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Truman Denies Congress Fight

President, in speech to Mayors, blames troublemakers for reported bad feeling between Congress and himself. Attacks real estate lobby and predicts success of housing program, rent control, and other proposed measures.

President Harry S. Truman, in an address before the Annual Mayors' Conference in Washington on March 21, denied that he is in a fight with the 81st Congress and attacked the newspapers and commentators as "trouble makers." He spoke bitterly against the real estate lobby and assured his audience that his program for housing, rent control and other fair deal measures would be enacted. *The full text of the address follows:*

President Truman

I feel very much at home before this Conference of Mayors.

One reason is that I remember the hospitality and courtesy that so many of you showed me on my recent tours around the country.

I greatly enjoyed visiting your cities and talking to your citizens. I hope that someday I shall be able to visit you again and to go to some of the cities that I missed last fall.

Another reason for feeling at

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The Gentle Art of "Disinflation"

By EDWIN G. NOURSE*

Chairman, Council of Economic Advisers, Executive Office of the President

Denying he employs "calculated dissimulation" in using word "disinflation," President's leading economic adviser says "getting over fever of inflation is healthy process, and nothing to get jittery about." Says present problem is a transition to normal competitive economy without external stimulus of government orders and deficit economy, and calls for workable price and income relations, under which business can go forward. Defends governmental policy-making, along with "corrective private policy" as important constituents of national prosperity, and warns against fighting downward price adjustments by retrenchment.

A short time ago Mr. Edward Collins made some discriminating and not unfriendly comments in the New York "Times" on my use of the word "disinflation." He indicated that I used this word to describe "a situation in which the inflationary (upward) pressure on prices had been removed. It was, [I had] told newsmen, healthy and nothing for the public to get jittery about."

Edwin G. Nourse

Mr. Collins went on to comment: "There is always the risk that in using a word such as 'disinflation' his action might be construed—to lean momentarily on his own prefix—not as an essay in dissimilation, which it was, but as a return to the technique of calculated dissimulation of the Thirties." Now this is playing with big words which may be all very well for a financial writer in the New York "Times," but which I would not dare to indulge in as a

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*An address by Dr. Nourse at a luncheon meeting of the Executives' Club, Chicago, Ill., March 18, 1949.

Pacific Appeasement And Atlantic Alliance

By MELCHIOR PALYI

Noting cold war goes on unabated and Iron Curtain will not be raised, Dr. Palyi criticizes U. S. policy in China. Says Chinese Communism is Russian dominated, and a minimum of moral, technical and material support may still relieve China, if given in proper fashion. Points out vast economic importance of China and dangers in permitting its domination by Russia. Concludes we may lose everything by entangling our economic and political set-up with the Socialists of Europe.

I

Peace Offensive—At a Price

The excitement over the early January speeches of Communist leaders like Marcel Cachin and Togliatti in the French and Italian Parliaments, giving assurances of respect and peaceful intentions toward the United States, soon evaporated. Indeed, there was nothing about which to become excited. If M. Cachin does not berate us as being the usual war mongers, imperialists, etc., and even has a word of praise for American businessmen who try to build up trade with the Soviets, we need not become suspicious of his intentions. All we need is to realize that it is part and parcel of Communist policy, as has been asserted and reasserted by Lenin and Stalin themselves—the putting on and taking off of any diplomatic mask

Dr. Melchior Palyi

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EDITORIAL

As We See It

Encouraging in a Negative Sort of Way

It now appears beyond any reasonable doubt that the 81st Congress has no intention of playing a role of Charley McCarthy to President Truman. Conditions have changed a good deal since last November, for one thing, and for another the matriculate politician who is the usual member of the House or of the Senate, knows very well that most of the current mandate talk is stuff and nonsense. What is more, many of these legislators are not and never have been particularly interested in the "Fair Deal." Probably a majority of them have never had any abiding faith in the sort of philosophy that has for years been preached by the New Dealists and now, in still more extreme form, by the President's entourage of crackpots. On top of all this the President has taken pains, or so it appears, to irritate and to antagonize elements upon whom he has to depend if he is to succeed in persuading Congress to do what he wants it to do.

How encouraging this situation would be if we had more and better evidence that really constructive and

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The ECA and American World Trade Interests

By WILLIAM S. SWINGLE*

Executive Vice-President, National Foreign Trade Council, Inc.

Deploring misunderstandings regarding policies of ECA, Mr. Swingle denies its purpose is to dispose of burdensome American surpluses or is a new lend-lease procurement program. Says ECA should not hamper traditional flow of our exports and sees no validity in extending export controls, the enforcement of which might throttle American exports. Upholds reduction in trade barriers and outlines factors which can favorably affect American participation in international commercial relations.

