to members in which he announced that at a meeting of the Governors on March 3, the request of a group of members that the Board again consider the question of reducing the membership and formulate a plan for that purpose was again considered. This subject has been discussed over the past 10 years by groups of members of the Exchange and a number of committees have reviewed the question at length. In January, 1948, a Special Committee was appointed by the President with the approval of the Board and after a very thorough study of the matter reported to the Board in May, 1948. The then Board of Governors expressed complete accord with the unanimous opinion of the Special Committee that seats should not be retired with present Exchange funds. The Board was also strongly of the opinion that any seat retirement plan would be a contradiction of a very fundamental principle which the Exchange has always advocated of free and open markets with supply and demand determining price and, therefore, that any seat retirement plan would be a most unsound step to take.


Robert P. Boylan

Mr. Boylan stated in his letter that in its further study of this important question the present Board of Governors seeks to determine the extent of interest on the part of the members at this time as well as to have the benefit of their views as to the type of program, if any, that they would like to see developed.

He requested members who are in favor of the retirement of memberships to advise the Board, giving the reasons therefor, and include in their letters the extent of the reduction in the number of memberships desired together with any suggested methods for the financing of a plan.

Members who are not in favor of retirement of memberships are also requested to inform the Board of their reasons therefor.

To Discuss Market For Israel Securities

"What has the new State of Israel to offer the American investor in the way of marketable securities?"

To discuss this question, a number of brokers and other members of the financial community will meet on Thursday afternoon (the 17th) in an hour of informal discussion, at the Bankers Club, 120 Broadway, at 3:45—by invitation of A. H. Sakier, founder of the American Palestine Securities Co., pioneer in the distribution of Palestine (Israel) securities in the United States.

Secretary Snyder Reports on International Monetary and Financial Progress

As Chairman of National Advisory Council on International Monetary and Financial Problems, he transmits to Congress a report for half year ended Sept. 30, 1948.

On March 14, Secretary of the Treasury John W. Snyder, as Chairman of the National Advisory Council on International Monetary and Financial Problems, which was set up by Congress when participation of the United States in the International Monetary Fund and the World Bank was approved, released a report covering developments in the six-month period ending Sept. 30, 1948.

John W. Snyder

The Council has served as the advisory body for the consideration of certain financial aspects of the European Recovery Program in accordance with the Foreign Assistance Act of 1948. Chief financial problems of ERP reviewed during the period included the amounts of dollar assistance, the terms of payment for assistance extended on a credit basis, the utilization of counterpart funds resulting from aid received on a grant basis, and payments plans to facilitate intra-European trade.

The report points out that the European Recovery Program is one phase in the changing pattern of international financial developments during the postwar period. The United States has provided financial aid for the reconstruction of war-torn economies and the development of foreign nations not only through the Economic Cooperation Administration but also through other agencies, such as the Export-Import Bank, the National Military Establishment and the Office of Foreign Liquidation Commissioner.

During this period, the Council continued to coordinate the activities of the United States representatives on the Fund and the Bank by consulting and advising with them on major problems arising in the administration of the Fund and the Bank.

In the judgment of the Council, "real progress has been made in establishing the Fund as a technical, advisory and consultative body on international exchange problems, and in implementing the purposes of the Articles of Agreement." The Fund has not only provided valuable advisory services in the field of international monetary problems but has also made available its resources for meeting short-term balance of payments deficits of member countries.

In the six-month period, April-September, 1948 the Fund sold an equivalent of $39.8 million to member countries in exchange for their own currencies, including $11.4 million in Belgian francs, the first sale of this currency. Total currency sales of the Fund from March, 1947 through September, 1948 amounted to $639.9 million.

The Council, in its report, points out that the resources of the International Monetary Fund are not intended to meet the type of financing which the ECA program is designed to cover and that, in general, use of the resources of the Fund is limited in accordance with its purposes to giving temporary assistance in financing balance of payments deficits on current account.

In its review of the operations of the International Bank, the Council noted that over a half-billion dollars in loans had been made during the period, May, 1947 to September, 1948, including loan commitments to France, the Netherlands, Denmark, Chile and Luxembourg. In the fiscal year ending June 30, 1948, net income of the Bank was sufficient to eliminate the deficit existing on June 30, 1947 and, by Sept. 30, 1948, the Bank had accumulated an earned surplus of over $5.3 million, plus nearly $4.3 million in its special reserve. As of Sept. 30, 1948 the Bank had uncommitted loanable funds amounting to approximately $475 million.

World Bank Disposes Of Belgian Bonds

Places $16 million of guaranteed 3% issue of Kingdom of Belgium with institutions through Morgan Stanley and Smith, Barney.

The International Bank for Reconstruction and Development announced on March 15 it has contracted to sell privately, with its unconditional guarantee as to principal, interest and sinking fund payments, $16,000,000 Kingdom of Belgium bonds. The purchasers are: New York Life Insurance Co., $10,000,000; the Bowery Savings Bank, $2,000,000; New York Savings Bank, $1,500,000; East River Savings Bank, $1,500,000; and the Dollar Savings Bank of the City of New York, $1,000,000. The savings banks are located in New York City.

The bonds bear a 3% interest rate. The purchasers are paying par and accrued interest. The $16,000,000 of bonds were received by the International Bank under its recent loan to the Kingdom of Belgium to provide foreign exchange for purchases of steel mill and power plant equipment. The bonds will mature in 20 years. Beginning Sept. 1, 1953, the issue will be amortized in 32 equal semi-annual installments.

The sale of the bonds was arranged by Morgan Stanley & Co., and Smith, Barney & Co., who were selected for this purpose at the request of the Belgian Government.

Officials of the International Bank stated that the contract for the sale of the Belgian bonds was arranged primarily in order to broaden the Bank's field of financing operations and not because of any immediate need to add to the Bank's lending resources. This method of sale, they said, is not an indication of an established policy of disposing of securities in the Bank's portfolio.

The Belgian loan carries an interest rate of 4¼%. The difference between the 4¼% paid by Belgium and the 3% rate on the bonds to be sold to the institutional investors, is paid directly to the Bank. Of this 1¼% difference, 1% is a statutory commission charge, which, under the Articles of Agreement, is allocated to the Bank's special reserve fund. That ¼% charge is a service charge to cover the Bank's operating expenses

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

The Chase National Bank of the City of New York has announced the opening of its second banking office in Japan in the Yamato Building in Osaka, Japan. The other Japanese branch of the Chase National Bank is located in Tokyo, Japan.

* * *

William T. Alexander, senior agent of **The Canadian Bank of Commerce, New York,** has been appointed Assistant General Manager of the bank at its head office, **Toronto, Canada.** Ernest H. Mitchell, Vice-President of the Canadian Bank of Commerce (California), will succeed Mr. Alexander as Senior Agent in New York. Mr. Alexander has been with the bank 39 years, and Mr. Mitchell 36 years.

* * *

Manufacturers Trust Company of New York announces that Warran W. Conrad of its Fourth Avenue and 27th Street office and John A. Henry of the 23rd Street and Lexington Avenue office have been appointed Assistant Secretaries. Mr. Conrad started with the Chase National Bank in 1927 and has been with Manufacturers Trust Company since 1937 when the 93rd Street office of the Chase National Bank was acquired by Manufacturers Trust Company. Mr. Henry, a graduate of Wharton School, University of Pennsylvania, has been with the bank in various departments of its operation since 1936.

It is also announced that Otis L. Guernsey, President of Abercrombie & Fitch Co., and G. William Priggen, Secretary-Treasurer of Coca Cola Bottling Co. of New York, have been appointed to serve on the Advisory Board of Manufacturers Trust Company's Fifth Avenue office.

* * *

The new main office of the **Broadway Savings Bank** at 250 West 23rd Street, opened on March 15, it was announced by Thomas R. Cox, President.

While the main office of the bank heretofore has been at 5 Park Place, a branch was opened three years ago in temporary quarters adjoining the new building conveniently located to serve the large residential and business population in the Chelsea District. The greatly increased business of the bank has necessitated larger space both for serving savings customers and the handling of mortgage loans. The transfer of certain departments to the new building will also relieve congestion at the Park Place office enabling it to serve its customers more efficiently.

* * *

Robert Wyckoff Bernard, a member of the New York law firm of Bernard, Remsen, Millham & Browdish, died of a heart attack on March 10 at the Municipal Court, Borough of Manhattan. As attorney for the **East River Savings Bank of New York,** Mr. Bernard was appearing in court for the bank at the time. Born in New York, he was 67 years of age. His mother, the former Jennie Blair Wyckoff, was a member of the Wyckoff family of Brooklyn for whom Wyckoff Street is named.

* * *

Frank Mullen has been elected Vice-President and Controller of **Greater New York Savings Bank, Brooklyn,** and Ernest D. Renard was named Vice-President and mortgage officer according to the New York "Herald Tribune" of March 12.

* * *

Marshall H. McCormack, of Wellesley, Mass., Assistant Secretary of the **State Street Trust Company, Boston,** was on March 11 also elected Manager of its Copley Square office in Boston.

* * *

The National Exchange Bank of Wheeling, W. Va. (capital $500,000), was placed in voluntary liquidation on March 1, having been absorbed by the **Wheeling Dollar Savings & Trust Co.,** according to the March 7 Bulletin of the Office of the Comptroller of the Currency.

* * *

Marking its 100th anniversary on March 5, the **Detroit Bank of Detroit, Mich.,** publishes in its March "Monthly," "The Detroit Bank Story," covering the period from the inception of the institution in 1849 to the present time. Founded as the Detroit Savings Fund Institute, the bank, it is noted, has experienced only two changes of name: in 1871 an amendment to the Banking Act of 1857 resulted in the bank's incorporation; its name at that time was changed to the Detroit Savings Bank, by which it was known until Jan. 6, 1936, at which time the word "Savings" was dropped, and the title, The Detroit Bank, adopted. Included in the "Monthly" are "High Lights of a Century," in which are set forth various happenings, year by year, "in one of the most amazing centuries in the history of makind."

* * *

Dan D. Rogers, who has been a Vice-President and director of the **Mercantile National Bank, Dallas, Texas,** has accepted election as active Chairman of the board for the **National City Bank of Dallas,** formerly the Liberty State, it was announced on March 8. Henry C. Beck, Jr., President of the company bearing his name, was named a director, according to the Dallas "Times Herald" of March 9 which also said:

"Rogers began in 1909 with the old Guaranty State Bank & Trust Co. The change will be effective immediately.

"The Mercantile Bank's board elected H. L. Nichols, Chairman of the board and a director of the Southwestern Public Service Co., as a director of the bank, succeeding Rogers."

* * *

According to the Los Angeles "Times" of March 11, H. W. Sanders, Vice-President and Treasurer and director of Union Oil Co. of California, was elected a member of the board of directors of **Union Bank & Trust Co. of Los Angeles.**

* * *

Shareholders of the **Bank of America of San Francisco** at a special meeting on March 7 voted overwhelmingly in favor of the issuance of a common stock dividend on the basis of one additional share for each five shares owned. This dividend has the effect of increasing the common capital structure of the bank from 8,531,710 shares outstanding to 10,238,052 shares, and in dollar amount from $106,646,375 to $127,975,650. The additional funds put into common capital are to be supplied from previous earnings now in undivided profits. Formal action on the rate of dividend to be paid on all common stock is to be taken at the regular meeting of directors on May 10, and it is contemplated that dividends at the current annual rate of $2.50 per share will be paid, in line with the bank's policy in recent years to pay out in dividends approximately 50% of earnings. A reference to the proposed capital increase appeared in our issue of Feb. 24, page 868.

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The promotions of four members of the East Bay official staff of the **Anglo California National Bank of San Francisco** were announced on March 7 by Allard A. Calkins, President. Elwood J. Schmitt, Vice-President, who has been manager of Anglo's Oakland main office for the past 6½ years has been transferred to the head office in San Francisco; George M. Keffer, Vice-President at the Oakland main office, has been named Vice-President and Manager of that office; Elvyn C. Evers, Assistant Vice-President and Manager of the Berkeley office, has been made a Vice-President at the Oakland main office; Frederick W. Clinchard, Assistant Manager at the Oakland main office has been promoted to Assistant Vice-President and Manager of the Berkeley office. All appointments became effective on March 15.

Lovett to Rejoin Brown Bros. Harriman

Brown Bros., Harriman & Co., 59 Wall Street, New York City, members of the New York Stock Exchange, announce that it is proposed that Robert A. Lovett will rejoin the firm on April 1. He resigned as Under Secretary of State in January of this year.

Robert A. Lovett

A partner in the firm for many years prior to the war, Mr. Lovett has spent the greater part of the last eight years in government service.

He withdrew from Brown Bros., Harriman & Co. in 1940 to accept appointment as Special Assistant to Secretary of War, later serving as Assistant Secretary of War for Air in charge of the Army Air program. After five years in these wartime assignments, Mr. Lovett resumed his partnership with the firm on June 1, 1946. In May, 1947 he again relinquished his partnership and other business connections to become Under Secretary of State.

Mr. Lovett holds the Distinguished Service Medal for his work in World War II. He served in World War I as a Navy pilot, attaining the rank of Lieutenant Commander and was awarded the Navy Cross.

M. G. Newcomb Agent For Federal Land Bank

The Farm Credit Administration has announced the appointment by The Federal Land Banks and The Federal Intermediate Credit Banks of Macdonald G. Newcomb as their fiscal agent and the promotion of John T. Knox to the position of Deputy Fiscal Agent. Offices will be continued at 31 Nassau Street, New York City.

Still a Gaping Deficit In British Trade Balance!

By PAUL EINZIG

Commenting on the "Mayhew incident," arising out of British Labor Government's optimistic propaganda, Dr. Einzig contends British international trade situation is not as favorable as British politicians claim. Says export deficit gap is still large and even if closed, dollar shortage would not be remedied because much of British exports are not paid for by imports.

LONDON, ENGLAND—Those who imagined that the allocation by Congress of the second annual instalment of Marshall Aid would be a mere matter of form received a rude shock as a result of the "Mayhew incident." Reports of the storm aroused in the United States by Mr. Mayhew's speech at Lake Success gave rise to strong criticisms, not so much of Mr. Mayhew personally as of the government. For even though the statement made by the Parliamentary Secretary to the Foreign Office was the direct case of the trouble, it was regarded as being but a manifestation of the tendency of the government's propaganda. Mr. McNeil, the Minister of State, observed that Mr. Mayhew merely blurted out the truth at the wrong moment. Whether it was the truth is a matter of argument. But there could be no two opinions that it was blurted out at the wrong moment, and especially at the wrong place.

Dr. Paul Einzig

Throughout 1947 and during the greater part of 1948 British official publicity pursued the aim of making the British public realize the gravity of the economic situation, in order that the workers should be spurred to intensified efforts. During the second-half of 1948, and even more since the beginning of this year, the trend of propaganda has gradually changed. To an increasing degree the stress was laid no longer on the need for working harder and accepting austerity measures in face of a grave situation but to the progress achieved towards recovery. The government's desire to claim credit for having saved the country from the economic disaster towards which it was unquestionably drifting in 1947 outweighed its desire to ensure that the British public should maintain and increase the effort towards raising output and keeping down consumption.

Innumerable speeches by Ministers during recent months took the same line as Mr. Mayhew did at Lake Success. Among others, Sir Stafford Cripps, during the debate on the American Aid Bill, put forward with some emphasis the claim that in 1948 Britain had achieved an overall balance of her overseas trade, as the deficit of her visible trade was about covered by the surplus of her invisible exports. It is true, being a more experienced politician than Mr. Mayhew, he did not follow up this claim by a statement that Britain was no longer interested in recovery but in experimenting. Indeed, he sought to cover himself by pointing out casually that an overall balance does not mean the elimination of our dollar deficit. He said just enough about this to safeguard himself against criticisms on account of being over-optimistic. In answer to critics he is in a position to quote his remarks about the dollar deficit. But to any superficial reader of his speech—that is, the overwhelming majority of the public in Britain and abroad—the distinct impression was conveyed that the British Socialist Government has succeeded in solving the problem of the balance of payments, which is precisely the impression that was meant to be conveyed. The difference between the emphasis laid on the overall balance and the casualness of the reference to the fact that this balance was achieved through a surplus of unrequited exports against a deficit in hard currencies is well worth noticing.

A country does not export for the sake of exporting. The object of export trade is to raise the means with which to pay for imports. If a large part of the British exports is paid for with the aid of war-time sterling balances, or with the aid of the accumulation of sterling indebtedness, then those exports are useless from the point of view of the solution of the problem of the "gap" in Britain's international accounts. It is relatively easy to balance imports and exports if part of the latter are given away practically for nothing. Statistically an overall balance of overseas trade may have been achieved—though even from this point of view it is permissible to consider the estimates of invisible exports as rather over-optimistic. Economically there is still a gaping deficit.

Politicians being what they are, they do not go out of their way, 12 months or less before the coming general election, to explain to the electorate that British trade is not really balanced. They think it only natural that they should concentrate their publicity drive on stressing the fact that, on the face of it, it appears to be balanced. Admittedly, in doing so they tend to weaken the economic effort of the British public, and even endanger the continuity of Marshall Aid. But in every country electoral considerations are at times apt to overshadow considerations of public interest. It is for domestic consumption that Socialists claim that recovery has been achieved. And it has unfortunately become a practice to deliver speeches at UNO conferences primarily from the point of view of their effect on public opinion in the respective country of the politicians who deliver the speeches. From this point of view Mr. Mayhew merely followed the established practice.

What was particularly unfortunate from the point of view of the speedy and smooth passage of Marshall Aid through Congress was that the statement was made at the precise moment when Congress had the allocation of Britain's share under consideration. To quote the pun that circulates in London freely, it was feared that "thanks to Mr. Mayhew, Congress may hew off some of the Marshall Aid." Possibly this experience will make the British Government realize that to overstate achievements is a double-edged weapon. Ministers have often criticized Conservative politicians for "belittling Britain's progress towards recovery" when addresing non-British audiences or readers. But the possible adverse effect of such pessimistic utterances disappear in comparison with the dangers that may arise from overstating the achievements.

Stocks Are Undervalued!

Charles J. Collins, Chairman of Investment Counsel, Inc., Detroit, Michigan, holds current quotations reflect temporarily depressed investor psychology and give little attention to enlarged earnings, asset and income values.

The investment advisory firm, Investment Counsel, Inc., of Detroit, Mich., through its Chairman Charles J. Collins, has issued to its clients a discussion of stock market conditions, in which the contention is made that because of temporarily depressed investor psychology, stocks are undervalued. According to the analysis:

Charles J. Collins

"Cheapness, when discussing common stocks, requires definition. To the trader, who is interested in stock market swings over a one-to-three-month interval, the cheapness of a stock is a matter of the price that he must pay today as compared with what will be its price one to three months hence. Here it is quotations over a short-range period and quotations, alone, that are being purchased. To the individual who, for estate enhancement or income reasons, is endeavoring to maintain and build a principal fund along the same sound lines that he would build any business, the price quotation for shares over a short period, while important, must be subordinated to the position and trend of values.

"An investor in shares—that is, one who is not continually shifting his position in keeping with the monthly eddies of prices and sentiment—becomes a partner in the business where his funds are placed. To him the most important thing is not where the company's common stock will sell this month or next, but whether the company is progressing, earnings and assetwise, at an expanding rate, and whether he has acquired his shares at an attractive figure relative to such individual company prospects. Under such a program, regardless of what may prove the near-term direction of share prices, the investor knows that his values are increasing and that, over a period of time, the market quotations for the shares, as well as the income return thereon, will necessarily reflect such increase.

"Under the last mentioned definition as to what constitutes attractiveness in shares, it is our opinion that selected common stocks are undervalued at the present time. A pessimistic public psychology, engendered by fears of war, doubts as to aptness of the legislative program being requested of the present Congress, and by an apprehension that postwar boom will be followed by postwar collapse, is responsible. In terms of asset values, income yields and prospective earnings—the fundamentals that give value to shares over any sustained period—another picture is present.

"On the basis of net tangible assets (plant, equipment, and working capital less all debt), the representative and leading American companies making up the Dow-Jones industrial average are available at a stock market evaluation of around $1 for each $1 of such assets. This low evaluation, which ignores good will, patents, secret processes, and other valuable considerations not reflected by a balance sheet, has only been witnessed on two previous occasions in the past 22 years. One was the big depression of the early '30s, when, for the deficit year 1932 (General Motors common sold at under $8 a share), these companies' net tangible assets were available at around 52 cents on the dollar. The other was in early 1942, or at the ebb point of the war, when these companies were available at around 85 cents on the dollar. This compares with $1.60 being paid for each $1 of net tangible assets at the peak in 1946, $2.20 in 1937 and $2.50 in 1929.

"The present low dollar-for-dollar evaluation of net tangible assets, however, overlooks an important factor not present in the two earlier periods just mentioned. This is the higher price level that now prevails and, to a considerable degree, will probably continue for many years ahead because of certain cost factors, such as wage rates and taxes, that have become frozen into the economy. It is doubtful, that is, if plants can be replaced for less than half again their current carrying values. Furthermore, when one considers the company after company (Bendix Aviation and Montgomery Ward, for illustration) that can now be bought in the market for less than its working capital alone, one can appreciate the statement of Marine Midland Trust's Howard F. Vultee, that American business today is worth more dead than alive. In other words, shareholders, in many cases, can forget the good will, the 'know-how,' the plant and equipment, and can still liquidate their companies for less than the present market evaluation.

"Turning to income return, the 30 industrial stocks in the Dow-Jones average are currently yielding 6.3%. The last time this average afforded such an attractive return was in 1942. Stocks were then on the bargain counter and the yield got to around 7%. The occasion preceding that was in late 1937 when, after an almost collapse in market prices, a 7.7% return was attained. The next preceding year was 1933 when stocks again, historically speaking, were distinctly underpriced. At the other extreme of prices, witnessed in 1946, 1936, and 1929, yields were under 4%.

"To the argument that dividends might be reduced it can be said that they were reduced after the 1942 and 1937 buying points alluded to above but, in each instance, the market moved up in the face of such reductions. But can it be said that dividends will be reduced in 1949? Corporation expansion programs, by and large, are ended or nearing completion, meaning that cash needs for 1949 will probably be less than in 1948. Section 102 of the Revenue Act, which bears down on excessive cash accumulations, is still active and the ratio of corporate dividend disbursements to net income is still subnormal. Companies like duPont, General Motors, and U. S. Steel have already increased their rates.

"Finally, there is the factor of earnings. Let us begin by saying that earnings may be off this year by as much as 25%. This is not a prediction, but merely echoes a general conception at the moment. Such a decrease would leave earnings, for the group making up the Dow-Jones industrial average, at around $15.50. On this basis the industrial average, at present levels of 175, is selling at around 11 times earnings. This low rate, over the past two decades, was equaled or broken only during the war years 1940-41-42, in late 1937, and in the early '30s—each a period when stocks, in the light of their subsequent price action, were distinctly undervalued. At the intermittent peaks of public optimism, the Dow-Jones industrial average generally attains a price-earnings relationship of 20.

"The asset, yield, and earnings relationships discussed above will be of no benefit to the stock trader. Prices, time and again, have receded over a period of months in the face of the most benign statistical and economic portents. Planting time is never so pleasant as the harvest period. Those who purchased stocks in 1941 and 1942 out of the belief that they were distinctly undervalued, had their patience and courage severely taxed by persistent price erosion. In due course, their conviction was handsomely rewarded, but only after preliminary anguish of heart and mind. There is no guarantee, in the present instance, that the lowest level of prices has yet been plumbed for the year. But to those who are interested in investment, or longer-term, values as against more immediate quotations, it appears that shares are offering another of those opportunities for careful selection that occur only at occasional intervals."

Bancroft Mitchell & Co. To Open in New York City

Bancroft Mitchell will form Bancroft Mitchell & Co. with offices at 1 Wall Street, New York City, to engage in the securities business. Mr. Mitchell was previously with Shields & Co.

Dodge, Loudon With Pearson, Erhard & Co.

BOSTON, MASS. — Charles A. Dodge and Jack I. Loudon have become associated with Pearson, Erhard & Co., Inc., 50 Congress Street. Both were officers of H. L. Nason & Co., Inc., which has been dissolved.

C. B. Richard to Admit

On April 1, Harold C. Richard will be admitted to limited partnership in C. B. Richard & Co., 60 Beaver Street, New York City, members of the New York Stock Exchange.

Mutual Funds

By HENRY HUNT

Stock Yields Highest Since '42

On Dec. 31, 1948, 89% of the 986 common stocks listed on the New York Stock Exchange were dividend payers. The following tabulation taken from the magazine, "The Exchange," discloses that a large majority of these dividend payers yielded over 5% at the year-end with the heaviest concentration in the 6 to 8.9% bracket.

Distribution of 883 Listed Common Stocks Paying Dividends in 1948
(By Yield Groups)

Yield (%)	Number of Issues	Yield (%)	Number of Issues
Less than 2	9	7.0 — 7.9	128
2.0 — 2.9	13	8.0 — 8.9	109
3.0 — 3.9	22	9.0 — 9.9	92
4.0 — 4.9	68	10.0 — 10.9	74
5.0 — 5.9	99	11.0 — 11.9	61
6.0 — 6.9	119	12.0 and over	89

It is also interesting to note that stock yields today are approximately at their highest on record in relation to high-grade bond yields.

Wellington Reports

Since the first of the year, the net asset value of **Wellington** shares has increased, while the general market, as measured by the Dow-Jones Industrial and Composite Averages, has declined.

This favorable comparison is due ot two factors: (1) The rise in senior securities, particularly the better grade preferred stocks, which are a large part of the Fund's investments; (2) the relatively good market performance of the bank, drug, finance, food, insurance, natural gas, tobacco and utility common stocks, which are substantial holdings.

Since the first of the year, **Wellington Fund** has maintained its position in common stocks and other equities while investment bonds and preferreds were slightly reduced and U. S. Government bonds and cash were similarly increased. The following schedule shows the diversification of resources of the Fund at the end of 1948 and on Feb. 28, 1949:

	2-28-49	2-28-49	12-31-48
Common stocks	$36,210,056	52.90%	53.43%
Appreciation bonds and preferreds	2,351,151	3.43	3.54
Convertible seniors	1,461,800	2.14	2.63
Investment bonds and preferreds	17,445,938	25.48	27.41
U. S. Government bonds and cash	10,986,617	16.05	12.99
Total resources	$68,455,562	100.00%	100.00%

Principal sales since the first of the year included the common stocks of General Foods, Southern Natural Gas, U. S. Steel, and the preferred stocks: So. California Edison 4.48% conv., Allis Chalmers 3¼% conv., General Mills 5% and Philip Morris 4%.

A Sales Record to Shoot At

Despite the dullness of the general securities markets during January and February, sales of the shares of **Affiliated Fund, Inc.**, were slightly ahead of sales in the same two months of last year.

The increasing popularity of Affiliated Fund is indicated by the fact that again in 1948, as in each of the five preceding years, sales were about double those of the year before. The following table is the basis for this statement.

Year	Sales of New Shares	Year	Sales of New Shares
1943	$1,500,000	1946	8,600,000
1944	2,200,000	1947	15,300,000
1945	3,500,000	1948	34,400,000

Congratulations, **Harry, Lon** and **Bert!**

Municipal Bond Club of New York Field Day

The Municipal Bond Club of New York will hold its annual field day June 10 at the Sleepy Hollow Country Club. James D. Topping, J. D. Topping & Co., is Chairman of the Field Day Committee.

Howard Knepple With Wm. E. Pollock & Co.

Howard W. Knepple has become associated with the municipal department of Wm. E. Pollock & Co., Inc., 20 Pine Street, New York City. Mr. Knepple has been in Wall Street for 25 years.

Prominent Personalities

(Tenth of a Series)

ARTHUR WIESENBERGER

Senior Partner, Arthur Wiesenberger & Co.
Members of New York Stock and Curb Exchanges

Arthur Wiesenberger has possibly done more to popularize investment company shares than any other single person. His "Investment Companies" Year-Book, published since 1941, is considered a "must" for any dealer in such securities. Although Arthur was originally interested primarily in listed investment company stocks, in recent years he has given mutual funds their full share of publicity and has also successfully pioneered in devising a means by which dealers may now advertise mutual funds within the present SEC regulations arising from the Securities Act of 1933.

Arthur Wiesenberger

Arthur's private office resembles an English counting house of the 1880s. Its walls are covered with railroad and industrial posters of the 19th century. The furniture is of the same vintage. The bust of a distinguished looking gentleman with a Van Dyke beard sits in the entrance foyer and seems to cast a watchful eye on the research department near-by. Only Arthur's secretary, a vivacious and efficient red head, post-dates the turn of the century. (Ed. Note: Arthur himself was born in 1896.)

A graduate of Columbia University, Mr. Wiesenberger's early business training was in the merchandising field where he was successful from the outset. In 1928 he organized Hahn Dept. Stores (now Allied Stores, Inc.) and was operating V.-P. until 1930 when he joined E. Naumburg & Co., commercial bankers. From 1932 to 1938, Arthur headed the foreign department of Distributors Group, Inc., where he handled a large volume of business with investment trusts in England, Scotland, Switzerland, and Holland.

In 1938 Arthur started his own firm, specializing in investment company shares—the only firm of its kind in Wall Street. During the past decade he has spent over a million dollars advertising and publicizing the advantages of both closed-end and mutual fund shares.

Arthur is soft spoken, a good salesman and a free spender. He is a bachelor and dwells in a four-story "brownstone" in the heart of Manhattan where he entertains his friends and business associates on a lavish scale. His hobby is collecting modern paintings, English antiques, and rare books. Some of his acquisitions are reported to be outstanding. He is interested in the activities of leading art museums throughout the country—some years ago he was elected a Patron of the Philadelphia Museum of Art and a Life Member of the American Museum of Natural History. He has also donated works of art to the Brooklyn Museum of Art, the Boston Fine Arts Museum, The Berkshire Museum (Pittsfield, Mass.), Springfield Museum of Fine Arts (Springfield, Mass.), and The New York Historical Society.

His prediction for the mutual fund business is that it will become an increasingly important factor in the fundamental savings program of every adult in the U. S.—comparable to the present status of life insurance and savings banks. This is emblazoned on all his literature in the unique trademark designed by Rockwell Kent. It depicts the "Four Pillars of Financial Security"—

(1) Life Insurance.
(2) Savings Banks.
(3) Government Bonds.
(4) Investment Companies.

Authorizes $6 Million Loan to Israel

Credit for buses and trucks is part of $65 million earmarked by Export-Import Bank for allocation to new nation, in addition to $35 million already granted.

The Export-Import Bank of Washington announced on March 16 that the Board of Directors of the Bank had authorized a credit of $6,000,000 to the State of Israel for the purchase in the United States of buses and trucks urgently needed for the execution of Israel's economic development program.

On Jan. 19 the Board of Directors of the Export-Import Bank authorized a credit to the State of Israel in the amount of $35,000,000 to assist in carrying out the agricultural phase of the development program and earmarked an additional $65,000,000 for financing projects in the fields of transportation, communication, industry and construction.

The credit announced today in the amount of $6,000,000 for the purchase of buses and trucks is an allocation from the $65,000,000. It will provide for an increase of nearly 20% in the size of the bus and truck fleets operating as common carriers in the country. The State of Israel intends to buy only the chassis of buses and heavy trucks in the United States. The bodies will be built in Palestine. The additional cost in Israeli pounds of completing the truck and bus program in which the Export-Import Bank is participating is expected to amount to the equivalent of $1,500,000.

Because of the small area of the country, highway transportation has long been dominant over railroad transportation in transportation of both goods and passengers. Although this credit represents only 10% of the total motor vehicle requirements of the State of Israel for the next three years, it is expected to go far toward relieving the transportation situation which has become critical due both to the over-age of existing trucks and buses and the steady increase in population.

The credit from the Export-Import Bank for the truck and bus program will bear interest at the rate of 3½% per annum and will mature in 15 years. These terms are the same as those established for the agricultural credit in the amount of $35,000,000 which was approved on Jan. 19, 1949.

Long Governments Advised for Bank Portfolios

Sylvia F. Porter, columnist and government bond expert, sees more safety in government securities during deflation period. Says Treasury should adopt positive debt refunding policy, based on intermediate and long-term issues.

Speaking before the Annual Savings and Mortgage Conference of the American Bankers Association at the Hotel Statler, New York City, on March 14, Miss Sylvia Porter, editor and nationally-syndicated newspaper columnist of "Reporting on Governments," a weekly newsletter on U. S. Government securities, emphasized that "the debt management and fiscal policies of the Treasury and Federal Reserve Board will continue to exercise a profound influence on the trends of all investment markets for the rest of our lives. Only the institution which keeps closely informed at all times on the economic and political factors determining these policies and on actual debt management moves is taking a realistic attitude, and only that institution will be able to carry out a realistic investment program returning maximum income and profit within the bounds of appropriate safety.

Sylvia F. Porter

"The prospects for important shifts in government debt management policies in the not too distant future should be carefully weighed by all banks. For in those shift will lie definite opportunities for banks to improve their earnings while enhancing the safety of their portfolios. In them will lie definite clues to actions which banks should take in spheres outside the highest-grade list, which is, of course, the government market.

"Many banks are overlooking opportunities in the government market right now," Miss Porter continued. "Too many commercial banks are maintaining too-short maturity positions in governments in view of today's economic and political realities and tomorrow's probable economic and political realities. They are making what amounts to a fetish of 'being short for shortness' sake. This results in sacrifice of income where such sacrifice is not necessary.

"It creates an earnings problem where none need exist or intensifies an already existing earnings problem. Moreover, it adds to a bank's temptation to over-reach in other, more speculative markets to obtain the earnings essential to cover overhead and other expenses. While the United States Government market does not offer opportunities for great price appreciation these days, it makes up for this lack by offering the great advantages of stability and official protection.

"In any period of economic decline or 'softness,' these advantages will gain in importance. The bank which has a worthwhile position in government bonds and is receiving satisfactory earnings on these holdings will then be in an enviably comfortable position—both psychologically and actually."

Miss Porter declared that the key to the trend of government bonds in the next several months—and thus, the key to all other high-grade bond markets—will be the movements of business.

"At this time, the signs that deflationary forces are moving into control are many and clear," she added. "Despite public statements about the continuing inflation threat, this threat would appear to be valid only if we experienced a disastrous crop failure or, because of an intensification of the Cold War, took on more tremendous domestic and international expenditures.

"Since neither of these may be forecast, it appears appropriate to consider possible debt management and fiscal policies against a background of easing inflation pressures and rising deflation pressures."

Miss Porter divided her talk into two major parts: a listing of probabilities for the immediate future and general suggestions on bank portfolio policies. She listed these points in the immediate outlook:

"(1) It is probable there will be no further increases in the basic Treasury certificate rate until after mid-summer and the present yield pattern of 1¼% for one-year money to 2½% for long-term government paper seems set for some months, at least.

"Fundamentally, Federal Reserve authorities have a logical argument in urging that the government 'peg' be only on the long 2½% rate and that the short-term rate be allowed to fluctuate and to move closer to the long rate, but in view of present economic uncertainties, even Reserve authorities are toning down their argument temporarily.

"(2) It is probable that major Treasury maturities through the summer will be refunded into new certificates, carrying a 1¼% rate and the Treasury will not begin on any major program involving intermediate securities until later this year. This program might be started, however, late in 1949, when large-size, higher-coupon bond issues come up for refunding.

"(3) If the government bond market remains stable to strong into the spring—which the present economic outlook suggests well may be the case—there is a good chance that the Treasury will lift the limits on institutional purchases of series F and G savings bonds for a period during the next savings bond drive, scheduled for May 16 to June 30. Under the formula devised during the F and G bond sale of July, 1948, such institutional investors as insurance companies, savings banks, savings and loan associations, pension funds, etc., were permitted to buy up to $1,000,000 of the Fs and Gs combined (issue price) for the calendar year, provided the purchases in excess of the existing $100,000 limit were made in a specified two-week period. Commercial and industrial banks holding savings deposits or issuing time certificates of deposit were permitted to buy up to $100,000 (issue price) of the Fs and Gs combined, also provided the purchases were made during the specified offering period.

"(4) The 'positive' refunding program which seems so proper and logical for the Treasury should become of increasing importance in 1950, 1951, 1952 and in the years thereafter. Bond maturities over the next few years carry coupons ranging from 2% to 3⅛% and there is only one relatively small issue of 1½s in 1950. Thus, the Treasury can refund these into higher-coupon intermediates and still save considerable interest. Banks will be eager for the intermediates to replace securities eliminated. If the Treasury does not move out into longer-term refundings, it will be building up a terrific floating debt. If over the next three years the Treasury just rolls over callable issues and maturities into new certificates, the amount of obligations due within one year will rise to nearly $92 billion. Logical debt management would indicate the wisdom of spacing maturities so that the heavy loads and gaps in today's schedule are corrected. By issuing longer-terms, the Treasury could help restrain an undesirable price rise in the market should one develop in the future. As one informed Washington source commented, the arguments for refunding with other than certificates 'are at least persuasive—if not conclusive.'

"(5) On bank credit legislation, there is only the slightest chance that Congress will vote the '10 and 4' legislation proposed by President Truman and being incorporated in a bill by the Federal Reserve Board, regardless of the salesmanship abilities of Federal Reserve Board Chairman McCabe. The probability instead is that Congress will 'reluctantly' extend the authority granted to the board by the special session—so that reserve requirements are not automatically lowered after the June deadline—and the board will as 'reluctantly' accept the authority."

In discussing general bank portfolio policy, Miss Porter suggested there are four major premises upon which any consideration of policy should be based:

"(1) Because of the Treasury's policy of restricting refunds to shortest-term obligations in recent years, the passage of time has had an unusually severe and direct influence on government bond portfolios.

"Surveys indicate that portfolios of banks in general are much shorter today than at any time in recent years. And neither economic nor political factors now discernible confirm this as the wisest policy.

"(2) While the prospects are for a more positive refunding program, such coupons as 2¼% and 2½% are not to be anticipated until now ineligible bonds enter the bank-eligible lists. The first date for this is May, 1952.

"(3) The stated policy of this Administration—the White House, Treasury and Federal Reserve Board—is to maintain order and stability in the government bond market; to continue the cheap money policy; to extend support to long-term bonds when the need for support is demonstrated; to hold the 2½% anchor until there appear no undue risks in dropping that anchor. This policy would seem particularly appropriate should deflationary trends gain ascendancy in coming months.

"(4) Beyond question, all institutional investors should have secondary reserves — short-term, readily marketable issues—sufficient to cover all foreseeable demands for funds and to allow a margin of safety. But, in addition, investors should hold longer-term obligations for the purposes of income. An average maturity for a government list of five to six years could not be criticized as under-conservative. Yet today, many bank portfolios of governments average out at far, far shorter than this."

Miss Porter concluded her address by urging banks to remain "as flexible in thought as Washington fiscal authorities insist they are in policy" and to recognize the opportunities for safe, profitable investments available in the government market. "The institution which follows the basic rules now will have no reason to worry about undue losses," she said, "no matter what economic movements lie ahead."

Daniel Rice to Admit

CHICAGO, ILL. — Louise G. Rice is being admitted to limited partnership in Daniel F. Rice & Co., Board of Trade Building, members of the New York Stock Exchange, on March 24.

Canadian Securities

By WILLIAM J. McKAY

Recent speeches by Sir Stafford Cripps, British Chancellor of the Exchequer and Governor Towers of the Bank of Canada, although highly encouraging with regard to past performances, both contain implied warnings concerning the future. In connection with the gratifying progress made during the past year in both countries the vital role played by ECA aid is frankly admitted. The point is also stressed that despite this assistance the problem of U. S. dollar shortage is still acute.

Reading between the lines of both these official statements it is logical to deduce that an economic high point has been reached at least temporarily in both Britain and Canada. By grace largely of Marshall Plan operations Britain has been able to bridge the previously wide gap between exports and imports. Similarly Canada in the first 11 months of ECA operations has received $671 million or 40% of the offshore authorizations. Although it is learned from British White Papers published in the past few months that Britain has achieved near-balance in world trade as a whole, it is now admitted that the overall picture conceals a large and growing deficit with hard-currency countries. Governor Towers also frankly admits that 1948 turned out to be not only a most successful but also a fortunate year as far as Canada's exchange position was concerned. Consequently he voiced the warning that U. S. dollar revenue from ERP purchases would not last indefinitely and therefore undue optimism should not be based on the showing of 1948. In this connection the fear that ECA offshore purchases of wheat from Canada can no longer be depended upon certainly gives point to this timely admonition.

Both the British and Canadian financial spokesmen single out the problem of the U. S. dollar shortage as the root of their countries' economic difficulties. In this respect however they merely conform to the general practice of placing the principal blame for all the world's economic woes on the lack of U. S. dollar exchange. It would be more logical however to consider the tremendous influence on the universal economic situation of the world-wide ramifications of Britain's foreign trade, and the universal impact of her rigid currency regulations. It is little exaggeration to state that all efforts to expand and to liberalize world trading relations now founder on the rocks of British currency controls and the artificial rigidity of sterling.

During the recent period of sellers' market the British Socialist government, and to a lesser degree the Canadian Liberal administration, have been able successfully to minimize by increasing governmental controls the effects of the pressure of natural economic forces. Now with the obvious trend towards buyers' markets in a growing list of commodities and increasing difficulty in finding export outlets, the evils of overvalued currencies maintained at the expense of drastic import controls, are becoming ever more apparent. The current conditions now favor courageous action on the part of the British and Canadian governments to break the currency impasse. The solution of this problem clearly lies in permitting sterling and the Canadian dollar to find the natural levels at which exchange restrictions and import controls are no longer necessary. This would pave the way for a general revaluation of the world's currencies, the consummation of which would constitute a long step forward towards the elimination of the U. S. dollar shortage and greater freedom of world trade.

During the week there was renewed strength in the external section of the bond market with the Dominion 4s of 1950-60 in especial demand. The internals on the other hand were inclined to ease in sympathy with a sharp decline of the Canadian dollar in the free market as a result of early offerings in connection with the probable heavy internal bond redemptions next October and November. Callable and maturing issues at this time total nearly $900 million, and as the 4½s of 1959-49 and the Second War Loan 3s of 1949-52 were fairly popular issues in this country the eventual pressure on free funds is likely to be considerable. The corporate-arbitrage rate continued strong at 13½% bid. Stocks after earlier weakness, which was especially pronounced in the paper issues as a result of the cut in Swedish export prices, and base-metals following the somewhat surprising decrease in the price of lead, finally staged a moderate recovery. Despite continued favorable reports from the new Alberta oil areas the Western Oil group failed to make any notable headway and the golds likewise remained in a narrow trading range.

St. Louis Municipal Men To Hold Outing

ST. LOUIS, MO.—The St. Louis Municipal Dealers will hold their annual outing on May 9 at Norwood Hills Country Club. A cocktail party and dinner will be held Thursday, May 5.

Brink Buying Mgr. For Edw. G. Taylor

CINCINNATI, OHIO—Robert J. Brink is now manager of the buying department for Edw. G. Taylor & Co., St. Paul Building.

James K. Trimble Dead

James K. Trimble, senior partner of Trimble & Co., Philadelphia, died suddenly at his home. Mr. Trimble had been in the investment banking business for more than 35 years.

Can the United States Avoid Socialism?

By ERIC JOHNSTON*

President, Motion Picture Association of America, Inc.

Former Chamber of Commerce head maintains instead of ditching capitalism, we have preserved private ownership system by evolving "insurance economy." Declares neither laissez-faire nor Communism can prevent depressions. Stating it is equally foolish for the State to do everything as nothing, he advocates the middle road to avoid a socialist state.

Tonight I want to talk about how America can avoid Socialism.

But first of all, I think we ought to know what we mean when we say Socialism. It means different things to different people. Do we mean the British brand of Socialism? Britain's socialism is like the famous British drink of 'arf and 'arf; it's like the boy in the nursery rhyme named My Son John, with one shoe off and one shoe on. It is partial socialism.


Eric A. Johnston

Do we mean total socialism as the Russians have it? Where the state is the sole owner of the means of production and distribution; the only employer and the solitary boss? Where the worker is chained to his job at a wage rate fixed by the state?

Or do we mean what some of my ultra-conservative friends mean when they say: "Look around you here at home. We've got socialism now."

They think public power development, public housing and social security add up to socialism. I don't.

Yet here we are at the all-time steeple top of industrial prosperity under capitalism and we're talking about how to avoid socialism. Why?

I'll suggest two reasons:

The first reason is that capitalism is dead in most of the world today and socialism is on the march. We wonder if we can survive and prosper as a big but lonesome island of capitalism, washed on every shore by the rushing seas of socialism.

We know that our kind of capitalism is vastly different from the old-world brand which was rigged to benefit the few and not the many. But still we wonder if we can escape the trend.

The second reason is this: we're afraid that socialism might engulf us if we had another deep depression on the shattering scale of the unhappy 1930s.

It is my conviction that the American people are almost as afraid of another depression as they are of another war.

And I am convinced that the depression of the 1930s had an impact on our thinking as lasting and as deep as any other event in our history.

That depression colored the thinking of three generations. It colored the thinking of the generation on the way down; the thinking of the generation in its prime and the thinking of youth on its way up.

We are tormented by the memory of its ruthlessness. It was merciless in sparing neither age nor youth.

We remember that the prudent and the saving were no more immune to its ravages than the improvident and shiftless, and the memory sears our souls.

We remember the hopeless trudge of jobless feet and the recollection is an opened, painful scar.

The economic devastation of the 1930s not only colored our thinking for many years to come, but it brought about a great transformation in our whole economy.

I like to tell the Jeremiahs of American capitalism that we were close to socialism in the 1930s than we are today. The world trend toward socialism was getting up its steam right then. Socialism as an economic gospel found the world depression an excellent practice run for the speedway of today.

It was touch and go with us whether we'd go socialistic. We almost divorced capitalism then and there and wedded socialism.

Why We Avoided Socialism

Why didn't we? I believe it was because we began to use the power and the resources of our government to correct economic abuses in our system and to relieve economic distress. That was a new and greatly expanded role for our government.

Up to that point in our highly individualistic economy government had been little more than a referee for us. We had used government mainly to see that the "rules of the game" were fairly and equitably enforced.

Instead of ditching capitalism, we insured its continuity and preserved our private ownership system and our private freedoms by evolving what I like to call an insurance economy.

We insured against old-age destitution; we insured bank deposits; we insured the unemployed; we insured a minimum wage; we insured a stabler price for farm products; we insured home mortgages through government. And finally, we insured ourselves with the Employment Act of 1946 to warn us against approaching economic thunderheads so we can take preventive action in advance.

All these acts, to a greater or lesser degree, buttress our purchasing power. So, in practical effect, we insured the manufacturer, the retailer and the professional man of a least a certain market for his goods and services.

This was an epoch-making decision. We decided then and there we didn't want socialism. We wanted then, as we want now, to keep the means of production and the distribution of goods and services in the hands of private owners. Business, labor, agriculture and the consumer were then as now, overwhelmingly alike in that desire.

We made that decision because private ownership had proved beyond question for us to be the best way to get production. Every other country today struggles with the problem of how to produce. Our problem was to distribute more equitably the abundance we could produce.

The decision fitted into the American scheme whose guiding principles are freedom of movement and freedom of opportunity. After a century and three-quarters of those freedoms, they are bred in our bones. They are not something to be tossed aside frivolously or heedlessly.

Just as the American people are determined to keep their freedoms, they are equally determined that all our public and private resources must be administered to prevent another deep depression.

Social Legislation Not Socialism

They aren't frightened any more when some one calls anti-depression legislation "socialism." They know that social legislation isn't socialism.

I am reminded of the man in the 1930s who was about to lose his home and was bailed out by the Home Owners Loan Corporation. A conservative thinker himself, he was baited by a neighbor who condemned the HOLC as "socialistic."

"Well, maybe it is," he said, "but if this is socialism, then I want more of it."

The insurance economy approach offers Americans their best chance for three basic things they want—security, plenty and freedom.

I recognize, of course, that there is some conflict among these three aspirations; if we overemphasize security, we may sacrifice the other two. But here we should depend upon the good sense of the American people to keep the delicate balance.

I recognize, too, that the insurance economy approach will be resisted.

Resistance comes from believers in complete laissez faire on the right and from "total planners" on the left. The laissez faire extremists believe depressions are inevitable. They say nothing can be done about them. The "total planners" offer a sure-fire remedy for depressions—total planning.

It is time we exploded the myth that total planning prevents depressions.

Look at Russia—the great exponent of total planning. But Russia has depressions, Russian style.

On my recent trip to Russia, I saw for myself how business crises develop in the Soviet Union. When I told Molotov that Russia has its business cycles, its ups and downs, he didn't deny it. He responded obliquely by saying: "But we don't have unemployment."

That's always the Russian answer—that if you don't have unemployment, you can't have a depression. But you can.

Let's see about that—

A depression means "hard times" for the individual, whether it's in Russia or in America or anywhere else.

In comparison with our standard, the Russian worker suffers from chronic hard times. But in a depression, Russian style, he goes from "hard times" to intolerable times, when even the bare necessities of life become acute scarcities.

In America, depressions have generally been caused by overproduction and under-purchasing power and by decline in new capital investment in plant and equipment.

In the Soviet, it's just the opposite. Russia's depressions are caused by under-production, over-purchasing power and excessive investments in plant and equipment. This arbitrary concentration on capital investments in heavy industry and for machine tools of all kinds results in a paucity of consumer goods. It is a case of the powers-that-be in the Kremlin insisting on making trucks, for example, while the Russian people desperately need teakettles and pots and pans.

So I say to the total planners their argument that the state should do everything is as foolish

*An address by Mr. Johnston before The Economic Club of New York, New York City, March 10, 1949.

as the argument that the state should do nothing.

Must Have World-Wide Development Program

I should like to see us project into our new role as a world leader the techniques of our insurance economy which we are using to strengthen the home front.

Everyone agrees there's an urgent, pressing need for a world-wide program of agricultural and industrial development. More food—more clothing—more shelter—those are the things which people everywhere are crying for. There's an urgent, pressing need to expand and stimulate world trade and commerce—for a greater exchange of goods and services among the world's peoples.

All of us will benefit immensely as living standards are improved. The pith of America's role as a constructive world leader is to help create a pulsing flow of trade among the nations, to clean out the stagnant economic swamps that breed poverty and distress, chaos and conflict.

How best can we gain these objectives?

Our main postwar reliance has been on ECA. We have given away billions of our substance in a conscious program of world recovery and reconstruction. It has been a necessary program, but we can't pursue this course forever.

We need to ask ourselves this question now: "What's going to happen after ECA completes its mission in 1952?"

We can't wait until then to think about it. We've got to begin to think about it now. We've got to begin now to think about how to get the job of world economy recovery off the backs of the American taxpayers.

We ought to get moving at once to put this job where it belongs and where it can best be done—into the hands of American private enterprisers. Government-to-government loans and grants can never equal the accomplishments of a full use of private venture capital.

Private Enterprisers Can Do Job

In partnership with the capital and the resources and the manpower of other countries, American private enterprisers could carry forward this program of world economic development as a mutually profitable business venture.

But private capital isn't going abroad today in any substantial amount, and there are good reasons why it isn't.

It's afraid to. As a matter of fact, it has three great fears.

Let's examine these fears:

The first great fear is the fear of seizure without compensation through expropriation or nationalization.

The second great fear is the fear that it can't change its earnings in liras or pesos or pounds into dollars and bring the dollars back home.

The third great fear is the fear of restrictive foreign laws on management.

These are reasonable fears. They are justified fears.

Private capital isn't going abroad unless it knows it can earn money doing it and bring that money back in our own currency.

In view of these fears, what can we do to stimulate a surging flow of American private capital abroad to help industrialize the world?

I suggest a three-point program:

One: I propose that we establish a government fund — on a mutual insurance basis—to guarantee American investors against seizure of their properties by expropriation or nationalization. But not of course from normal business risks.

This government setup should be shaped along the lines of the Federal Housing Administration. The pattern of the FHA has proved a good one. It insures private bank loans for home purchases. A small part of the interest charges goes into a mutual insurance fund to underwrite loss. The insurance fund I suggest for foreign investment would have a wider scope. The private investor could borrow from his bank and have the loan insured, but the man who put up his own money could have it insured on the same basis.

Two: I propose that our government guarantee the convertibility into American dollars of money earned abroad. We must make it possible to bring home the fruits of the seed money.

Three: I propose that we overcome the managerial fear in two ways. In the first place, our diplomats must make it clear to foreign governments and nationals that if they want American capital investment, they must make it truly welcome. It is not asking too much to expect them to create fair conditions which will enable management to get the job done.

And next, there is much that American capital itself can do to improve its welcome around the world. Most importantly, American capital can enter into partnership with the nationals of other lands. This is the absolute opposite of "colonial imperialism" and of the exploitative practices which earned such a bad name in the economic era on which the curtain is now descending.

Partnership capitalism is the 20th century pattern of world development. It has already been successful where it has been tried by enterprising American firms. Latin America is the prime example. Such partnership enterprises become in fact "home-owned" and "local" companies. They are reasonably safe from discrimination on any count—less likely to be seized without compensation.

If my program sounds like a stupendous undertaking, then I'll say that of course it is. But it shouldn't frighten us. The stake is also stupendous. It is peace.

* * *

Time of Transition

For us, this is a time of great transition. We can expect day in and day out to be confronted with new problems and conditions at home and abroad—without parallel or precedent in our past.

As we move into this new period, we in business must never forget above all else that in a democracy no system is sacred and unchanging. The political power of the people includes the power to change their economic way of life. That is true in America; it is true today around the world, where newly powerful masses are everywhere in the political — and economic — drivers' seats.

It is a time also for leadership by men who are fully aware that a great transition is upon us. I think that men in business can help provide this leadership.

When I ask businessmen to assume a new kind of leadership, do I mean that they must accept without question every proposal for economic adventures either here or abroad? I most certainly do not. Do I mean that they must convert themselves to the weather-cock thinking of those who believe every suggested change is immediately good because it's something new? Emphatically, I don't.

What I mean is this: They can recognize the need of change when change is needed and advance constructive answers. That is the enlightened way for American business leaders today.

I like the American system. I am committed to it. It's the best I've seen, and I've seen them all. There is plenty of room in it for improvement, and that's the job for us businessmen. It's a continuing job, a never-ending job. But if we work at it as effectively as we work for production and quality products, we'll spread the benefits of our system, spread the ownership and broaden the confidence of all our people in it. And the threat of socialism in America will be further and further removed.

Felske V.-P. of Harris, Hall & Co.

CHICAGO, ILL. — C. Longford Felske has been elected a Vice-President of Harris, Hall & Co. (Inc.), 111 West Monroe Street, investment banking firm with offices in Chicago, New York and San Francisco, Edward E. Hall, President announced.

C. Longford Felske

Mr. Felske has been with Harris, Hall since the firm was organized in 1935, except for a period of World War II service with the Navy as a lieutenant commander. Prior to 1935 he was with the Investment Bankers Association.

Oregon Portland Cement Earned $5.73 on Cl. A Com. In 1948—Debt Reduced

The Oregon Portland Cement Co., Portland, Ore., reports for the fiscal year ending Dec. 31, 1948, gross sales of 1,401,906 barrels of cement, as compared with 1,086,828 barrels in 1947. This represents an increase of 28.99%. The company reduced debt from $1,225,000 to $985,000. The profit for the year, before taxes, was $798,584.46. After taxes of $319,584.56, net profit was $478,999.90. After allowing for $5 per share on 13,711 shares preferred stock, the class "A" common earned $5.73 per share. The stock sells over-the-counter. Current market is around $14.

Hear! Hear!

Here are some pertinent remarks of a hard-headed successful businessman—John L. Collyer, President of the B. F. Goodrich Company—in a recent address:

"An unhealthy intimacy is developed that encourages further favor seeking and more dependence upon government. It is my personal conviction that we have reached or passed a danger signal warning that the intimacy between government and business already is too close."

John L. Collyer

The American people have demonstrated "that they do not want communism, fascism or any other form of totalitarian government.

"It is a fact, however, that totalitarianism has developed in other countries and that in the early stages steps were taken with the support of the people that turned out to be links in a chain of bondage to the state."

He denounced those who have held that the profit motive "is a sordid, shameful thing." Rather, he said, it is "the mainspring of American life, the basis of our initiative and energy, of our productivity, and of our unequaled standard of living."

Why is it that such common sense attracts so few followers when the screaming crack-pots count their adherents by the million?

Charles Johnson With First Securities Corp.

DURHAM, N. C. — Charles F. Jones, President of First Securities Corporation, 111 Corcoran Street, has announced that Charles M. Johnson, former North Carolina State Treasurer, has become associated with First Securities Corporation as Vice-President. Mr. Johnson served as Treasurer of the State of North Carolina from 1932 to 1949 and he was also director of Local Government, a body created by an act of the Legislature to supervise the borrowing activity and financial affairs of every county, city and town in the State. His wide knowledge of North Carolina municipal problems, particularly the financial problems, together with his duties as State Treasurer in which he was charged with the investment of large sums of money, will qualify him in the investment banking field.

Mr. Jones stated that he considers Mr. Johnson one of the foremost authorities on North Carolina municipal bonds and that the wide experience Mr. Johnson possesses will be a great asset to First Securities Corporation and enable them to render a greater service to the investing public.

Mr. Johnson will assume his new duties immediately and will continue to live in Raleigh.

Reveals Comptroller of Currency's Policy on Municipals as Bank Investments

J. L. Robertson, Deputy Comptroller of the Currency, writes Phillips Barbour, Vice-President of The First Boston Corporation, credit soundness should be basic principle of banks in investing in municipals, whether obligations are revenue, special, or general in character. Says every issue should be analyzed and weighed before being accepted as sound investment.

In a letter dated March 11, addressed to Phillips Barbour, Vice-President of The First Boston Corporation and member of the Program Committee of the Municipal Forum of New York, Deputy Comptroller of the Currency J. L. Robertson outlines in clear and

J. L. Robertson Phillips Barbour

concise language the attitude of the Comptroller of the Currency with respect to investment by national banks in revenue bonds and other municipal securities.

The text of the Deputy Comptroller's letter follows:

Mr. Phillips Barbour
The Municipal Forum of New York
100 Broadway
New York 5, New York

Dear Sir:

For the past ten days I have postponed writing you, in the hope that I might find a way to rearrange my schedule in order to carry out my tentative commitment to address the members of the Municipal Forum of New York on the subject of municipal obligations as bank investments. However, the pressure of work has been so great that I am obliged to give up the hope and inform you that I must cancel the engagement.

This is especially regrettable to me because there seems to be considerable scope for clarification of the position of this office regarding general and special obligations of public bodies.

During the past year, we heard from a number of sources—including some dealers in municipal securities—a rumor that the Comptroller of the Currency frowns upon revenue bonds as proper investments for national banks. As you know, this is completely erroneous, but the fact that such a foundationless notion could gain currency indicates a need for clarification of our basic policies in this field.

If I had been able to speak to your group, I should have tried to emphasize certain fundamentals which one might have expected were common knowledge, were it not for the considerable evidence that they are not. As you know, our basic principle on this subject is credit soundness. Although there are both general obligations and special revenue obligations which are ideally suited for bank portfolios, neither type of security is universally suitable or unsuitable. Even the fact that "general obligations of any State or of any political subdivision thereof" are exempt from the usual statutory limitations and restrictions regarding securities investments of national banks does not mean that any and all such general obligations are suitable bank investments.

The fact that Congress has evidenced general confidence in such obligations cannot negative the fact that in the 1930's it was deemed necessary to enact a municipal bankruptcy statute (later held unconstitutional) and that hundreds of general municipal obligations went into default and sold at a fraction of their face value. In a word, the statutory exemption for general obligations was never intended to be a carte blanche for investment in such securities without regard to their inherent qualities and their suitability for the investment portfolio of the particular bank.

Turning to revenue bonds, we do not consider them as constituting a special category of investment securities subject to special rules or principles. There has been a definite tendency on the part of many to place special revenue obligations on the same plane with the general obligations of municipalities. Undoubtedly there are some special revenue obligations which are to be preferred over the general obligations of certain municipalities, but, broadly speaking, general obligations are inherently on a higher plane of credit soundness because they are supported by the full taxing power of the governmental unit rather than by the net operating revenues of an airport or a hospital, for examples. In short, revenue obligations are substantially similar to corporate securities of comparable types. This seems obvious enough, but we know from experience that it is not always borne in mind by some bankers—or, apparently, by all bond dealers either.

In substance a municipally owned transit sysytem is not materially superior, as an investment, to a privately-owned system in the same community. The **credit soundness** of obligations issued by a municipality to finance certain public operations on a special revenue basis is no better than the fundamental financial and management soundness of the facilities which they have financed. We are all aware of the considerable variation in the ratings and yields of public utility securities, but some bankers appear to be dazzled by the fact that the name of a great city appears on the face of a revenue bond, even though they know that the city's credit is not pledged to the payment of principal and interest of the bond.

Of course, I would not be understood as suggesting that no revenue bonds are of exceptional quality. Definitely there are many. Where an essential service is being rendered—water, for example, or to a slightly lesser extent, gas or electricity—in an established community, the quality difference between a general obligation and a "revenue bond" may well-nigh disappear, depending upon factors mentioned herein. At the other extreme are bonds which are dependent upon public utilization of facilities which are not essential—for example, a toll bridge in competition with a relatively satisfactory free bridge, or a park, canal, college, toll road, or tunnel.

The point to be stressed is simple enough and jibes prefectly with what I believe is your Association's approach to the matter. Revenue bonds are no different from any other securities which a bank may consider acquiring. Every issue has its own characteristics, which must be analyzed and weighed before it is possible to decide intelligently whether to invest in the issue, and to what extent.

One hears a great deal about bank investment policies as they relate to such factors as deposit analysis, secondary reserve requirements, integration with lending policies, capital position, earnings considerations, taxation, diversification of risks, and proper maturity schedules. All these are important and I would not have you think that we minimize them. All such factors are to be thoroughly considered as well as the magnitude of the entire municipal portfolio in relation to the particular bank's capital structure and deposit situation. Yet analysis of these factors is wasted effort and hardly worth the trouble if one fails to concentrate **on quality**. As a mentioned at the outset, the keystone in the structure of investment policies is **credit soundness** — and this is as true with respect to State and local government obligations, general or special, as to any other type of asset in which a bank invests its depositors' funds. Weaken that keystone and the structure will collapse. All of the remaining policies that enter into the purchase of investments, despite their importance, are subsidiary to the factor of credit soundness, which I think of as the "reasonably-assured - payment - at - maturity" value of a bond.

One might ask how credit soundness is to be determined. All of us know that beyond a certain point intangible factors enter into every such determination. The job at hand is to hold the intangibles to an irreducible minimum. It is in the light of this principle that we in the Office of the Comptroller of the Currency insist that national banks maintain credit files on their municipals which are adequate to permit the exercise of informed credit judgment in determining their quality. And I suspect it is largely by virtue of that insistence that the confusion and rumors I mentioned have arisen. However, it is our conviction that the policy is sound and must be followed even though bankers may sometimes encounter difficulty satisfying their burden of proof regarding bond quality.

If the entire determination of a bond's quality had to be based on intangibles, no sensible investment banker would be interested in buying that bond. And yet many dealers have sold bonds to commercial bankers who failed to make an adequate credit study of the issue because the facts on which to base credit soundness were not available. From the standpoint of the purchasing bank, the quality of the issue so purchased is based completely on intangibles, and that is not enough. As a matter of fact, the banker in such a case isn't buying a bond, he is being sold a bond — and solely on the "say-so" of one whose primary concern may be the profit to be derived out of the transaction.

No well-managed bank makes loans to unknown concerns in distant parts of the country on the strength of mere word-of-mouth recommendations of friends who do not or cannot support the credits with their own endorsements; and yet some bankers have bought municipals on that basis and some bond dealers seem to expect them to continue to do so. In making loans any well-managed bank insists upon being furnished with adequate information regarding the affairs of the borrowers, and the same principle should govern with respect to investment securities, either private or public. No banker, investing his depositors' funds, should rely exclusively upon the opinions or conclusions of a bond dealer, nor is it fair to impose upon the dealer the responsibility for making a decision which properly should be the bank's own.

There is only one way to determine the credit soundness of bonds, whether corporate, general municipal, or special revenue issues, and that is by means of a careful appraisal of all relevant financial facts. To the extent the financial facts are not available, the weight of the intangibles increases. Hence, to repeat, the real job before us is to see that the necessary credit information is made available to prospective purchasers and is utilized by them. That job is one in which all interested parties can beneficially participate: issuers, underwriters, dealers, bank supervisors and members of the banking fraternity.

I wish I could adequately convey to you my pleasure in learning the very unsurprising fact that the investment bankers are eager to foster the practice of making available full information regarding governmental as well as corporate securities. Certainly the Revenue Bond Report form which you sent to me and which the Investment Bankers Association expects to distribute for use in the near future is a long step in the direction of improved practice in this field. It represents a thoughtful attempt to set forth essential financial facts in an orderly and comprehensible fashion which, as a running record, will go far to reduce the credit soundness intangibles to which I made reference, and enable banks to acquire obligations on an informed and intelligent basis — obligations which are demonstrably sound.

In concluding permit me to say that a few days after the election last fall, my barber explained to me why the pollsters were so wrong in their predictions. My barber, incidentally, is a daily investor in that highly hazardous investment field commonly referred to as the "turf." He said the pollsters asked the owner how the race was going to come out, they also inquired of the trainer, and even asked the jockey for his opinion,—but they forgot to ask the horse! The Investment Bankers Association, in launching its program, is avoiding that mistake. You are going to the best sources for information and are then making it readily available. The principles and practices involved, as well as the ideas upon which they are based, are so patently sound that they will be accepted by all concerned provided only that they are clearly and forcefully presented.

With apologies for having to substitute this form of presentation of our views for a personal appearance, I am

Sincerely,
(Signed) J. L. ROBERTSON
Deputy Comptroller of the Currency

March 11, 1949.

NY Security Dealers to Hold Quarterly Dinner

The New York Security Dealers Association will hold its first quarterly dinner meeting on Monday, March 21, at 5 p.m. at the Downtown Athletic Club.

Members of the Dinner Committee are: Oliver J. Troster, Troster, Currie & Summers, Chairman; Hanns E. Huehner, Joyce, Kuehner & Co.; Lee D. Sherman, L. D. Sherman & Co.; John J. O'Kane, Jr., John J. O'Kane, Jr. & Co.; Erwin Stugard, Bond & Goodwin, Inc.

President's Economic Report— A Menace to Free Economy

By EMERSON P. SCHMIDT*

Director of Economic Research, Chamber of Commerce of United States

Arguing President's recommendations in his latest Economic Report are designed to destroy free markets by regulating and restricting contracts between employers and workers, between house owners and tenants, and between producers and consumers, Dr. Schmidt attacks proposed new economic controls and entrance of government into steel industry. Holds government intervention encourages organization of pressure groups.

The legislative recommendations of the President's Economic Report of January 1949 to the Congress, and H. R. 2756, based thereon, appear to run contrary to the spirit and purpose of the Employment Act of 1946. The President's recommendations (and H. R. 2756 which constitute these recommendations in bill form) would displace the judgment of the citizen in a wide range of situations by government directives and edicts.

Dr. E. P. Schmidt

The heart of a free society is the free market. These recommendations appear designed to destroy the free market. The heart of free contract is the substance of the contract. These recommendations would control the substance of contracts between employers and workers, between house owners and tenants, between producers and consumers. They would destroy the liberty of the investor by government control of construction and other materials.

Destroy freedom of contract and the free market in goods and services—then you destroy the foundations of freedom. These are the instruments which the authoritarian governments of Europe and Asia have been employing. It may be argued that these powers will not be abused, they will be used only "if needed," and Congress can always repeal the powers. Perhaps; but who can tell?

Many dictatorial regimes, including Hitler's, came into power by constitutional means. Furthermore, the weakening of the economy through the use of the President's recommended powers, instead of leading to the rational conclusion that mistakes have been made, is equally likely to lead to the conclusion that the Congress should have granted still greater powers over the people to the bureaus, and now it must do so.

This is the process of creeping intervention. A process which whittles down freedom and liberty, bit by bit. From it comes a less and less effectively functioning economy, and a public crying out for more and more controls apparently made necessary by the chaos created by the prior controls. Because each new control or directive is relatively small and appears to affect only a limited number of persons, the total impact and restrictive character of the cumulative controls is not fully realized—until it is too late. Hayek in his "Road to Serfdom" and Jewkes in his "Ordeal by Planning" have shown how from an actual experience this process works and how the people lose their freedom and liberty without ever knowing just how and why it all happened.

This is the direction now proposed by the President of the United States. Even though he intends no such evil result, which he does not, this does not change the direction in which we are moving and are being moved.

*Supplementary Testimony of Dr. Schmidt filed pursuant to request of Senator Joseph O'Mahoney, of Wyoming, Chairman, Joint Committee on Economic Report.

Have we the wit to preserve our liberties? Do we know what Patrick Henry meant when he said, "Give me liberty or give me death"? Or do we first have to lose completely our freedom before we will see what has been done to us?

What Does the President Propose?

Mandatory Controls—"I therefore recommend that the use of mandatory allocation powers be authorized so that they may be employed on a selective basis without delay where they prove o be needed," states the President. Again he says, "If it proves necessary, I shall not hesitate to use allocation authority . . . to channel such materials into home building." (Pages 12 and 16, respectively.) Who is to decide the "selective" basis and who will determine when "it proves necessary"? The people, expressing themselves through the free market must have their will thwarted.

What this may mean in practice is that raw materials and finished products can be diverted by government edict from areas and uses as expressed by free market consumer demand, into channels determined by the government bureaus to be "good for the people." Is this consistent with the freedoms extolled in the Employment Act of 1946? In practice it may mean that the man who would build a chicken house, or add a room to his home, or a garage for his car, could be prevented from following his own wishes. A government bureau knows best what is good for the people—this is the America which we would be fostering.

From what uses would the materials be diverted? Why? Would not such diversion quickly raise cries of anguish which a political-minded administration would have to heed?

Government Steel Plants—President Truman's recommendation that legislation be passed to authorize government construction of steel facilities "if action by private industry fails to meet our needs" has touched off a good deal of "collectivist" thinking.

The steel industry is condemned for not expanding but the steel industry is not an entity. It is a mere name that we use to refer to certain types of economic activity composed of scores of individual enterprises.

But it is not anyone or any group, with the means and the ability, privileged to go into the steel business? There are no legal or patent barriers to free entry. If I am in the packing or automobile business, have I any obligation to grow bigger?

To be sure, opening an integrated steel plant is a major undertaking, although partial processors and fabricators abound all over the place. Hundreds of steel-using plants could expand into steel making, and many have done so. If the steel outlook were good it would not be too difficult for newcomers to raise several millions of dollars to enter this business.

The very same groups that today are condemning "the industry" for not expanding were the ones ten years ago (see TNEC Hearings and Monographs) who said that the industry was overexpanded. These same people today are also very vocal in condemning "economic concentration." If the "steel industry" followed their present advice, how long would it be before they would cry "concentration" even louder?

The same critics have become so allergic to profits that the steel industry is induced to quote its prices at a figure which will not supply much capital for plowing back. To erect an integrated steel mill today probably costs $400 per yearly ton of salable finished steel, the base price of which averages about $75 per ton, according to the "Iron Age." On this new high investment base, nothing can be earned, after meeting raw material, (steel scrap, a major raw material costs $40 per ton), fuel, power, labor, depreciation, maintenance and other costs.

Under these conditions we are lucky that we are getting at least a million tons additional capacity per year. In fact, the steel-making capacity of the American steel industry has risen from 82 million tons in 1939 to 96 million tons at the present time. Two million tons of additional steel capacity are scheduled for completion by various steel companies in 1949.

We have generated such hostility toward free market prices and we have become so allergic to profits that steelmakers are unwilling to charge buyers a price which will reproduce the assets and encourage new venture capital to move into the industry. If anyone denies this, let him state whether or not he is willing to buy stock in a new steel mill even under the ablest management.

This is how democracies commit suicide. We make it so tough for private initiative to function, and then when it fails to meet our needs, we propose to go down the fateful socialist road. Then because at the beginning, catastrophe is not clearly visible we conclude that the only cure is more intervention and more socialism.

It is indeed an interesting commentary on the thinking of our times that the United States with 7% of the world's population and 55% of the world's steel capacity, which last year enabled producers to ship the largest amount of finished steel in history, should now be threatened by its politicians with the medicine so fatefully tried in decadent Europe, now getting some 10% of our free enterprise steel and steel products.

Wage and Price Controls—The price controls recommended would depress prices below their natural market levels, thereby encouraging excessive demand and checking supply. Instead of helping to restore balance and reasonable prices, these controls are designed to make the price tag say something which is not true. A free price equilibrates supply and demand; price-freezes perpetuate and accentuate the disequilibrium and always breed the economic chaos which leads to outcries for still more controls.

The President urges "selective" price controls, decrying the need for over-all price controls—the recent memory of OPA being too vivid. The OPA was not abolished "too soon" as many are wont to say; the OPA broke down and the President merely officiated at the final rites in the Fall of 1946. He, himself, said that the Administration had given serious consideration to going out to seize the cattle off the ranches, but this was impractical and it also considered seizing the packing plants, but this would have been futile because there was "no point in seizing empty packing houses"!

Price control broke down and history is not likely to record that it was abolished "too soon." Now it is proposed to restore selective price control which will only drive labor and capital out of the sectors where the returns will be less attractive. We discovered early in the war that selective price controls merely divert the inflationary pressures to other sectors of the economy.

While the President discusses wage control and implies that such might be necessary, experience during the war and especially in 1945-46, demonstrated that wage control is impossible when the government has fostered a labor movement that is more powerful than the government itself.

The recommendations include two other new ideas. We are told (p. 12), "Sharp rises in the prices of essential products may be harmful to the economy even when the general price level is fairly stable." Here, indeed, is complete negation of a free economy. Flexible prices, always ready to rise here and decline here, are the heart of the adaptive process. Even though inflationary pressures are past as indicated by general price stability, individual prices are to be stopped from expressing underlying changes in demand and supply conditions!

But this is not enough. The President urges that a government bureau be given power to withhold price advances until an investigation has been made. Is this the way to lure additional investment into areas of the economy in which there is price pressure? Who would invest in job-making facilities where this threat of both price control and of price withholding powers were granted or threatened or even where they would be legally possible? Scarcely a better way to perpetuate shortages could be devised.

Rent Control—The tenant who not only fails to provide housing for himself, to say nothing of providing housing for others, is given a real increase in his income by rent control, while the landlord who provides his own housing as well as housing for others is forc-

(Continued on page 26)

President's Economic Report—A Menace to Free Economy

(Continued from page 25)

ibly made to transfer income from himself to his tenants. Is this the way to get more housing? Is this the way to protect tenants as a whole? Is this the way to encourage the most economic use of housing facilities? Or is it designed to pave the way for governmental housing?

Let everyone who "believs in" rent control ask himself this question: Suppose there were more voters who were landlords than there were voters who were tenants, would I still "believe in" rent control? Let him also ask: "What moral or economic right does the government have to take from landlords and give to tenants? What is the difference between this practice and that of the Bolshevist dispossession of the Kulaks? Where may it lead us both normally and economically?"

Minimum Wage — Something can be said for minimum wages designed to prevent sweatshop conditions. But what is a government up to when it is concerned about inflation and yet at the same time recommends nearly 100% increase in minimum wages, when it is perfectly aware that the rise in the minimum wage will give an upward thrust to the entire wage structure because as the minimum rises each layer of wages above it will be under pressure in order to retain the historical differentials in the wage structure—differentials which are highly prized in our society?

With the growing soft spots and the unemployment in our economy will such an upward thrust on wages not force more and more workers to price themselves (with government fiat and aid) out of the labor market? What right does the government have to say to American citizens, "You shall not work at all unless you can find an employer who is willing to pay you at least 75 cents per hour?"

The Chamber of Commerce of the United States in its pamphlet, "The Economics of Minimum Wage Legislation" has fully analyzed the conditions under which a minimum wage bill (1) destroy job; (2) stimulate inflation; and (3) help or hinder the low-income groups. Before any action is taken on this proposal this pamphlet might merit study.

Socialized Medicine—The President's report states, "The high percentage of rejections under the military recruitment programs has provided striking evidence of the unsatisfactory state of the nation's health." Dr. Maurice H. Friedman, perhaps the closest student of selective service medical statistics, has demonstrated that this is not correct. (See his article in "Reader's Digest," August, 1948, p. 41.)

Again the President states, "Few of our workers enjoy systematic protection against loss of income through temporary or permanent disability." (p. 17). Three states have compulsory cash sickness benefits programs and millions upon millions of other workers have other forms of protection through group sickness insurance, individual policies and a host of other arrangements. It is unfortunate that the President is surrounded by advisors who mislead him and force people who know the facts to lose confidence, especially when these facts are readily available as in the Chamber's "Toward Sound Social Security," for example.

The foregoing points, among many others which might be made, suggest the direction in which the people are being led. That such a program of intervention and individual interference should be given serious consideration during a period of unprecedented prosperity and widespread well being, shows how far down the authoritarian road we have traveled.

It is up to this Committee to make decisions which will help determine whether we are to have a strong or a debilitated economy, whether our economy is to be secure from external aggression and internal retrogression, whether we shall continue to be a great people, or whether we shall follow the fateful steps traversed in decadent Europe. Given time and the facts, we beleve your decisions will be sound.

Government by Pressure Groups

The more the government intervenes in the economic process, the more are the citizens forced to combine themselves into pressure groups in order to protect their interests or to get their share of the government loot. Government by pressure groups must finally break down, and some form of authoritarianism will take over—this is evident from the developments of the past generation.

One hundred years ago the famous French economist, Frederic Bastiat, stated (almost as though he had seen the President's recommendations and H.R. 2756!):

"Cast your eye over the globe. Which are the happiest, the most moral, and the most peaceable nations? Those where the law interferes least with private activity; where the government is the least felt: where individuality has the most scope, and public opinion the most influence; where the machinery of the administration is the least important and the least complicated; where taxation is lightest and least unequal, popular discontent the least excited and the least justifiable; where the responsibility of individuals and classes is the most active, and where, consequently, if morals are not in a perfect state, at any rate they tend incessantly to correct themselves; where transactions, associations and meetings are the least fettered; where labor, capital and production suffer the least from artificial displacements; where mankind follows most completely its own natural course. . . ."—From "The Law."

Boston Investment Club To Hear Wendell Reuss

BOSTON, MASS.—W. Wendell Reuss, partner in McLaughlin, Reuss & Co., New York City, will be the guest speaker at the regular monthly meeting of the Boston Investment Club to be held Friday evening, March 18 at the Boston Yacht Club. Mr. Reuss, a railroad specialist, will talk on "The Outlook for the Railroad Industry in Terms of its Credit Status and Operating Performance." A general invitation is extended to all members of the industry and to those who are interested in the outlook of railroad securities.

W. Wendell Reuss

Walter R. Brailsford Dead

Walter R. Brailsford, head of Brailsford & Co., Chicago, died March 9 in Palm Beach, Florida where he was spending his annual winter vacation.

1949 and the Securities Business

By HARRY A. McDONALD*

Commissioner, Securities and Exchange Commission

Asserting stock exchanges are great instrumentality in our economic system and must be guarded carefully, Commissioner McDonald notes depressed condition of investment industry and ascribes it to greater leveling of income among people as well as change in character of securities. Foresees new mass market for securities in increased individual savings, awaiting to be tapped by better public understanding of securities and by aggressive selling techniques. Holds widespread trading is discouraged by high commission rates and defends SEC inspection of trading transactions.

Since the inception of corporate shares and the chartering by the various kingdoms and commonwealths of divided enterprise, there has necessarily had to be a trading or a bartering in such shares or securities. The institution of the stock exchange, as we know it today, is a result of great evolutionary changes. The very word "stock exchange" has a tendency to electrify the thoughts of of the individual. There has been, and still remains, a great deal of romance in the very concept of stock trading. I, personally, have always regarded the mechanism of a stock exchange, i.e., the free market for the buying and selling of securities, as a great instrumentality in our economic system. An instrumentality, if you please, that must be guarded carefully that it not be the object of public scandal and public ridicule so as to deter its intended purpose.

Harry A. McDonald

You, as a group, represent Chicago. You are all interested in the securities business. You represent a very vibrant part of Chicago's citizenry, and I am most happy to be here to talk to you about a few of the problems the securities business faces in 1949. They are your problems and they are the Commission's problems as well.

You are undoubtedly familiar with my personal background, being that of a businessman and investment banker for many years. It was my pleasure for several years to be a member of the Detroit Stock Exchange. All this happened, of course, prior to my appointment to the Securities and Exchange Commission. I truly believe that I should have and do have an understanding of your problems and, speaking for the other members of the Commission—while their backgrounds may be different — they, too, have an appreciation of your present day market difficulties.

Investment Industry Depressed

For reasons which even our most expert observers cannot fathom, the investment industry today is not sharing the nation's unprecedented prosperity. Its participation in the national income has declined from three-fourths of 1% in 1929 to only one-tenth of 1% in 1947. In 1929 the investment industry earned $644 million dollars; in 1947, less than a third of that amount, $198 million. At the same time, the number of people engaged in the investment business has diminished by 50%.

The Baltimore Stock Exchange has recently announced its merger with the Philadelphia Stock Exchange. There have been rumors of plans being discussed in the Midwest for further consolidation of operations. This represents a contraction of facilities undoubtedly made necessary by a diminished volume of business.

Over twenty years ago, on Nov. 23, 1928, I am told the Chicago Stock Exchange experienced its first half-million share day. The following year there were days when the volume of trading exceeded a million shares, and a seat on this Exchange sold for well over $100,000. I can recall when a seat on the Detroit Exchange sold at almost such a figure. Today a million shares is an active day on the Big Board. The volume of activity on the New York Stock Exchange is a weather-vane for the whole industry, and everyone connected with the securities business is concerned about its present condition.

We happen to be living through a period in which the investment habits of the nation are changing. The prosperity and possibly the survival of the investment industry will depend upon how well it senses the direction of this change, and how it adjusts to it.

You are the link between what is known as the "issuer" and the customer. No one is as close to the picture as you. I don't have to remind you that the selling of securities seems to grow more difficult each day. In that connection, one of the members of the staff reminded me that learning the securities business is like Mark Twain learning the pilot's trade in "Life on the Mississippi." You will recall that Mark Twain writes that he had to learn the river all the way down, and then he found it looked altogther different coming back up. It was different by night and by day. It looked different in the fall than in the summer, and in the spring the torrents washed banks away and formed new channels and he had to learn it all over again. And so it goes.