World trade, and American participation in this trade, are presently affected by many important developments both here and abroad. I shall refer to certain factors which have particular significance to American export business. An influential factor is the policy and procedure, both present and future, of the Economic Cooperation Administration, or ECA, which is the effective means of putting into operation what is known as the Marshall Plan or European Recovery Program. The ECA is now approaching the end of its first year of operation and Congress is presently considering authorization and subsequent appropriations to cover the period to June 30, 1950. The requests made by the Administration, based on the estimates of requirements of the participating countries, have been $1,150,000,000 to carry the program forward until June of this year and an additional $4,280,000,000 for the succeeding fiscal year. This latter figure does not include China or Korea, and compares with $5,055,000,000 for the first 12 months.

William S. Swingle

We have had an opportunity to note the developments which have been brought about through ECA operations to this point and the recovery which has taken place in Europe. According to Administrator Hoffman's statements, the program to date has brought about reassuring results in the participating countries. For example, factory and mine ouput is about at prewar levels; electric power consumption is 65% above prewar; freight traffic one third above prewar; and gross capital investment by the recipients is six times the ECA dollar contributions. On the other hand, uncertainties still overhang the attainment of the long range objectives as indicated in the combined overall estimates of the participating countries for 1952.

I shall not attempt to go into all of the broad policy and procedure of ECA, either current or for the long range. There are some 33 or 34 specific responsibilities which ECA must undertake under present legislation and I believe we could well limit our consideration largely to the effects which ECA has on our export business. The dollars supplied by ECA to foreign governments either in the form of loans or grants are translated largely into exports of commodities from the United States.

Misunderstandings Regarding ECA Policies

Unfortunately, there have grown up misunderstandings as to just what ECA was supposed to do and how its objectives were to be accomplished. It might be well, therefore, to realize clearly the concept of the program in which we are engaged both as to the original proposal and as to the authorizations made by Congress to carry it out.

Contrary to claims made in some quarters, the program was not a plan to dispose of burdensome American surpluses, to set up a means for maintaining our high level of production, or to provide a subsidy to American exporters of all types and kinds of goods. As a matter of fact, most goods required under ECA are in demand here and throughout the world, and the implementation of the plan is requiring, and will continue to require, sacrifices on the part of American business due to the impact on our domestic and overseas operations.

One of the misconceptions, which still remains in spite of repeated clarification, is that ECA is a new lend-lease procurement program wherein a government organization enters the American market, buys up supplies, and ships them abroad; all this without reference to the ultimate foreign buyer who must pay in local currency into counterpart fund deposits abroad. The real function of ECA, as proposed and approved, is to provide a financing medium for purchases conceived and made by buyers in various recipient countries. The relation which it has, and will continue to have, to our export trade is therefore different from wartime operations, with which we are familiar, where goods were selected and procured by American Government agencies.

If we recall the original statement of Secretary Marshall in 1947, we realize that it was fundamentally a question of financing dollar deficits and providing goods required from our production. These deficits represented the differential between the self-help brought about by and among the participating countries and the total requirements for rebuilding their economies damaged by war and the dislocations resulting from the war. Western Europe required goods and services, which it did not have or could not quickly produce, to be furnished largely from the resources of the Western Hemisphere, and paid for in dollars which these nations could not provide through their own efforts. Without going into the details of the developments of the program and the analysis of requirements which have been made since 1947 by the European nations as to what they would need to rebuild their economies, the basic idea back of the Marshall Plan was to have the participating nations themselves determine what they could do through self-help outside the dollar area to bring about recovery and then have the deficit made up by placing dollars at their disposal. Therefore, it is logical that the recipient nations initiate the plans for recovery, decide what goods they need both for sustenance and for recovery, determine what they can supply one to another and obtain from non-dollar areas, and then look to ECA for approval and provision of dollar aid translated into goods and services.

No Dollars for Luxury Goods

There is no indication in this concept that dollars would be provided for non-essential items or for luxury goods. Shipments paid for, either from ECA funds or the self-created dollar resources of European nations, must be carefully checked and restricted to only essential items. Developments to build up intra-European trade provide as far as possible for the rebuilding of the economies of these countries with the minimum expenditure of dollars and drain on our economy. Under such a program there is a limited area for free choice of imported commodities and services from the dollar area.