Character of Securities Has Changed

For one thing, the character of the securities you sell has been changing. Security trading has progressed through wild-cat banks, the railroad days of Gould and Fisk, the fabulous mining ventures, the era of the "coal oil Johnnies," the local legerdemain of street railway financing, the public utility holding company expansion of the 20's, and the Bolivian and Peruvian 8's of the same period.

Today you trade in what has become a pretty high grade list of industrial and utility securities, whether they be listed or over-the-counter.

Then again, your customers are changing. The changing income pattern in our nation means that more people have more money, and fewer have lots of money. Our high standard of living means that more and more people have a little left over for savings. It is these savings which are needed to finance enterprise in this country. The staggering sums required to maintain the largest industrial plant in the world have become to great for a relative handful of people to supply. The billions upon billions of dollars required each year can be found only in the mass savings of all the people.

The investment industry is awakening to this revolutionary change in its market. About a year ago in a talk in New York, I was able to document this transition with facts and figures. There has been a definite income shift in this country. In their search for security, over a third of the the people's savings goes to the insurance institutions, to be reinvested in securities. But there still remains a pool of individual savings available for investment which far exceeds any demand of the capital markets. Only a fraction of this vast potential supply is today being tapped by our investment banking channels. Last year only one and a half billion dollars were invested in new security issues out of liquid savings of individuals totaling over $8 billion. We also find that the rate of direct investment in securities has not been keeping up with the rate of savings. To me this indicates just one thing—those who sell securities are not approaching the people who have the savings.

A New Mass Market

Increasingly, one hears that brokers must learn to understand and tap this strange new mass market. J. A. Livingston, a prominent financial writer, recently chided the industry for not applying its analytical talents, used so skillfully in appraising the corporation securities it sells, to discovering and analyzing this new market for securities. A survey recently by the Federal Reserve Board showed that most people in this country do not even know what common stock is. A surprisingly high percentage of those who indicated familiarity with common stock disapproved of it as a form of investment. Still fewer people know how to go about placing a simple buy order. There was a time when a brokerage house boasted about its prominent customers. Today, the tendency is to point to the number of shop foreman, small shopkeepers, and housewives in the accounts. If we expect these people to take an interest in the market and invest their savings in it, perhaps we had better begin by letting them know what the market is. It is, I suppose, a merchandising job. The public must be taught the ABC's of investing. It is not an easy job. But the prospective rewards are large and there is opportunity to perform a service to our economic system by providing industry with the capital it needs.

Introducing these new people to security investment will require aggressive selling techniques. But this should not call for high-pressure selling. Salesmen have a high responsibility to deal fairly with these people: If they do not, this new market is likely to be destroyed.

Role of Security Salesman

Salesmen of necessity should be well informed. The rapid growth of the statistical department is proof that the investor today seeks more information. The market letters produced by these departments are helpful. Unfortunately, they occasionally are not as accurate or complete as they might be.

I came across a particularly shocking one recently, prepared by a well-known Eastern house. It purported to be an analysis of the second preferred stock of American & Foreign Power, a

*An address by Commissioner McDonald before the Stock Brokers Associates of Chicago, Chicago, Ill., March 3, 1949.

subsidiary of Electric Bond & Share. The story this market letter told was alarmingly incomplete. There was no mention, for example, of the proceedings in which the company is involved under the Public Utility Holding Company Act. There was not even a hint that a plan of reorganization had been formulated which drastically affected the rights of this particular stock. Such omissions are inexcusable. Worse still, from your point of view, they hurt, rather than help, the security salesman who tries to use them. Inevitably they boomerang.

Even if the market letter were a perfect selling document, it is not a substitute for informed selling. It is equally important that each salesman be his own statistical department. The securities laws do not prevent effective selling. They are a bar only to carelessness and misrepresentation. The salesman should be able to supply information and to express a well-founded opinion if necessary. In this connection, I know from my own experience that there are security salesmen who make it their business to inform themselves fully about the security they are selling. But there are others, and we all know them, who are satisfied to take a quick look at the market letter, listen to a couple of rumors, and grab for the telephone.

Of course, things have grown so complicated that it isn't enough for you to know just particular company situations. You are expected to be something of an accountant, tax specialist and lawyer. You must be an expert on government fiscal policy, appreciate fully the significance of the changing value of the dollar, know all about contract renegotiation, Regulation T, and be able to appraise things like "refundable Federal Taxes on income of prior years arising from the carry-back of operating loss." And of course you must be up to the minute on the general political and economic outlook. These are only some of the ingredients that today go into servicing an account. Is it any wonder that the name "customers' man" has been found inadequate? From time to time the industry has searched for a new title to designate this keyman in the shop. One large Eastern house recently came up with the term "account executives," which I thought at first was another case of "if you can't raise their pay, either raise their title or make them a partner." But on further reflection, I rather agree with that thinking.

Suggestions for Broadening Market Interests

There have been many suggestions for broadening market interest. Stock splits are generally accepted as a way to increase market activity. This method has been followed by a fairly steady number of large corporations in recent years. Some years ago in Detroit it was observed that the big investors were fast disappearing and that more and more equities were showing up in trust funds and estates where trading, as you know, is reduced to almost nil. Investment dealers therefore encouraged the low priced stock, and that has become fairly standard among the motors which make up a large part of the Detroit market.

The extent to which lower priced stocks increase market activity depends in some measure on commission rates. This, of course, brings up the whole question of fees and commissions.

I had the staff check for me some of the early history of fees and commission rates. Here is an interesting item which they turned up. It is the agreement made in 1792 between the various members of what then constituted the New York Stock Exchange:

"We, the Subscribers, Brokers for the Purchase and Sale of Public Stock, do hereby solemnly promise and pledge ourselves to each other, that we will not buy or sell from this day for any person whatsoever, any kind of Public Stock at a less rate than one quarter percent Commission on the Specie value, and that we will give a preference to each other in our Negotiations. In testimony whereof we have set our hands this 17th day of May, at New York, 1792."

From this you can see that even back in those days the keen competition in this industry required that the members be bound to an agreement setting a **minimum** rate. The 1/4 of 1% rate lasted for many years—until 1856. For a brief period during the Civil War a brisk market made it possible to lower the rate to 1/8 of 1%.

The per share basis and the sliding scale type of rate did not appear until just before the First World War. This scale became more complex with each revision. In 1947 the new rates were adopted, based mainly on the money value of the transaction rather than on the number of shares involved. In a sense, this was a return to the original concept of "one-quarter persent . . . on the specie value." However, this simple basis is combined with a sliding scale having numerous categories. As everyone knows, it is perhaps the most complicated schedule ever adopted.

It is too early to say how the new rates will eventually work out, particularly as they might affect the volume of market trading. Higher rates do not necessarily bring greater revenue. Where people buy for investment the commission is usually an insignificant part of the cost. But widespread trading—and that is the bread and butter of this business—is discouraged by high commissions, which eat up principal.

The SEC, as you know, does not set commission rates, although under the Act it is empowered to order a modification if "necessary or appropriate for the protection of investors or to insure fair dealings in securities on the Exchange or to insure fair administration of the Exchange." So far, the Commission has never used that power. As a matter of practice, when an Exchange is considering a change in commission rates, it will usually bring its proposals down in advance for informal discussion. These discussions may produce some modifications before final adoption. When they are adopted, they are the rule of the Exchange, to be enforced by the Exchange. They are not the rule of the SEC

Regulations and Policy of SEC

I am conscious of the fact that this audience is composed of people who each day are confronted in some manner with regulations promulgated by the Securities and Exchange Commission. One of the things which seems to raise a general query in the minds of those engaged in the business is this one, which is so often put to me . . . "Why do you send inspectors in to check the various brokerage houses?" "Can't you get sufficient information from the reports which you require?" "Why does this work have to be duplicated by the NASD?" . . . and so forth.

May I make this one observation? After having served two years on the SEC, and having come daily in intimate contact with not only the other Commissioners but the directors and staff members of the various divisions, I am satisfied that they have only one sincere purpose—and that is to be constructively helpful.

On the other hand, after many years in the investment and security business, I know for a fact that security dealers possess as high a degree of honesty and integrity as any other professional or industrial group in this country. The average security dealer, and salesman, and customer's man, has the genuine interest of his customer at heart. But there are exceptions. And these exceptions, generally by virtue of publicity given to their acts, go a long way toward creating a suspicious attitude on the part of the public. For this reason it is imperative and for the good of all that periodic inspections be made and the dishonest fringe discovered and eliminated. Let me give you an example of the kind of thing such inspections may turn up—situations which, incidentally, would never show up in the periodic reports. It demonstrates that the best intentioned house may not be able to protect itself against certain types of fraud. This story not only involves a customer's man but several individuals, two or three on the outside. I am referring to the fraud against the Keystone Custodian Funds recently uncovered by the Commission.

It all began with two routine investigations — a broker-dealer inspection and what we call a flying quiz into a suspected manipulation.

Detecting Frauds

As you know, the SEC maintains constant surveillance over the market and whenever unusual activity in a security is noted for which there is no explanation, an immediate check is made. In this particular case a normally quiet stock on the New York Stock Exchange suddenly jumped from 5 to 7. One of our investigators was assigned to look into the trading.

At about the same time another investigator was inspecting the books of a brokerage house which we shall call A. In checking customer blotters he came across a technical violation of Regulation T in which stock had been purchased for an account and resold at a profit the same day but no money had been paid by the customer to cover the purchase of the stock. He found several similar instances in that and in another account. In each case the stock had been purchased from or sold to a second brokerage firm—B & Co.—which becomes the central firm in the picture. The investigator learned that both accounts had been introduced to broker A by a customer's man of B & Co. and that he had also supplied the orders.

Meanwhile the manipulation investigation revealed that this same customer's man had effected substantial purchases of the stock in question for numerous accounts in several different brokerage houses, that the stock had been resold almost immediately from all of these accounts, and that the purchaser was Keystone Custodian Funds, a registered investment company. The Keystone purchases had been executed on the Exchange by other brokers. Inquiry at B & Co. revealed the coincidence that this same customer's man serviced their Keystone account.

The plot started to thicken. Two frauds were suggested at this point:

First, the transactions uncovered by the manipulation quiz suggested that the customer's man had advance information about Keystone's proposed transactions in time for him to act thereon.

Second, the broker-dealer inspection served to indicate that a fraud was being perpetrated on customers of B & Co.

Two lines of inquiry were tied together when further investigation revealed that in each of the in-and-out transactions Keystone was the ultimate purchaser.

At this point Keystone was asked for the details of each purchase and sale made by it over the past year. A comparison of the transactions in the questioned accounts indicated that they had been used exclusively for in-and-out trading invariably at a profit in securities contemporaneously bought or sold by Keystone. It was also possible to uncover several other accounts of this same type with other brokerage houses and to associate them with the customer's man.

Now the pattern was clear—but who was supplying the customer's man with his information? A study of the time slips, giving the exact time each order was placed with the broker for execution, and the time of execution, showed that the leak was at the Keystone end; and other lines of inquiry—cancelled checks, toll slips, etc., finally pointed to one man—a trader for Keystone.

When confronted, he confessed. His confession was so broad as to clearly involve the customer's man and also another brokerage firm.

It will be a while before all the transactions are unravelled. The profits of the fraud are estimated at about $300,000, of which commissions and expenses constitute almost $200,000. The Keystone Custodian Funds and its management are, of course, in no way implicated.

Broker-dealer supervision by the SEC is only one phase of the work assigned to that body. The SEC administers seven different statutes. It is a busy place, and may I assure you that the intent and desire of those connected with it is to be helpful in every manner possible to people engaged in the legitimate distribution of investment securities. I have always personally conceived of the SEC as an affirmative, positive force rather than a restrictive, policing one. As I see it, it is the function of the SEC to guide the financial practices of America's business corporations and those who deal in their securities. Its object is to maintain, so far as humanly possible, public confidence in our business institutions and in the integrity of our financial markets. Its purpose is to facilitate the application of the nation's savings to the sustenance and growth of our economic life.

Bradley Higbie & Co. Is Formed in Detroit

DETROIT, MICHIGAN — The Detroit Stock Exchange announces the admission of Bradley Higbie as a member of the Exchange and the registration of his firm Bradley Higbie & Co. with offices in the Guardian Building.

Mr. Higbie has been associated with the brokerage business for many years and formerly was a partner in the investment banking and brokerage firms of Keane, Higbie & Co. and Alison & Co. More recently he was President of McAleer Manufacturing Co. and Chairman of Higbie, McDonald & Co.

The officers of the newly formed company in addition to Higbie, who will serve as President and Treasurer, will be Wm. E. Shoemaker, Vice-President; Frederick F. Mueller, Secretary, and Peter C. Higbie, Assistant Secretary and Assistant Treasurer. All were officers of Higbie, McDonald & Co.

Lester Watson Dies

Lester Watson, partner in Hayden, Stone & Co., died March 6. Mr. Watson made his headquarters at the firm's Boston office.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government market has turned strong after being on the firm, buoyant side for several weeks. . . . The break-through to new highs for the year by the longest eligible and ineligible bonds has had a favorable effect upon market psychology. . . . Most investors, dealers and traders are looking for higher prices for the more distant obligations. . . . The fact that Federal again moved up the offering price for the longest tap bonds indicates they are not averse to having quotations continue on the constructive side. . . . Also, higher prices for the eligibles may facilitate swaps from these bonds into the inegilibles. . . .

Psychology in the government market market has changed so completely in three months that again it seems as though there are no sellers and all buyers, as is always the case when prices are advancing. . . . However, there does not seem to be any danger yet of quotations being near a top, because the market is just coming out of an abnormal period that should never have taken place. . . . More favorable developments appear to be ahead for Treasuries, since a buoyant advancing government bond market is a great restorer of confidence, which is needed at this time. . . .

DECLINE IN BANK LOANS

Forces operating in the economic picture, whether one classifies them as deflationary or anti-inflationary, are having an influence upon the money market. . . . One of these forces is the trend of business loans, which have been on the slide for the past seven weeks, according to figures published by the reporting member banks. . . .

For this period, these loans have declined $268,000,000 with only the New York Federal Reserve District showing a minor gain. . . . The largest drop in business loans was in the San Francisco area, followed by sizable declines in Chicago, St. Louis and Dallas. . . . When there is a loss of earning assets the banks generally seek other outlets for these funds in order to maintain income. . . .

GOVERNMENTS IN DEMAND

Things are running true to form because the reporting member banks, during the seven-week period, when business loans were receding, made commitments in government bonds amounting to $383,000,000. . . . This was in excess of the total business loans that were lost by these institutions. . . . The largest buyers of government bonds were the commercial banks in the Chicago district, followed by the member institutions in Cleveland, San Francisco, Boston and Atlanta. . . . Out-of-town deposit institutions, according to indications, have been the heaviest buyers of the longer Treasury bonds, and the figures of the reporting member banks substantiate these reports. . . .

In addition to putting funds to work that were formerly used for loans, the out-of-town banks are also investing excess reserves in order to help maintain their earnings. . . . Likewise, there are fairly sizable sales of shorter-term issues by these institutions to get in on the longer-term higher-income obligations. . . .

BANK ELIGIBLES ATTRACTIVE

The trend of business loans is also having an important effect upon non-bank holders of eligible issues (especially the longer-term obligations) because they have withdrawn from the market many of these obligations that were earmarked for sale. . . . The opinion is that as long as business loans show a declining trend there will be a greater demand for bank issues, since the deposit institutions must come into the government market in order to maintain earnings. . . .

Also the spread between the longest taps and the most distant eligible has widened and it is indicated that many owners of the bank bond, who can purchase the ineligibles in place of them, are not in any hurry how to make further swaps from the eligible into the restricted issues. . . . They believe the bank bonds because of the limited supply and sizable demand will move faster on the up side than the ineligible issues. . . .

SWITCHING PRONOUNCED

Sizable swaps, however, are being made from the short and intermediate maturities into both the longest eligible and tap issues. . . . The small and medium-sized commercial institutions which are very much in the savings bank classification, are moving out of the nearer-term obligations into the longs because loans and mortgages of the quality required are not readily available. . . . The buying of these institutions has been very important in the recent price advance of the longer eligible bonds. . . . Savings banks seem to be getting rid of substantial amounts of their shorter-term issues in order to get in on the longs before they run up too far in price. . . .

Although most of the activity and glamour is in the longer end of the list, there is nonetheless sizable volume in the medium-term obligations with the larger commercial institutions the main operators in this classification. . . . The 2% obligations, especially the later maturities of this group, are being very well taken by these banks. . . .

EVERYBODY'S BULLISH

Investors, traders and dealers alike are on the bullish side, with much higher prices being predicted for the market leaders. . . . The longest bank bond, according to many, is on its way to 104, with the 2¼s due 1956/59 also headed for higher prices. . . . The most distant taps look good for 102, at least, according to some money market followers. . . . Picking price ranges or limits for government securities is at best a hazardous business, **but for the time being there does not seem to be too much risk involved in being bullish on long government bonds.**

Monetary Policy and Economic Stability

(Continued from page 6)

at that time—authority to vary the level of reserve requirements of member banks and control over the margins required on stock market loans. The reserve requirement authority provided a powerful new method of general monetary policy, while the regulation of margins afforded a selective instrument to influence credit conditions in a particular but important area. The importance of these innovations, as well as of the inclusive reform of our monetary structure with which they were associated, is that they meant a still more explicit commitment to active monetary policy focused on national economic stability.

During the Thirties, sheer necessity of depressed economic conditions and widespread unemployment made reattainment of a satisfactorily high level of business and consumption activity the principal preoccupation of monetary and other public policy. You will recall the upsetting, though not altogether novel, experience we had of reaching a cyclical peak in business activity without approaching full levels of output and employment. You will also recall that previously accepted notions as to the potency of monetary policy, fostered particularly in the Twenties, were seen to be grossly exaggerated. To combat the powerful forces of maladjustment during this period, reliance had to be placed on other measures—notably fiscal policy. Even with the extensive use of other policy measures, large-scale unemployment persisted until the outbreak of World War II.

Postwar Conception of Monetary Policy

The huge demands generated by war soon eliminated unemployment. But the experience of the depressed Thirties had a lasting impact. How to prevent the recurrence of large-scale unemployment was a dominant question in all discussions of postwar policies. From these discussions it became clear that public economic policy would have to assume a great postwar responsibility for the maintenance of continuously high levels of employment. There is no better testimony as to how intense was the concern over this issue than the Employment Act of 1946, which was passed, incidentally, by a conservative Congress.

But the goal of high level employment was not to be pursued at all costs. For example, "full employment" through inflation was recognized as an undesirable long-run solution. Resort to wasteful, "make-work" projects was considered unacceptable. And, of course, all policy measures were expected to meet the general requirement of consistency with a "free private enterprise" system.

Not high employment alone, but stability at high levels of employment and output, achieved within the framework of a free private enterprise economy, became the emerging conception of the primary purpose of all public economic policy, including monetary or central banking policy. The part which monetary policy was to play in realizing this conception was not entirely clear. But that its responsibility was to be a large one, there can be no doubt.

I want to state at this point that wartime and early postwar thought regarding the future role of monetary policy was not neglectful of the international aspects of the money problem. It was recognized that some mechanism had to be devised as a substitute, internationally, for the former gold standard mechanism. The fruit of this thinking, as you are aware, was the international agreement reached at Bretton Woods providing for the establishment of an International Monetary Fund and an International Bank. It was felt that the first of these cooperative institutions — the Monetary Fund — could adequately assure relative stability of international exchange values, and that the second agency —the Bank—could contribute to the progressive expansion and balanced growth of world trade.

Both of these institutions were projected to function in a peaceful world in which member countries pursued national economic and monetary policies designed to promote high levels of employment and real income and to develop as fully as possible the productivity of their resources. The new agencies were not expected to be final answers to the international monetary problem. On the other hand, there was a conviction that success in the experiment of continuous international consultation and cooperation through these organized channels would give the world a better monetary mechanism internationally than had been provided by any former gold standard system. A stable expansion of international trade, if a favorable environment for such expansion could be established, would progressively strengthen the new international financial institutions and permit them to perform their respective functions with increasing effectiveness.

Such then is the postwar conception of the objectives of policy in the management of money, and, as I have said, the goal of a stable but progressive private enterprise economy puts a very heavy responsibility on monetary management.

Complex Structure of the Money Supply

For monetary policy to do its part, it must provide the economy at all times with a supply of money consistent with the needs of a stable and expanding economy. This is easier said than done, for the term "money supply," at least in our own country, is a highly complex concept. Our particular money supply is not a quantity of readily identifiable and additive items. Rather, it is an amorphous mass.

We have currency money issued by the Treasury and the Federal Reserve Banks. We have the demand deposit money created by the commercial banks. We have a large amount of other liquid assets in the form of time deposits and savings accounts, building and loan shares, and the cash value of readily convertible insurance policies. We have an even larger volume of other liquid assets in the form of Government securities, exchangeable into money at par, by redemption or sale. We have still other assets—e.g., corporate bonds and obligations of State and local governments—that are very high in liquidity, and therefore by nature close to money. Some of our money, moreover, when lodged in the reserves of Federal Reserve Banks and commercial banks, possesses the property of multiplying through loans and investments into still more money. These bank reserves have correctly been called high-pressure dollars.

The significance, from the standpoint of monetary policy, of this complex money structure becomes even greater when we realize that the ultimate concern of monetary policy is not with the money supply itself, but with the flow of money through the economy. The active money flow in the economy bears the impact of changes in the money supply and of the activation or deactivation of existing money stocks. In our complex money system, both of these types of monetary change reflect the independent decisions of many individuals and institutions, as well as the decisions of the monetary authorities.

In view of this complexity of monetary problems it is not surprising that the total monetary flow will at times reveal a tendency to become excessive, producing the symptoms of a general price rise, or that at other times it will show an opposite tendency, producing price declines and unemployment.

Ideally, monetary policy should completely forestall either tendency and maintain a total monetary flow that is at all times perfectly adjusted to the stability needs of the community. But the limitations on our ability to forecast economic behavior is itself sufficient reason to suppose that such an ideal is impossible of attainment in the near future. At present the most that we can feasibly aim for is to achieve an approximation to this ideal.

Need for Flexibility in Formulating Policies

Such an approximation is by no means an unambitious goal. It inevitably requires all the foresight, knowledge, and judgment that we can muster. One cardinal virtue to be cultivated is flexibility both in thought and in action. No rigid policy, no matter how well thought out in advance, will enable us to cope adequately with the problems of an uncertain future. Nor can monetary authorities expect to avoid mistakes that will require remedial action. Improvisation and reversibility should be included in a proper concept of flexibility.

We must not overlook the risks of flexibility in the making of public policy, not the least of which is that flexibility can itself become a source of economic instability. A well functioning private economy requires stability in certain areas of public policy as much as it requires flexibility in others. An important part of wise policy making, as I see it, is to recognize and adhere to the boundaries of each of these areas. The importance of this aspect of policy making is reflected, I think in the considerable recent popularity of what has been termed built-in, or automatic, flexibility — a concept to which I shall refer again in a few minutes. Essentially, this concept undertakes to compromise the advantages of flexibility and stability in economic policy.

Strategic Factors in the Money Flow

The major changes that do occur in the economy's money flow are heavily dependent on certain strategic forces such as capital formation by private business, consumer expenditures for durable goods and housing, and international trade. To a greater or less degree each of these forces is subject to influence by the monetary authorities through the terms and conditions on which new money is available to borrowers. However, their susceptibility to such influence is qualified by the fact that these forces are in turn heavily dependent on non-monetary factors.

The volume of business capital formation, for instance, is affected by current expectations of future business activity, and investment plans are subject to expansion, modification, postponement, or withdrawal as the economic outlook changes. Demands for consumer durable goods stem from wants that are now deeply imbedded in the American standard of life. The state of international trade is a reflection of world political tensions as well as the product of reciprocal needs among nations for goods and services. In general, policies operating through the cost and availability of money—the major ways in which the monetary authorities can influence developments—are apt to meet with greater success when it is a matter of restraining rather than stimulating monetary expansion.

I might add at this juncture that the complexity of the money flow process is the basic justification for such instruments of monetary policy as margin requirements and consumer instalment credit regulation. By influencing credit conditions in selected areas, these instruments help to keep the use of credit in balance as well as to maintain sound credit conditions in the sectors affected. They thus afford a means of keeping certain strategic non-monetary forces from having an undue influence on the money supply and on the monetary flow through the economy. While they are relatively new techniques of monetary policy, in the brief period they have been available they have had a helpful supplementary effect. The extent to which they may be forerunners of a broader development of selective credit technique cannot be judged at this stage of monetary development. Much more experience than we have had to date will be necessary before the desirability of such a development can be judged.

Timing of Treasury Surpluses And Deficits

The monetary flow through the economy is also affected strategically by Treasury surpluses and deficits. Whether considered within the scope of monetary policy proper or viewed as a separate area of public policy, the fiscal operations of government play a significant role in monetary affairs. They cannot be ignored in any consideration of contemporary monetary problems.

A current surplus on a cash basis means that the government's outlays are running less than its income, and it is therefore having a contractive effect on the total money flow in the economy. A current cash deficit means that outlays are running in excess of income, and that the net effect of the government's fiscal operations is to have an expensive effect on the current monetary flow. Consequently, under a stabilizing economic policy, surpluses should be accumulated whenever there is a tendency for the monetary flow to become excessive, and deficits ought never to arise except when it is desirable to expand the monetary flow.

This principle of fiscal policy is, or ought to be by now, a thoroughly elementary notion. Though I cannot speak with the authority of one who is directly concerned with making fiscal policy, it seems to me that a much more relevant and difficult problem is how to provide for government surpluses and deficits of the right amount at the right time. In other words, to me, the really crucial problem in developing an adequately stabilizing economic policy is that of providing proper flexibility in government finance.

Flexible Fiscal Policy

A certain amount of flexibility in government fiscal policy can be provided on an automatic basis, that is, without requiring deliberate and specific action by either the Congress or the Executive. If the structure of tax rates remains unchanged, revenues will rise as the monetary flow expands, tending to reduce a deficit or increase a surplus. As the monetary flow contracts, revenues will fall, tending to reduce the surplus or create a deficit. With no opposing changes in expenditures, this automatic ebb and flow of revenues will itself exercise a stabilizing influence on the monetary flow. Such stabilizing influence may be supplemented, of course, by equally automatic fluctuation in the volume of outlays made on behalf of such items as unemployment compensation.

A stabilizing fiscal policy achieved through automatic devices is an undeniably appealing approach to the problem, and its potentialities are well worth stressing. But I suspect that its potentialities can never be great enough to preclude entirely the need for specific tax on expenditure adjustments as well. Just what tax or expenditure adjustments ought to be a part of a program of fiscal stability, I am not prepared to discuss in detail. In general, my preference is for relying on the tax rather than the expenditure side of the budget. It is my impression that most expenditure items do not lend themselves readily to rapid expansion or contraction; but such rapid changes would be necessary if expenditure adjustments are to be heavily relied on to promote economic stability. Aside from the problem of workability, I am not sure that we ought to rely on changes in the volume of government expenditures as a major means for ironing out fluctuations in the economy. For the scope of the government's direct rule in the market place is related primarily to the size and nature of its expenditures on goods and services. I think the scope of this role is one of the elements that, in a free private enterprise economy, ought itself to be kept as stable as possible.

Long-Run "Neutrality" of Fiscal Policy

The problem of stability at high levels of employment, insofar as it depends on fiscal policy, may involve resort to deficit financing, but only on a temporary and not on a permanent basis. A belief in the need for a chronic government deficit to attain stability reflects, it seems to me, a lack of confidence in the viability of our economy. The long-run fiscal objective of budget neutrality—i.e., of a balanced budget—is, in my outlook, entirely consistent with the achievement of stable and high levels of employment and output.

From the point of view of stabilization needs, our real danger may be that we will lapse into an excessive use of deficit finance. If tension in the international situation persists, no retrenchment from a huge military budget will be possible. At the same time a considerable expansion in the welfare activities of the government is probable. This combination for a welfare and garrison state means a large and growing volume of government expenditures, implying in turn an average volume of government revenues equally large if in the long run we are to maintain a balanced budget. In this situation, the temptation — and the danger — is to slip into a policy of chronic deficit financing. Should we default on our fiscal monetary obligations in this way, the result may be to create a demand for comprehensive direct controls in order to combat a chronic condition of inflationary pressures.

Management of Surpluses and Deficits

The implications for monetary policy of a stabilizing program of government finance are not confined alone to the timing of surpluses and deficits. They extend also to the way in which a surplus is disposed of or a deficit is financed. Differences in disposing of a surplus and in financing a deficit will be reflected in different effects on the money supply. Broadly speaking, their significance will depend on such factors as the nature and strength of the demand for investable funds and the reserve position of commercial banks.

To illustrate my point, a surplus might be used to retire debt held by the nonbank public. In this case, the process of accumulating and disposing of a surplus would not in itself result in any reduction in the money supply; it would only shift the ownership of money from taxpayer to security owner. On the other hand, if a surplus is used to reduce debt held by the commercial banks, a portion of the money supply will be extinguished, while the immediately available supply of bank reserves for new money creation will be increased. If a surplus is used to retire Federal Reserve held debt, bank reserves as well as the money supply will thereby be reduced. Clearly, this last disposition of a budget surplus is the one that will make a maximum contribution to a policy of monetary restraint.

A similar type of analysis applies to the financing of a deficit —leading to a similar conclusion, namely, that if the deficit is to make a maximum contribution to monetary expansion it should be financed to the extent that it is feasible to do so through borrowing from the central banks—in our own country the Federal Reserve Banks.

Other Aspects of Government Finance

In addition to the management of budget surpluses and deficits, government finance affects monetary policy through its management of outstanding public debt. Aspects of debt management, such as methods of refinancing, maturity, distribution, and of course the pattern and level of rates, must all be comprehended in, or related to, modern monetary policy. The principal objective of debt management from the point of view of monetary stability is easy enough to state: during inflationary periods when the monetary flow is excessive, it is desirable to attract investors' funds into public debt holdings and away from private investment expenditures, thereby reducing the active money supply. During deflationary periods, it is desirable to induce an exchange of public debt holdings for cash, thereby increasing the active money supply.

In this area of debt management more than anywhere else in the monetary and fiscal field, it seems to me, we are limited in the development of stabilizing policies by the incompleteness of our knowledge. With a debt of the magnitude of $250 billion, with a stable level of long-term interest rates held long enough to permeate the entire asset and liability structure, and with a tense international situation, **we do know** that monetary policy must maintain orderly conditions at all times in the government securities market.

But within this limitation, how much can be done? Are there changes to be made, through refinancing operations, in the maturity and ownership distribution of the debt that would improve it from the point of view of monetary stabilization? During inflationary periods, is some flexibility in the prices of government securities compatible with maintenance of orderly market conditions? What would be the sure effects of such flexibility? Would these effects compensate for the known advantages of certain confidence in the orderliness and stability of the government securities market?

Firm answers to questions such as these are prerequisite to development of debt management policies. Yet, even with much more intensive thought than this matter has thus far been given, the answer will be slow in coming. We have, after all, only acquired our present huge public debt within the past decade. We will need to proceed cautiously in building up our experience in improving methods for its management.

Concluding Comment

In the present lecture, I have endeavored to sketch the evolving role of monetary or central banking policy in relation to economic stability. You will see that over the years it has undergone a profound change. If I have read the trend of history correctly, the change has been consistently in the direction of a broader and more flexible role, but with more definite responsibilities toward facilitating the maintenance of high levels of employment, stable values, and a rising standard of living—in short, towards facilitating greater overall economic stability.

If we agree that this reading of history is a proper one, then we must conclude, I think, that the contemporary role of monetary policy is indeed a matter of crucial importance to all of us. We must also ask ourselves a very basic question: do we know enough about economic behavior and organization to stabilize a progressive private enterprise economy by the application of monetary and other public economic policies?

You are all familiar with the wide range of answers given to this basic question. They extend from a doctrinaire affirmative to an agnostic negative. My own position, as you might deduce, is towards the middle of these extremes. I do not believe that any one possesses the ultimate truth on the question. Nor do I think that we know too little and can never know enough to have a rational basis for action that will advance us along the road of stability. I do believe our knowledge and understanding is great enough so that we can proceed with some confidence of ultimate success. In going forward, we must recognize that monetary policy can carry only its share of the responsibility, that many other public policies—particularly fiscal policy — will have to do their part. We must recognize, too, that if the responsibilities are to be carried effectively, the public agencies charged with carrying them out will need to be adequately equipped with appropriate authority to perform their proper functions.

Editor's Note: The second of the two lectures by Mr. Szymczak will appear in the "Chronicle" of March 24.

Bond Club of Toledo To Hold Annual Outing

TOLEDO, OHIO — The Bond Club of Toledo has announced that its 15th annual outing will be held at Inverness Country Club on Friday, June 24.

Firm Name to Be Blanchard & Co.

On April 1, Laurence C. Keating will become a partner in the New York Stock Exchange firm of Blanchard, Snow & Watts, 115 Broadway, New York City, and the firm name will be changed to Blanchard & Co. John Watts is retiring from partnership on March 31.

Fullerton to Get NYSE Membership

On March 24 the Board of Governors of the New York Stock Exchange will consider the proposed transfer of the membership of the late Edward C. Fiedler to William B. Fullerton. It is understood that Mr. Fullerton will act as an individual member of the Exchange.

Railroad Securities

Southern Pacific Railway

Southern Pacific was one of the railroads that was very hard hit in the opening months of the current year by the severe weather conditions that prevailed throughout most of the western part of the country. In January gross revenues declined 11.8% from a year earlier to $40,590,117, with most of the drop accounted for by freight. Expenses, on the other hand, were sharply higher. The biggest rise was in the cost of transportation, with the ratio for the month up to 46.5% compared with 40.5% a year earlier. Maintenance was also materially higher and despite a cut in tax accruals the road sustained a net operating loss of $599,672. In January 1948 there had been a net operating profit of over $3 million.

On the basis of reports from the area it seems only reasonable to expect that February results will also be poor. The factors leading to this early 1949 performance are, however, obviously of a purely temporary nature. To a certain extent they should be compensated for by a subsequent movement of freight that has been backed up by the weather. The poor showing should certainly have been fully anticipated as the storms had received wide publicity in the press. Despite this preparation, however, and despite the fact that the adverse influences are so obviously temporary, the release of the road's January statement brought considerable selling into the whole rail market, with marked weakness in the stock of the road itself.

Southern Pacific stock broke more than 10 points from its 1949 high to reach a low of 39⅝. It could hardly be held seriously that fundamentally the situation had deteriorated to that extent. The break was largely indicative of the inclination of the public, under recent conditions, to put the worst interpretation possible on any developments affecting railroads, no matter how temporary those influences might prove. Conversely, in the more recent improved sentiment toward carrier shares, indicated by the better market tone late last week, Southern Pacific stock was among the leaders on the up side. Many rail analysts look for the stock to continue to give a good account of itself.

There are many favorable aspects to the Southern Pacific picture fundamentally. It is the dominant railroad in California which is one of the most rapidly growing sections of the country. Its lines also serve other sections of the central and southwestern regions where the industrial and population growth has been so marked and is continuing. As a result, over a period of years it has consistently been accounting for an expanding proportion of railroad gross in the country and in the region where it operates. Continuing territorial expansion augurs well for a future relatively favorable trend of gross, and should cushion the impact of the inevitable drop in railroad traffic as general business returns to more nearly normal levels.

Another consideration has been the basic improvement in debt and finances. Details for last year are not available but in the preceding seven years the company had pared its non-equipment debt by more than $237 million, to $456 million. Refunding operations vastly improved the once formidable maturity schedule and also brought about a reduction in interest rates and the burden of fixed charges. These annual fixed charges are now down to around $20 million. Ten years ago they were above $30 million. Finances have been strengthened materially, with net current assets now above $100 million.

Last year Southern Pacific reported earnings of $10.27 a share on its stock compared with $8.86 in 1947 and a 10 year average of $9.44. With the poor start of the current year and the likelihood of at least a modest decline in business through 1949 it seems reasonable to expect that the year's results will not match those of the preceding year. Nevertheless, it is considered likely that the current dividend rate of $5.00 a share will be covered by a good margin and no cut in this distribution seems to be in prospect. Moreover, the company is going in for an important dieselization program which should improve the operating performance and cushion the effects of what traffic decline does come.

I. D. A. of Canada to Hold Annual Meeting

TORONTO, ONT., CANADA—The 33rd annual meeting of the Investment Dealers Association of Canada will be held from June 21 through June 24 at Minaki Lodge, Ontario. The tentative program is as follows:

Tuesday, June 21

10:30 a.m. Meeting of the outgoing District Executive Committee members.
1:00 p.m. Luncheon—special speaker.
3:00 p.m. Meeting of the outgoing Dominion Executive Committee.

Wednesday, June 22

10:00 a.m. Annual meeting; President's Address; Reports from Districts, Committees; Election of officers.
1:00 p.m. Luncheon—special speaker.
5:30 p.m. Retiring President's Cocktail Party.

Thursday, June 23

10:00 a.m. Special Forum, discussion of problems of members.
1:00 p.m. Luncheon—special speaker.
5:30 p.m. New President's Cocktail Party.

Friday, June 24

10:00 a.m. Meeting of Incoming Dominion Executive Committee.
11:00 a.m. Conference with members of the Press attending Convention.

Afternoons are being left free for golf, fishing, tennis and other recreation. There will not be an annual dinner, but special speakers will address the luncheon groups on the first three days.

Trains from Toronto and Montreal will be made up into a special train at Capreol on the morning of Monday, June 20.

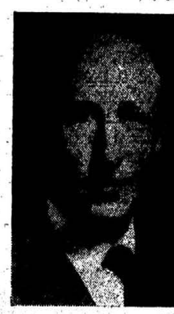
It is also announced the arrangements have been made to hold the 34th annual meeting of the Association from June 5 through June 8, 1950 at the Seigniory Club, Montebello, Quebec.

Freedom Versus Security

By FRANCIS ADAMS TRUSLOW*
President, New York Curb Exchange

Mr. Truslow, in commenting on growing antagonism between our ancient ideals of freedom and human desire for security, calls attention to Fascist and Communist doctrines of providing economic security by destroying individual liberty. Notes trend toward paternalism in nation and cities present situation, in which "everyone wants the products of industry, but few are willing to share as stockholders in risks of financing it." Points out productive capacity alone, and not dead hand of government, is only guarantee of security.

I want to talk about our country's ancient ideal of freedom, and our human desire for security. I think there is today a conflict between this ideal and this desire. Perhaps there has always been such a conflict. Perhaps the only novelty is that never before has there been the same necessity for a choice.



Francis A. Truslow

Through three centuries of our colonial and independent history, we have pursued the ideal of individual human freedom. The firebrands of our revolutionary days called it liberty and preferred it to death. Almost fourscore and seven years ago, Lincoln—midstream in our history—called for the high resolution: "that this nation, under God, shall have a new birth of freedom—and that government of the people, by the people, for the people shall not perish from the earth."

Our songs have been of a land of liberty with freedom blessed. Not only have we fought to be free and talked and sung of freedom but, more than any people of the world, we have attained a high degree of freedom. So much so that wherever one travels men identify America and freedom. We have made the words synonymous in the Upper Amazon, in the Congo basin and along the Rhine. Despite a fog of propaganda, there is muted testimony that America still means freedom even in the Volga Valley.

This freedom is many things. Things so deeply rooted that they have become commonplace to us and are only visible in the eyes of refugees from lands where they do not exist. It is freedom to think our own thoughts, speak them, write them and try to put them into practice. It is freedom to worship as we choose. It is freedom from fear that our liberty is at the mercy of men and unprotected by law. This freedom is not something which some have and others have not. It is a right which we believe all men have and which all men may exercise so long as they too grant the right to others.

By this concept of freedom to think and speak and try to attain, and the equality it has given men before the law, all economic and political actions have ultimately been tested in our country for 173 years. Often immediate desires have made men attempt to argue it away. So far they have not been successful.

Douglas, striving for the Presidency 100 years ago, argued without success that ours was a government in which the majority ruled and if the majority wanted slavery its wants should be decisive. This was not the first time, nor has it been the last, when the administrative doctrine of majority rule has been adroitly advanced to conceal an attack on human freedom.

In times of war we have temporarily and voluntarily surrendered our freedom to the defense of the nation. After such surrenders there were always those who suggested that economic emergencies are equal to the danger of war and equally entitled to the sacrifice of freedom. Their doctrine has not been permitted to persist.

More recently men who do not believe in freedom have sought to confuse us by claiming for their intrigues the protection of the same rights to free speech which they are pledged to destroy. Their arguments are as logical and as fundamentally specious as the pleading of Stephen Douglas.

Public Opinion

One hundred and seventy-three years of the practice of freedom has produced in this country a tribunal before which all such attacks on freedom are eventually tried. The judge is what we call "public opinion."

Abraham Lincoln both described public opinion and correctly appraised its worth when he said: "It is true you may fool all the people some of the time; you can even fool some of the people all of the time; but you can't fool all of the people all the time."

Lord Bryce, 60 years ago, took more words to say the same thing when he reported in his "American Commonwealth": "The (political) parties, however, are not the ultimate force in the conduct of (American) affairs. Behind and above them stands the people. Public opinion, that is the mind and conscience of the whole nation, is the opinion of persons who are included in the parties, for the parties taken together are the nation; and the parties, each claiming to be its true exponent, seek to use (public opinion) for their purposes. Yet it stands above the parties, being cooler and larger minded than they are; it awes party leaders and holds in check party organizations. No one openly ventures to resist it. It determines the direction and the character of national policy. It is the product of a greater number of minds than in any other country, and it is more indisputably sovereign. It is the central point of the whole American polity."

Lincoln or Bryce, take your choice, both are authorities for the fact that the millions of human beings in this country are the government of this Republic and exercise a greater wisdom than any party. Our history is authority for the fact that, so far at least, we have neither been reasoned away from freedom by glib logic nor had it taken from us by force.

The Nazis tried to convert us from democracy to Fascism by appealing to our admiration for efficiency. They called freedom decadent and tried to make their autocracy seem fresh and new—something inevitable—a wave of the future. Finally we fought them and indicated effectively that we were not so decadent.

Communist Attack on Freedom

Today the so-called Communists in Moscow are pursuing the immemorial Russian ambition to expand which they inherited from centuries of nomad raiders, from Byzantine, Tartar and Muscovite rulers and more recently from the Romanovs. Their attack on our freedom is more subtle and more dangerous than any before launched in our history.

In it they have gathered up a thousand half-truths and just plain lies, painted them with symbolic but meaningless words, and launched them at the most vulnerable spot in our democracy—the desire of free people for material security for themselves and their children. Moscow was not the discoverer of this passage into our fortress. Politicians have been walking it for years chanting political slogans:

"Forty acres and a mule." "A chicken in every pot."

"Two cars in every garage." "Share the wealth."

"Fifty dollars every Thursday." "Freedom from want."

"Security from the Cradle to the Grave." "A Welfare State."

Moscow was not the discoverer of our Achilles heel; but it has learned quickly how to exploit our vulnerability. It has walled off from the world the horrible example of its own peoples' "security" and insulated its own people from knowledge of ours. Thus protected from too obvious absurdity, it daily inspires unwitting stooges in our land to call, continually for more and more gifts from government. By adroit false statements, it has drawn us into a strange competition. A competition which leads us to try to offer, not what Russia offers its people, but what it pretends to our people that it offers its people. By every insidious device it seeks to build up the idea that government is something more than the people it serves, that government can give material security and that government owes material security to each citizen.

No great powers of penetrative imagination are needed to see the end that Moscow seeks. Such ideas, planted in the fertile soil of human weakness and watered by the political tears of office seekers, contributed free of charge and free of knowledge, grow very strong. They result in demands for government action and spending and taxation. With proper husbandry, such ideas can so overgrow the machinery of our production as to clog it to a halt. What could provide an easier or more oriental method for destroying an opponent by inches?

Obviously the political slogans I have cited were not made in Russia. One of them was born in McKinley's campaign. They are merely the psychological dynamite which has been the plaything of Democrats, Republicans and Californians alike. Therefore, they are not mistrusted and their implications open the way into the minds of thoughtless people for the wild assertions exported by Communism. As these slogans whip up our desire for security without work, they hasten the process of infiltration.

How soft those invitations to protection sound when we contrast them with others which rang out in our history: "Give me liberty or give me death." "Don't tread on me." "Pike's Peak or bust," and the old Spartan one from the frontier, "Scratch hog or die."

It is so easy to confuse the ancient active freedoms—to think and speak and act—with the promises, made in the name of

*An address by Mr. Truslow at Dinner Meeting of the Conference of National Organizations, Atlantic City, N. J., March 3, 1949.

freedom, which would destroy it if fulfilled. The freedom upon which our nation was built did not promise security; it promised only the unfettered equal right to life, liberty and the pursuit of happiness.

No man or group of men in our country has a monopoly on good will toward his fellow men. It is one of the most widespread virtues of our country that, almost without exception, every man will take the time to help other men to succeed in the work they undertake and will give freely to those who meet misfortune. This characteristic is so deep rooted that we willingly extend our help to men in other lands and even try gallantly to diminish the troubles of all the world.

No Guarantee of Material Security

But it is unsound and dangerous, indeed it is a fraud, to twist this generosity into a belief that any government can guarantee material security to all its citizens even though it takes away their individual freedom in the attempt. It is unsound because the capacity of a people to produce diminishes as the individual need to produce to live is removed, and because the conditions which affect the needs of individuals are beyond the prediction, much less the control or regulation of government. It is dangerous because government can only provide for the material security of some citizens by taking away the earnings of others, or by seizing the sources of production and, finally, when all freedom and personal incentives have been destroyed, by substituting fear and force as the incentive to produce.

We like to dream of some perfect world in which each man works of the good of all and all men are compensated in proportion to the work they do by some unspecified mechanism not as yet supplied by the architects of Utopia. It is a fine dream provided you treat it as such and don't try to believe it in the morning. It takes into account a number of the frail desires of certain weaker human beings; but it leaves out of account all that we know about those and all other human beings.

I cannot overemphasize the degree to which a natural human desire for security is today being fanned into leaping flames by politicians seeking office or seeking to hold office, by Communist enemies of our state who see in it a way of corrupting our economy, and even by businessmen who perceive its sales appeal. We must not deceive ourselves about this. It is a desperately dangerous thing to foster the habit of turning to government for protection against economic troubles or to encourage people to worship safety. We are not supermen and we are vulnerable to these enticements. It has often been the practice of our people to visualize ourselves as one thing and, satisfied with the picture we have made, act another way.

Many decades ago, when the formula of handing our troubles to government was still very new, a competent foreign observer said of us:

"Thus it has come to pass that, though the Americans conceive themselves to be in practice the most self-reliant of peoples, they have grown no less accustomed than the English to carry the action of the State into ever-widening fields. Economic theory did not stop them, for practical men are proud of getting on without theory. . . .

"It is in the West, which plumes itself on being pre-eminently the land of freedom, enterprise and self help, that this tendency is most active, and plays the strangest pranks, because, in the West, legislators are more impatient and self-confident than elsewhere."

Certainly Bryce would find no reason to alter his 19th century remarks could he return today. However, he might find that his own country had gone a little ahead of us in the race to exchange its ideal of freedom for its desire for security.

Risk vs Security

This pursuit of security, regardless of the consequences, is no matter of lofty theory. It is piling up money in savings banks. Insurance companies are hard pressed to find places to invest the funds that roll in in search of security. Everyone wants the products of industry, but few are willing to share as stockholder-partners in the risks of financing it. Equity money is not available to assume the risks of productive business, except as management diverts earnings from the owners of business back into its maintenance and expansion. Yet risk capital is needed. A recent extensive survey of industrial plans by the McGraw-Hill Company shows that industry plans to spend about $55 billion in the next five years in new plants and equipment; that is, industry plans indicate that this expenditure should be made if industry can obtain the capital.

In our private lives we must save to buy our own security. We must store our savings wisely using every facility of banks, insurance companies, stock ownership, business proprietorships, farm development and the thousand and one places that savings can be stored and put to use in a great nation. We must save and store, but we must also risk. The effectiveness of the old French proverb has not been repealed: "He who risks nothing — has nothing."

In the field of government the dangers implicit in the pursuit of security are even less a matter of abstract theory. The demands on government to increase its guarantees of material security are rising daily, and new guarantees in new fields are being sought. Only recently the State of Oregon has shown how far such demands can go. Last November its voters adopted an amendment to its constitution. Under this amendment the State would pay to every man over 65 and every woman over 60 a pension of $50 per month regardless of need. Fortunately even a constitutional amendment can be made inoperative by a legal opinion and such an opinion was issued and supported by the legislature. Without such an opinion over $100,000,000 would have been added each year to that State's usual budget of $35,000,000. Security almost meant bankruptcy in Oregon. These demands, when they slide into law, and are not thrown out by a courageous Attorney-General and a courageous legislature cannot be met. Productive capacity, and not the dead hand of government, is the only honest guarantor of whatever security is possible.

I cannot overemphasize the economic dangers of this trend or its intensity. No one needs to point out the political advantages of treating it as a band wagon and rolling with it. If there are statesmen in business or in government who have the courage to stand against this trend, now is the time for them to take their stand. If there are not—God help us.

Freedom vs. Security

Perhaps for the first time in our history this conflict between the ideal of freedom and the desire for security has reached a point where we must face it and decide which will control.

Under no other economy have men attained to such a high degree of security as in ours. But they have earned it by increased production and by wider distribution of wealth. It has not been given to them by a Ponzi scheme of using the productiveness of one to offset the unproductiveness of another—a plan in which governments can indulge without fear of the punishment properly imposed on Ponzi.

Like Ponzi's plan, government guaranteed security works well so long as new sources of taxation keep the money pouring in. But unlike Ponzi, when new funds are no longer supplied, governments cannot appear to fail. They must resort to confiscation, money manipulation, repudiation and force—first to pay and then to control the people to whom they made the unfulfillable promise of security.

So long as the natural, human desire for security is supported by a corresponding human effort to produce and save, and is paid for from that production and those savings, it creates no conflict with the ideal of freedom. But when that desire becomes, as it has become today, a force that threatens to destroy freedom, then we must choose. I believe that choice is a choice between a mere illusion of security and the greatest ideal toward which man has ever aspired.

When they make this choice, others may sell their birthright for a mess a pottage. I shall choose freedom, and take my chance on security.

SEC to Revise Form On Security Listings

Will also change Form 10-K prescribed for annual reports of companies having listed securities.

A notice has been given that the Securities and Exchange Commission has under consideration a proposed revision of Form 10 under the Securities Exchange Act of 1934. This form is the general form prescribed for the registration of securities of commercial and industrial corporations on a national securities exchange.

It is proposed that the revised form replace the present Form 10 for corporations and also the following forms: Form 7 for provisional registration, Form 11 for unincorporated issuers, Form 13 for insurance companies, Form 15 for incorporated investment companies, Form 17 for unincorporated investment companies, Form 22 for reorganized issuers, Form 23 for successor issuers and Form 24 for bank holding companies.

The general purposes of the revision of Form 10 is to simplify the process of registration of securities and at the same time to obtain more complete information for investors. Among the more important changes made are the amplification of the items pertaining to the business and property of the issuer so as to call for a more complete description than has heretofore been required and the revision of the remuneration items to accord with the recent amendments to the Commission's proxy rules.

Notice is also given that the Commission has under consideration a proposed revision of Form 10-K under the Securities Exchange Act of 1934. This form is prescribed for annual reports under section 13 of that Act by issuers having securities listed and registered on a national securities exchange. It is proposed that the revised form replace the present Form 10-K for corporations, Form 11-K for unincorporated issuers, Form 13-K for insurance companies and Form 24-K for bank holding companies. It is also proposed that the revised form be used for annual reports under section 15 (d) of the Act by issuers which have heretofore used Form 1-MD.

The principal changes which the revision makes in the items of the form are as follows: The item with respect to changes in the business during the fiscal year has been somewhat expanded to give the investor more information as to important changes which have occurred. A new item has been added calling for information regarding important changes in the physical properties of the issuer and its subsidiaries. Another new item calls for information with respect to materially important legal proceedings or important developments in such proceedings. The remuneration items have been substantially conformed with the remuneration requirements of the proxy rules as recently amended by the Commission. Items with respect to the description of new and modified securities and contracts and other exhibits have been deleted since this information will be reported on the revised Form 8-K. The remaining items of the form have been revised and the instructions elaborated in line with changes which have been made in other more recent forms of the Commission.

All interested persons are invited to submit data, views and comments on the proposed revision in writing to the Securities and Exchange Commission at its principal office, 425 Second Street, N. W., Washington, D. C., on or before April 15, 1949.

Lutz Holds Lavish Public Spending Cannot Sustain Production

Tax consultant of NAM contends government spending, except when on a scale that dominates the economy as in war, has no demonstrable relationship with movement of national production.

A study prepared for the National Association of Manufacturers by Dr. Harley L. Lutz, Professor Emeritus of Public Finance of Princeton University, and tax consultant to the NAM, holds it is erroneous to believe that lavish government spending is now sustaining national production.

Dr. Harley L. Lutz

"The volume of government spending has no demonstrable relationship with the movement of gross national production, national income or personal income," the study pointed out, "except when it occurs on a scale sufficiently broad to dominate the economy, as during the war.

"Once strong inflationary forces have been set in motion and the government has provided by its financing measures an ample supply of inflationary energy, the movement continues under its own power despite cessation of government operations on a large scale."

Noting that there exists now "in certain quarters" a concern that undesirable deflationary consequences might be produced by a substantial decline of public spending, the study goes on to say:

"Such a conception of the role of government and of the significance of its operations, if generally approved and adopted, would be a serious road-block in the path toward greater economy in government. Advocates of budget reduction would be under a far heavier handicap than at present."

The timeliness of the study, the NAM asserts, is shown by the fact that there is "evidence of growing timidity and of a growing belief that but for the public spending on the current, lavish scale, a recession would already have set in."

"It is self-evident that the operations of government constitute a part of the grand total of economic transactions which is described as the gross national product," the study remarks. "The experience of the war period demonstrated that government can, by a sufficient expansion in the scope of its taxing, spending, and borrowing, completely dominate the economy.

"It is not yet entirely established that there can be such domination when the budget has been reduced to more nearly normal proportion. In particular, it is not yet clear that government, by its fiscal policies, can produce equally effective results in both directions."

Holding that if the government should undertake continuously to dominate the economy, its operations would involve "fantastic alternation between extreme stimulation and extreme repression," the study continues:

"The effect upon the economy of an alternation between the furious rate of spending that would be required at one time to curb depression tendencies and the confiscatory rate of taxation that would be required at another time to eliminate the inflation resulting from the previous spending cure for depression, can be likened only to life on the moon.

"There, for two weeks, the temperature stands at something like 150-200 degrees F., and for the next two weeks at something like 100 degrees below zero.

"In the kind of fantastic alternation between extreme stimulation and extreme repression that would be required if governments were to undertake the economic stabilization of the economy, enterprise would have no better chance of survival, to say nothing of growth, than life as we know it would have on the surface of the moon."

Any substantial increase in public spending, the study emphasizes, "probably could not sustain national production against the decline in the private sector of the economy resulting from the increased taxes necessary to support the spending." Then, it added:

"It would then become a question whether the public spending could sustain gross national product against the decline that would ensue from the private sector of the economy. There is good reason to believe that this would not be possible except by resort to large scale inflationary financing of the spending requirements."

The study concludes that, just as the prospect of heavier taxes would have a depressive influence upon the economy, "the prospect of reduced taxation would have an invigorating influence," and it sums up:

"There are some indications that the postwar boom may be slowing down, or in Dr. Alvin Hansen's words, it may be moving into the stage of an 'old, tired boom.'

"The rate of movement toward fatigue and senescence is still somewhat uncertain, but as that stage is approached the major concern should be with the most effective measures of rejuvenation.

"When this problem is faced, as sooner or later it must be, we shall be well advised to realize that there is not enough fiscal adrenalin in more spending to offset the loss of blood from heavier taxation. Healthy rejuvenation can come only through a reduction of governmental burdens."

The Dangers of Credit Controls

By KEEHN W. BERRY*
President, Whitney National Bank of New Orleans

Prominent Southern banker, contending only effective inflation check is less government spending and reduced National Debt, attacks Administration's proposals for stricter credit controls. Points out as long as government bond prices are pegged Federal Reserve's open market operations can only expand and not restrict credit, and says further raising of cash reserve requirements will not solve inflation problem. Urges small banks use influence to prevent more drastic Federal credit curbs, and warns further regimentation of banking will lead to regimentation of entire economy. Opposes Federal control of insurance investments.

Any effort to look ahead as a basis for planning our future operations impresses upon us the uncertainties involved. We have had greater problems and more far-reaching elements of uncertainty in the war years and the postwar years because of the larger forces which were turned loose by reason of our war effort. At the moment a very large segment of our business community is anticipating a slump in business. I take it that fear arises because goods in many lines are in more ready supply, which gives rise to the feeling that the demand has been met and that a slump is inevitable. On the other hand, the implication of the President's recent request to Congress for the grant of further powers to curb and control inflationary forces is that the full effect of what we have done and what is in prospect is not yet reflected. We had somewhat this same state of mind on the part of the business community a little more than a year ago, yet within a few months the readjustments had been made and the inflationary forces created during the war period reasserted themselves and carried us on with a strong volume of business and higher price levels on the whole. So we still debate whether we have had and adjusted ourselves to the full impact of what we did during the war, or whether as the President intimates, we may have need for machinery for the control of further pressure on our price and wage structure.

As a result of the manner in which we financed the war effort, we increased the currency in circulation from around seven billions to $28,500,000,000, and it is still near this last figure. We increased bank deposits by the same war financing methods from $60 billion to $144 billion. These are very general markers indicating the accumulation of buying power which accrued during the period when our productive effort was directed toward creating war supplies, rather than to creating things for the folks at home.

That accumulation of inflationary buying power was the force which pushed our price levels upward in this postwar period. We have done very little—practically nothing—toward drawing off that purchasing power by any revision of our fiscal policy. Some has been absorbed by the spending of it for things created since the war's end. That is a painfully slow process, because the new purchasing power distributed in creating those goods went a long way toward offsetting the purchasing power absorbed when the goods were sold in the market. It is not possible to make an estimate of the purchasing power accumulated during the war period and figure from that a proportionate increase in prices as an indication of the inflationary effect of that accumulation of purchasing power. It is anyone's guess as to whether our present price structure shows the final result of the war-time accumulations.

I doubt that we are through with the upward push from the war period. Steel is still in such short supply that a few days ago the President threatened to build adequate facilities with public funds, if private capital failed to move in and meet the demand. Lumber is still in short supply, although prices have dropped some in recent months. Many articles are in supply, which a few months ago could not be had by the tender of the purchase price. It does not follow, however, that a market is satisfied merely because the product does not move without sales effort. We have had periods of active business, which we referred to as booms, when goods had to be sold.

The Budget

What are some of the other influences at work in our present situation? The President proposes a budget requirement of better than $40,000,000,000. There seems little prospect that Federal requirements will be less than $40,000,000,000. Of course, if we could drastically cut back the Federal Government's expenditures, leaving a substantial part of current tax collections for retirement of government debt, we would then be able to apply the most direct and effective check on inflationary forces. Tax collections spent by the government distribute purchasing power. Tax collections applied to debt reductions can be used as a powerful force, contracting our banking structure and reducing purchasing power.

A glance at the headlines of any edition of our daily press will give you a clue as to why the Federal budget cannot provide for any appreciable reduction of the government debt. Nothwithstanding our often expressed desire for peace, we are embarked upon a program of preparation for war, a war of defense to be sure. It is a program which may well involve an undertaking on our part to help Western Europe to arm itself. War expenditures are doubly inflationary. They involve expenditures which do not add to our capacity to produce our ordinary needs. They are expenditures which mean the distribution of added purchasing power to bid for the available supply of civilian goods. The foreign situation also calls upon us for economic aid to other parts of the world to implement our foreign policy. Such foreign aid involves a distribution abroad of our goods, the production of which creates purchasing power at home but without the corresponding absorption of purchasing power as in the case of goods consumed in the domestic markets. The extent of our expenditures for defense has not yet been determined but it is generally anticipated that it will exceed $15,000,000,000 for the coming year. The figure for foreign economic aid is put at something in the neighborhood of six to seven billion dollars. If to this we add the interest cost on our national debt of $4.6 billion, most of which is attributable to the last war, and Veterans' benefits of almost $6 billion, the total of these items approximates three-fourths of the Federal budget—$30 billion out of a total of $40 billion. These figures suggest how limited the opportunities are for any economies in our government which can save enough to do much in debt retirement as instrument for putting our own house in order. They also point up the extent to which our domestic economy is dominated by our position and our policies in foreign affairs. These headlines on world affairs, therefore, have a very direct effect on our internal price levels, wage levels, bank deposit levels, and on the legislative demands for further regimentation of our economy.

I slurred over the one-fourth of the Federal budget which goes into governmental operations, because it is small as compared with the pressure from the foreign situation. It should not be ignored, however, in view of the demands for further social benefits of various sorts and the recommendations in that direction which the President made in his message to Congress. Here also the indications are that instead of a reduction in the requirements, the pressure will perhaps be for further increases in the over-all totals.

I am sure no one of us in this room is opposed to the principle of social benefits. I am certainly not opposed to social benefits, but I am opposed to the politicians' use of a promise of more and better benefits as a basis for getting votes. That approach to providing for those members of our society who need help creates a state of mind on the part of those who receive such benefits and an approach to the solution of national problems on the part of government officials which must lead us all in the end into trouble.

Demand Upon Public Funds

I have been talking about demands on the National Treasury. There have been growing demands upon public funds at state and local levels. We have programs for elaborate public improvements as well as various forms of social benefits. These all work as inflationary factors because they mean added spending power spread about. If we were serious in our desire to protect ourselves against inflationary forces, we would postpone all forms of public improvements until we hit a period of really slow business and needed that spending to keep our business machine going. However, in public improvements as in private affairs, we are disposed to rationalize that the particular program in which we are interested is essential. Do ours and let some one slse forego theirs, we say. That is fundamentally one of the reasons inflation, once started, has normally run its course. Every individual business and every community recognizes in the abstract the dangers and knows that if something is not done to stop the trend it leads to hardships and suffering for all, but each business and each community will find reasons which satisfy itself that the correction should start elsewhere. Watch your own community and its public improvement program.

There is no single cure for inflation. It requires a combination of things to stem the tide. I shall limit myself to some of those having to do with money and credit. I have indicated to you that one measure of prime importance is that we keep our public budget in balance to prevent the addition of further inflationary pressure and create a surplus there, if possible, to be used to retire Federal debt as a means of reducing past accumulations of purchasing power.

Credit Controls

Another important factor—and here is where we as bankers become the other fellow to the other members of our economic community—is the control of credit to prevent an increase in the over-all use of credit and the creation thereby of additional inflationary pressure. I think the banking fraternity recognizes the need of proper over-all credit controls but I think the business community has a right to expect us to see that the controls adopted do not hamper and restrict business initiative but are applied on a broad enough base to permit business to continue to function in ways to which it has been accustomed and still avoid the creation of additional inflationary forces. By reducing existing outstanding credits we dry up existing purchasing power. By expanding credit use we increase purchasing power. It was for the purpose of preventing a further increase in purchasing power by the increase in available credit that we heard so much in recent months of the need for a legislative grant of additional power to some government agency to control credit even if it involved the extension of such control to include the practices and policies of the life insurance companies.

While the business community at the moment is anticipating a slump in business, it was only last Autumn that those in authority in government were demanding a grant of additional power to control inflationary forces. I have attempted to show you that there is still plenty of potential pressure on the inflationary side, arising primarily out of the various forms of demands on the public treasury, plus the possibility that we have not exhausted the tremendous accumulations of the war period, to justify us in feeling that a shift of the thinking of those in authority back to additional ways and means of controlling inflation through credit expansion may come as quickly as they shifted the other way last Autumn. What has been said by the President would indicate that we will hear more of these ways and means of credit control, and it is important that we as bankers should try to think these proposals through and understand them, so that we can acquaint our friends in the business community with their implications, if they tend to lead us where we should not go.

The orthodox methods of credit control have been the change of the rediscount rate and the open market operation of the Federal Reserve. There is so little use of the rediscount privilege with the Federal Reserve that the change in that rate is of little consequence as a means of credit control. Banks can create additional reserves by the sale of government bonds, rather than by borrowing.

Let us stop long enough to trace through the effect of the purchase of government bonds by the Federal Reserve and the sale of them by it. It will clarify the nature of the open market operation and the effect of open market operations under present conditions and policies. If a bank sells bonds to the Federal Reserve, it thereby obtains a credit at the Federal Reserve available as reserves for the full value of the bonds. On the assumption that over-all reserve requirements are approximately 20%, these reserves serve as a base on which the banking system may expand its loans by five times the amount of its bond sale. That works out because in connection with each loan of funds, the deposit picture of the banking system as a whole will go up by that amount, except for the amount which must be carried as reserve against those deposits. The operation can be repeated with the deposits created by each loan, less the reserve, to work out the increase of five times. Contrawise, if the Federal Reserve, through its open market operations, sells bonds to bank depositors to the extent of $1,000,000, the result will be an overall maximum contraction of deposits on the basis of 20% reserve for $5,000,000. The first sale results in the withdrawal of $1,000,000 of deposits. In order to meet that reduction of deposits, the banking system must dispose of $800,000 of bonds, or other investments, which is the amount of the withdrawal, less the reduction in the banking system's reserve requirements. That sale of $800,000 of investments to bank depositors in turn results in withdrawal of $800,000 of deposits and creates the requirement on the banking system to liquidate $800,000, less $160,000, or $640,000 worth of its investments, which carried on through to conclusion involves a contraction of bank deposits of $5,000,000. The effectiveness of the purchase or sale of bonds by the Federal Reserve is influenced by the amount of the reserve requirement. It is a multiple of 100 divided by the reserve requirement.

Open Market Operations

Now, let us consider for a moment the leverage which the Federal Reserve has over the available supply of credit through its open market operations. That is one of the orthodox approaches to the control of the expansion and contraction of credit. By buying government bonds, the Federal Reserve can pump reserves into the banking structure, and these reserves, as I have just indicated, are capable of multiplication within the banking system. They serve as a support for credit, on the basis of 20% over-all reserve requirement equal to five times the amount of government bonds purchased by the Federal. On the other side, by the sale of government bonds by the Federal Reserve to bank depositors it can draw down bank deposits which on the basis of 20% over-all reserve requirements, can be a theoretical maximum of five times the amount of the government bonds sold. As you can see the open market operations give the Federal Reserve a very substantial control over the expansion and contraction of credit. Why then the agitation for additional controls? Have any of you by any chance viewed with a certain degree of satisfaction the often repeated assertion of the Treasury and the Federal Reserve authorities that they will maintain the price of government bonds? How does that policy fit in with the expansion and contraction of available credit by open market operations?

If an expansion of the credit base is desired, the policy imposes no particular problems from the point of view of open market operations. The Federal Reserve buys bonds supporting the market thereby and increasing the reserve position of the banks and creating more lending power. The Federal Reserve will not be troubled with government bonds going down in the market with its buying support to hold them up, so it can pour in additional reserves to meet its ideas of what may be needed to provide a broader base for credit expansion.

If, on the other hand, the Federal Reserve desires to restrain inflationary forces, and that is what we are told by them has been needed throughout the postwar period and still is needed, the Federal Reserve needs to sell bonds to bank depositors to set up that cycle of selling of bonds and investments and shrinkage of deposits and available lending power which I have described to you before. How can it sell and at the same time support the market at the publicly announced pegged prices? The two things are in-

*An address by Mr. Berry before the Louisiana Bankers Association, Baton Rouge, La., Jan. 24, 1949.

consistent. To make contraction of credit work through open market operations means selling government bonds under pressure, which would normally bring a declining market. With an announced peg for government bond prices, the result must be that open market operations operate one way on credit, and that is toward expansion of the credit base—not the contraction of it.

That hastily drawn sketch of orthodox credit controls should suggest to us why we have heard so many new and untried proposals for establishing control over credit. To date we have followed the pattern which our neighbor, Mexico, is using in its fight against inflation. We have simply raised cash reserve requirements. If we are going to follow Mexico, we have quite some way to go. The cash reserve requirement there is now 50% on demand deposits and they have also put a ceiling on loans. I suspect we have gone far enough with raising cash reserve requirements to realize that it is not the solution to our problem. A cash reserve requirement is in the form of a blanket rule, which works arbitrarily and applies pressure where it is not needed and works so mildly at other points as to fail to accomplish the desired result. There has been agitation for a change in the basis for figuring cash reserve requirements giving effect to the character of the deposit, such as correspondent bank deposits, and other demand deposits, as against our present system of central reserve cities, reserve cities, and country banks. It seems to me that proposal merely confuses the situation without doing anything constructive about it. Whether or not the permanent system is the best one, whether or not one based on the type of deposit would be better, a change to one on classified deposits does not provide the machinery by which the Federal Reserve will have a more effective control over the expansion and contraction of credit. It has the faults of the present system in applying restraint on such a broad base as to put pressure where it is not needed and in failing to apply it where it would accomplish an objective. To attempt to work out a change in our method of applying reserve requirements will have the effect of starting such a round of horse trading and political jockeying as between the money centers and the smaller banks as we have never seen before. In fixing the rates to be applied to each type of deposit, there is plenty of room for making the load lighter on some of the larger units and passing it on to the smaller banks, while still making an over-all showing of increasing total reserves required and reducing the amount of credit available. This is not the time for that sort of bickering.

Question of Reserves

Another proposal is one which came out of the Federal Reserve Board in its Annual Report to Congress in 1945. It has been repeatedly put forward since. It provides for a secondary additional reserve in government bonds. In essense, that is a plan for increasing the over-all reserve requirement but permitting the bank to hold it in cash or invest it in government bonds. The bank would get some return on the secondary reserve until such time as the requirement was changed to specify a particular issue or type of government bond, at which time, of course, the government would fix the rate on that obligation. The major fault in that proposal was indicated by the Federal Reserve Board itself in its Report to Congress for 1945 in its statement of the plan. The Board pointed out that inasmuch as the special reserve requirement would apply to 14,000 scattered banks, operating under widely differing conditions, the Board would need the additional power to classify banks in order to put the pressure where it is needed. You will recall I said a moment ago that the increase in cash reserves did not meet the problem for that same reason. I doubt if any of you would want someone in government to have the power to determine just where your bank belonged in a government classification. The special reserve proposal is the entering wedge to a course which can lead to an arbitrary control of segments, if not even individual units of our banking structure. It is a very close relative of direct selective control of credit.

It has in it an element of that arbitrary power to point the finger of government at segments of the banking system with the implied threat that if they fail to respond to suggestion they may join another class.

Governor Szymczak has proposed another form of special reserve. I hope you understand just how it works. I am sure I cannot explain it to you. I have read his statement several times, and I am still not clear as to how it works. I gather that the machinery which he proposes is for the purpose of putting a tag on the increased reserves or deposits which arise out of the Federal Reserve's open market operations, so that an increase in the reserves, or deposits, which arise with each purchase of government bonds will not be available to banks to provide their reserves for a further increase of credit. Surely we are not so badly off that we must come to special types of deposits — some spendable and some not! Do any of you recall when Max Schmelling came over here from Germany before the war and contended for the heavyweight championship in New Jersey? I am told that when he was paid for his fight in U. S. dollars, the German Government had a representative on hand to take over those dollars on behalf of the German Government and to give Mr. Schmelling in lieu of them a special kind of Mark, spendable only in his homeland. The German Government in an effort to control the application of purchasing power to conform with certain overall plans which that government had laid, had developed a very elaborate system of tagging its money and declaring the use to which each kind could be applied. I am sure our problem has not gone to the point that we need adopt the first step in applying labels to our money to make some pendable and some not spendable.

Influence of Small Banks

I am overdrawing the picture a bit because I want you to see in those proposals the opening in the tent flap through which the camel —the direct control of credit—may develop before our eyes, and without much we can do about it. We do not need go that route, but I fear we shall, unless the banking fraternity takes more interest in what is being done. The help will never come from the large banking units, because they do not have that sort of standing before Congress. There are too few of the large units and they are too easily disposed of politically. The small banks who make up a little less than 14,000 of the total of 14,000 banking units of the country are the ones who have the power to influence Congress in withholding these powers sought, which may lead, as I see it, to regimentation of the banking structure and through it regimentation of our entire economy.

Regulating Insurance Investments

If you are still unconvinced that the proposals which have been made and which I have just outlined are moves toward direct controls, I suggest that you read Governor Eccles' talk before the Iowa Bankers last Fall. He tossed into the discussion of credit controls the need for legislative grant of power to the Federal Government to regulate the investment policies and practices of life insurance companies. Obviously none of the plans applicable solely to banks will stop the flow of government bonds which was under way at that time from the insurance companies to the Federal Reserve. The Federal Reserve was forced to buy the bonds to maintain its present policy of a pegged market for government bonds. The Federal Reserve was face to face with the fact that the control of credit under its present policy lies with the holders of government bonds and not with the Federal Reserve. The bondholder decides when to sell and make more credit available. As in the case of banks, the remedy proposed was one of government control over that particular seller to keep him in line with government policy. If we concur in that remedy for the insurance companies, there are other holders of government bonds, shall we bring them in for similar treatment? I repeat, if the full implications of these proposals for the control of credit are understood by the American public—and they must be understood by the banking fraternity if the public is to know —we will not have that form of credit control. Such centralization of authority in government as is involved in these proposals is susceptible of arbitrary use and is so strangling in its effect on our economy that we should oppose it to the limit of our capacity. They are very direct and positive moves in the direction of a form of centralized control of the economy vested in government which we are organizing to oppose in other parts of the world.

The Remedy

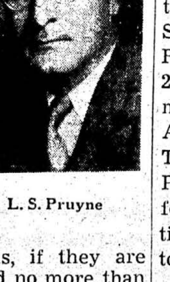
Control of credit expansion can be moved from the hands of the government bondholder to the Federal Reserve System without any further legislative grant of power. The first step is for the Federal Reserve to abandon its present policy of fixed prices at which it will buy government bonds in order that it may, through its open market operations, withdraw reserves and deposits from the banking structure by the sale of bonds, as well as provide reserves on which the loan and deposit structure can be expanded. The discussion of ways and means of controlling credit expansion during the last few years should be enough to indicate to us that our choice lies between regimentation of the banking economy and through it of business in general or abandonment of the pegged market, in order that the open market operations may become a restraining factor as well as a stimulating factor. Under the present policy it can be used for practical purposes only to increase reserves and the credit supply and even there the determination of when that will happen lies with the bondholder rather than with the Federal Reserve. To abandon the program of a pegged market does not involve anything so drastic as allowing government bonds to find their natural level. Prices would undoubtedly move in that direction. Pressure can be applied, however, very gradually by restraint in buying of bonds and the authorities will be free to reverse their operations if the needs of our economy make that course desirable. The approach is not free of difficulty and there are some who have moved far enough in long-term municipals and in long term governments that they might be hurt. It is a fundamentally sound approach, however, and those difficult spots can be handled at much less cost and with much less hardship than will come from allowing things to drift, with the ultimate suffering and hardships which must come from a final collapse or from dislocations which will result and the fundamental modifications of our philosophy of life involved in approaching it through direct controls. This more orthodox approach to the control of credit will leave business to meet its credit needs out of the over-all credit available in the manner and through the channels to which it is accustomed. It merely removes the present certainty of the market price for government bonds which enables the bondholder to decide without risk when our credit structure will be expanded. It operates to regulate the overall supply of credit, and at the same time creates a general atmosphere in which the business man as borrower and the lender (whether bank or other lender), each acting independently and on his own, will apply the available credit to use in lines which are productive and which have assurance of continuing usefulness. Such a form of credit control will permit distribution of the available credit through independent action of each borrower and lender and will also provide automatic allocation of materials to proper and essential uses, all of it without regimentation and governmental allocation.

All of this simply means that if we are to have the right sort of credit controls rather than some experiments which lead us in the direction which we should not go, all of us must do a bit more thinking about these proposals as they come up. As I said before, the real political influence in the banking group lies with the smaller banks and not the larger ones, which means that it is the duty of each of you to follow the developments which relate to our field and not leave it to others. In a broader way, it comes back to the broad principle, which the founders of our government understood so well, that except for the eternal vigilance of the individual and the restraint of such checks and balances as are put into the framework of government itself, government through the ages has been inclined to gradually encroach upon the liberties of the individual. We have dropped many of the checks and balances originally a part of our framework of government and this makes it all the more important that we individually consider carefully each new field of activity into which our government is disposed to move.

Boston Banker Sees Insufficient Spread Between Corporate and Government Bonds

L. Sumner Pruyne, Vice-President of First National Bank of Boston, tells ABA Savings and Mortgage Conference a spread of ½% in yield between high grade corporate issues and governments is insufficient to cover credit risks.

At the Annual Savings and Mortgage Conference of the American Bankers Association, held in New York City on March 14, L. Sumner Pruyne, Vice-President of the First National Bank of Boston, who presided over a panel discussion regarding the administration of the bond portfolio of a savings bank, contended that the present spread in income yield between long-term top-quality corporate bonds and the yield of government bonds is not adequate compensation for the disadvantages inherent in corporate issues.



L. S. Pruyne

"Corporate bonds, if they are of top quality, yield no more than one-half of 1% above the yield of the longest term government issue," Mr. Pruyne said. "May I express the personal feeling that this additional one-half of 1% is not adequate compensation for what I believe to be the disadvantages inherent in the corporate issues. These bonds have a credit risk combined with a long maturity, the result being that the purchaser is subject to the vicissitudes both of the industry and of the particular company over a long period which, by historical precedent, might include at least two periods of depressed business conditions. Not only is the marketability of the corporate issues poorer than that of governments, but also and more important, the market vulnerability appears greater. This is because of the strong probability that for an indefinte period, the market for government issues will enjoy the support operations by the Federal Reserve System. A savings bank should keep in mind that one-half of 1% additional yield is only $5 per year per $1,000 bond. When one considers that this will offset only one-half of one point of additional market vulnerability (compared with governments) in the course of a year's time, I believe that the inadequacy of this yield differential becomes clearer."

Halsey, Stuart Group Offers Spokane Equips.

An underwriting group headed by Halsey, Stuart & Co. Inc. won the award March 14 of $4,500,000 Spokane, Portland and Seattle Railway equipment trust of 1949, 2⅜% serial equipment trust ctfs., maturing $300,000 annually from April 1, 1950 to 1964, inclusive. The certificates, issued under the Philadelphia plan, were re-offered, subject to ICC authorization, at prices to yield from 1.35% to 2.55%, according to maturity.

Proceeds from the sale of the certificates will be used to provide for the following new standard-gauge railroad equipment estimated to cost not less than $6,178,800: 500 box cars; three diesel-electric road freight locomotives; 11 passenger train cars; and 100 gondola cars.

Other members of the underwriting group were A. G. Becker & Co., Inc.; Otis & Co.; The Illinois Co.; McMaster Hutchinson & Co.; and Mullaney, Wells & Co.

Our National Security Organization

(Continued from page 8)

at the Cabinet and other high levels, but also at what, without any reflection on the higher-ups, is called the working or staff level.

This organization our Committee was asked to examine with a view to promoting "its economy, efficiency, and improved service in the transaction of public business."

Requisites for Sound National Security

The most basic requisite for sound national security programs is clarity and consistency of over-all national policy. Integration of our domestic, foreign and military policies is the first and most essential step. The act contemplates that this process should begin with the President. The National Security Council was, accordingly, established under the President as the primary policy-forming agency, an agency which is advisory to, and a staff aid of, the President.

The duty of the National Security Council, whose membership includes the President, the Secretaries of State, Defense, Army, Navy and Air Force, and the Chairman of the National Security Resources Board, is to weigh our foreign risks and commitments against our domestic, civilian and military strength and bring them into realistic balance.

The second requisite to sound security measures is complete and dependable intelligence. The Act properly placed the central intelligence agency directly under the National Security Council. Obviously, the correctness of the Council's conclusions will be directly related to the quality of the information at its disposal. If the intentions of foreign nations are incorrectly reported or their military strength and potentials are either underestimated or exaggerated, this will affect the Council's decisions and recommendations to the President and, in turn, the size and cost of the Armed Forces.

The third requisite to sound security plans is realism of military planning proper. The Act places the responsibility for supplying it upon the joint chiefs of staff, "subject to the authority and direction of . . . the Secretary of Defense."

Broad national policy, developed by the National Security Council in the light of information received from the central intelligence agency and other sources, and approved by the President, thus passes downward to the joint chiefs of staff. Receiving this pattern, the function of the joint chiefs of staff is to translate it into strategic plans, to determine —on a minimum but sufficient scale—the military and logistic requirements and to assign proper military and logistic responsibilities to the respective services.

The fourth requisite to sound security planning is adequate control and management of the military budget. The Act places the responsibility for this function on the Secretary of Defense. It provides him, in the power over the budget, with a strong check on the size and nature of the national military establishment.

The Act provides other agencies to contribute to both the economy and efficiency of security planning.

The National Security Resources Board, as the high-level civilian agency responsible for advising the President on vital economic and industrial aspects of security planning, serves a two-way function. It should fit strategic needs into the necessary supporting plans for industrial mobilization and also indicate the limitations imposed by available human and material resources on the desires of the strategic planners.

The Munitions Board has the important responsibility of bringing together the logistic requirements of the separate services as established in the military budget and providing efficient and economical policies for their fulfillment.

The Research and Development Board is provided to coordinate scientific activities (on which the military establishment is currently spending over $500 million a year). It, too, should supply a two-way linkage capable both of adjusting scientific research to the requirements of strategic plans and of enabling strategic plans to take advantage of the potentialities of scientific research.

No account, however, of the structure and operation of the National Security Organization would be complete without recognition of the fact that in all its vast, complex, and interlocking parts, it is still but an instrument of higher authority—of the President, who is Chief Executive of the Civil Government and Commander-in-Chief of the Armed Forces; of the Congress, which carries the ultimate responsibility for controlling American policy; and of the people of the United States. The success of the instrument must always depend ultimately upon the wisdom, skill, and foresight of those who wield it.

Integrating Processes Not Yet Operating Effectively

The deficiencies in organization and procedures noted by the Committee are due largely to the fact that the integrating processes provided by the National Security Act are not yet operating smoothly and effectively.

The Central Intelligence Agency has not achieved the desired degree of proficiency and dependability in its estimates. Without that, the National Security Council cannot succeed in assessing and appraising "the objectives, commitments, and risks of the United States in relation to our . . . military power," with sufficient continuity of clarity to constitute a practical guide as to the size of our military needs.

The want of firm and clear top-level national policy on which to base strategic plans leaves the joint chiefs of staff to do their planning in something of a vacuum. Here they are left exposed to the heavy pressures of service policy and ambition, generated from below, unopposed by countervailing pressure of national policy from above.

The lateral linkages between the joint chiefs and such agencies as the National Security Resources Board, the Research and Development Board, and the Munitions Board—linkages that should keep strategic planning in constant and sound relationship to civilian resources and scientific skills—have failed to develop with sufficient strength and responsiveness.

Finally, the Secretary of Defense, although endowed with general powers of over-all management, especially through his control of the Budget, has hitherto lacked the clarity of national policy guidance, the authority, the staff assistance, the organizational instrumentalities, and the sheer time necessary to enable him to keep the whole process in order.

It is these factors, rather than any single organizational defect, that explain why the National Security Organization is not yet operating to the satisfaction of the nation or to the best of its potentialities.

The first year of operation was marred by certain conspicuous instances of disunity at the top levels of the military establishment. These lent themselves to sensational exaggeration. They have been, and probably will continue to be, exploited by those opposed to the whole present organization. They will be advanced to support the contention that unification under the National Security Act of 1947 has proved to be a failure. With this contention the Committee did not agree. Substantial progress has in fact been made.

The Committee was impressed by the many evidences it noted of constructive, cooperative efforts by the services. Real advances in budgetary matters, public relations, handling of legislative matters, education and training, as well as a great deal of unpublicized, day-to-day cooperation on working levels, are examples of this.

A tangible sign of progress is the fact that the senior civilian and military officers of the Navy have joined their counter-numbers in the Army and Air Force at the Pentagon Building. In the purely military field, single commands have been established in most overseas areas.

Another instance is the apportioning by the Munitions Board of Procurement responsibilities among the Services so as to reduce interservice competition.

The consolidation of the Air Force and Naval Air Transport systems into the Military Air Transport Service is another example. Joint educational facilities are being perfected and joint training—notably joint Air Force-Navy Air Training—is being extended.

The costs of the military establishment—currently $15 billion a year—appear to be unduly high in terms both of the ability of the economy to sustain them and of the actual return in military strength and effective national security.

The Committee failed to find in the military establishment a sense of cost consciousness or a general realization of the vital importance to our national security of utmost conservation of our resources.

The military Services are far too prodigal with government funds. Economy, however, cannot be achieved simply by ordering the tide of extravagence, waste, and duplication to recede. There must be a will to eradicate waste; the first step is to instill, through education and leadership, a strong conviction throughout all ranks that waste is harmful to our national welfare.

Nowhere is cost consciousness more essential than in the military establishment—that vast and complex organism which currently absorbs more than 30% of the annual national budget. The awful cost of reasonable safety—$1,000,000 to $4,000,000 for a modern bomber, over $250,000 for a tank, $10,000,000 to $150,000,000 for a ship—has put a high premium upon military economy.

The Military Budget

The military budget needs a major overhaul. At none of the successive stages, alike of preparation, of review, and of Congressional adoption, are there adequate means for checking, auditing and control. There is urgent need of better fiscal policies and closer inventory control throughout the military establishment.

The Committee was unable to compare with any degree of accuracy the cost of similar functions in the three services because of dissimilar organizational structures and budgetary and accounting procedures.

These and many other evidences of outmoded organization and obsolete fiscal procedures convinced the Committee that substantial savings, without diminution of the Services' combat efficiency, are possible.

Its investigation convinced the Committee that there are six major areas or aspects in which improvements in the interest of greater efficiency and economy are both possible and necessary. They involve:

(1) Strengthening central authority in the military establishment;

(2) Overhauling the military budget;

(3) Improving teamwork throughout the National Security Organization;

(4) Relating scientific research and development more closely to strategic planning;

(5) Expediting plans for civilian —including economic, industrial, and manpower — mobilization in case of war, and providing for continuous appraisal of the effect of all national security programs on our national resources, both human and material; and

(6) Making adequate provision for—and against—new and unconventional means of warfare.

The Committee's conclusion that a greater measure of centralized authority is required within the military establishment compelled consideration of the question of where this authority should be located.

Should it be placed in the hands of a single military chief of staff or commander or in the instrumentalities of civilian direction? The Committee, accepting the basic principle of civilian control over the military forces, which has stood throughout our history, recommended that the authority in the military establishment should be placed firmly in the civilian hands of the Secretary of Defense.

The Committee's Rejections

The Committee considered and rejected:

(1) A single military chief of staff and general staff over all three military services.

The majority of our Committee, with some members dissenting, was opposed to the establishment of such a military office because, in their opinion (a) it would seriously jeopardize civilian control of the military establishment; (b) it would not result in a decrease of military appropriations or their more economical use. I cannot say that there is no record in history of a military commander having favored reduced appropriations, but I can say that no such instance was brought to the attention of our Committee. And finally, (c) because those foreign military establishments which have been built around a single military establishments which highly militaristic in form and attitude, have lost out in the end when the fighting got tough.

I would like to make clear that this is an entirely different question from having a single military commander in the zone or theatre of operations. This, of course, is essential. No one disputes it.

Our own joint chiefs of staff system in the last war gave a performance which, while not perfect, was as near perfection as human effort is likely to attain. We should think very carefully before we abandon this strong and proven system.

The Committee also rejected:

(2) Merger of the three military departments into a single department; and

(3) Merger of the Naval Air Arm with the Air Force or vice versa.

The Committee was tremendously impressed by the fine spirit with which particularly the younger officials and officers who appeared before it have accepted the basic principles of the National Security Act and showed hopeful confidence in working within the framework that it sets up. This seemed to the Committee a point of real importance. It confirmed the Committee's conviction that our national security system rests on solid foundations. The problem now is not how to replace them, but how to build on them, firmly and intelligently.

Current Disputes

Before closing I would like to comment briefly on the relation of organization to the current disputes among our military people.

We all know that an organization is only a tool, a means to an end; except to the bureaucrat, it is not an end in itself. Above all, it is not a substitute either for sound policy or competent people. Through study and staff work, good organization will contribute to sound judgments and decisions. But, in and of itself, organization is not an automatic means either of discovering the right answer or of implementing it. That still depends, and always will depend, on human judgment and action, not on organizational expedients.

The disputes which have marred the harmony of our military establishment and have caused considerable concern to the public, are of differing types and arise from different causes. Some are like the personal and bureaucratic rows that often accompany a merger or consolidation of industrial concerns. Certainly you would not undertake to deal with these in your businesses by changing the by-laws or the certificate of incorporation. You might prefer a fly-swatter. You know very well what causes them and how to cure them, and I don't think you take them too seriously.

There is, however, another type of dispute between the military services which is more fundamental than those that I have just mentioned. It is the type of dispute that arises from perfectly natural and, indeed, laudable service ambitions. Should war unhappily occur, each service wants to be prepared to do its full share and more, and to that end, it wants its full share and more of current appropriations. We ought to be mighty pleased that they do. A military service which had no such ambitions wouldn't be worth a rap. We don't want our Army, Navy, and Air Force made up of a bunch of sweet little Lord Fauntleroys.

A strong and competent civilian Secretary of Defense, if given adequate authority and the backing of the President and Congress, should have no difficulty in dealing with this type of dispute, provided—and this is a very big proviso—he knows what our national security policy is and what lines of military policy and strategy we intend to follow—and particularly whether we want to put all of our eggs into one basket, or whether we want to divide them among several baskets.

The violent disputes, the excessive expenditures, the duplications, etc., in the military establishment can, to be sure, be reduced somewhat through improved organization, but they cannot be dealt with in a major sense through organizational expedients alone. They are repercussions of sincere and basic differences on military strategy accentuated by rapidly advancing technology, but they transcend these. They go to the very heart of our national security policy.

And so, the first and most essential step toward harmony, economy and efficiency in the military services is clear and sound policy. In military as in other matters the beginning is the "Word," the plan, the policy, the basic objective.

Is the sound course to seek military victory through destruction of the enemy's military power, or through destruction of his civilian and industrial life?

Even if such a victory were possible, what are its fruits?

On the correct solution of such problems as these may depend not only the safety of this country but even the survival of our civilization itself. They cannot possibly be settled by simple organizational expedients. They cannot be, and should not be, settled by either a civilian Secretary of Defense or a military chief of staff. Such questions can finally be settled only by the President, the Congress, and the people, after thorough consideration, study and debate. The battles of conflicting views on these important matters now going on won't lose lives. They will save lives. Organizational expedients aimed at blocking off discussion of these questions or at reaching a final determination on these matters at lower levels, are dangerous and will in the end prove ineffective.

And so, far more urgent than amendments to the Act or other organizational expedients, is the need for formulation of clear and sound national security policy.

In order to protect our national security, we must accept the onerous and ever-present duties and responsibilities of national manhood. We must not shy away from debate, discussion, study in searching for sound national security policy and military strategy. Above all, we must not attempt to seek the solution by stifling argument. These were the tactics of Hitler and the Prussians before him. One reason why they went down to military defeat is because the single and all-powerful chief, unaided by the benefits of free discussion, chose the wrong military strategy.

The problem of national security, which used to receive such limited attention, is now, happily blessed by much attention from many sides. This is a wholesome condition, but at times somewhat confusing to the reader of the daily press.

Since Nov. 15 last, when our Committee submitted its report to the Hoover Commission, the Commission has issued its recommendations; Secretary Forrestal has submitted his views, and President Truman has recently forwarded his recommendations to Congress. While each of these sets of recommendations differs somewhat from the others, by and large, they are all very similar. Considering the magnitude and complexity of the subject, the differences are surprisingly few and narrow.

I am not, of course, in a position to tell you what Congress will do. No one, so far as I know, has had the temerity to publish a booklet entitled "What Congress Will Do." However, based on some experience in the field, I am certain that Congressional action will be sound and constructive.

I was sorry to see Uncle Sam lose the services of Secretary Forrestal. His record of service compares with the finest that our nation has ever received from any of its citizens. Fortunately, his successor is not unacquainted with military matters. He did an outstanding job on the industrial mobilization plan of 1939. The industrial mobilization organization which we finally adopted—after a number of unhappy experiments—paralleled the principles of the 1939 plan. In his new and terribly heavy responsibilities, he will need the support of all loyal and patriotic citizens. In our own interest and in his, we can wish him well.

All of you are familiar with the tremendous problems and difficulties inherent in the establishment of a new business. It takes years to get one operating smoothly and in black. Our country is now facing the greatest challenge in its history. It has embarked on the new business of world leadership, an undertaking of staggering magnitude, complexity and importance. It will take years of experience and much expensive experience before we succeed in getting our new business of world leadership running smoothly and in black.

For my part, I feel sure that our country will meet this challenge and will fulfill its destiny in this field as it has in others. To do so, however, we will need sound policies, sound organizations and loyal and capable personnel. We will also need the most efficient and most economical government that we can possible have.

The State of Trade and Industry

(Continued from page 5)

than that it will cause the steel people much concern, states "The Iron Age," national metalworking weekly, in its review of the steel trade the current week. If it runs three or four weeks all self-confidence over the large coal stockpile will disappear.

Just as John L. Lewis is apparently laying the groundwork for a new wage agreement in July the United Steelworkers are quietly getting ready for one of their biggest fights on social security and pensions.

Around the beginning of May steel firms will receive notices from the union for a wage meeting to be held in June. Some agreement should be reached by the middle of July, states the above trade authority, or the industry will face an impasse.

It is doubtful if wages will be the paramount issue this year in steel negotiations, since it is unlikely that Mr. Murray will continue to be thwarted in his efforts toward greater social gains as long as Mr. Lewis' United Mine Workers have been able to wring out a large pension for their members. Mr. Murray, in the opinion of this trade authority, will push the demand for social security and pensions to the hilt and will only stop short perhaps of an actual strike which it has the right in its contract to invoke.

The joker in the demand for social benefits, "The Iron Age" points out, is that such items have as much effect on steelmaking costs as do wage increases, sometimes more, because they go on and on. For that reason steel leaders privately say that if they are forced to pay more in wage costs higher prices will have to bear the load.

This means that as far as regular mill prices are concerned there is no chance that base steel quotations will be lowered this year unless the bottom falls completely out of the steel market, which is a remote possibility. Or unless a steel price war breaks out, and it is too soon to look for that.

The steel consumer is much confused by the turn of events this week, and the steelmaker is no better off. Cancellations now being received cannot be taken lightly. They are multiplying but they are being replaced by firm orders as fast as the holes open up, the trade paper notes.

The coal strike and coming steel labor demands are causing general concern, and while the steelmaker and steel user try to determine which way the wind will blow, the output of steel is solving some of their problems. For the eighth consecutive week steel ingot output is over 100%. This week it is scheduled at 102%, unchanged from last week and, concludes "The Iron Age," it will continue so next week and the week following, or close to it.

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 94% of the steel-making capacity of the industry will be 102% of capacity for the week beginning March 14, 1949, as against 101.4% in the preceding week. The Institute reports the schedule of operations up 0.6 point or 0.6% from the previous week.

This week's operating rate is equivalent to 1,880,400 tons of steel ingots and castings compared to 1,869,300 tons a week ago, 1,843,500 tons or 100% a month ago, and 1,757,400 tons, or 97.5% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, highest prewar year.

CARLOADINGS ADVANCE MODERATELY IN LATEST WEEK BUT REMAIN UNDER LEVEL OF LIKE PERIODS IN 1948 AND 1947

Loadings of revenue freight for the week ended March 5, 1949, totaled 705,552 cars, according to the Association of American Railroads. This was an increase of 17,424 cars, or 2.5% above the preceding week but a decrease of 86,432 cars, or 10.9% under the corresponding week in 1948. It also represented a decrease of 100,223 cars, or 12.4% below the similar period in 1947.

ELECTRIC OUTPUT EASES FOR SIXTH CONSECUTIVE WEEK

The amount of electrical energy distributed by the electric light and power industry for the week ended March 12, was estimated at 5,530,629,000 kwh., according to the Edison Electric Institute. This represented a decrease of 20,982,000 kwh. below output in the preceding week; 245,988,000 kwh. or 4.7% higher than the figure reported for the week ended March 13, 1948 and 766,786,000 kwh. in excess of the output reported for the corresponding period two years ago.

AUTO OUTPUT RECEDES FURTHER IN LATEST WEEK DUE MAINLY TO FRAME SHORTAGES

Production of cars and trucks in the United States and Canada for the past week dropped to an estimated 113,903 units compared to 118,267 (revised) units in the week preceding, according to "Ward's Automotive Reports."

The principal reason for the decline was attributed to the temporary suspension of car assemblies by three of Chrysler Corp.'s divisions because of a shortage of frames, the agency stated.

Output in the similar period a year ago was 114,689 units and in the last week of 1941, 131,410 units.

Last week's output consisted of 84,340 cars and 24,393 trucks built in the United States and 3,078 cars and 2,092 trucks in Canada.

BUSINESS FAILURES DOWN SLIGHTLY

Commercial and industrial failures dipped to 179 in the week ended March 10 from 185 in the preceding week, Dun & Bradstreet, Inc., reports. Although casualties were considerably larger than in the comparable weeks of 1948 and 1947 when 102 and 58 occurred respectively, they continued to be well below the prewar level. In the same week of 1939, 286 failures were reported.

Failures involving liabilities of $5,000 or more declined to 154 from 162, but exceeded 84 in the corresponding week last year, while small failures with liabilities under $5,000 increased slightly to 25 from 23 and compared with 18 a year ago.

The East North Central States reported a sharp rise to 45 failures from 24, this region's highest number since 1942, whereas in nearly all other areas declines prevailed.

FOOD PRICE INDEX RECEDES SLIGHTLY FOLLOWING THREE-WEEK RISE

A slight drop in the Dun & Bradstreet wholesale food price index last week interrupted the mildly upward trend shown in the preceding three weeks. The index eased to $5.81 as of March 8, from $5.82 a week earlier. It compared with $6.61 on the corresponding date a year ago, or a decline of 12.1%. The latest figure represents a rise of 2.7% as compared with the Feb. 8 low of $5.66, but it is down 5.1% from the $6.12 recorded in the first week of the year.

The index represents the sum total of the price per pound of 31 foods in general use.

COMMODITY PRICE INDEX REFLECTS SLIGHT VARIATION FROM PRECEDING WEEK

The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., varied only slightly from day to day during the past week. The index finished at 258.81 on March 8, comparing with 259.41 on March 1. The current figure shows a drop of 4.1% from the year's high of 269.91 registered on Jan. 5, and it is 6.1% below the 275.49 recorded on the corresponding date a year ago.

Grain price movements were irregular last week and fluctuations held in a narrow range with net changes for the week generally small.

Activity in grain futures on the Chicago Board of Trade was about on a par with the previous week. Sales for the week totaled 196,887,000 bushels. This represented a daily average of about 33,000,000 bushels, which was little changed from that of the previous week or the like week a year ago.

Early strength in wheat and corn was largely due to aggressive buying of those grains by the government.

Wheat purchases by the government were estimated at about 28,000,000 bushels and corn at 5,000,000 bushels, the former representing the largest single week's business of the season. Farmers continued to place substantial amounts of corn into government loan stocks, which were reported at 148,000,000 bushels as of Feb. 1, the largest in years for that date. Flour showed a slightly easier trend as export trade slackened and domestic bookings and directions remained small. Lard was steadier under expectations of renewed army buying. Despite a slight uptrend at the close, final hog prices were below those of a week ago, reflecting weakness in wholesale fresh pork prices. Cattle prices advanced moderately, while lambs rose to the highest March level on record.

Trading in spot cotton markets during the past week was generally slower than in the preceding week. Prices moved irregularly and held in a narrow range throughout the period.

Buyers as a rule showed a disposition to remain on the sidelines, pending developments on farm legislation in Washington. Domestic mill demand slackened with purchases mostly for filling in purposes. The more distant cotton futures showed weakness early in the week, reflecting the greater than anticipated decline in the mid-February parity price for the staple. There was a moderate volume of price-fixing against previous purchases by the ECA and possible sales to Japan, India, and Spain. The market tone was aided to some extent by the report that the ECA has cleared up the matter of credits to China affecting recent shipments of the staple to that country which had been held up. Entries of cotton into the government loan stock during the week ended Feb. 24 totaled 75,072 bales, against 69,781 the week before. Total loan entries for the season to date were placed at 4,708,355 bales, or about 32% of the prospective 1948 crop.

RETAIL AND WHOLESALE TRADE SHOW NO MATERIAL CHANGE OVER PRECEDING WEEK AND YEAR AGO

There was favorable shopping weather in many parts of the nation the past week. Consumer purchases rose slightly, but retail volume in the period ended on Wednesday of last week was slightly below that of the corresponding week last year, Dun & Bradstreet, Inc., reports in its current review of trade. While Easter promotions became more numerous during the week, the response generally remained moderate.

There was a moderate increase in the demand for Spring apparel in the week, but dollar volume was slightly below that of a year ago.

Easter promotions of women's apparel were under way in many localities. Spring suits were more eagerly sought than last week and women's short-length coats were very popular. The sales volume of cotton dresses rose in many sections, while the demand for men's furnishings increased slightly, but the response to promotions of Spring suits remained limited.

Retail food volume continued near the high level of the previous week, though consumers bought somewhat less meat than in recent weeks.

There was a slight rise in the demand for garden tools and supplies last week. Hardware and paint were sold in a moderately larger volume than during the previous week. Occasional furniture and floor coverings at moderate prices were requested frequently. The sales volume of heavy case goods dipped slightly, but household soft goods continued to be sold in a sizable quantity. Interest in automobile supplies was moderately below that of a year ago.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from 1 to 5% below that of a year ago.

Regional estimates varied from the corresponding levels of a year ago by the following percentages: New England unchanged to down 4, East and Southwest down 1 to down 5, South up 1 to down 3, Midwest down 2 to down 6, Northwest down 1 to up 3 and Pacific Coast down 3 to down 7.

Many merchants continued to order additional quantities of Spring and Summer goods. Total wholesale dollar volume rose very slightly in the week and was somewhat below that of the similar week last year. While the number of buyers attending many wholesale markets dipped during the week, it was well above the number in the corresponding week a year ago.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended March 5, 1949, decreased by 9% from the like period of last year. This compared with a decrease of 7% in the preceding week. For the four weeks ended March 5, 1949, sales decreased by 6% and for the year to date by 2%.

Here in New York retail trade last week reflected the largest decline percentage-wise since the start of the year with department store sales running according to estimates, at approximately 14% under the like week of 1948.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to March 5, 1949, declined by 11% from the same period last year. In the preceding week a decrease of 3% (revised) was registered under the similar week of 1948. For the four weeks ended March 5, 1949, a decrease of 6% was recorded below that of last year and for the year to date volume decreased by 4%.

Back to the Gold Standard?

(Continued from page 2)

Our people must use the note and deposit liabilities of banks, both of which are irredeemable in so far as gold is concerned.

This shift from an asset to a liability currency has been gradual and subtle. It seems reasonably clear that most people have no understanding of this shift or of its significance. There is today widespread acceptance of this system in this country.

Both the shift to this type of currency and the acceptance of it have involved a gradual loosening of the bonds of integrity. It is a remarkable thing that the people of the United States should be willing to approve the issuance by the Treasury and Reserve banks of an irredeemable currency since such a currency is dishonest. Our acceptance of this practice means that we think promises to pay which will not be redeemed are preferable to promises to pay that could and should be redeemed.

II

Some of the Consequences Flowing From Our Irredeemable Currency System

One of the consequences flowing from our irredeemable currency system is the loss by our people of their control over the government's use of the people's public purse. Since individuals cannot demand redemption of these promises to pay, the Treasury and the Reserve banks can issue many more promises, and the government can spend much more money, than otherwise would be possible.

The result is that the control of the people's purse has passed to pressure groups, both domestic and foreign, whose good will the majority of Congress endeavors constantly to buy. Congress, in turn, controls the Treasury, and the Treasury controls the Federal Reserve banks. Congress can bow to, and attempt to buy the support of, vote-delivering pressure groups because it is easy for it to require the Treasury and Reserve banks to issue additional promises to pay since they are irredeemable and since the people can place no restraints on such issuance by demands for redemption.

The connection between the loss by our people of a redeemable currency and the subsequent orgy of governmental spending, profligate waste of our national patrimony, heavy and destructive taxation, and huge Federal debt, seems not to be generally or clearly understood.

Another consequence of our employment of an irredeemable currency has been that it has depreciated rapidly in recent years. The value of people's savings, of their income from bonds, annuities, and insurance policies, has declined sharply in a relatively short space of time. Billions upon billions of dollars of purchasing power have been destroyed by this depreciation of our currency.

Because foreign trade, exchange, and investments are under government control, we have distortion and stagnation in foreign trade and foreign exchange, and currency stabilization and recovery in foreign countries have been retarded.

Only eight little countries do not today require import or export permits—Cuba, Dominican Republic, El Salvador, Guatemala, Haiti, the Commonwealth of the Philippines, Saudi Arabia, and Tangier. (The Union of South Africa has some controls of minor importance.)

When a government extends its controls through the channels of money, it touches every person and transaction that employs money. This is a subtle type of control and it has exceedingly far-reaching implications. It is a case of planting a deadly germ in the bloodstream of a nation's economy. This is not obvious to the general public. It requires time for them to perceive the fact that their vitality is being undermined, that their savings are slowly disappearing and are becoming a hollow shell, that a cancerous growth is eating deeply into the economic, social, and political fabric of the nation.

Probably the greatest step thus far taken to rob the people of the United States of their appropriate liberties was that which deprived the people of the gold coin standard and system and, consequently, of control over the public purse.

An irredeemable currency constitutes a moral, economic, and political rot that eats into practically every fiber of strength of a nation.

The disease is particularly insidious because, at its outset, there is generally a feeling of increased well-being; and, remembering this when later stages of the disease reveal distresses, the common practice is to demand more doses of the same intoxicant, in larger and larger amounts and with greater and greater frequency, until the patient collapses.

We have not run this course yet; but the people of the United States have the disease which accompanies an irredeemable currency. They like the artificial stimulation it has given. They cry out in protest, like the person hopelessly addicted to a drug, when it is recommended that this intoxicating poison be taken from them. They manufacture all sorts of arguments as to why we should continue with our irredeemable currency.

Our people would do well to review the parallelism between our situation and popular attitude today in respect to irredeemable paper money and that which prevailed in France 159 years ago as described by Andrew D. White in his "Fiat Money Inflation in France." We "secure" our irredeemable paper money by gold taken from our people and which they cannot obtain. The French "secured" their irredeemable paper money by confiscated church lands which the people could not employ in redemption. The majority of the French Assembly, and apparently of the mass of people, contended that they understood better the virtues and dangers of an irredeemable paper money than did their most expert monetary economists and their fathers who utilized irredeemable currency with sad results some seventy years earlier under John Law.

They were, they claimed, not despots, but real democrats, the true representatives of the people; they were, they insisted, enlightened, progressive, and liberal. They ran some of their most expert monetary economists out of France so that they could pursue their "enlightened" course without having their sins and stupidities pointed out by those uncooperative and old-fashioned economists.

The reasons why our Treasury and Federal Reserve authorities defend our irredeemable currency system should be understood. They like present arrangements because they are freed from any responsibility to redeem their promises to pay. This system allows them to escape the problems inherent in a fractional reserve system An irredeemable currency is an easy, but it is not the proper, solution to the problems involved in the fractional reserve system on which banks operate.

It was a man on horseback—Napoleon—who rode into power on the heels of the French irredeemable currency of approximately 160 years ago. Fortunately for France, he at least swept that out and instituted a gold standard and a redeemable currency, after which France struggled painfully back to recovery from the devastation caused by irredeemable money, the Revolution, and Napoleonic Wars.

The sequence of events in which the use of irredeemable paper currencies is followed by dictators has repeated itself too often in this world to permit any responsible person to assume that we in the United States will not provide another illustration of it.

A sound currency is perhaps the best single guarantee a people can have that they will not be led into Socialism or a governmentally - managed economy in some other form. We are waiving that guarantee, and we are keeping wide open this gate to Socialism.

We have fallen into the European practice of cheapening our monetary standard and of manipulation our currency, and, should we be engulfed in a severe depression, it seems highly probable that there would be an overwhelming drive for further devaluation of our dollar, and currency depreciation in other forms. We seem not yet to have learned the virtues of, and necessity for, a fixed monetary unit and a redeemable currency. We do not seem to understand that both are necessary if the bloodstream of industry and commerce is to be healthy and if our nation is to flourish.

Now is the time to correct our defective currency system. We have been fortunate in escaping some of the worst consequences, that often flow from the use of this economic poison. But we have some dangerous reactions now. One is the drive of the goldmine interests for a higher price for gold because their costs, partly as a result of our currency depreciation, have risen sharply in the face of the fixed price of their product. Many, if not most, of these goldmine interests seem to put their desire for profits ahead of the importance of maintaining a fixed monetary standard for our people. The situation is rapidly becoming one of the goldmine interests versus the welfare of the people of the United States.

Besides this group that would devalue our dollar again because of their high costs, we have in this country a multitude of powerful groups that would fight for further currency depreciation should we slip into a severe business recession.

If our peach crop should fail, we would not consider reducing the size of our bushel basket in order to have more bushels of peaches. We expect our established bushel to measure the fluctuations in our supply of peaches. But if our costs and selling prices do not suit us, we seem ready to manipulate our monetary standard.

If problems of production scarcities and of unemployment could be solved by manipulating monetary standards and by issuing irredeemable money, such problems surely would have been solved long ago. We know nothing of importance about currency manipulation that people of many generations ago did not know. What our generation does not seem to have learned from the experiences of the past are the virtues of a fixed monetary standard and of a redeemable currency and the deadly evils inherent in irredeemable currencies and manipulated monetary standards.

III

What a Return to a Redeemable Currency System Should Accomplish

(1) A return by the United States to a redeemable currency would restore to the people of this country control over their public purse and would enable them to put a brake on the public spending and further depreciation in the value of our money.

(2) It would provide the Federal Reserve banks with from 70 to 100 times more asset cash than they now have to pay out against their note and deposit liabilities.

(3) It would provide our people with an honest money. It should restore standards of honesty in the adminstration of our money and credit system. It should discourage agitation for further manipulation of our monetary standard and currency.

(4) Because we would have a redeemable and a sound currency, savings, investment, long-time commitments, and production should be encouraged. Resumption of specie payments is often, probably usually, followed by business recovery and expension. For example, when we resumed in 1879, we went promptly into a period of business expansion.

The notion seems widespread today that an irredeemable currency provides some sort of guarantee against business recessions. There is no factual basis for this assumption. Our very severe business depression of 1873-1878 came during the period, 1862-1878, when we had an irredeemable currency. The recession of 1937-1938 came under our present system of irredeemable money; and the drop in the index of industrial production for the period involved in those years was sharper than for any corresponding period during the years 1929-1933. (The high was 118 for May, 1937; the low was 76 for May, 1938, a drop of 36%. In 1929, the high was 125 for June; in June, 1930, the index was 98, a drop of 21%.) Widespread fear of a depression now would seem to indicate some fear that irredeemable currency may not prevent a depression despite the commonly-expressed arguments in behalf of the virtues of this dangerous type of money.

No monetary system devised by man can prevent business booms or recessions. But the point is that an irredeemable currency causes more trouble than any other monetary system thus far known.

We would not, ordinarily, one may suppose, blame a fine automobile for an accident caused by a reckless driver and, as a matter of principle, adopt cheap automobiles on the theory that they are safer than the most expensive ones. But we do something analogous to that in respect to monetary standards. Because a gold standard holds people in check and applies strong brakes when we attempt to go to extremes in our use of credit, we blame the gold standard for the results flowing from our abuses of credit. The gold standard has been criticized because ti did not prevent, or because it "caused" the depression beginning in 1929. The facts are that the gold standard did not cause the recession and depression following 1929, and it could not prevent them. We have been as irrational on that point as would be a person who would blame a fine automobile for an accident caused by an unreliable driver.

(5) With private enterprise able to obtain and to use gold in foreign trade, there should be expansion in foreign exchange, trade, and investments of all kinds, and foreign countries should be able, sooner than otherwise would be the case, to stabilize their currencies in terms of gold and to increase their production.

It is sometimes alleged that we cannot return to a gold coin system until currencies abroad are stabilized. This is a case of putting the cart before the horse; we should lead the way, and this leadership should make it much easier for other countries to reconstruct their currencies and to open up foreign trade.

(6) A restoration of the gold coin system, at our present rate of $35 per ounce of fine gold, should be a potent force in ending our march toward Socialism or toward more and more government management of our economy and people in some other form.

Since an irredeemable currency provides the government with an instrument of control over the people that reaches to every transaction and person utilizing money, it provides an easy means of regimenting a people, a subtle instrument by which their savings and enterprise can be impaired or destroyed, and an open gate to Socialism.

No man or woman may properly assume for one moment that he or she is fighting Socialism or a governmentally-managed economy, or for a return to the people of some direct control over their public purse, or for economy and honesty in government, or for private enterprise, or for the opening up of foreign trade to private ingenuity if he or she is not fighting against our irredeemable paper money.

IV

Conditions for a Return to a Gold Coin System are Most Favorable

If the United States is to have a redeemable currency the present is a most favorable time in which to make this change. The United States has more than an ample supply of gold to accomplish this very desirable purpose.

The ratio of the Federal Reserve banks' reserve of gold certificates to their note and deposit liabilities is approximately 50%. That is twice the legal requirement. Their surplus reserves on Feb. 16 were over $11.5 billion in gold certificates. The ratio of our gold stock to all non-gold money and to all bank deposits is about 13%. The average for 1915-1932 was about 8%.

If past experience is any guide, the typical withdrawals by our people from our gold stock should be about $2.3 billion of gold. With our system of deposit insurance there should be less inclination on the part of people to withdraw gold than has been the case in the past, although no one can possibly know what our people and foreign depositors might decide to do in respect to withdrawal of gold from the banks and Treasury.

From October, 1929, to March, 1933, which included the period of the heavy runs on banks from November, 1932, to March, 1933, at which time we did not have a national system of insurance of deposits, there was an increase in money in circulation of $1,706,883,000—that is, from $4,838,185,000 in October, 1929, to $6,545,068,000 in February, 1933. The increase of gold coin in circulation for this period was $208,015,000—that is from $363,051,000 to $571,066,000. The monetary gold stock of the United States was $110,000,000 larger in February, 1933, than it was in October, 1929. (In October, 1929, it was $4,381,000,000, in February, 1933, it was $4,491,000,000.) During that period, the gold stock rose to its peak of $4,975,000,000 in August, 1931. The low point was $3,941,000,000 in July, 1932, showing a maximum swing of $1,034,000,000 from the high to the low. Of this sum, a heavy proportion was exported and earmarked for export. During the period of maximum variation, the increase of gold coin in circulation was $91,077,000. The increase of money in circulation, including the $91,077,000 of gold coin, was $674,235,000. Even when the gold stock for that period was at its low of $3,941,000,000, it was $1,092,537,000 above the $2,848,463,000 of May, 1920, when the price level was 167 as compared with 64.5 in July, 1932. On Feb. 2, 1949 with a gold stock of $24,279,000,000 our wholesale price level was 158.8.

These data obviously do not support the widespread notion that our gold standard broke down in 1929-1933 or that our gold supply could not withstand the people's withdrawals. The trouble lay chiefly in the illiquid non-gold assets of the banks. The people were afraid that their deposits would not be paid and they wanted cash. They did not seem to care whether it was in paper money or gold for the very good reason that our paper money was redeemable in gold. Therefore, they withdrew relatively little gold.

Our people were not deprived of the gold coin system in 1933 because of scarcity of gold or because the gold standard broke down; they were taken off that standard simply because the government wished to substitute a "managed" irredeemable paper money. All the evidence is to the effect that when the banks were opened in 1933 we should have been able to resume gold payments without a ripple. But at that time, the Administration told our people that there was not enough gold to go around and that, therefore, it was necessary to suspend redemption.

That was probably one of the greatest pieces of economic illiteracy or political trickery, whatever the case may have been, to which our people have ever been subjected by their government.

Nevertheless many of our people continue to allege, as though it were a fact, that there was not enough gold to go around then and there is not enough gold to go around now; and that, therefore, we could not maintain the gold standard then and we cannot do it now.

Our people are in the main uninformed regarding our gold holdings and ratios then and now, and they seem not to understand that there is never enough of anything to go around at once if it has value.

The simple fact is that we can easily return to a redeemable currency now, and we should do so. Our suspension of gold payments has now run 16 years. In one more year we will equal the 17-year period of suspension of 1862-1878. In 1940-1942, inclusive, the ratios of our gold stock to money and deposits ranged from 21.7 to 24.6% as compared with about 13% now. Those were the years in which we could have returned to redeemability with greatest ease.

V
A Big Problem Is the General Public's Misunderstanding and Apathy

It is not expected that people in general will understand the intricacies and principles of good and bad monetary standards and systems; the public in general never do. It is the duty of statesmen to understand these problems and principles and to inform the people of the major issues involved. It might be supposed that the mass of people of this generation would understand that an irredeemable currency is the worst type of currency ever devised by man. Nevertheless, our people are showing a remarkable apathy regarding that lesson and the fact that we have an irredeemable currency system.

Apparently, this apathy arises in large degree from the fact that people in general confuse the convenience of paper money as a medium of exchange with the other vitally important functions performed by gold—that is, its virtues as a means of storing up value, as a standard of deferred payments, as a standard of value, as a reserve against paper money and bank deposits, as a clearing agent, as a means of carrying on foreign trade and of settling adverse balances of payments.

Any intelligent adult should understand that gold is a less satisfactory medium of exchange for general use than is a redeemable paper money or deposit currency. Our people, obviously, have missed the essential point and, as a consequence, they regard themselves as satisfied with a libility currency. The lack of honesty involved in such a currency is a matter that we try to ignore today; we attempt to pass over that subject in silence; we do not wish to discuss it. In short, we do not wish to meet what is perhaps the most fundamental issue involved.

The general public does not understand that they have lost control over the public purse through the loss of the gold coin system. They do not understand that it is our system of irredeemable money that has invited profligate government spending, a dissipation of our national patrimony, a depreciation in the purchasing power of our dollar, and our march into the Death Valley of Socialism.

The public does not seem to understand the fact that gold and silver exist as money because irredeemable paper money is a dangerous and unreliable instrument—that irredeemable paper money is a product of the printing press and that gold represents stored labor and will buy other people's goods and services anywhere, anytime.

The public does not seem to understand that an irredeemable paper money and governmentally managed economy go hand in hand.

This apathy of our people reflects itself in our Congress and Administration where we have a right to expect leadership and guidance in this vitally important matter.

Effective leadership in this field does not exist in Congress. Both major political parties have accepted the view that the task of each is to do whatever is necessary to obtain votes. The question of the wisdom or soundness of a proposal is altogether secondary in both parties to the consideration of obtaining votes. Both parties regard their function as that of playing a game—a game based upon hypocrisy, cynicism, hollow pretense, lack of principle and conviction, moral cowardice, the assumption that they must pretend to fool the people though they know the people realize the nature of this degrading performance.

The terrible need of this country is for an opposition party to watch those in power—**an opposition that will have as its basic principle the sole consideration that it be right, not that it be elected.** Such an opposition needs leaders who will state and fight for the truth and for what is known to be best for our country regardless of popular attitudes and public understanding of the issues involved. It is their task to protect and to educate the general public as to what those in power are doing.

Many government problems, like those involved in a people's money, are completely beyond the ability of the mass of people to understand properly. The general public cannot themselves obtain the data needed and there is the further question of the ability of the majority of the people to analyze the data properly. It is the duty of government officials to use the needed facilities to gather the required data and to see to it that they are analyzed scientifically by competent experts. Thereafter it is the duty of our officials to explain to our people what the facts and principles involved are and to fight for them against all odds. That is what responsible and intelligent leadership involves. It is the duty of the organized opposition to see to it that these things are done and done properly. Once the essential facts are laid before the people accurately and properly, they should be free to respond as best they can. Education is one thing; regimentation is something else.

In general we do not proceed in this manner today. Our so-called leaders in office simply attempt to find out what their constituents think they want. The opposition pursues the same course. Both parties seem to think they can solve important problems properly by the use of labels such as "Liberal," "Progressive," "Conservative," or "Reactionary," without defining these terms precisely as intelligent people are supposed to do.

If our physicians should abandon the principles of their science and should simply ask their patients what they would have, and then put on their prescriptions labels designed to please, we would have a situation comparable to what now prevails in the field of so-called political leadership.

As to money, the people in this country seem to support an irredeemable currency in preference to a redeemable one. The reasons for this are several and their explanation is not easy. The central contention made by Bryan in his famous speech, "Crucified on the Cross of Gold," appears to have been thoroughly diffused among our people as a fundamental truth regardless of facts or of what monetary economists may say. Our people are temperamentally against gold. The want paper money, preferably irredeemable money, and this makes it easy for our Congressmen who also want it because of what it enables them to do.

Since both political parties are in the business of buying votes with this irredeemable money, it is doubtful whether our people can be saved from the evils of irredeemable currency unless there is built across this nation an organization composed of intelligent and fearless leaders in which no self-server would be tolerated if discovered. The need is for statesmanship, for people of absolute integrity and with determination to be right.

Since both political parties are bankrupt is so far as high and proper standards of leadership are concerned, and since both are busy day and night seeking to please self-serving pressure groups, with the consequence that the people of the United States are being sold down the river to the slavery of Socialism, it seems reasonably clear that the only hope to save our people from Socialism and to obtain a sound currency again lies in the creation of a nationwide organization to which people of understanding and integrity can repair.

Five thousand men and women of high purpose could create such an organization. It seems reasonable to suppose that the minority of statesmen of both parties in Congress would welcome an opportunity to joint a group devoted to the truth and to statesmanship and to nothing else.

Past generations did not work, and save, and invest, and develop, and fight, and die to pass on to us a great national patrimony and freedom merely to give the degenerate political parties of this generation an opportunity to dissipate this patrimony and to impair or destroy the freedoms for which mankind has struggled throughout the ages.

Our generation is the trustee of this great heritage. But, if we are to prove ourselves worthy and reliable custodians of it, let all who would aid in the fulfillment of this great responsibility promptly organize to save this nation from those who feel no such responsibility and who are either indifferent or thoughtless or are busy undermining and dissipating our priceless heritage.

VI
What Our Monetary Program Should Be

(1) If we are to have a redeemable currency again someone in Congress must introduce a bill. But considering the present attitude and lethargy in Congress and our Federal Administration, outstanding citizen groups must apparently provide the support, and perhaps the leadership, for such a bill. A large group of outstanding leaders should be able to sir up enough support in Congress to get the proper law enacted. If not, then a third party composed of our leading citizens should settle down to the job of driving the majority of our present office holders out of power.

It is futile to expect the general public to understand or to demand a redeemable money. The restoration of a redeemable currency is a task for intelligent and resolute leaders. Once this gold coin bill is introduced in Congress, our leading citizens must, by resolution and otherwise, fight for its passage.

(2) The weight of our standard gold unit—$35 per fine ounce—should not be altered. It has been fixed for 15 years, and fixity is a fundamental requisite of a good monetary standard.

(3) Since we, in recent years, have embraced the notion that we can stabilize our economy by manipulating our currency and have not yet learned the fallacies in that idea, since there is a very great probability that, should we slip into another severe business recession and depression, our government may again depreciate our currency in some form in an effort to stimulate recovery, we should do our best now to remove our huge Federal debt into a position of safety. In times of business depression debt burdens are regarded as a particularly important problem and easily provide a major excuse for currency depreciation.

It is a good old custom in the United States to attempt to pay off our public debt. But now our debt, because of its huge size, carries new dangers. One is the invitation to currency manipulation in time of business depression. The other is the destructive effects of taxes sufficiently high to retire much of it in any reasonably short period of time.

The safer course for us now would seem to be to accept this debt as a permanent institution, as the British accepted their debt at the close of the Napoleonic Wars, and to refund most of it into a permanent debt—that is, into United States Consols — carrying an interest rate high enough to induce private and non-bank savers to hold most of it even in times of business depression. In this manner we would remove as best we can that problem from the troublesome position it now occupies, and provide greater assurance that it will not prove dangerous to our monetary standard should we experience a severe business recession and depression.

While in the last Congress, Howard Buffett, then a Representative from Nebraska and the author of a bill to return this country to a gold coin system, issued a warning that we should heed. Said he:

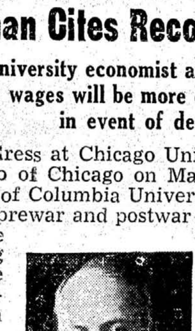
"The American heritage of an honest money redeemable in gold was not given to this generation to squander. It was intrusted to our hands as custodians. Unless restored, we shall be recorded by history as faithless both to our ancestors and our posterity. For the blessings of this land of liberty, and its unparalleled achievements, are intimately connected with the right of the individual freely to obtain gold in exchange for the fruits of his labors." [1]

[1] "Our Irredeemable Paper Money," *Human Events* (Washington, D. C., July 28, 1948).

Wolman Cites Record High Wage Level

Columbia University economist also holds it is safe to say reduction in industrial wages will be more effectively resisted than ever before in event of decline in business.

In an address at Chicago University sponsored by the Executive Program Club of Chicago on March 11, Dr. Leo Wolman, Professor of Economics of Columbia University and a specialist in labor affairs, in reviewing prewar and postwar wage levels, says present wages are keeping pace with living costs and are now at highest level on record.



Prof. Leo Wolman

"Historically," Dr. Wolman pointed out, "wages in the United States have behaved as they would be expected to behave in a competitive, business system. They behaved, in other words, like prices. They were highly sensitive to short-term changes in the business situation, rising with expanding business and falling with declining business. They also lagged considerably behind changes in business activity. Wages began their decline sometime after business had passed its peak and wages began their rise sometime after business had begun to revive. This was the pattern which American wages observed until the 1930s when, for a variety of reasons, they began to act differently.

"The long-run behavior of American wages seemed likewise to change in the period after World War I. Taking 1914 as a rough dividing line, real wages, or wages corrected for changes in prices, showed in the years before 1914 a persistent but moderate annual rate of increase. In the quarter century, 1914-1939, both money and real wages advanced at what appears to be an unprecedented rate in American history. Put in simpler terms, what this seems to mean is that in the period since World War I wages began to pursue a more or less independent course as if the course of business and of wages were unrelated phenomena.

"The upward movement of wages, both money and real, continued through World War II. But in the three years since the end of the war, though money wages increased substantially, they succeeded only in keeping pace with the rising cost of living, and at the end of 1948 real wages were only slightly higher than in 1945.

"Currently, the prevailing wage level, however measured, is the highest on record. Whether it will go up still more is a debatable and doubtful question. But the more important question is how wages will react to the expected and typical decline in business that has characteristically followed long periods of expansion. On this question it is safe to say that wages in industrial employments are likely to resist reduction more strongly and more effectively than ever before."

Victor Cevasco Honored

Victor J. Cevasco, first Vice-President and Treasurer of Albert Frank-Guenther Law, Inc., was tendered a luncheon on March 11 at Michael's Restaurant, 112 Greenwich Street, New York, by his agency associates on the occasion of his 48th anniversary of continuous service with the advertising firm.

Theo. Bernstein, Jr., Dead

Theodore Bernstein, Jr., partner in Carl M. Loeb, Rhoades & Co., New York City, died suddenly at his desk March 11, apparently of a heart attack.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Expect continuation of current strength beyond the 180 figure. Oils and drugs point to higher prices.

Two weeks ago, and last week, I wrote that logical indications, though they implied lower prices, had no place in the calculation of future stock movements. It was easily apparent that (1) the rails had broken their old lows and (2) the industrials had followed suit with a fractional penetration of their lows.

* * *

With one average going through the warning was out. With the other average confirming, the warning became a full fledged signal. At least that is the accepted interpretation of the Dow theory and its followers are legion.

* * *

In my column of Feb. 3 I said, "It is during such times that foundations are often laid for real advances." Since that was written the industrials have gone up about five points.

* * *

In the same column I also commented on the rails, the group which seemed to be in a particularly bad position from a widely accepted public viewpoint. "Oddly enough the rails . . . give as much promise as any other group. In fact they give signs of being able to make the grade even before the industrials."

* * *

Last Friday, March 11, the rails suddenly came to life. In fact that day represented volume and activity, the first in two months.

* * *

It is interesting to note that news during the rally was, if anything, hardly bullish. Unemployment figures from the Bureau of Labor Statistics, were dolorous. Commodities were shaky. Nonferrous metal prices were being cut. Retail trade news showed continued consumer resistance.

* * *

Yet, despite this news, the market persisted in displaying underlying strength. In the next week or so I think this strength will be widely acknowledged and it will be time to think of reaction. But in the meantime there are at least two additional groups which hold promise of more rally. The first is the drug group; the second is the oil industry.

* * *

Abbott Laboratory has already gone up and stands out as the leader of the drugs. I suggest Bristol and Myers at 31 with a stop at 29.

Among the oils the leaders hold the best possibilities for the reasonably near future. Among them are such issues as Amerada, Texas, Skelly, various Standard Oils, etc.

* * *

Within the next week or so talk will probably start that the market will see a top when the industrials hit 180. I don't think any widely accepted figure will be more than a temporary obstacle. There is a point from where a real break can start. The chances are, however, that it will be well above 180. But when it does start, I don't think it will be a minor reaction.

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.]

The Business Situation—Actual and Prospective

(Continued from first page)

applicable here. Good complete analysis of the current picture should tell a great deal about possibilities and probabilities for the future.

One of the most important objectives in economic analytical work is to maintain a balanced point of view. This is a huge country and the economic machine is made up of a tremendous number of bits and pieces scattered geographically, and distributed by industries into many separate but nevertheless interrelated pieces. It is dangerous to generalize from a few isolated cases. At times, business may be down in one area, it may be up in another. Production may be down in one industry, but increasing in another. The great danger is that a person will generalize on the basis of isolated conditions which are not at all typical.

The consumer tends to judge the whole economic scene by his own pay envelope and the prices in the stores in which he deals. The businessman tends to judge the whole situation from his own particular position and what he hears from his business contacts. As I see it, it is the economist's job to try to put all the pieces together from near and far, and to be properly skeptical about the transitory waves of public psychology, which may or may not be consistent with the facts and figures at the time.

Now in saying this, I do not for one minute want to imply that the economist is so wise that he knows just how to do this. On the contrary, he must feel his way as best he can for there are no scientific formulas to keep everything in a neat order. You will note, however, that I said I deemed this to be the economist's job, although he will probably often stumble in carrying it out.

One difficulty is that economists use a jargon of their own, and a term may easily mean different things to different people. For example, the word "recession" is on everybody's lips, but it is used so loosely that it can mean anything from a very minor downturn in business activity to a major collapse involving extensive unemployment. For my part, I propose to use the word "recession" to indicate an economic downturn of the magnitude of 1920-21 or 1937-38. In both cases, the Federal Reserve index of industrial production fell about one-third—which in terms of the index today would involve a drop taking us back to something around 1940 levels.

I hope that this introduction has not seemed academic. It has a very real point, in that I want to urge the idea of a balanced point of view in thinking about economic conditions. Particularly today the keynote of our thinking should be the word "perspective."

Highlights of Business Situation

I shall try now to present a few highlights of the business situation as I see it.

First let us turn for a moment to the production situation today. It is noteworthy that last year we set new all-time production records in agriculture and industry—leaving aside the war years of course. Agricultural production definitely turned the corner so that instead of shortages, we became confronted with surpluses. Weather conditions suggest that high agricultural production will continue this year.

The agricultural situation alone was a tremendously important factor in the postwar inflation upsurge and again in the recent cessation of inflationary pressures. One-third of the consumers price index (cost of living) consists of grains and foods dependent on grains. The failure of the corn crop in the summer of 1947 and the earlier shortage of wheat represented inflationary factors which were highly dramatized in the sharp increases in the price of meats. The wholesale price index for meats reached a point about 2¼ times as high as the peak following World War I. One of the important repercussions was, of course, that wage demands were further stimulated by the increases in cost of living.

Last year, wheat and corn came into abundance and meat prices finally began to decline. The cost of living stopped increasing, and at this point the consumers price index has turned down by a small margin. There has been practically no downturn in broad classifications of the index except in food costs.

In the case of industrial production, we reached a new peacetime peak last fall. The Federal Reserve index of industrial production, seasonally adjusted, reached 195 in October and November. Since then, there has been a very mild decline. The figure for January was 191, which would be about 2% below the peak last fall, and about 1% below the level a year ago. February was apparently about the same.

It may seem strange that this index shows up so well when there has been so much pessimism in business. Perhaps it may be well to consider some of the diverse trends in different industries in the first two months of 1949. A number of industries have been producing less than in the same period last year. Bituminous coal production has run 10% below 1948. In January, cotton mills produced 20% less than last year. Petroleum supply has finally caught up to demand, and output has been reduced from recent peak levels. Car loadings are down 10% from last year. These are all examples which the pessimist may point to as ominous signs of the future.

However, the good side must also be considered for proper perspective. Thus, steel production has been running 8% over the first two months of 1948. Motor vehicle production is up 7%, and electric power production is up 7%. Production of newspapers and related items is up sharply as is indicated by the fact that newsprint consumption was up 14% in January as compared with a year ago.

Besides such pluses and minuses, there are many cases where production has been steady. Taking the whole economic machine, it appears that production decreases have been approximately offset by production increases, so that total industrial production has been within a negligible fraction of last year.

The Figures of Unemployment

In spite of this, unemployment has increased to the highest level since the end of the war. The Census Bureau has estimated that unemployment stood at about 3.2 million in the middle of February. This was up from 2.7 million in January, and was about twice the level as recently as last October. However, it is interesting to note that unemployment in February a year ago stood at 2.6 million, so the increase over 12 months was certainly not spectacular.

As a matter of fact, it might be more informative to refer to the figures on employment. The Census Bureau estimates for February show a total of 57.2 million employed. It happens that this is about the same as in February, 1948. During the year that elapsed, the labor force is estimated to have have increased about 900,000—these are accounted for by an increase of 300,000 in the Armed Forces and an increase of 600,000 in unemployment.

Perhaps I should stop here for a minute to comment on the treatment of lay-offs in the unemployment figures. As we all know, there have been large layoffs from time to time in some industries, such as the railroads. Thus, it is important to see how the Census Bureau counts these people who have been paid-off with the hope of being recalled to work. The rule is as follows: if a person is laid-off with instructions to return to work at a definite date within 30 days, he is counted as employed. This is the same thing as a vacation without pay. On the other hand, if he is given no definite date to return to work, or if he is told to return to work after 30 days, he is counted as unemployed. This treatment seems reasonable to me. However, if you prefer to consider all laid-off employees as unemployed even though they have a definite date for return to work within 30 days, you would increase the unemployment figure by less than 10%.

Thus, in perspective, it seems to me that the unemployment figures are not as bad as is sometimes suggested. They are worse than they were a year ago, but they do not represent an undue proportion of the total labor force. So long as unemployment stays in the range of something around 5-6% of the labor force, I think the figures should be viewed as normal. While it may seem hard-hearted to say so, I also think that such a volume of normal unemployment will be a healthy thing in improving overall productivity—in which labor has a major stake and which has tended to suffer from what we may call over-employment.

Retail Sales

Next, let us take up the matter of retail sales. Here again, we need perspective to get the whole picture. Over recent months, there have been numerous instances of dollar declines in retail sales of various kinds as compared with a year ago. For example, for six successive weeks now, sales in New York City department stores have been lower than a year earlier, the declines averaging about 6%. Such a run of declines in sales may seem ominous and suggest that goods might be piling up because of lack of consumer purchases. We can see the picture in better perspective, however, by looking at the tonnage figures of deliveries. It is noteworthy that the United Parcel Service reported that the tonnage of deliveries exceeded last year in every week since Christmas except two which were practically unchanged. There may be some special explanation for this difference between dollars and tonnage, but it suggests to me that the physical volume of sales must have been increasing rather than declining. This may have been due partly to sales promotions at markdowns and partly to a changing composition of sales with a declining proportion in luxury goods.

I should also like to call your attention to another aspect of retail sales, namely the varying experience in different departments of the stores. In the month of December — the latest available for these purposes—some departments of department stores in the New York Federal Reserve district showed very sharp declines. For example, sales of refrigerators were down 62% from a year earlier. Sales of washers, stoves, ironers, etc., were down 44% and sales of oriental rugs were down 31%. Again, the pessimists can take these figures to illustrate how bad things are getting. Yet there were a number of other departments in which sales were up substantially, such as girls' wear in basement stores (up 17%), and umbrellas, parasols, and canes (up 16%). These are not very glamorous figures but it is interesting to note that the dollar increases in some departments exactly offset the dollar decreases in other departments, so that total dollar sales in these stores were the same in December of both years.

For another example in the retail field, let me refer to the West Coast. We hear a good deal about prospective difficulties on the West Coast and there are undoubtedly some serious situations. But conditions are not uniform in this area. Department store sales have been holding up better in San Francisco than in Los Angeles. In the month of January, department stores in San Francisco sold 3% more than a year earlier, while in Los Angeles, sales were down 6%. The latest weekly figures available show that for the week ending Feb. 26, San Francisco sales were up 2% and Los Angeles sales were down 17%.

Moreover, different kinds of stores are showing strikingly diverse results in these two cities. Here, let me quote some figures for sales by independent stores in December, 1948 in both Los Angeles and San Francisco. Sales of building materials dealers were down sharply in both cities—27% in Los Angeles and 19% in San Francisco as compared with the year earlier. Sales of hardware stores were down 10-12% in these cities. This is certainly grist for the pessimist's mill.

But let's look further. Sales of dealers in tires and accessories were down 17% in Los Angeles, but they were up 2% in San Francisco. Sales of automobile dealers were up 3% in Los Angeles and 11% in San Francsco. So cars and accessories did better in San Francisco than in Los Angeles.

On the other hand, sales of liquor stores in San Francisco were down 8% and sales of drinking places in that city were down 10%—we hear a great deal about declines in liquor sales as a tip-off of the famous recession. Yet, it is interesting to note that sales of liquor stores in Los Angeles were up 16% and sales of drinking places were up 6%. Perhaps we should conclude that a lot of the drinkers in California moved south for the winter.

We do not have time to go into more of the variations in these two cities, but they illustrate the dangers of generalizing from scattered cases.

Apparently, the consumer is still willing to go on buying goods in large quantities. He is choosier than in the past. He wants his money's worth. He shops around until he finds what he wants and he is undoubtedly spending less on luxuries.

Is There Shift to "Buyers' Market"?

In this connection, there is a good deal of talk about the shift from a sellers' market to a buyers' market. I wonder if the use of the term "buyers' market" is not itself misleading and constitutes evidence of the lack of perspective I have been speaking of. Strictly speaking, we have broad sellers' markets and broad buyers' markets only a few times in the course of a life-time. I am thinking of those times when there is an overwhelming lack of balance between supply and demand. Thus, in 1933, we had a real buyers' market. During the war and immediate postwar period we had a real sellers' market. But as supply and demand have come into balance recently in one industry after another, I do not think that the situation is accurately described as a buyers' market. It would be more accurate to say that we have gone from a sellers' market to a competitive market. After all, a competitive market is the normal market in our free enterprise system. It means competition, not only between sellers of one product, but between sellers of all products. On the buying side, it means sufficient aggregate income, moreover, to maintain aggregate purchases at a very high level even though the particular choices by each person are made only after a competitive search for the best place to spend.

The point here is not simply a matter of definition; it is a matter of spirit. Sometimes our choice of words tells a lot about our moods.

Plant and Equipment Expenditures

Now let us turn to the question of business plant and equipment expenditures. This is certainly one of the most crucial elements of the economic picture today. These expenditures have been running recently at peak levels for peacetime, and there are signs that they are tapering off. The real question now is whether this mild tapering off process will continue or whether the decline will be more serious. Some people fear that the decline will be very sharp and that this will bring on the famous recession quickly. My own feeling is that we will see only a mild decline in plant and equipment expenditures this year. I am afraid that the pessimists have been generalizing from occasional cases, and have not been allowing adequately for the many cases where plant expansion is holding up well or even increasing.

The surveys on this subject in recent months have all shown that business in the aggregate will reduce outlays on plant and equipment by only a small amount this year. For example, the McGraw-Hill survey showed that a 5% decline is expected. The "Wall Street Journal" Survey showed an 8% decline. Currently, the Department of Commerce and the SEC are tabulating the results of their annual survey which is by far the most comprehensive of all. The results will be available some time this month and should help to clear up the current uncertainty.

Meanwhile, I am inclined to characterize plant and equipment outlays this year as another 1947—which means a level at about ⅞ of last year's peak.

Government Spending

And now, a word on government spending. This is one area in which the trend is up rather than down. I think that we can count on increases in government spending this year to act as an offset, at least in part, against weak spots in the private sector of the economy. This is true not only of the Federal Government, but of state and local governments as well. Expenditures on highways, schools, hospitals, etc., by state and local governments are expected to be up about $1 billion this year, according to government estimates.

The pattern of spending by the Federal Government outlined in the President's budget and the Economic Report would bring a steady increase in spending this year, reaching a new peacetime peak in the latter part of the year. It is expected that Federal cash expenditures in the second half of 1949 will reach an annual rate of about $46 billion as compared with $41 billion in the first half of this year and $39 billion in the last half of 1948. The figures may go even higher, since the budget estimates did not make provision for expenditures for the Western Military Alliance, and it is likely also that the farm support program will cost more than was allowed for. Of course, the upward trend may be slowed by changes in timing, but the direction is quite clear.

This brings us to the matter of the proposed tax increase. For the moment, it seems clear that the tax increase is quiescent. I use the word "quiescent" rather than "dead" because I think it may come to life again in a few weeks. I believe that Congress will come back to the matter of a tax increase in early summer and will then base the decision primarily on the business situation at that time. If business sentiment continues to be shaky, it seems unlikely that new taxes will be enacted in large amount. However, if business sentiment has then recovered from the present pessimism, we may yet see an increase in taxes. It should be remembered that the expenditure estimates in the Federal budget will probably have to be raised, as I have already pointed out, and this in turn will mean an increase in the expected deficit. Under such circumstances it is not hard to visualize the enactment of a tax increase, mostly on corporations, in an amount running up to a maximum of about $2 billion.

In other words, I believe that the key to the tax situation lies in the business situation some three or four months off.

Will 1920-21 Recession Be Repeated?

Before closing, I want to refer briefly to the popular idea that history is bound to repeat itself along the lines of the 1920-21 recession.

The recurring waves of pessimism since the end of the war have stemmed in no small degree from this idea that the boom-and-bust cycle following World War I will be repeated. Everybody has become business-cycle conscious. It is taken for granted that we must have a recession—just as a hangover is expected after a binge.

This attitude has generated a lot of pessimism, and I think it has been a good thing. The sharp business collapse in 1920 was the product of a great speculative wave—in which every Tom, Dick, and Harry became experts in non-agricultural commodities often just by buying and reselling anything they could get their hands on. Inventory speculation was widespread, and it appears that something like 5% of our aggregate national production in 1919 piled up in business inventories in the great speculative spree.

The present postwar period seems to me to be more unlike that following World War I than similar to it. There has been far less speculation, and inventory accumulation has been relatively small. Probably no more than 2% of total national production went into inventory accumulation in any year since the war—as compared with 5% after World War I. Yet, World War II was a much bigger war, lasted a lot longer, cost us several times as much, and piled up purchasing power to a much greater extent than World War I.

Moreover, World War I ended with peace and disarmament. The government budget went down sharply, and by 1920, expenditures were reduced to $5 billion.

In contrast, we are now in a cold war and the budget is growing steadily. Who would have thought that in the fifth year after the war, the Federal Government would spend more than $45 billion a year? It is simply unrealistic to assume that we are in a normal peacetime situation like we had after World War I.

Moreover, the economic structure is now propped up in a number of places in a manner unheard of in 1920. We have a relatively stable money market and a protected government securities market. The government is determined to avoid the experience in the spring of 1920, when government bonds went through a downward spiral which brought the Liberty Loan 4¼s down to 82 in a very short time, and scared everybody badly.

Also, we have a whole system of props and supports for agriculture, a broad system of social security, mortgage insurance, deposit insurance, etc.

I mention these factors not to lead you into a sense of security which might be false but to emphasize again the matter of perspective. This is not 1920. Our economic machine may creak in many places just as it has in the last couple of years, but it is not cracking up.

Some industries and some companies are probably in for real trouble. But in looking things over, it is a good idea to try to balance out the pluses and minuses, to try to take a little broader look at the picture than you can see out of your office window. And it is wise to remember that old-time seasonal patterns are being reestablished in many industries. A look at old sales patterns may do a lot to keep things in perspective when difficulties arise.

Yet, I don't want to gloss over difficulties. Everyone should exercise great caution in the current situation. Give the weak spots their full share of attention but keep a corner of one eye open for the good things too.

Independent Congress Paving Way for Higher Stock Market

(Continued from first page)

system, is a mystery. But the President threatens to deliver this program over the heads of Congressmen—Democrats as well as Republicans—by going to the people—to inform them, no doubt, that their duly elected representatives are, mayhap, S. O. Bs. This is not the stuff of which a champion is made, but rather the stuffings of a demagogue.

Planning Protagonists Breeding Worry

No wonder the business world, here and abroad, is worried; that indices of production and prices are faltering; unemployment is rising. The same businessmen, big and small, who turned out the war supplies for us and our Allies and then produced products for peacetime recovery for here and abroad are now called "reactionaries" and "selfish interests." Simultaneously his leading economic adviser calls for controls over production and prices—even to the extent of empowering the government to go into business. This counselor states that the general welfare cannot be entrusted to business leaders but must rest in an authority delegated by the President. Mr. Keyserling also urges labor leaders to "be militant in your demands for continuing higher wages, there being plenty of room for these to come from the accruals of fat earnings in the last several years."

In short, the economy of the whole country is to be subjected to management by planners—the kind who predicted 12 to 15 million unemployed six months after the war was over and as a result purposely set in motion the postwar inflationary forces—the kind who a few weeks ago were demanding extraordinary powers to combat inflation—even while the whole world's economy was entering a deflationary cycle. Further planning toward the Welfare State, with pensions, benefit payments and free medical care for all, entails such huge expenditures that record high taxes must be levied on business. How about the stockholder, venture money and the capitalistic system. Visualize the following table after Truman's **FAIR DEAL SHOPPE** is established:

Increase since 1929 to 1948

Taxes	800%
Wages	120%
Dividends	20%

"Spend and spend and tax and tax" recalls memories of a philosophy that brought this country to industrial stagnation in 1939 with unemployment mounting to 12 million; from which dilemma World War II rescued the economy.

Congress Holding the Fort

The people not only gave no mandate for this program, they are against it. That is why their Congressmen are opposed. The President's plans for increased and excess profits taxes on business, legislation to restore unbridled privileges to labor leaders, and demands for stand-by powers to manage the entire economy **SHALL NOT PASS.**

Business prospects generally are excellent. For 2½ years industry after industry has adjusted from postwar boom to ordinary peace conditions. While one group is faced with inventory loss and a buyer's market, another is ready to begin on a new cost competitive basis. This return to a normal buyer's market may have another year to go before all businesses catch up. Prices are coming down for the benefit of the consumer. The savings on food and clothing will add much to the public's purchasing power. Even more than in the 1920s, the whole world faces a dynamic up-building with an unprecedented demand for goods and services.

The stock market so far has reflected only the threat to our free enterprise system inherent in the post-election political program. SEC-regulated and restricted markets have for years been more of a chart for psychotic emotional reactions than a barometer of business and economic factors. For instance, the Federal Reserve Board index of production is almost at a record peacetime high; the same applies to our national income. In spite of increased unemployment, more people are at work than a year ago. Our Federal, State and Municipal budgets call for record peacetime expenditures. The armament program for defense, ECA and the forthcoming Atlantic Pact, all signify unprecedented outlays of money. Yet there has never been such an opportunity to buy bargains in the stock market—even to the extent of buying working capital at a discount, the plants and long-established business good-will being thrown in for nothing.

The following representative list—by no means complete—epitomizes the investment opportunities which have been created by the adverse political factors—now fortunately disappearing:

	Approx. Net Working Capital	Approx. Book Value	Current Price	High 1946
Bendix Aviation	$38.00	$42.70	34	58
Boeing Airplane	36.20	41.40	23	35
Bohn Aluminum	32.20	47.41	24	74
Douglas Aircraft	91.30	124.34	56	109
Endicott Johnson	43.00	61.13	33	51
Eureka Williams	8.60	13.04	4	22
General Cigar	37.00	44.72	19	41
General Precision Equipment	22.86	29.50	15	41
General Tire & Rubber	20.00	53.00	20	60
Hart, Shaffner & Marx	38.00	61.00	23	61
Hercules Motors	20.00	32.00	13	39
Lee Rubber & Tire	80.00	67.90	42	82
Lima Hamilton	12.00	15.46	9	14
Lockheed	23.10	39.06	19	45
Mack Truck	28.60	38.04	12	39
Manhattan Shirt	34.05	42.74	17	47
Montgomery Ward	56.70	65.74	56	104
National Department Store	27.50	31.82	15	35
Niles Bement Pond	16.00	23.70	8	26
Pullman Inc.	50.00	58.00	32	69
Schenley Distillers	31.00	48.00	26	100
U. S. Industrial Chemical	26.50	65.34	20	62
White Motors	31.00	54.76	15	44
Yale & Towne	36.00	63.00	22	62

It is now a question of Congress or Chaos. Let us thank God for Congress, which is operating toward the banishment of businessmen's fear and the return of investor confidence!

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)	Mar. 20	102.0	101.4	100.0	97.5
Equivalent to—					
Steel ingots and castings (net tons)	Mar. 20	1,880,400	1,869,300	1,843,500	1,757,400
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Mar. 5	5,186,800	5,344,250	5,351,200	5,352,900
Crude runs to stills—daily average (bbls.)	Mar. 5	‡5,506,000	5,412,000	5,389,000	5,311,000
Gasoline output (bbls.)	Mar. 5	17,400,000	17,621,000	16,464,000	15,451,000
Kerosene output (bbls.)	Mar. 5	2,134,000	1,597,000	2,274,000	2,821,000
Gas oil and distillate fuel oil output (bbls.)	Mar. 5	7,004,000	7,330,000	7,003,000	7,354,000
Residual fuel oil output (bbls.)	Mar. 5	8,528,000	8,225,000	8,221,000	8,700,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Mar. 5	126,365,000	124,382,000	117,169,000	111,474,000
Kerosene (bbls.) at	Mar. 5	19,090,000	19,389,000	21,239,000	9,843,000
Gas oil and distillate fuel oil (bbls.) at	Mar. 5	56,416,000	57,746,000	64,175,000	32,749,000
Residual fuel oil (bbls.) at	Mar. 5	79,792,000	80,246,000	82,383,000	48,114,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Mar. 5	705,552	688,128	682,143	791,984
Revenue freight received from connections (number of cars)	Mar. 5	632,622	629,824	599,866	725,258
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Mar. 10	$184,579,000	$118,564,000	$131,155,000	$95,996,000
Private construction	Mar. 10	66,103,000	67,732,000	85,375,000	46,660,000
Public construction	Mar. 10	118,476,000	50,832,000	45,780,000	49,336,000
State and municipal	Mar. 10	67,962,000	33,150,000	35,587,000	30,254,000
Federal	Mar. 10	50,514,000	17,682,000	10,193,000	19,082,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Mar. 5	10,330,000	*10,870,000	11,385,000	13,179,000
Pennsylvania anthracite (tons)	Mar. 5	697,000	812,000	687,000	1,176,000
Beehive coke (tons)	Mar. 5	155,500	*160,900	161,300	126,300
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Mar. 5	243	232	229	266
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Mar. 12	5,530,629	5,551,611	5,722,086	5,284,641
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Mar. 10	179	185	192	102
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Mar. 8	3.75434c	3.75434c	3.75628c	3.27585c
Pig iron (per gross ton)	Mar. 8	$46.74	$46.74	$46.74	$40.37
Scrap steel (per gross ton)	Mar. 8	$36.25	$37.25	$37.58	$39.75
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Mar. 9	23.200c	23.200c	23.200c	21.200c
Export refinery at	Mar. 9	23.425c	23.425c	23.425c	21.600c
Straits tin (New York) at	Mar. 9	103.000c	103.000c	103.000c	94.000c
Lead (New York) at	Mar. 9	19.500c	21.500c	21.500c	15.000c
Lead (St. Louis) at	Mar. 9	19.300c	21.300c	21.300c	14.800c
Zinc (East St. Louis) at	Mar. 9	17.500c	17.500c	17.500c	12.000c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Mar. 15	101.68	101.63	101.62	100.73
Average corporate	Mar. 15	113.12	112.93	112.93	111.25
Aaa	Mar. 15	119.00	118.80	118.80	116.22
Aa	Mar. 15	117.20	117.00	116.80	115.04
A	Mar. 15	112.19	112.19	112.00	110.70
Baa	Mar. 15	104.83	104.66	104.83	103.64
Railroad Group	Mar. 15	108.34	108.34	108.52	105.86
Public Utilities Group	Mar. 15	113.89	113.70	113.31	112.93
Industrials Group	Mar. 15	117.40	117.20	117.20	115.24
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Mar. 15	2.38	2.38	2.38	2.45
Average corporate	Mar. 15	3.00	3.01	3.01	3.10
Aaa	Mar. 15	2.70	2.71	2.71	2.84
Aa	Mar. 15	2.79	2.80	2.81	2.90
A	Mar. 15	3.05	3.05	3.06	3.13
Baa	Mar. 15	3.46	3.47	3.46	3.53
Railroad Group	Mar. 15	3.26	3.26	3.25	3.40
Public Utilities Group	Mar. 15	2.96	2.97	2.99	3.01
Industrials Group	Mar. 15	2.78	2.79	2.79	2.89
MOODY'S COMMODITY INDEX	Mar. 15	370.5	375.8	375.6	408.6
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	Mar. 12	217.7	218.8	212.8	226.2
Fats and oils	Mar. 12	155.3	156.7	154.5	242.1
Farm products	Mar. 12	236.9	236.3	223.4	251.2
Cotton	Mar. 12	310.4	306.8	305.9	319.7
Grains	Mar. 12	205.1	205.7	192.5	264.6
Livestock	Mar. 12	236.2	235.9	219.0	241.6
Fuels	Mar. 12	235.9	237.0	238.1	228.6
Miscellaneous commodities	Mar. 12	167.3	167.1	166.7	172.8
Textiles	Mar. 12	190.8	190.5	190.7	211.3
Metals	Mar. 12	190.0	190.1	190.1	163.5
Building materials	Mar. 12	217.4	217.4	217.9	232.8
Chemicals and drugs	Mar. 12	142.5	142.5	143.8	157.0
Fertilizer materials	Mar. 12	142.9	142.9	143.3	137.6
Fertilizers	Mar. 12	150.5	150.5	151.3	143.0
Farm machinery	Mar. 12	155.6	155.6	155.6	138.1
All groups combined	Mar. 12	210.7	211.1	207.1	216.3
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Mar. 5	178,515	135,542	220,321	255,552
Production (tons)	Mar. 5	157,814	164,620	180,379	193,205
Percentage of activity	Mar. 5	79	80	87	104
Unfilled orders (tons) at	Mar. 5	287,302	267,685	343,983	480,791
OIL, PAINT AND DRUG REPORTER PRICE INDEX — 1926-36 AVERAGE=100	Mar. 11	139.1	139.0	140.4	146.4
WHOLESALE PRICES NEW SERIES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Mar. 8	159.0	158.8	156.9	161.0
Farm products	Mar. 8	171.6	170.5	162.5	187.1
Foods	Mar. 8	161.1	161.3	156.9	171.8
All commodities other than farm and foods	Mar. 8	152.3	152.3	152.9	147.6
Textile products	Mar. 8	142.2	142.3	143.1	150.0
Fuel and lighting materials	Mar. 8	135.9	135.9	138.0	130.9
Metals and metal products	Mar. 8	177.8	177.9	178.3	155.6
Building materials	Mar. 8	201.3	201.5	200.4	193.1
All other	Mar. 8	131.5	131.5	131.4	134.9
Special indexes—					
Grains	Mar. 8	164.6	164.6	148.4	216.2
Livestock	Mar. 8	208.1	207.0	195.1	220.0
Meats	Mar. 8	220.4	221.4	207.3	234.4
Hides and skins	Mar. 8	177.6	181.4	190.5	183.0

*Revised figure. ‡Includes 467,000 barrels of foreign crude runs.

	Latest Month	Previous Month	Year Ago
ALUMINUM WROUGHT PRODUCTS (DEPT. OF COMMERCE)—Month of January:			
Total shipments (thousands of pounds)	119,285	125,890	139,588
AMERICAN IRON AND STEEL INSTITUTE:			
Steel ingots and steel for castings produced (net tons)—Month of February	7,463,928	8,183,495	6,940,204
Shipments of steel products, including alloy and stainless (net tons)—Month of Jan.	5,761,959	6,056,282	5,410,438
AMERICAN TRUCKING ASSOCIATION— Month of January:			
Number of motor carriers reporting	303	*303	303
Volume of freight transported (tons)	2,726,974	*2,883,836	2,650,796
BUILDING CONSTRUCTION—U. S. DEPT. OF LABOR—Month of February (in millions):			
Total new construction	$1,146	$1,261	$1,391
Private construction	889	*974	1,080
Residential building (nonfarm)	425	490	550
Nonresidential building (nonfarm)	278	*292	312
Industrial	105	110	114
Commercial	84	*89	100
Warehouses, office and loft buildings	33	*36	38
Stores, restaurants and garages	51	*53	62
Other nonresidential buildings	89	*93	98
Religious	25	26	28
Educational	21	*22	24
Hospital and Institutional	11	10	10
Remaining types	32	*35	36
Farm construction	10	12	13
Public utilities	176	*180	205
Railroad	20	25	30
Telephone and telegraph	46	*45	55
Other public utilities	110	110	120
Public construction	257	*287	311
Residential building	4	*4	3
Nonresidential building (other than military or naval facilities)	104	104	106
Industrial	---	---	1
Educational	60	60	60
Hospital and institutional	25	24	25
All other nonresidential	19	20	20
Military and naval facilities	7	9	10
Highways	55	*68	80
Sewer and water	36	38	40
Miscellaneous public service enterprises	5	7	6
Conservation and development	36	46	54
All other public	10	11	12
COAL OUTPUT (BUREAU OF MINES)—Month of February:			
Bituminous coal and lignite (net tons)	44,458,000	47,170,000	50,395,000
Pennsylvania anthracite (net tons)	2,939,000	*3,722,000	4,675,000
Beehive coke (net tons)	632,000	*623,200	540,100
COMMERCIAL PAPER OUTSTANDING—FEDERAL RESERVE BANK OF NEW YORK— As of February (000's omitted)	$270,000	$268,000	$301,000
CONSUMER PRICE INDEX FOR MODERATE INCOME FAMILIES IN LARGE CITIES 1935-1939=100—As of Jan. 15:			
All items	170.9	171.4	168.8
All foods	204.8	205.0	209.7
Cereals and bakery products	170.5	170.2	172.7
Meats	235.9	241.3	237.5
Dairy products	196.0	199.2	203.0
Eggs	209.6	217.3	213.6
Fruits and vegetables	205.2	192.3	208.3
Beverages	208.7	207.8	201.9
Fats and oils	174.7	184.4	209.3
Sugar and sweets	173.4	173.0	183.4
Clothing	196.5	200.4	192.1
Rent	119.7	119.5	115.9
Fuel, electricity and refrigerators	138.2	137.8	129.5
Gas and electricity	95.5	95.3	93.1
Other fuels	191.8	191.3	174.6
Ice	139.0	138.4	131.2
Housefurnishings	196.5	198.6	192.3
Miscellaneous	154.1	154.0	146.4
COPPER INSTITUTE—For month of February:			
Copper production in U. S. A.—			
Crude (tons of 2,000 lbs.)	76,594	*69,438	82,959
Refined (tons of 2,000 lbs.)	80,275	78,298	93,588
Deliveries to customers—			
In U. S. A. (tons of 2,000 lbs.)	98,611	96,070	106,823
Refined copper stocks at end of period (tons of 2,000 lbs.)	83,841	91,053	70,146
DEPARTMENT STORE SALES (FEDERAL RESERVE SYSTEM)—(1935-39 Average=100) Month of February:			
Adjusted for seasonal variation	273	*288	286
Without seasonal adjustment	226	*227	238
METAL OUTPUT (BUREAU OF MINES) — Month of December:			
Mine production of recoverable metals in the United States:			
Copper (in short tons)	50,668	*51,318	70,361
Gold (in fine ounces)	151,267	*152,116	157,639
Lead (in short tons)	36,997	*36,504	30,567
Silver (in fine ounces)	2,925,798	*2,930,220	2,879,238
Zinc (in short tons)	55,141	*55,005	47,790
RR. EARNINGS — CLASS I ROADS (ASSOC. OF AMER. RRS.) — Month of January:			
Total operating revenues	$730,686,347	$806,553,949	$750,734,787
Total operating expenses	616,269,017	648,741,565	615,855,516
Operating ratio—per cent	84.34	80.43	82.03
Taxes	$67,629,077	$81,604,936	$79,004,455
Net railway operating income before charges	33,244,420	64,661,939	41,297,152
Net income after charges (est.)	14,000,000	58,000,000	19,000,000
TREASURY MARKET TRANSACTIONS IN DIRECT AND GUARANTEED SECURITIES OF U. S. A.—Month of February:			
Net sales	$1,750,000	------	------
Net purchases	------	$8,758,000	$177,355,550
UNITED STATES EXPORTS AND IMPORTS—BUREAU OF CENSUS—Month of January: (000's omitted):			
Exports	$1,085,100	$1,283,700	$1,092,000
Imports	589,300	721,700	545,788
U. S. GOVT. STATUTORY DEBT LIMITATION —As of Feb. 28 (000's omitted):			
Total face amount that may be outstanding at any one time	$275,000,000	$275,000,000	$275,000,000
Outstanding—			
Total gross public debt	252,721,282	252,620,408	254,604,511
Guaranteed obligations not owned by the Treasury	26,110	35,758	78,841
Total gross public debt and guaranteed obligations	$252,747,393	$252,656,167	$254,683,352
Deduct—Other outstanding public debt obligations not subject to debt limitation	785,345	790,679	843,292
Grand total outstanding	$251,962,047	$251,865,487	$253,840,059
Balance face amount of obligation issuable under above authority	23,037,952	23,134,512	21,159,940

*Revised figures.

The Blundering NASD

(Continued from page 3)

such a compelling financial need in a bread-and-butter way, that outsiders will be incapable of resisting.

It is true that many have joined up to prevent a substantial loss of earnings. That, however, is not the American way.

We wonder how long other organizations in industry characterized by such comfortable arrangements of special privilege would be permitted to continue!

On top of all this, the securities business is faced with the effrontery which asserts that membership in the NASD is wholly voluntary. The facts belie this false assertion which is the sheerest camouflage.

If Congress is at all mindful of the welfare of the people from whom its authority stems, if the public interest and the interest of investors and small business is a matter of Congressional concern, then and in that event this special monopolistic privilege, so harmful to both the public and the securities business, should be immediately deleted from the statute books and its recurrence made impossible.

Resting on a foundation of special monopolistic privilege, contrary to public interest and the interest of investors, is only one of the major NASD blunders.

We come to another, the NASD price control maneuvers.

If there is any one thing that has hurt the securities business more than the "5% spread philosophy and yardstick" imposed by the NASD as an interpretation, we have not discovered it.

Here is back door price fixing by fiat, by means of an interpretation rather than a rule which it really was, in order to circumvent the vote of the membership.

The cost of doing business—the profit motif—was never taken into consideration.

Of course the "5% spread philosophy" does not apply to new issues, but it does relate to secondary markets with disastrous effects on the flotation of new issues and on the over-the-counter market generally where the bulk of the securities of small companies are dealt in.

As a result of the 5% philosophy underwriters are deterred from taking mark-ups consonant with their heavy selling expenses and overhead and therefore do not make secondary markets in new issues to the extent that was formerly the case. The same holds true of other dealers that would step into the breach if the original underwriter and selling group did not elect to do so.

The net effect is that in many cases when an investor buys stock in a small new issue he is left holding the bag because he finds there is no market for it, or if there is, the bid price is so low he is obliged to take a big principal loss. So he becomes sour on his investment dealer and on over-the-counter securities generally, and as time goes on it will largely close the capital markets to small business.

It would be deceptive to claim that the intrinsic value of the underlying securities had any bearing on this condition, particularly in small issues which are mostly sold as a speculation.

In the case of original common stock issues, it was perfectly normal during past decades for small companies to pay from 15% to 25% for money and the same holds true today. Many small industrial, electric light and power, and telephone companies (most now are integral parts of the AT&T) got their start or expanded and added to the prosperity of the country despite the traditional cost to them for obtaining the necessary capital via the securities markets.

The Vandenberg Amendment, which simplifies the flotation of securities issues up to $300,000 by making unnecessary the expense of a full SEC registration, was intended to help small business, but because of the impediment of the NASD's "5% spread philosophy" the purpose of this amendment is being largely stymied.

In this country of ours, we have been raised under a free enterprise system which taught us that in barter and in sale the fixing of prices was a matter between the seller and the customer. The giving of adequate and attentive service was and is always considered a matter of sagacity fitting well into this system.

Now, in the securities field, service deserves a special commendation. There is frequently need for comprehensive statistical studies so that investors may be properly informed.

Where small business is concerned, the 5% spread limitation obviously makes such comprehensive statistical studies impossible. The result is that business, the public, and investors, are all adversely affected.

At the door of the NASD we lay some of the primary causes for the doldrums in which the securities business now finds itself.

By placing a limitation on discounts and participations between members and non-members, and creating this schism in the industry, thus preventing the fullest service to the public, and by limiting spreads in the face of a continuing rise in the cost of doing business, the NASD has spiked the possibility of the widest cooperation in the industry to acquire adequate statistical data and to serve its customers.

The NASD appears to be intent upon proving to the securities field that the working man is not worthy of his hire.

The whole sloppy mess wails for immediate correction.

The NASD clamors that its existence is in the public interest and, at the same time, by its action, is almost continually disproving this.

Here, again, we must look to Congress. Price control in the securities field must be made impossible.

The NASD is an OPA in the investment field, and its operations have been so deleterious, keeping the securities industry in such a constant state of fear, that its members, because of fear of reprisals, would not disclose the facts even in a Congressional hearing.

The real cure is in the abolition of the NASD. Wiping out the Maloney Act would do the job most neatly and thoroughly.

In the meantime, and as temporary relief, at least, all legislators should forthwith prevent the NASD from exercising any special monopolistic privileges.*

Congress should also prevent the NASD from dictating the extent of spreads in the sale of securities.

Intelligent finance will not support practices that work to the detriment of the small fellow.

NOW IS THE TIME FOR THIS AMENDMENT.

***The section of the Maloney Act that should be deleted is 15A(i) (1), which reads: "The rules of a registered securities association may provide that no member thereof shall deal with any non-member, broker or dealer . . . except at the same prices, for the same commission or fees, and on the same terms and conditions as are by such member accorded to the general public."**

Can the Government Maintain Full Employment?

(Continued from page 4)

proved to be very sharp—industrial production falling by one-third in the first seven months and by as much as 38% in a year. The *recession* became a genuine depression. The rate of decline was in fact more rapid than in 1929-30 when the shrinkage in industrial production was about 30% in the first 12 months. There was no significant recovery until the war preparedness program was launched in 1939.

The sheer volume of contraction in the private sector may well greatly exceed any practical possibility of expansion in the public sector. Starting from a high level of national production, employment, and income such as prevailed in 1948, a 30% slump would quickly reduce the rate of flow of money income by something like $60 billion a year.

The program as a whole is faced with an insuperable difficulty with respect to timing. The Council's analysis, prepared in December, is made available to the Joint Committee of Congress some time in January; and after conducting hearings this Committee must submit a report not later than the first of March for the guidance of various congressional committees having jurisdiction over one or another phase of economic policy. Before these committees could complete their deliberations and a comprehensive program and co-ordinated program be achieved—assuming it could be achieved at all—several months would have elapsed. Meanwhile a deep depression could have developed.

The only types of action that can be taken with considerable expedition are those for which congressional authority has hitherto been granted. As a practical matter action would have to be achieved along the lines pursued without effect in 1937. The most that could be hoped for would be that government disbursements might be on a substantially greater scale; it is hardly conceivable that they could rapidly be increased by as much as 40 or 50 or 60 billion dollars a year. The volume of public works authorized and blue-printed is likely to be limited in view of the demonstrated reluctance of the government in good times to postpone such undertakings for an indefinite period. In any case, much time is required to reach the stage of actual disbursement.

The Spence Bill Would Establish a Controlled Society

As indicated at the beginning of this address, the new full employment measure as embodied in the Spence bill is primarily concerned with the long-term development of the economy in line with national economic goals formulated by the government. It would vest in the President of the United States the power to formulate national production requirements in line with his conceptions as to what is necessary for the people's welfare. The President shall "determine approximately the quantity goals to which it is necessary and feasible to increase the supply within a specified reasonable period of time." He may contract with private industry, research laboratories, and scientific or educational institutions for research or development related to the improved utilization of designated materials or facilities, on such terms and conditions as the President deems necessary. He may make loans to private industry (particularly small or independent enterprises) or to state and local governments for the expansion of capacity and production—on such terms and conditions as the President deems necessary. And whenever the President finds that a person who has received financial assistance is unable because of unfavorable nation-wide economic conditions to pay current interest on or repay the principal of the loan such payments may be reduced or deferred in whole or in part. Finally, the President may also contract with private companies to construct new plants or expand or rehabilitate existing plant facilities and enter into contracts with private individuals for the operation of such plants. To this end the President is authorized to acquire real and other property, as he deems necessary.

While the Act does not expressly authorize the government to contract and operate the plants itself it may reasonably be assumed that if private enterprise proved reluctant (recalcitrant would presumably be the word) the President, according to Adviser John D. Clark, "is not afraid to take the final step" and become a producer.

Such a program in its conception is potentially more far-reaching in the scope of its influence than the socialization of key industries. It is essentially totalitarian. It would inevitably result in the elimination of the guidance of economic activity afforded by consumer demands as expressed in the market places and substitute therefor the judgments of government officials as to what the people need and can have. In due course it would mean the end of private enterprise.

Jacksonville Beach to Issue Revenue Ctfs.

Florida unit to borrow $1,650,000 for expansion of 4 utility systems

The regular meeting of the City Council of Jacksonville Beach, Fla., unanimously passed at its meeting on March 7, the third and final meeting of three governing ordinances for the proposed $1,650,000 revenue certificates for the improvement and expansion of the city's utility systems; the City Attorney, William A. Stanly, was authorized to proceed to have the certificates validated.

Wainwright, Ramsey & Lancaster, Consultants on Municipal Finance, New York City, made a financial survey and analysis, has prepared the financing program, and will assist the city in the completion of the financing plans.

It is expected that the major part of the certificates authorized by the City Council will be offered as soon as the validation is approved and the legal details completed.

C. I. T. Financial Corp. Sells Pfd. Privately

C. I. T. Financial Corp. March 16 announced the sale to Prudential Insurance Co. of America and the Metropolitan Life Insurance Co. of 200,000 shares of $4 cumulative preference stock at $100 a share for a total of $20,000,000. The Prudential Insurance Co. has purchased 150,000 shares and Metropolitan Life 50,000 shares of the issue.

The transaction was completed on March 16, 1949, and the proceeds increase consolidated capital and surplus of C. I. T. Financial Corp. to more than $168,000,000.

C. I. T. Financial Corp. now has outstanding $50,000,000 of $4 cumulative preference stock, having sold 300,000 shares at $100 a share, for a total of $30,000,000, on June 1, 1948. The corporation thus has completed the issuance of the entire amount of 500,000 shares of preference stock previously authorized by stockholders.

Harriet Holther in D. C.

WASHINGTON, D. C.—Harriet Holther is engaging in a securities business from offices at 1734 K Street, N. W.

As We See It

(Continued from first page)

which we find ourselves confronted. Whether there is a growing skepticism as regards all this or not is difficult to determine. It must be admitted, of course, that there is no clear evidence of anything of the sort, but the situation is now as always so obscured by the insistence of so many groups or elements in the population that they be fed liberally from the public trough, and the various means for so feeding them have been so intricately and so cleverly intertwined with popular notions of preventing depressions, that it is very difficult to appraise the current state of the public mind.

Aversion to Higher Taxes

There would appear to have developed a rather definite aversion to higher taxes—which at least some of the politicians seem to share. The curse of higher taxes, moreover, does not seem to be easily removed by half-veiled attempts to "soak the rich" for the extra income. It may be that the man in the street realizes more fully than has been supposed that the rich are already so fully "soaked" by the tax collector that there is little more to be squeezed out of them. Possibly employees have reached a point where they are afraid to have the big, bad corporations plastered with another excess profits tax, or a corresponding increase in income taxes, lest they find it increasingly difficult to get jobs. The precise facts about all this are not easily determined, but it does appear that the "tax and tax and tax" part of the well-publicized assertion attributed to the late Harry Hopkins has lost some of its potency as a means of electing and electing and electing, or at the least of making more feasible a program of spending and spending and spending.

There is likewise some evidence to support the notion that the public generally is no longer very keen about increasing its load of debt, at least not at the State and municipal level. The extent or the permanence of this change—if change it really is—can not be determined with any great degree of accuracy, and it remains to be seen what the popular attitude is or would be about corresponding increase in national debt. So far discussion has centered about the rate of reducing that debt. Faced with a real and substantial deficit which would have to be financed by substantial additional public borrowing, the reaction of the voter might or might not be what it seems to be in process of becoming at the State and municipal level. And in all these matters the rise of large scale unemployment could very quickly alter the attitude of the man in the street.

More Evidence Required

But however all this may be, the fact is that a mere change in the attitude of the public toward increased taxation or larger debt burdens is not nearly enough. We are, of course, familiar enough with the notions of such men as Professor Hansen and his followers, and others hardly to be termed followers of Professor Hansen, that public finance can be employed to "iron out" the business cycle, so-called, and leave us in a state of perpetual prosperity, but we are quite certain in our own minds that this whole structure of ideas rests upon foundations no more dependable than the shifting sands. The current trend of thinking, if superficial appearances may be accepted as a reliable guide, is in a direction opposite at most points to what the Hansens would advise, and for this we are duly grateful, but the fact is that the popular attitude in this one phase of the current situation is not enough, not nearly enough to prove deciding.

Nor is what appears to be strengthening aversion to higher taxes or larger debt by any means always consistent with other attitudes. In general, it is obvious, of course, that no higher taxes and no increase in indebtedness in actual practice can be consistent only with expenditures which are not increased. But enhanced outlays are being demanded, demanded in some instances by the same individuals who do not wish to have their taxes increased and are apparently reluctant to see public debt rise further. As often as not, the real drive behind these demands for greater expenditures derives its strength from the desire of this, that or the other element in the population for largesse or, as the more politic term of this day has it, benefits from government. The so-called compensatory spending theory is often evoked for the purpose of obtaining support for programs really desired for other reasons.

Readjustment Inevitable

But it is time for the public to understand that any threat of depression which may exist at present has deeper roots and is not likely to be removed—for more than a relatively short period at any event—by anything that is in prospect having to do with rates of taxation or borrowing, although it may be strengthened by programs contrary to the needs of the situation. At some time or other we shall almost certainly have to face some sort of drastic readjustment as a result of the war and of the New Deal nonsense which preceded it. That readjustment may be relatively mild and short-lived or it may be severe and prolonged, depending in large part upon how long it is postponed and in part by the willingness of the people to have the basic causes of the condition remedied, and this type of surgery must be of what the surgeon calls the "radical type"—that is, thoroughgoing and all embracing. Removal of the inflationary props which tend to hold the current situation up can be effected without severe consequences only if such removal is accompanied by abandonment of much of the New Deal nonsense which now holds private initiative in check. This latter fact is one which the rank and file should be reminded of day by day, and unless its simple truth can be made apparent to the general public the consequences may be too serious to contemplate.

But meanwhile some unfortunate incidental conditions have come into being and are taking their toll. Thanks to the New Deal boondoggling and to much that was said during the hey-day of the crack-pots in Washington, the term "public works" came to take on a queer significance. Today, however, the real needs of any community wishing to lead a civilized life have for so long been neglected that very large public expenditures are required to keep us a going concern. But resources which should be available for this purpose have been frittered away in sentimental nonsense or worse. The time has come for some serious thought.

Neither Boom Nor Depression In the Offing

(Continued from first page)

omission and commission of the last 30 years are bound to "come home to roost" at one time. It also seems to be part of their thinking that there is no escape from such an economic visitation, and that the only thing we can do is "prepare for the worst"!

While a lively concern for the future distinguishes man from the other animals, such concern should not reach pathological proportions! Unfortunately, in economic matters, we Americans are prone to espouse extremes. We are either "hot" or "cold"; everything is either black or white—there is no "between" for most of us. As a people, our economic glasses are alternately colored either the brightest rose or the deepest shade of blue. This evening, let us try to get the color out of our glasses long enough to get a clear view of what changed the November fears of inflation to the January, February and March fears of deflation.

Well, what has happened?

"Boom" Honeymoon Over

It seems clear to me that the greatest and longest business honeymoon in American history has finally come to an end. The catching-up period, of which you have heard so much, is over in nearly all lines. The expansion of credit, the expansion of production, the expansion of consumption—all seem to have come to an end or, at least, leveled off.

The powerful support given our economy by credit expansion in 1948 was a much bigger factor in postponing a business readjustment than is generally appreciated. While loans, discounts, and mortgages of commercial banks increased only $3.5 billion during the year, we must not overlook the life insurance companies, mutual savings banks and savings and loan associations, which increased their credit to private borrowers some $9 billion! Of this total expansion, it should be remembered that more than $1.5 billion was in consumer credit and some $5 billion was in mortgage credit, both of which categories have a direct and powerful effect on prices.

In view of regulation W and the high prices of real estate, and especially the stiffer attitude of lenders, we cannot expect a similar expansion of credit in 1949. In fact, it seems likely that we shall just about maintain the present overall level. How anyone can conclude that holding the present level of credit inevitably means that business activity will experience a decline of disastrous proportions is beyond my comprehension.

I presume that some businessmen have become so accustomed to the heady wine of continuous expansion that they feel they cannot exist without it. Unfortunately, many of them are correct in their conclusion. Because their growth has been in the hothouse atmosphere of inflation, they will be unable to meet the bitter test of the real competition which is now developing. But that does not mean that efficient producers and merchandisers will not pass the test with flying colors!

In addition to the probable end of credit expansion, prices in most lines are pointing downward. This means the end of "free rides." Inventory "profits" have been succeeded by inventory problems. The great pent-up demand of which so much has been made, has largely come to an end. In short, the productive capacity of the country has been so greatly expanded that the production of goods is now about in balance with the supply of money—that is, of demand deposits and currency.

All of this means that the war-born causes of inflation have about run their course and no longer exercise such great influence; in short, you must now look to the future, more than the past, for indications of the probable trend of business activity.

Estimates of probable future developments have always been, necessarily, highly tentative. Such estimates these days are even more tentative than in the past because business activity and the movement of prices are to such a large extent determined by the actions of the Administration and the Congress. And, certainly, I can't know what they are going to do when they don't know themselves!

Parenthetically, may I point out that one does not have to believe Keynes is the fountainhead of all economic virtue to recognize the almost controlling effect of government actions on business activity. The boom which we "enjoyed" during 1947 and 1948 should be ample evidence of the power of the government to postpone economic reckoning. In fact, the entire economic pattern of those two years bears witness to the dominant role of our government in business activity.

Or, looking ahead, Federal, state and local government agencies in 1949 will take from the income stream some $55 billions in taxes if not more. In addition, the states and municipalities will borrow several billions of dollars. Control of the disposition of such huge sums is bound to have fundamental effects on the economy.

Along these lines, the insistent demand of the Administration for additional restrictive legislation giving the President almost wartime powers over the economy of the country, merits close analysis. Under current conditions and business outlook, there is clearly no need for additional anti-inflation powers. It seems paradoxical for the President to demand powers to fight inflation when deflation is daily becoming more evident on every hand.

There must be a reason for the request—after all, the President does have some competent economic advisers! Let us speculate on the motivation back of this seeming paradox.

The Impact of Government Expenditures

The most reasonable explanation is that the Administration contemplates materially increased expenditures. Such expenditures might be for defense, at home and abroad, for support of agricultural prices, or for social objectives. From a political standpoint, a strong case can be made for almost unlimited expenditures for any one of these three.

For example, considerably increased expenditures for defense, especially for military lend-lease, would not encounter serious opposition. Such expenditures would increase the demand for steel, aluminum and the other nonferrous metals, and certain commodities which are in short supply, or in which demand and supply have achieved a precarious balance. Clearly, this would tend to renew the forces of inflation.

By the same token, if the Administration is preparing to ask the Congress indefinitely to maintain crop price supports at 90% of parity, billions of dollars of increased expenditure will be inevitable in the coming fiscal year. Moreover, price support at such a high level would cause great quantities of agricultural commodities to be either stored or shipped abroad without direct payment, which would reduce the supply available to American consumers and thus directly contribute to inflationary pressures.

As for the possibility of sharply increased expenditures for relief and other social purposes, our only safeguard is the Congress. The Administration has already proposed a vast enlargement of the area of government social benefits. In the campaign—and since—the determination of the

Administration to go as far as permitted in expanding government services of a social character was made quite clear.

So far, there is no direct evidence that the Administration intends sharply to increase expenditures, but the possibilities inherent in military spending, agricultural spending and social spending must not be overlooked for one instant. If sharply increased spending is going to be the policy of the Federal Government, obviously the cash budget will be unbalanced and deficit financing once m or e will be undertaken by the Treasury authorities. This would mean that we should have to reckon with the possibility of the renewal of the forces of inflation.

If this rationalization of the probable motivation underlying the requests for further government controls is correct—and, of course, it may not be; in fact, I hope it isn't—the economic implications are indeed far-reaching. Such a policy would unmistakably indicate the Administration does not want any downward movement in commodity prices, in the cost of living, or in wages! It would serve notice that the government plans to maintain the present high level of business activity regardless of economic trends and ultimate consequences.

However, since I am in Detroit, let me sound a special word of warning. The Administration and its advisers make a clear-cut distinction between the prices of agricultural products and the prices of manufactured goods. The recent market declines in wheat, corn, and other agricultural commodities—which merely canceled a part of the sharp increases of the war and postwar period, and thus brought agricultural prices into sounder alignment with the prices of manufactured goods—were regarded in Washington as calamities. In sharp contrast, the Administration and its advisers have categorically stated on innumerable occasions that the prices of manufactured goods are too high, although the price indices prove that the prices of most manufactured goods are lower today than the prices of agricultural products, when compared with prewar price levels.

The actions of the Congress and the Administration on additional credit and economic controls warrant your most serious attention. Such actions and the debates accompanying the legislation will not only exercise a considerable influence on the pattern of business, but also *will indicate clearly the type of economy which is being evolved in this great country of ours.*

Looking away from Washington for a moment, the business pattern is developing as expected. Conversion of sellers' markets into buyers' markets is continuing. General commodity prices are tending to recede, sales in many lines are declining, and unemployment is increasing. Nevertheless, underlying economic forces are strong enough to maintain a satisfactory level of business during the next 12 to 18 months (whether the Administration resorts to special measures or not), although both prices and employment may be somewhat lower.

Uneasy Business Feeling Unjustified

The uneasy feeling of many businessmen because of the decline in current orders and the melting of the backlog of past orders is unjustified. Such pessimism is the result of a short memory. Too many businessmen have forgotten what "good" business was like in those "ancient" prewar times when competition was a 24-hour-a-day headache. Those who can remember the thirties know that what is taking place is the return of production and distribution to normal seasonal patterns. With the return of the buyers' market, it is no longer necessary to hoard inventory for supply protection; nor to accumulate large quantities of goods because of fear that prices will increase sharply. In most lines, the consumer is once more king and expects to get *what* he wants, *when* he wants it, and *where* he wants it. This being the case, it behooves businessmen to readjust their psychology and policies to the conditions which existed before 1942. Although the volume of business will not drop to the prewar level, the methods of doing business and the terms of trade will tend to return to the conditions which prevailed in those years.

A depression, or even a severe business reaction, in the next few months is out of the question. Without a drastic reduction in the means of payment and a substantial decrease in the disposable income of individuals, a serious deflation cannot take place. In the immediate future, I see nothing which will materially reduce the means of payment; on the contrary, if unemployment increases a little more, the prospect is for a relaxation of some of the Federal Reserve credit restrictions. Neither do I foresee a serious decrease in the disposable income of individuals; on the contrary, as I intimated earlier, there is a reasonable prospect that the government may take actions which will increase the disposable income.

In conclusion, we are not witnessing a repetition of 1920. What is taking place is: (1) A realignment of prices which rose sharply with those which did not have such a rise; (2) and a quickening of the conversion from sellers' to buyers' markets accompanied by the return of competition. Keener competition will inevitably lead to greater efficiency on the part of both management and labor. High cost producers will be eliminated, but the low cost producers will inherit their volume. All of which, in my opinion, augurs well for the economy of the country. It is exactly what we all hoped for in the long, painful spiral between prices and wages, and now that it is here I do not see any reason for putting on "sackcloth and ashes"!

Future of the Securities Market

(Continued from page 7)

ience and necessity issued by some State official; the only way of getting a job is through a State organization.

But political philosophy isn't going to make profits attractive to the average worker. You can't eat freedom. The worker believes in the system that provides security. He believes in strong unions and a friendly government. The profit system let him down; during the depression. And the profit motive, which drove businesses to greater size and reduced production to smaller bits on bigger machines, disassociated employees from employers and oftentimes both from the product.

To the employee the job became a paycheck, nothing more. Wages and work loads became standardized. Incentive pay systems became regarded as a form of speedup. Firings for inefficiency became fewer as workers sought protection in union rules. Unemployment compensation reduced the penalty of disemployment. The result is that among the rank and file of workers, extra awards don't call forth extra effort. There isn't the spur of punishment for failure nor of unusual gains for outstanding performances — except to a very few.

The 19th Century had a powerful, self-justifying social dynamic: Profits. The man who made money made good. But now we're questioning profits. And the result is that many persons, who might be willing to risk their funds in common stocks, throw up their hands and say: What's the use? They seek what Ogden Mills used to call "The sweet simplicity of tax-exempts." Put your money in municipals and be done with it. Yet the timidity is illogical. The one way to amass a fortune these days is through capital gains. If you make a killing, the tax collector rates only 25%.

The Switch to Life Insurance For Security

The quest for security, the unwillingness to take risks, expresses itself in life insurance. When it comes to selling, life insurance salesmen have run rings around securities salesmen. Today life insurance premiums amount to $6.6 billion a year. That constitutes 75% of all savings in 1948. And that explains why insurance companies are constantly on the prowl for new investments—why they make long-term loans, or buy bond issues outright, or take large blocks of bonds when they consider the price is right. The insurance companies today represent great concentrations of money power, of investment power.

The insurance companies are worried by their own success. They own 30% of all railroad bonds outstanding; 70% of all the utility bonds. They have been financing the postwar expansion of industry by buying debt—helping business go into debt. But debt is only a sound investment—of insurance company calibre—if it is liberally cushioned by equity capital. So, ultimately, the insurance companies will expect industry to finance with preferred or common stock. So far, such financing has been semi-automatic. The stockholders provided the money — involuntarily. Postwar earnings have been high. Corporations held on to them.

Now, however, we may be entering a period when earnings won't be quite so luscious, when the amount of retained earnings will be reduced by competition, and when insurance companies—if they are to make additional loans—will want to see some common stock backing. Conceivably, the insurance companies may decide to provide that common stock money themselves. They may try to get states to permit them to invest some modest proportion of their reserves in common stocks. But that would add to the concentration of power in insurance companies. And it would also cut into your usefulness and importance in the distribution of securities. Insurance companies don't need the kind of assistance that individual investors need in purchasing securities.

Securities Market Now Professional

As is is constituted today, the entire structure of the securities market has been changed. It's largely a professional market. The big buyers and sellers are investment counsel, investment trusts, the trust departments of banks, and the insurance companies. One reason perhaps that the stock market doesn't get anywhere is that the public isn't in there to carry the swing along after the professionals stop playing footy with one another. The professionals all have their systems. They sell when the Dow-Jones average hits this level, buy when it hits that level. Or they use the formula method. As a result, the Dow-Jones industrials have moved back and forth over a 30 point range—less than 20%—for two and one-half years.

The future of the security business depends entirely on how intelligently the men in the business adapt themselves to this new world—a world of powerful labor leaders, a world in which profits—as profits—have fallen into disesteem. (A lot of people have the notion that a man who has a million dollars couldn't have come by it honestly unless he inherited it. And then, of course, it follows that his father was a crook!) It's a world in which customers of investment firms no longer are handed down from father to son, with a natural increase. They have to be dug out, rediscovered.

The history is painful. Back in 1929, four and five million share days on the New York Stock Exchange were frequent. Today a million shares are regarded as heaven. As a result, firms are dropping out of the business because they can't make a go of it, and newcomers are rare. Many firms have a hard time getting youngsters to follow through and become junior and then senior partners. Yet in the '20s, the well-adjusted man at Harvard, Yale or Princeton had his eye set on a seat on the Exchange!

Still a Substantial Business

Despite the withdrawals from the industry, the merchandising of securities still comes under the head of substantial business. About 3,200 brokers and dealers are registered with the SEC. The total net capital is about $800,000,000. Half that capital was in firms with memberships on the New York Stock Exchange. To my way of thinking, an industry that size cannot afford to go groping its way, not knowing where it's going but hoping for the best. If any of you were going into a new business, you'd undoubtedly insist on a study of the potential for the business. How many potential customers are there? Where will new customers come from? Will you be able to get a continuous supply of merchandise to sell? And, above all, you'd want to know, how permanent is this business? Is the function you'd perform essential?

You men specialize in knowing about other people's business. You have statisticians, analysts, and economists who know the trends in utility earnings, the sales performance of Montgomery Ward and Sears, the earning power of duPont and Allied Chemical. But you don't know whether your own business is a buy or a short sale. You ought to. Is it the kind of business you ought to stay in; and your son ought to get into? I'd like to know that too. For better or for worse, indirectly I'm in it too.

The Merrill Foundation for Advancement of Financial Knowledge has put up $100,000 for a study at the University of Pennsylvania of the over-the-counter markets—to determine the relation to the listed markets. I think an addditional study, perhaps an enlargement of the U. of P. study, is in order; a broad examination of the entire function of the securities markets. Do the security markets provide new capital for industry? Who are their customers? Where will new customers come from—the well-to-do, the middle class, or everybody? Can common stocks be sold to persons in the lower-income groups? After all, with social security and old-age pensions becoming part of our economic structure, perhaps common stocks may be suitable investments for persons of small means. What is the likely demand for new capital? Will corporations want new money? If the demand for capital is likely to drop, if the security business will be confined largely to trading in old issues, then obviously it's due for further retrenchment. And some more of you ought to get out.

Pavlov, the great Russian scientist, once tried an experiment with rats. He had three doors, one of which opened, two of which were locked. He put some food behind the open door. Soon the rat discovered he could jump against that door, open it, and get the food. After the rat became conditioned to that, Pavlov locked that door, put the food behind another door. But the rat kept banging his head away against the door he had been accustomed to open. He didn't learn. And he beat himself to death.

So here's the question for you to consider: Can the securities business find the new door? Have you the energy and guts to reanalyze and rediscover your function in a world in which investors are the political have-nots? Can you reexamine your own theories, beliefs, and preconceptions about the business?

More Effort at Selling, Less at Trading

Let's find out how important liquidity is. Do we need to keep the exchanges open six days a week, five hours a day? Ought we to devote more time to selling, less to trading? Are commissions sufficient to spur wider distribution of securities? A salesman who sells a $2,000 automobile will get a commission of $100. But the total commission on $2,000 worth of ATT is only $7.50. No wonder more and more sales effort goes into open-end investment trusts and over-the-counter securities. And it's barely possible that in days to come, because the over-the-counter market offers more incentive for sales efforts, that corporations may regard listing on a registered exchange as a liability instead of a stamp of success, of having arrived.

As I see it, we need to know three things:

First, what is the function of the securities markets—do they provide a flow of capital to industry at an optimum rate?

Second, will there be a continued demand for new capital in the United States?

Third, is the security industry organization, as now set up, best constituted to meet the needs of the future—reaching the investor, supplying the necessary capital to business?

Until we know the answers to those questions, we're pretty much like Pavlov's rat—banging away at the same door in the same old way. And instead of taking care of the future, we'll be supinely letting the future take care of us.

Halsey, Stuart Group Offers Wabash Equips.

An underwriting group headed by Halsey, Stuart & Co. Inc. and including R. W. Pressprich & Co. and Otis & Co. won the award March 10 of $3,165,000 Wabash RR. equipment trust, series B, 2¼% equipment trust certificates, due March 1, 1950 to 1964, inclusive. Certificates which mature 1950 to 1959, inclusive, are non-callable, while those maturing 1960 to 1964 are subject to call on and after March 1, 1954.

The certificates were re-offered, subject to authorization by the ICC, at prices to yield from 1.40% to 2.65%, according to maturity.

Issued under the Philadelphia plan, the certificates are the first instalment of a proposed issue of $9,690,000 trust certificates, series B. The aggregate principal amount of certificates being issued are to be secured by the following new standard-gauge railroad equipment estimated to cost not less than $12,154,249; 12 diesel-electric freight locomotives; six diesel-electric passenger locomotives; nine diesel-electric switching locomotives; and 20 passenger train cars.

Securities Now in Registration

● **INDICATES ADDITIONS SINCE PREVIOUS ISSUE**

● **Alaska Airlines, Inc., Anchorage, Alaska**
March 4 (letter of notification) 20,000 shares ($1 par) common stock. Price, about $4.25 per share. **Underwriter** —R. H. Johnson & Co. Proceeds to selling stockholders.

Allen Industries, Inc., Detroit, Mich.
Feb. 28 (letter of notification) not in excess of 6,000 shares of common ($1 par). **Price**—$8 per share. **Underwriter**—Baker, Simonds & Co., Detroit. Proceeds to selling stockholder.

● **American Lloyds, Dallas, Texas**
March 7 (letter of notification) 394 underwriters units at $500 per unit. No underwriter. To increase guaranty fund and surplus of American Lloyds, a fire and casualty insurance company.

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.

● **Associated Telephone Co., Ltd., Santa Monica, California**
March 10 filed 100,000 shares of cumulative preferred stock ($20 par) 5% 1947 series. **Underwriters**—Paine, Webber, Jackson & Curtis, Stone & Webster Securities Corp. and Mitchum, Tully & Co. **Proceeds**—For construction and to reimburse treasury for past outlays.

● **Bell Telephone Co. of Pennsylvania**
March 11 filed $25,000,000 25-year debentures, due April 15, 1974. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.; The First Boston Corp.; White, Weld & Co. and Union Securities Corp. (jointly). Expected in April. **Proceeds**—To be applied toward repayment of advances from American Telephone & Telegraph Co. (parent).

● **Blackbelt Elevator & Feed Co., Selma, Ala.**
March 10 (letter of notification) 2,106 shares of common stock. Price, $100 per share. No underwriter. To construct grain elevator.

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-Pacific Utilities Co., San Francisco, California**
March 11 filed 50,000 shares of 5½% cumulative convertible ($20 par) preferred stock. **Underwriters**—First California Co. heads a group of nine underwriting firms. **Proceeds**—To pay off short-term bank indebtedness and for the company's expansion program.

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.

Central Hudson Gas & Electric Corp. (4/5)
March 3 filed 20,000 shares of cumulative preferred stock. **Underwriters**—Names to be determined by competitive bidding. Probable bidders include Union Securities Corp.; W. C. Langley & Co.; Shields & Co. **Proceeds**—Payments on outstanding short-term notes. Expected about April 5.

Central Oklahoma Oil Corp. (3/21)
March 4 (letter of notification) 299,500 shares (10c par) common. **Price**—$1 per share. **Underwriter**—Henry P. Rosenfeld Co., New York. For expenses and working capital.

Chace Industries, Inc., West Chester, Pa.
March 7 (letter of notification) 68,000 shares of 6% non-cumulative preferred stock (par $4) and 68,000 shares of common stock (par 10¢). **Underwriter**—De Witt Investment Co., 910 West St., Wilmington, Del. To be offered in units of one share of each. Building of factory, installing machinery, working capital.

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.

Colorado Fuel & Iron Corp. (3/29)
March 2 filed $11,000,000 first mortgage and collateral trust 15-year sinking fund 4% bonds, due 1964. **Underwriter**—Allen & Co., New York. **Proceeds**—To prepay $7,250,000 of bank loans, to pay $1,600,000 due the War Assets Administration and to finance construction of other corporate purposes.

● **Commonwealth Edison Co., Chicago, Ill.**
March 16 filed $50,000,000 sinking fnd debentures, due April 1, 1999. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & Co. **Proceeds**—For working capital, construction costs.

● **Consolidated Photographic Industries, Inc., Tacoma, Wash.**
March 9 (letter of notification) 175,000 shares ($1 par) common, of which 100,000 shares will be sold at $1.50 per share and the remainder at $2 per share.

Continental Engineering Co. (4/4)
Jan. 28 (letter of notification) 500,000 shares of common stock (par 50c). Price par. **Underwriter**—William C. Hitchman Co., New York. For equipment and expenses.

● **Crader Oil Co., Inc., Fort Worth, Texas**
March 9 (letter of notification) 20,000 shares of common (par $1). Price, par. No underwriter. For operating expenses and for drilling and completing a test well.

Dallas Power & Light Co. (3/28)
Feb. 24 filed $10,000,000 first mortgage bonds, due 1979. **Underwriters**—To be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc., Kidder, Peabody & Co., Blyth & Co., Inc. and Merrill Lynch, Pierce, Fenner & Beane (jointly); The First Boston Corp; Equitable Securities Corp.; Harriman Ripley & Co.; Union Securities Corp.; Lehman Brothers; Salomon Bros. & Hutzler. **Proceeds**—For construction and to pay off short-term borrowings obtained from its parent Texas Utilities Co. Expected about March 28.

Eastern Gas and Fuel Associates (3/22)
Feb. 18 filed $12,000,000 25-year first mortgage and collateral trust bonds. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co. Inc.; White, Weld & Co. and Kidder, Peabody & Co. (jointly). **Proceeds** —For construction and to reimburse the company for past expenditures. **Bids**—Bids for purchase of bonds will be received at Room 1208, 250 Stuart Street, Boston, up to 11:30 a.m. (EST) March 22.

First Springfield Corp., Springfield, Mass.
Feb. 28 (letter of notification) 5,471 shares of common capital stock. **Underwriter**—D. J. St. Germain & Co., Springfield, Ohio. Additional working capital.

● **Formula Fund of Boston**
March 10 filed 100,000 shares of beneficial interest in the Fund.

Frontier Refining Co., Denver, Colo.
March 7 filed $600,000 5% first mortgage bonds, series of 1949, $150,000 of 5½% debentures, due March 1, 1954, and 5,000 shares of 7% cumulative preferred stock ($100 par). **Underwriters**—Peters, Writer & Christensen, Inc., and Sidlo, Simons, Roberts & Co., Denver, Colo. **Proceeds**—To be added to general funds to retire current bank loans and for other purposes including the expansion of facilities.

Gulf Power Co., Pensacola, Fla. (3/22)
Feb. 18 filed $2,500,000 30-year first mortgage bonds. **Underwriters** — Names to be determined through competitive bidding. Probable bidders: Equitable Securities Corp.; Halsey, Stuart & Co. Inc.; Otis & Co.; Kidder, Peabody & Co.; Union Securities Corp.; **Proceeds**—For construction. **Bids**—Bids for purchase of bonds will be received at office of Commonwealth & Southern Corp. (N. Y.), 20 Pine Street, New York, up to 11 a.m. (EST) March 22.

Hollingsworth & Whitney Co. (3/22)
Feb. 23 filed $8,500,000 3¼% sinking fund debentures, due March 1, 1969, and 61,510 shares (no par) common stock. **Underwriters**—Paine, Webber, Jackson & Curtis and Harriman Ripley & Co., Inc. **Proceeds**—To expand facilities of company's Mobile, Ala., mills.

Horwood Lake Gold Mines Corp.
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 (3/21)
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 about March 10.

Illinois Power Company (3/29)
March 2 filed 200,000 shares ($50 par) cumulative preferred stock. **Underwriters**—Names to be determined by competitive bidding. Probable bidders include Blyth & Co., Inc.; The First Boston Corp.; W. E. Hutton & Co. Co., Inc.; The First Boston Corp.; W. E. Hutton & Co.; Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—To pay off about $10,000,000 of short-term bank loans. Expected about March 29.

Kansas-Nebraska Natural Gas Co., Inc.
March 3 (letter of notification) 2,900 shares of $5 cumulative (no par) preferred stock. **Price**—$102 per share. **Underwriters**—Cruttenden & Co. and The First Trust Co. of Lincoln, Neb. To discharge indebtedness and pay for property improvements.

● **Liberty Magazine, Inc., New York**
March 9 (letter of notification) 15,000 shares of common stock (par $1). **Underwriting**—None. Price, market (about $1.25 per share). Proceeds to National Magazines, Inc.

Mack's Block & Supply Co., Wilmington, Del.
Feb. 28 (letter of notification) 20,000 shares of capital stock, of which 12,000 shares will be sold to public at $10 per share; remainder go to officers. **Underwriter**—John K. Walters & Co., Inc., Wilmington, Del. For new equipment, merchandise, land, goods and chattels.

● **Mississippi Power Co., Gulfport, Miss.**
March 11 filed $2,000,000 30-year first mortgage bonds. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Equitable Securities Corp.; Otis & Co.; Shields & Co.; The First Boston Corp.; Carl M. Loeb, Rhoades & Co. **Proceeds**—For construction.

Montgomery Chiropractic Hospital, Inc., Norristown, Pa.
Jan. 31 (letter of notification) 90,000 shares of common stock (par $1), of which 70,000 will be offered in behalf of the company and 20,000 shares on behalf of others. **Price**—$2.50 per share. **Underwriter**—Buckley Securities Corp., Philadelphia. Improvements, equipment, working capital. Expected this month.

Mountain States Telephone & Telegraph Co.
March 4 filed 241,101 shares of capital stock ($100 par). **Underwriting**—None. **Offering**—Stockholders of record March 23 may subscribe to the shares in the ratio of one share for each three shares held at $100 per share. Rights will expire April 26. **Proceeds**—To repay advances from American Telephone & Telegraph Co. (parent) and for general corporate purposes.

Murphy Chair Co., Owensboro, Ky.
Feb. 14 (letter of notification) 1,000 shares of common. **Price**—$1.125 per share. **Underwriter**—J. J. B. Hilliard & Son.

New England Tel. & Telegraph Co. (3/23)
Feb. 18 filed $35,000,000 25-year debentures. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Morgan Stanley & Co; Halsey, Stuart & Co. Inc. **Proceeds**—To redeem on June 1, 1949, at their principal amount $35,000,000 first mortgage 35-year 5% bonds, series A, due June 1, 1952. **Bids**—Bids for purchase of debentures will be received at Room 2315—195 Broadway, New York, up to 11:30 a.m. (EST) March 23.

Nielsen Television Corp., New York
Feb. 24 (letter of notification) 4,000 share of 6% cumulative non-convertible preferred stock (par $25) and 10,000 shares of common stock (par 25¢). **Underwriter**—Charles H. Drew & Co., New York. **Offering**—To be offered in units of one preferred share and 2½ common shares at $25.625 per unit. Capital requirements.

● **Noranda Oil Corp.**
March 7 (letter of notification) 81,084 shares of common stock (no par). **Underwriter**—C. K. Pistell & Co., Inc., and associates. **Price**—$1⅛ per share. Corporate purposes.

Northern Natural Gas Co., Omaha, Neb.
March 9 filed 406,000 additional shares ($10 par) common. **Offered**—To be offered to common stockholders of record March 30 at rate of one new share for each five held. **Underwriting**—None. **Proceeds**—For construction and to replenish working capital.

Ohio Public Service Co. (4/5)
Feb. 23 filed $10,000,000 first mortgage bonds, due 1979, and 1,000,000 shares ($5 par) common stock of which Cities Service Co. would sell 638,160 shares and the company 361,840 shares. **Underwriters** — Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc. (bonds only); Blyth & Co., Inc. (both); Merrill Lynch, Pierce, Fenner & Beane and Kidder Peabody & Co. (jointly on stock); Otis & Co. (bonds); Salomon Bros. & Hutzler (bonds); Lehman Brothers (bonds). **Proceeds**—Ohio would use proceeds for construction and to repay a $3,000,000 temporary bank loan. Cities would use proceeds from sale of Ohio stock to reduce its outstanding 5% debentures due 1958. Expected about April 5.

NEW ISSUE CALENDAR

March 17, 1949

St. Louis-San Francisco Ry------Equip. Trust Ctfs.

March 21, 1949

Central Oklahoma Oil Corp.-------------Common
Hotelevision, Inc. ---------------Class A Stock
Wisconsin Electric Power Co., 11:30 a.m. (EST)---------------Bonds

March 22, 1949

Eastern Gas & Fuel Associates, 11:30 a.m. (EST)---------------Bonds
Gulf Power Co., 11 a.m. (EST)----------Bonds
Hollingsworth & Whitney Co.----Debs. & Common
Scovill Manufacturing Co.-----------Preferred
Southern Pacific Co., Noon (EST)--Equip. Tr. Ctfs.
Sylvania Electric Products Inc.-----------Common

March 23, 1949

New England Tel. & Tel. Co., 11:30 a.m. (EST)---------------Debentures
Pacific Lighting Corp.-----------------Preferred

March 25, 1949

Illinois Central RR.-----------Equip. Trust Ctfs.

March 28, 1949

Dallas Power & Light Co.---------------Bonds

March 29, 1949

Chicago Milw. St. Paul & Pac. RR.--Equip. Tr.Ctfs.
Colorado Fuel & Iron Corp.---------------Bonds
Illinois Power Co.---------------------Preferred

March 30, 1949

Missouri Pacific RR.-----------Equip. Trust Ctfs.

April 4, 1949

Continental Engineering Co.-------------Common

April 5, 1949

Central Hudson Gas & Electric Corp.-----Preferred
Ohio Public Service Co.----------Bonds & Common

May 5, 1949

Public Service Electric & Gas Co.-----------Bonds

Oklahoma Gas & Electric Co.
Feb. 25 filed 89,000 shares ($20 par) common stock. **Offering**—To be offered for subscription by stockholders. The subscription offer will be made on the basis of one new share for each 10 shares of common held. Standard Gas & Electric Co., parent, plans—if the Commission permits—to subscribe for 50,002 shares of the proposed issue. **Underwriter**—None. **Proceeds**—For construction.

Pacific Gas & Electric Co.
Jan. 28 filed 754,038 shares of common stock (par $25). **Offering**—Offered at par to stockholders of record Feb. 25 at the rate of one new share for each 10 shares held. Rights expire April 8. **Underwriting**—None. **Proceeds**—For extensions, additions, etc.

Pacific Lighting Corp. (3/23-24)
March 4 filed 100,000 shares of $4.50 cumulative (no par) preferred stock. **Underwriter**—Blyth & Co., Inc. **Proceeds**—For construction.

Pepsi-Cola Bottling Co. of Wash., 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.

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) common stock. **Underwriter**—Aetna Securities Corp., New York. **Offering**—To be offered in units of one share each. **Price**—$3½ per unit. **Proceeds**—For purchase of equipment and working capital.

● **Progresso Oil & Development Co., Albuquerque, New Mex.**
March 9 (letter of notification) 19,000 shares ($10 par) common. Price, $11.50 per share. No underwriter. To drill test wells.

● **Rainbow Mining Company, Inc., Pueblo, Colo.**
March 10 (letter of notification) 150,000 shares of common voting stock (par $1). Price, par. No underwriter. For purchase and development of mining properties.

Scovill Manufacturing Co. (3/22)
March 2 filed 49,850 shares ($100 par) cumulative preferred stock. **Offering**—To be offered for subscription by common stockholders of record March 22 on basis of one new share for each 24 common shares held. Rights would expire April 6. **Underwriter**—Morgan Stanley & Co. will purchase unsubscribed shares. **Proceeds**—To reduce bank loans.

Southern States Iron Roofing Co., Savannah, Georgia
Feb. 21 filed 30,000 shares ($1 par) common stock, to be sold at $10 per share on behalf of three stockholders. **Underwriting**—None.

State Bond and Mortgage Co., New Ulm, Minn.
Feb. 28 filed $10,000,000 of accumulative savings certificate series 1217-A. **Underwriter**—None. **Price**—$85.68 per unit. **Proceeds**—For investment.

● **Stouffer Corp., Cleveland, Ohio**
March 10 (letter of notification) 1,000 shares ($5 par) common. To be sold to Wm. J. Mericka & Co., Inc., at $29 per share.

● **Super Market Stores Corp., New York**
March 7 (letter of notification) 140,000 shares of common stock (par 10¢). **Underwriter**—First Guardian Securities Corp., New York. **Price**—$2 per share. Development of business.

Sylvania Electric Products Inc. (3/22)
March 8 filed 250,000 shares (no par) common stock. **Underwriters**—Paine, Webber, Jackson & Curtis; White, Weld & Co.; Lee Higginson Corp.; Estabrook & Co. and Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—To expand facilities for making cathode ray television tubes.

● **Taylorcraft, Inc., Conway, Pa.**
March 15 (letter of notification) 15,137 shares of common stock (par $10). Price, par. **Underwriting**—None. Developing and expanding facilities.

Tennessee Odin Insurance Co., Knoxville, Tennessee
Feb. 28 (letter of notification) 10,000 shares (no par) capital stock. To be offered at $8.50 per share. **Underwriters**—Milhous, Martin & Co.; Stein Bros. & Boyce; Marx & Co.; J. C. Bradford & Co.; Equitable Securities Corp. (Dallas); Elder & Co.; Strader Taylor & Co.; Bullington-Schas & Co.; Fisher Hawes & Co.; Underwood, Neuhaus & Co. **Proceeds**—For account of Hamilton National Bank, Knoxville, for benefit of a trust.

● **Texas-Alberta Oilfields, Inc., New York**
March 9 (letter of notification) 297,000 shares of common stock (par 10¢). **Underwriters**—Company contemplates sale of stock both directly and through security dealers. **Price**—$1 per share. Engaging in geological and geophysical exploration for oil and natural gas, etc.

● **Thermoid Co., Trenton, N. J.**
March 10 filed 60,000 shares of common stock to be issued under a savings and stock bonus plan. No underwriter.

● **Triplex Corp. of America, Chicago, Ill.**
March 10 (letter of notification) 5,000 shares of common stock. **Price**—$10 per share. No underwriter. To pay obligations and improve working capital.

Mrs. Tucker's Foods, Inc., Sherman, Texas
Nov. 26 filed 200,000 shares of common stock (par $2.50) of which 80,000 will be sold by the company and 120,000 shares by certain stockholders. **Underwriter**—Rauscher, Pierce & Co., Inc., Dallas, Texas. **Proceeds**—For general corporate purposes.

● **Tucson (Ariz.) Gas, Electric Light & Power Co.**
March 16 filed 66,000 shares ($10 par) common stock. **Underwriters**—Blyth & Co., Inc. and The First Boston Corp. **Proceeds**—For construction.

● **United States Television & Mfg. Corp., New York**
March 9 (letter of notification) 46,500 shares of common stock (par 50¢), of which 41,500 shares will be sold in behalf of company and 5,000 shares in behalf of stockholder. **Underwriter**—Willis E. Burnside & Co., Inc., New York. **Price**—$1.625 per share. Company's proceeds will be used to discharge accounts payable and for working capital.

● **United States Tin Corp., Seattle, Wash.**
March 8 (letter of notification) 37,500 shares of non-assessable common. Price, $2 per share. No underwriter. For working capital.

● **Universal Haberdashery Depts., Inc., New York**
March 8 (letter of notification) 1,000 shares of class B stock (par $20). Price, par. Manufacturing of patented Universal Haberdashery Depts., etc.

● **Utah Power & Light Co., Salt Lake City, Utah**
March 15 filed $3,000,000 first mortgage bonds, due 1979. **Underwriters**—Names to be determined through competitive bidding. 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.; Otis & Co. **Proceeds**—For corporate purposes, including construction.

● **Virginia (Minn.) Hotel Company**
March 11 (letter of notification) 250 shares of common and 250 shares of preferred. Price (both issues), par ($100). No underwriter. To construct hotel.

● **Wiard Plow Co., Batavia, N. Y.**
March 14 (letter of notification) 40,000 shares of common stock (par $1). **Price**—$2.50 per share. **Underwriter**—None. Proceeds to selling stockholder.

● **Williston Fireplace Co., Seattle, Wash.**
March 11 (letter of notification) 100 shares of common stock (par $100). Price, par. No underwriter. To develop and acquire agencies.

● **West Coast Telephone Co., Everett, Wash.**
March 9 filed 35,000 shares ($20 par) common stock. **Underwriter**—Blyth & Co., Inc. **Proceeds**—To defray part of the cost of construction of additions and betterments of the company and its subsidiary, West Coast Telephone Co. of California.

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.

Wisconsin Electric Power Co. (3/21)
Feb. 14 filed $10,000,000 first mortgage bonds, due 1979, and 266,093 shares ($10 par) common stock. **Underwriters**—Bonds will be sold at competitive bidding. Probable bidders include Halsey, Stuart & Co. Inc.; Equitable Securities Corp.; Lehman Brothers and Salomon Bros. & Hutzler (jointly); Merrill Lynch, Pierce, Fenner & Beane; Union Securities Corp.; The First Boston Corp.; Blyth & Co., Inc.; Glore, Forgan & Co. Stock will be offered to existing holders of record March 22, at the rate of one share for each 10 shares held, plus additional shares not taken by subscription by other stockholders. Lehman Brothers and Robert W. Baird & Co. are co-managers of a group of dealers which will solicit subscriptions. **Proceeds**—To reimburse the company's treasury for capital expenditures. **Bids**—Bids for purchase of bonds will be received at Room 1901—60 Broadway, New York, up to 11:30 a.m. (EST) March 21.

Prospective Offerings

Alabama Gas Corp., Birmingham, Ala.
March 4 company asked SEC permission to sell competitively $6,000,000 first mortgage bonds, series A, due 1971. Probable bidders: Halsey, Stuart & Co. Inc., White, Weld & Co. and Kidder, Peabody & Co. (jointly); The First Boston Corp.; Salomon Bros. & Hutzler.

American Telephone & Telegraph Co.
April 20 the stockholders will vote on authorizing a new issue of convertible debentures to be offered pro rata to stockholders. The amount is to be determined later but is not to exceed $100 of convertible debentures for each six shares of stock held. On the basis of the number of shares outstanding at Feb. 15, 1949, the amount of the issue would be approximately $391,000,000. Debentures would be dated June 20, 1949, and will bear interest at a rate of not more than 3½%, would mature not later than June 20, 1964, and would be convertible into A. T. & T. stock at a conversion price or prices not exceeding $150 per share.

Arkansas Power & Light Co.
April 13 stockholders will be asked to approve the issuance and sale at public bidding of $8,300,000 sinking fund debentures, the proceeds to be used to finance part of the company's construction program. Probable bidders: Halsey, Stuart & Co. Inc., White, Weld & Co., The First Boston Corp., Lehman Brothers and Stone & Webster Securities Corp. (jointly); Equitable Securities Corp.

● **California Oregon Power Co.**
The company's annual report states that new offerings of corporate securities by it can be expected some time during the second half of 1949. Any such sale, according to A. S. Cummings, President, "will be based upon the company's needs, its ability to adequately service and the determination to maintain at all times a conservative properly balanced capital structure."

Cambridge (Mass.) Electric Light Co.
Feb. 24 company asked SEC authority to sell $2,750,000 25-year notes, series A, due 1974, through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co.; The First Boston Corp.; Kidder, Peabody & Co.; Otis & Co. For the purpose of funding presently outstanding borrowings.

● **Chicago Milwaukee St. Paul & Pacific RR. (3/29)**
The company has issued invitations for bids to be received March 29 for the sale of $6,060,000 equipment trust certificates series HH, to be dated April 1, 1949 and to mature in 30 semi-annual instalments of $202,000 Oct. 1, 1949 to April 1, 1964. Probable bidders; Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co., and Lehman Brothers; The First Boston Corp.; Harris, Hall & Co. (Inc.).

● **C. I. T. Financial Corp.**
March 14 company plans early registration of $50,000,000 10-year debentures, with Dillon, Read & Co., Inc., Kuhn, Loeb & Co. and Lehman Brothers as underwriters.

● **Detroit Edison Co.**
March 15 stockholders voted to increase authorized capital stock from 10,000,000 to 15,000,000 shares (par $20). This action was taken so that company will have available for issue not only enough stock for the probable conversion into capital stock of the recent issue of $46,641,400 of debentures, but also that it may have stock available for sale, if necessary, to carry on the $150,000,000 plant expansion program.

● **East Tennessee Natural Gas Co.**
March 15 reported company has plans under consideration for sale of about $10,000,000 bonds. The issue will finance construction of a natural gas pipeline to the Oak Ridge atomic energy project. It is thought that the bonds will be sold directly to institutional investors. White, Weld & Co. and F. S. Moseley & Co. of New York, Elder & Co. of Chattanooga and Equitable Securities Corp. of Nashville, are said to be arranging the transaction.

Ex-Cell-O Corp.
April 14 stockholders will vote on increasing authorized common from 500,000 shares to 1,000,000 shares. Company does not plan issuance of additional stock at this time. Traditional underwriter, Baker, Simonds & Co.

(Continued on page 46)

(Continued from page 45)

Florida Power Corp.
The stockholders at their annual meeting March 31 will consider proposed amendments to the certificate of reincorporation to provide for increasing the authorized preferred stock from 80,000 to 120,000 shares; increasing the authorized common stock from 1,210,000 to 1,600,000 shares and restricting the issuance of additional indebtedness maturing more than 12 months, or additional shares of preferred stock unless after such issuance the aggregate amount thereof shall be less than 75% of the total capitalization. Traditional underwriters of stocks: Kidder, Peabody & Co.; Merrill Lynch, Pierce, Fenner & Beane.

● **Foster Wheeler Corp.**
March 28 stockholders will vote on increasing the authorized common stock from 300,000 to 600,000 shares which, since 284,984 shares are now outstanding, would provide 315,016 for issue or sale. The management explained that when market conditions are favorable it should be in a position to obtain additional working capital through sale of new stock. If it does not do so the $10,000,000 of bank loans, which mature next Dec. 31, would have to be paid from earnings, which would mean restricted cash dividends on the shares. Directors have no plans at present for the sale of the additional stock.

Foote Mineral Co.
March 29 stockholders will vote on increasing authorized common stock from 25,000 shares to 100,000 shares, par $2.50. Disposition of additional shares not decided upon. No financing said to be imminent. Traditional underwriter: Estabrook & Co.

● **Idaho Power Co.**
March 16 company officials estimated that expansion program for next five years calls for expenditures totaling $50,000,000. Company's present plans call for the raising of up to $23,000,000 this year to meet the 1949 expenditures, through the sale of 200,000 common shares (par $20), 100,000 shares of preferred stock (par $100) and not exceeding $12,000,000 of bonds. Probable bidders for securities include Blyth & Co., Inc.

● **Illinois Central RR. (3/25)**
The company has issued invitations for bids to be received March 25 for the purchase of $6,360,000 in equipment certificates series CC. Bidders at the sale may submit alternate proposals for 1-to-10 year certificates and for 1-to-15-year certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co. and Lehman Brothers (jointly); Harris Hall & Co. (Inc.); The First Boston Corp.; Salomon Bros. & Hutzler.

Indianapolis Power & Light Co.
March 1 company has asked the Indiana P. S. Commission for permission to issue $8,000,000 first mortgage bonds and 107,226 shares of additional common stock. The new common would be offered for subscription by the present stockholders, in the ratio of one new share for each 10 shares held. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Otis & Co. (Inc.); Lehman Bros.; Blyth & Co., Inc.; Equitable Securities Corp. For stock: W. C. Langley & Co., Shields & Co. and White, Weld & Co. (jointly).

Jones & Laughlin Steel Corp.
April 26 stockholders will vote on increasing authorized indebtedness so that company may borrow up to $150,000,000. At same meeting stockholders will vote on increasing authorized common stock from 2,500,000 shares to 3,500,000 shares. Probable underwriter if securities sold: The First Boston Corp.

Kansas Power & Light Co.
Feb. 15 reported banking groups are being formed to bid for a probable offering by company of $10,000,000 in new money bonds. Offering expected late in March or early in April. Groups likely to compete include: Halsey, Stuart & Co. Inc.; White, Weld & Co.; Glore, Forgan & Co.; Equitable Securities Corp.; Blyth & Co., Inc.; Union Securities Corp.; The First Boston Corp.

Liggett & Myers Tobacco Co.
March 8 company contemplates offering 784,235 shares of unissued common stock for subscription for pro rata by common stockholders in the ratio of one new share for each four shares held. A registration statement covering the proposed offering will be filed with SEC this month. The purpose of the proposed financing is to reduce temporary bank loans required to finance leaf tobacco inventories and "to maintain a conservative capital structure." Decision on underwriting has not as yet been determined.

Merck & Co.
March 9 reported company plans to split its common stock two for one and to arrange new financing of $5,000,000 to $7,000,000. Details have not been completed. Traditional underwriters: Goldman, Sachs & Co. and Lehman Brothers.

Michigan Consolidated Gas Co.
March 9 reported company is planning sale of $14,000,000 in new bonds and $7,000,000 in preferred stock in late spring or early summer. Probable bidders: White, Weld & Co. and Salomon Bros. & Hutzler (jointly); Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Lehman Bros.; Harris, Hall & Co. (Inc.); Halsey, Stuart & Co. Inc. (bonds only); Harriman Ripley & Co., Inc.; Dillon, Read & Co.; First Boston Corp.

● **Minneapolis Gas Co.**
Feb. 23 stockholders voted to increase common stock from 1,100,000 shares to 1,200,000 shares (par $1). The additional stock will be offered for subscription by stockholders in ratio of one new share for each 10 shares held.

Missouri Pacific RR. (3/30)
Feb. 25 reported company plans sale of $4,250,000 equipment trust certificates, probably about March 30. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. and Lehman Brothers (jointly); White, Weld & Co.

● **New York State Electric & Gas Corp.**
March 12 company expects to finance its construction program in part through the sale of 160,000 shares of preferred stock (par $25) later this year, probably before July 1. Probable bidders: Harriman Ripley & Co. Inc.; The First Boston Corp. and Glore, Forgan & Co. (jointly); Blyth & Co. Inc. and Smith, Barney & Co. (jointly).

● **Niagara Hudson Power Corp.**
March 2 at hearing before SEC on proposed merger of system, Earle J. Machold, President, testified that cash budget requirements for construction purposes through 1951 would be about $105,000,000. In 1949, $40,000,000 is to be financed by mortgage debt. Later financing, Mr. Machold stated, would be difficult to predict at this time, but in any future financing the management would always have in mind the maintenance of a sound financial structure. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Kuhn, Loeb & Co.

● **Oklahoma Gas & Electric Co.**
March 10 Standard Gas & Electric Co. stated it proposes to sell in the near future 200,000 shares of Oklahoma common it now owns, plus any shares purchased through rights to be offered by Oklahoma to its stockholders to purchase 89,000 shares. (Standard will have right to subscribe for 50,002 shares). Probable bidders include: Merrill Lynch, Pierce, Fenner & Beane; The First Boston Corp.; Lehman Brothers; Goldman, Sachs & Co.; Harriman Ripley & Co.; Smith, Barney & Co.; Otis & Co.

● **Potomac Electric Power Co.**
March 11 reported efforts probably will be made to have company's proposed $37,000,000 new 20-year debentures thrown open to competitive bidding. This was indicated when Halsey, Stuart & Co. Inc., formed an investment banking group to consider a bidding proposal for the issue. The company March 8 told the Public Utilities Commission of the District of Columbia that it planned to sell the debentures privately to three institutional investors.

Public Service Electric & Gas Co. (5/10)
April 18 stockholders will vote on authorizing the issuance of $75,000,000 first and refunding mortgage bonds. Proceeds from the sale will be used in part to retire prior lien bonds, to pay off bank loans and finance company's construction and expansion program. Probable bidders: Halsey, Stuart & Co. Inc., The First Boston Corp., Morgan Stanley & Co., Kuhn, Loeb & Co. and Lehman Brothers (jointly). Bids expected to be opened May 10.

St. Louis-San Francisco Ry. (3/17)
The company has issued invitations for bids to be received March 17 for the purchase of $4,260,000 1-to-15-year equipment trust certificates. Proceeds from the proposed offering will finance for the road not more than 75% of the cost of new equipment. Probable bidders: Halsey, Stuart & Co. Inc., Harriman Ripley & Co. and Lehman Brothers (jointly); Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.).

● **South Carolina Electric & Gas Co.**
March 12 stockholders voted to increase authorized common stock from 2,021,460 shares to 3,021,460 shares. It is planned to offer common stockholders this spring additional shares of common stock in an amount sufficient to net approximately $2,000,000. Proceeds for construction purposes. Traditional underwriter, Kidder, Peabody & Co.

Southern Pacific Co. (3/22)
Company will receive bids at its office, Room 2117—165 Broadway, New York, up to noon (EST), March 22, for the sale of $15,900,000 equipment trust certificates, series AA, due in 10 or 15 equal annual instalments. Probable bidders: Halsey, Stuart & Co. Inc., The First Boston Corp., Harriman Ripley & Co. and Lehman Brothers (jointly); Salomon Bros. & Hutzler.

Staten Island Edison Corp.
Jan. 28 New York P. S. Commission authorized corporation to issue $2,750,000 30-year first mortgage bonds and $4,000,000 in new preferred stock. Proceeds from the bonds would retire the company's short-term indebtedness and provide funds required for expansion. Proceeds from preferred stock would be used by company to carry out its plan of recapitalization. Probable bidders on bonds: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co.; Kidder, Peabody & Co.; Otis & Co. On preferred: W. C. Langley & Co.; Kidder, Peabody & Co.; Stone & Webster Securities Corp. and White, Weld & Co. (jointly); Lehman Brothers; The First Boston Corp.

● **Sun Oil Co.**
March 15 stockholders voted to increase authorized capital stock by an additional 2,000,000 shares to 7,000,000 shares. A total of 4,928,597 shares of common stock were outstanding as of Dec. 31, 1948.

Virginia Electric & Power Co.
Feb. 18 directors approved plans for sale of $20,000,000 1st & ref. mtge. bonds. Competitive bidding is expected around June 1. Probable bidders: White Weld & Co.; Union Securities Corp.; Stone & Webster Securities Corp.; Halsey, Stuart & Co. Inc.; Glore, Forgan & Co. and W. C. Langley & Co. (jointly).

● **Westchester Lighting Co.**
March 16 company filed a petition with the New York P. S. Commission for authority to issue $12,000,000 of 30-year mortgage bonds. Proceeds would be used to redeem $9,993,000 general mortgage 4% bonds due 2004 and for plant construction. Probable bidders include: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce, Fenner & Beane; and Kidder, Peabody & Co. (jointly); Shields & Co. and White, Weld & Co. (jointly); Blyth & Co.; Lehman Brothers, Harriman Ripley & Co. and Union Securities Corp. (jointly).

● **Western Light & Telephone Co., Inc.**
April 8 stockholders will vote on increasing authorized preferred from 200,000 shares to 250,000 shares (par $25) and authorized common from 300,000 shares to 400,000 shares (par $10). This action is being taken to place company in position ot sell the stocks when market conditions are favorable. Traditional underwriters: Harris, Hall & Co. (Inc.) and First Trust Co. of Lincoln, Neb.

● **Wilcox-Gay Corp.**
March 14 stockholders authorized an increase in authorized common stock from 500,000 to 750,000 shares (par $1) and approved proposal to waive preemptive right to subscribe to additional shares. Company proposes to offer additional shares publicly, the proceeds to be used for additional working capital.

Our Reporter's Report

The New England Telephone & Telegraph Co. will consider bids next Wednesday on an issue of $35,000,000 debentures. Prospective bidders are scheduled to meet today with company officials to go over the data contained in the registration.

This operation, as in the case of other telephone issues—it is indicated, will bring bids from the aggregations led by the two banking firms which have been fighting it out tooth-and-nail for such business since the advent of competitive bidding.

Proceeds in this instance will be used to retire, June 1 next, an equivalent amount of first mortgage 5s maturing in 1952.

Direct Contact Effective

Those who are working on the job of rounding up subscriptions for the 880,000 shares of New York State Electric & Gas Corp., being offered to its own shareholders by General Public Utilities Corp., are finding that direct approach is the answer.

At least that is the experience of one of their number who is engaged in contacting dealers around the country. According to this banker "you can bombard them with contracts but a telephone call seems to work better."

In his own experience he has observed that the dealer when reached by phone invariably remarks, upon being reminded that he has a copy of the contract that "you can tell it to me easier."

Between now and the start of the Summer season the companies making up the vast Bell System will have floated approximately $551,000,000, almost entirely of new capital, if present plans are carried through.

This would suggest busy times ahead for the underwriting fraternity, but from the latter's point of view the foregoing figures are not nearly as impressive as they appear at first glance.

By far the bulk of this financing will be more or less direct, by-passing the investment banker and going directly to American Telephone & Telegraph shareholders.

The parent company's holders will vote at the annual meeting next month on a proposal to create a new issue on convertible debentures to be offered to shareholders in the ratio of $100 of the new issue for each six shares held.

This could foot up to $391,000,000 or thereabouts and on the basis of past performance only a fraction of the total might go unsubscribed. Likewise a New York Telephone Co.'s projected issue of one million shares of new common carries no allure for the bankers, since it would be taken by American Telephone & Telegraph which owns all but directors' qualifying shares.

The Bell Telephone Co. of Pennsylvania is scheduled to enter the market during April with an offering of $25,000,000 debentures. This will be a sealed bid project.

Columbia Gas 3s

Five groups entered bids for Columbia's Gas System's $20,000,000 of new 25-year debentures this week, with the issue going to the group which bid 100.057 for a 3% coupon.

Other bids, all fixing a 3⅛% interest rate, ranged from 102.1127 down to a minimum of 101.781. From a company standpoint the operation was the most successful on a cost basis in several years.

The group which acquired the issue fixed a reoffering price of 100.70 for an indicated yield of 9.96%, and among dealer circles initial demand, on that basis, was reported a bit on the slow side.

Forcing Competition

There are indications that Potomac Electric Power Co.'s plans to market $37,000,000 of new 20-year debentures by direct placement, may encounter a challenge.

Reports are current that at least one banking syndicate has been formed to bid for the issue and that this aggregation will demand Securities and Exchange Commission action to throw the issue open for competition.

It was indicated that the company had virtually worked out a deal whereby three institutions were ready to absorb the issue.

G. P. U. Offers Holders 880,000 Com. Shares Of N. Y. State Electric

The initial step in the distribution of 880,000 shares of common stock (par $25) of New York State Electric & Gas Corp., now owned by General Public Utilities Corp., was taken March 14 with the offering by the parent company to its stockholders of shares of the New York State utility.

G. P. U. has completed arrangements with The First Boston Corp., Lehman Brothers, Wertheim & Co. and Merrill Lynch, Pierce, Fenner & Beane to act as dealer managers of a nationwide group of securities dealers which will solicit subscriptions for and sell the common stock of the Electric and Gas company.

General Public Utilities' stockholders of record at the close of business March 10 are entitled to subscribe for such shares at $41 a share on the basis of one share of New York State Electric & Gas common for each 10 shares of G. P. U. common stock held. Transferable subscription warrants expire at 3 p.m., April 11, 1949.

Proceeds will go to General Public Utilities Corp.

Morgan Stanley Group Offers Columbia Gas System 3% Debentures

Morgan Stanley & Co. headed an investment banking group which offered to the public March 16 a new issue of $20,000,000 of 3% debentures, due 1974, of The Columbia Gas System, Inc. The debentures were priced at 100.70 and accrued interest to yield approximately 2.96% to maturity. The issue was awarded to the group at competitive bidding on March 15.

Proceeds from the sale together with the $11,725,000 the company realized from the sale of additional common stock in October, 1948, will be used in connection with the System's 1949 construction program which will involve expenditures estimated at $61,900,000. It is estimated that an additional $24,400,000 must be raised by the sale of additional common stock and debentures to provide funds for completion of the 1949 program.

The new debentures are subject to redemption at 104.35 on or prior to Feb. 28, 1950 and thereafter at prices decreasing to 100 on or after March 1, 1973. An annual fund of $650,000 commencing in 1953 is designed to retire approximately 68% of the issue prior to maturity.

Columbia Gas System, through its operating subsidiaries distributes and sells natural gas in 1,214 communities to more than 1,000,000 residential, commercial and industrial customers. Gas is also sold at wholesale to other public utilities for resale. Principal marketing territory includes large areas in Pennsylvania, Ohio and West Virginia. The population of the total area served by the System is around 7,000,000.

An interconnected unit, the System operates approximately 31,500 miles of gas transmission, distribution and field gathering lines. As of Dec. 31, 1948, substantial gas reserves were available to the System in the Appalachian fields and under long-term contracts from the southwest producing area in Texas, Louisiana, Oklahoma and Kansas. In connection with its gas utility business the company also conducts gasoline and oil operations.

For 1948, Columbia Gas System, Inc., reported total consolidated operating revenues of $120,142,433 and income before charges, applicable to The Columbia Gas System, Inc., of $17,903,433.

Giving effect to this financing the corporation will have outstanding $158,500,000 of debentures and 13,452,874 shares of common stock.

SITUATION WANTED

TRADER AVAILABLE

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HELP WANTED

CONTACT MAN

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Box G 317, Commercial & Financial Chronicle 25 Park Place, New York 8

SALESMAN WANTED

To represent well-established securities firm in St. Petersburg, Florida—dealing in all Over-the-Counter issues and Investment Trusts. All inquiries confidential.

FLORIDA SECURITIES COMPANY
601 Florida National Bank Building
St. Petersburg, Florida

DIVIDEND NOTICES

COMBUSTION ENGINEERING-SUPERHEATER, INC.

Dividend No. 179

A quarterly dividend of fifty cents (50c) per share on all the outstanding stock of the Company has been declared payable April 30, 1949 to stockholders of record at the close of business April 20, 1949.

OTTO W. STRAUSS, Treasurer.

Dividend Notice

THE ARUNDEL CORPORATION BALTIMORE MARYLAND

The Board of Directors of The Arundel Corporation has this day declared 25 cents per share as the regular quarterly dividend, on the no par value stock of the corporation issued and outstanding, payable on and after April 1, 1949, to the stockholders of record on the corporation's books at the close of business March 22, 1949.

MARSHALL G. NORRIS, *Secretary*

March 15, 1949.

Exide BATTERIES

THE ELECTRIC STORAGE BATTERY COMPANY

194th Consecutive Quarterly Dividend

The Directors have declared from the Accumulated Surplus of the Company a dividend of seventy-five cents ($.75) per share on the Common Stock, payable March 31, 1949, to stockholders of record at the close of business on March 15, 1949. Checks will be mailed.

H. C. ALLAN, *Secretary and Treasurer*

Philadelphia 32, March 4, 1949

New England Gas and Electric Association

COMMON DIVIDEND NO. 8

The Trustees have declared a quarterly dividend of twenty cents (20¢) per share on the COMMON SHARES of the Association payable April 15, 1949 to shareholders of record at the close of business March 31, 1949.

H. C. MOORE, JR., *Treasurer*

March 9, 1949.

DIVIDEND NOTICES

GENERAL REALTY & UTILITIES CORPORATION

DIVIDEND ON CAPITAL SHARES

The Board of Directors has declared a semi-annual dividend of 15 cents per share on the Capital Shares of the Corporation payable March 31, 1949, to stockholders of record at the close of business March 18, 1949.

SAMUEL M. FOX, Treasurer

March 17, 1949

THE GARLOCK PACKING COMPANY

March 9, 1949

COMMON DIVIDEND No. 291

At a meeting of the Board of Directors, held this day, a quarterly dividend of 25¢ per share was declared on the common stock of the Company, payable March 31, 1949, to stockholders of record at the close of business March 18, 1949.

H. B. PIERCE, *Secretary*

LION OIL COMPANY

A regular quarterly dividend of 75¢ per share has been declared on the Capital Stock of this Company, payable April 15, 1949, to stockholders of record March 31, 1949. The stock transfer books will remain open.

E. W. ATKINSON, *Treasurer*

March 8, 1949.

REYNOLDS METALS COMPANY

Reynolds Metals Building
Richmond 19, Virginia

PREFERRED DIVIDEND
COMMON DIVIDEND

The regular dividend of one dollar thirty-seven and one-half cents ($1.375) a share on the outstanding 5½% cumulative convertible preferred stock has been declared for the quarter ending March 31, 1949, payable April 1, 1949, to holders of record at the close of business March 23, 1949.

A dividend of twenty-five cents (25¢) a share on the outstanding common stock has been declared payable April 1, 1949, to holders of record at the close of business March 23, 1949.

The transfer books will not be closed. Checks will be mailed by Bank of the Manhattan Company.

ALLYN DILLARD, Secretary

Dated, March 10, 1949

DIVIDEND NOTICES

WESTERN TABLET & STATIONERY CORPORATION

Notice is hereby given that a dividend at the rate of $.50 per share on the issued and outstanding shares without par value of the Common Stock of Western Tablet & Stationery Corporation has been declared payable on April 11, 1949, to holders of record of such shares at the close of business on March 24.

E. H. BACH, Treasurer.

United Shoe Machinery Corporation

The Directors of this Corporation have declared a dividend of 37½c per share on the Preferred capital stock. They have also declared a dividend of 62½c per share on the Common capital stock. The dividends on both Preferred and Common stock are payable April 5, 1949, to stockholders of record at the close of business March 15, 1949.

WALLACE M. KEMP, Treasurer

Safeway Stores, Incorporated

Preferred and Common Stock Dividends

The Board of Directors of Safeway Stores, Incorporated, on March 4, 1949 declared quarterly dividends on the Company's $5 Par Value Common and 5% Preferred Stocks.

The dividend on the Common Stock is at the rate of 25c per share and is payable April 1, 1949 to stockholders of record at the close of business March 21, 1949.

The dividend on the 5% Preferred Stock is at the rate of $1.25 per share and is payable April 1, 1949 to stockholders of record at the close of business March 21, 1949.

MILTON L. SELBY, *Secretary.*

March 4, 1949.

SEABOARD FINANCE COMPANY

COMMON STOCK DIVIDEND

56th Consecutive Quarterly Payment

The Board of Directors of Seaboard Finance Co. declared a regular quarterly dividend of 45 cents a share on Common Stock payable April 10, 1949, to stockholders of record March 24, 1949.

PREFERRED STOCK DIVIDEND

7th Consecutive Quarterly Payment

The directors also declared a regular quarterly dividend of 65 cents a share on Convertible Preferred Stock, payable April 10, 1949 to stockholders of record March 24, 1949.

A. E. WEIDMAN, *Treasurer*

February 24, 1949

WARD BAKING COMPANY

The Board of Directors has declared the following dividends:

PREFERRED DIVIDEND—

The quarterly dividend of $1.37½ a share on the Preferred Stock payable April 1, 1949 to holders of record March 21, 1949.

COMMON DIVIDEND—

A quarterly dividend of 25 cents a share on the Common Stock payable April 1, 1949 to holders of record March 21, 1949.

L. T. Melly, Treasurer
475 Fifth Ave., New York City
March 10, 1949

WARDS TIP-TOP BREAD — WARDS TIP-TOP CAKES

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—There are two new facets to the outlook for governmental action with respect to price absorption as a result of recent maneuvers, already taken or in prospect, on this subject.

(1) Congress has said, in effect, that it doesn't see a chance of getting through in 1949 any legislation to "cure" the apparent antitrust onus against the use of freight absorption or basing points, and piously expresses the hope that maybe in 1950 Congress can get around to doing something about it.

(2) Congress seems inclined to adopt a general admonition to the Federal Trade Commission to please refrain from doing anything more about upsetting business pricing practices involving freight absorption, at least until the Supreme Court has once more passed upon the subject in the pending "rigid steel conduit" case, and if possible until Congress gets a chance to consider new legislation next year.

After the Cement case decision outlawing the use of basing points in that particular instance, business developed a great deal of worry over the legality of any basing point system. U. S. Steel adopted the strict f.o.b. pricing system, as did many another business, and industry generally was not reassured by the Federal Trade Commission's "assurances" that not all basing points were bad but only bad ones.

About this time Senator Capehart, an Indiana Republican, launched through a subcommittee of the Senate Interstate Commerce Committee a series of hearings which drummed up sentiment for doing something to counter the potentially devastating effect of the Cement case as interpreted by the FTC upon industry pricing practices.

With the election, the "Capehart committee" passed to the chairmanship of Senator Ed Johnson of Colorado, who is also Chairman of the full committee. Senator Johnson introduced a bill designed to legalize price absorption except where it was adjudged to be harmful.

In the meantime the Senate Judiciary committee, which actually has jurisdiction over the subject of amendments to the antitrust laws, asserted its unquestioned jurisdiction, but with the apparent intention of reporting out a bill, in effect telling the FTC and Justice Department for a period of a couple of years to launch no new actions against business pricing systems except where the same obviously were conspiratorial and against the public interest.

Likewise the House Judiciary committee reported out a similar bill with a "moratorium" on actions on pricing systems under the same broad definitions.

It looks tentatively as though some kind of a "moratorium" is slated to be adopted. Business generally is not expected to rely very heavily upon the seeming immunity from prosecution of such a moratorium, although it may cause the FTC and the D of J to lay off a lot of cases they might otherwise play with.

On the other hand, the effect of such a moratorium will be "moral" in the sense that the government, if it gets too enthusiastic about prosecuting business pricing practices capriciously, is in effect served with notice that it may run into Congressional ire. That may be an effective restraining influence upon the prosecutors.

In bringing forth the moratorium on price practice prosecutions, the Congress is by that action tacitly admitting (a) that it cannot this year work out an acceptable formula whereby business can legitimately absorb freight charges and adjust its prices to meet those of competitors in the same area, and (b) that even if it could conjure up such a formula proof against the demagogues, that it could not get such legislation passed under the hectic conditions now prevailing in Congress.

* * *

If the government is right in its forecasts, the private financial system will gobble up municipal housing authority bonds to be issued under the pending public housing and slum clearance bill, just about as fast as they hit the market. Thus the commercial banks and insurance companies will become in effect the most important supporters of public housing, if the scheme becomes law as now set up.

Under the pending public housing bill, a local or municipal housing authority is empowered to issue bonds to finance the project. Since these are on their face the obligations of a municipality, they are totally tax exempt, unlike Federal issues.

On the other hand, although the obligations of a municipal instrumentality, they are to all intents and purposes backed fully by the Federal Government. The Federal Government undertakes by contract to chip in annual contributions exactly equivalent to the debt service.

To illustrate: If the Bridgeport Housing Authority were to undertake to borrow $1,000,000 for a housing project, the Federal Government would undertake to make annual contributions for 40 years at a rate of 4½%. This would be ample, or more than ample, to cover interest charges and amortization.

Actually the Federal Government may not need to make the entire 4½% annual contribution. If the project earned $10,000 a year above operating costs—if it had any inclination to do so—that $10,000 would go to reduce the amount of the Federal contribution.

What is important, however, officials note, is that the Federal Government subsidizes the project up to the amount of the debt service, if necessary.

For that reason the bank supervisory officials, in a purely non-partisan attitude toward public housing, consented to amendments giving these bonds the same investment status with national and member banks as Federal and municipal issues. Banks may invest in them without regard to the standard prohibition against lending to or investing in any one creditor or issuer an amount greater than 10% of their capital funds. And they may underwrite these issues. They will be equivalent to Federal or municipal issues, except for the absence of the express guarantee.

There is also a new feature of the bill contrasting with the existing public housing act, enacted in 1937. Under the existing act, if a local housing authority offended the U. S. Public Housing Administration, PHA could cut off the annual contributions. Actually it was a remote possibility that PHA would ever cut off one of these little darlings, but so long as the main prop for the debt service could be removed, there might be a doubt. Under the new bill if a local public housing authority should do something nasty like packing a public housing development full of deserving Republicans, then PHA would not cut off the debt service, but would take over the project but keep the debt service going.

For this reason Washington is confident that public housing bonds, tax exempt and with a defacto Federal guarantee will sell well under 2%.

* * *

In the welter of news about plans for reorganizing the Federal Government, the primary factor affecting what actually does develop in the way of concrete plans for reorganization is what the President later may propose in the way of schemes for reorganization.

That is because, assuming that Congress empowers the President to initiate plans for reorganization, concrete plans likely to be put into operation will come chiefly from the White House.

What the Hoover Commission proposes is purely advisory. It may or may not outline what actually will be done. It is possible that the findings of the Hoover Commission may have an important influence upon President Truman, and hence in suggesting some of the outlines of actual reorganization plans.

On the other hand, the President is most likely to propose what appeals to him, and what appeals to him after the idea for any particular plan of reorganization has been kicked around among his advisers. Many of these advisers will have a stake in a reorganization, either in protecting the bureau they work for or in acquiring functions and activities from another bureau.

It follows that with the Hoover Commission on Organization of the Executive Branch of the Government having a large prestige, in any particular plan of reorganization which the President proposes, he will borrow as much of that prestige and backing as possible, by giving the reasoning of the Hoover Commission behind his own schemes, so far as they are relevant.

However, no one as yet professes to know what the President has in mind, with respect to any important detail, in the way of plans for reorganizing.

Congress is considering legislation empowering the President to initiate reorganizations which will become effective unless both houses jointly disapprove of them within 60 days. If the reorganization legislation goes through in this form, the President will acquire a very considerable initiative in this matter.

On the other hand, if the final law provides that a proposed White House scheme of reorganization may be vetoed by either House of Congress singly, then the President's actual capacity to achieve reorganization will be negligible. Most reorganizations would stand a chance of being overturned by a single House.

As each week goes by the President's popularity diminishes and the chance of the broader reorganization tends to diminish.

(This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.)

BUSINESS BUZZ

"Now, Honeybunch, what makes you think I have a girl in here?"

London Stock Exch. Official Year-Book Out

The first volume of the Stock Exchange Official Year-Book, made and printed in Great Britain, and now in its 75th year, has just been released in this country. This volume, containing 1,577 pages, contains the special chapters, general information, etc., and all the sections of preceding editions with the exception of commercial, industrial, etc., financial trusts, land and property, investment trusts and mines sections which are to be included in the second volume to be published in July, 1949.

The list of brokers who are members of the London Stock Exchange, the Associated & Provincial Stock Exchanges, the Provincial Brokers' Stock Exchange, etc., which was published in earlier editions has been reinstated and appears in the first volume.

The 1949 edition of the Register of Defunct and Other Companies will be published in July, 1949, simultaneously with the second volume of the Official Year-Book. It will include the final details of the many companies nationalized and dissolved under the Electricity Act, 1947.

The 1949 edition, which is published by Thomas Skinner & Co. (Publishers) Ltd., Gresham House, Old Broad St., London, E.C. 2, England, under the sanction of the Council of the London Stock Exchange, costs $30 for both volumes (duty paid) in the United States and Canada. Copies of the Year-Book may also be purchased from the same firm at 111 Broadway, New York, N. Y.