Of serious concern at the present time are the restrictions being placed on many American exports to Europe. If the European Recovery Program is analyzed on a strictly academic basis, it would require as few American exports as possible. This need not go as far as indicated in a recent statement in "The Economist" that "American export industry may have to reconcile itself to the permanent loss of its European markets; it may have to permit discrimination against itself." A practical approach must always be kept in mind, not only for the present but also for the future place of American goods in European markets, particularly when American business, through taxation, is helping to provide the funds. On the other hand, without ECA assistance, the imports into Europe, particularly from the United States, would certainly have been lower. Severe cuts would have been made in manufactured goods rather than agricultural products because of restricted dollars. Many exporters now shipping at reduced levels could easily have been completely shut out of the European market.

Those who are affected generally appreciate the necessity for, and are willing to accept, the reduction in much of their European business because they realize that, without ECA funds, the recipient countries would not be in a position to buy with dollars or permit imports of many items even though they might like to have them. However, these same American businessmen, while they are willing to accept austerity on a temporary basis, do not want to

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*An address by Mr. Swingle before the Chicago World Trade Conference, Chicago, Ill., Feb. 28, 1949.

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Market and Business Panic Ahead!

By GAYLORD WOOD

Stock market technician holds every war since American Revolution has been followed by two major depressions. Declares we are now faced with 50% collapse in commodity prices, which in light of record-high inventories will entail general business bankruptcy and chaos, the most drastic in economic history of the U. S. Predicts stock prices will drop below 1942 levels, and will at least approach 1932 lows.

Approaching the problem from a number of different angles, I am forced to the following conclusion: *At the present time, America faces its worst depression.*

A study of past wars shows that every war has always been followed by two depressions, usually referred to as the primary postwar depression, and the secondary postwar depression. Following the War of 1812, a severe two-year depression started four years after the peace treaty was signed; the second depression started 11 years after peace was declared. The Civil War ended on April 9, 1865. A one-year depression followed immediately; the second depression started nine years after the war ended. World War I ceased on Nov. 11, 1918. The first depression started two years later—the second depression appeared 11 years after the Armistice.

Gaylord Wood

Wars drive industrial production out of balance in two different ways. (1) Goods are destroyed, instead of being consumed in normal channels. (2) Wars are usually financed by inflation. The pattern has invariably been the same — wartime inflation, followed by postwar deflation. There can be no doubt that World War II will be followed by two depressions.

First Depression The More Severe

My findings lead me to the conclusion that this time, following World War II, the *first* depression will be the most severe, the second depression the less severe. This is just the reverse of the pattern following World War I. There is one very important underlying difference in the two postwar periods. Following World War I, there set in a drastic decline in wholesale commodity prices. From mid-1920, the BLS commodity price index dropped around 45% in less than two years. But the counterbalancing element was the steady rise in real estate, and particularly in building activity. Construction contracts rose steadily in number from 1921 to the 1926 peak—sustained building activity ran through 1928.

Importance of Building Activity

The importance of building activity in the prosperity of the 1923-29 business boom (or in any boom) cannot be underestimated. The statement was made in the 1929 Census of Construction that building will on the average (directly) give a year's full employment to one man for roughly each $5,800 spent. (The figure would be higher today.) In brief, following World War I, the deflation of commodity prices was counterbalanced by the building boom. A rather regular rise and fall occurs in building activity. The current peak in building appears to have occurred in 1945. Logically building activity should lessen, and should reach its worst depression level in about the year 1953. Therefore the postwar era this time lacks the all-important supporting factor of continued building activity. This time there will be violent commodity price declines, *and steadily lessening building activity.*

Turning to the matter of major business depressions, there is a notable tendency for the peaks in building activity to be followed by a business panic within two to four years after the building peak. Peaks in building activity occurred in 1836, 1853, 1871, 1890, 1906 and 1925. In each and every instance, a severe business panic followed, never more than four years later. *The schedule would therefore call for a severe business panic not later than 1950.* It is my opinion the depression has already started.

Wholesale commodity prices followed the same pattern during and after the American Revolution, the War of 1812, the Civil War, and World War I: A sharp, vertical ascent—followed *in every case* by a drastic collapse in wholesale prices. I predict that commodity prices (BLS index) will have dropped from the postwar peak by 40% to 50% by the end of 1950. Translate a price drop of that severity into terms of the current record inventories ($54 billion), and it becomes easy to visualize the chaos in business that lies ahead.

Three Basic Dangers

The basic danger in the present business picture is threefold:

(1) *Historically high commodity prices.* In August, 1948, the Bureau of Labor Statistics index for all commodities rose to 169.2, a new record high since the year 1782.

(2) *Record level of factory inventories.* These inventories recently rose to $31,796,000,000.

(3) *Record high level of commercial-bank loans.* Bank loans in 1948 rose above $45,000,000,000, a new record high.

Here is the sequence of events which I predict will occur: All will be well until the high commodity price level plunges down in one of the most overwhelming breaks ever recorded. This collapse will cause the banks to call

(Continued on page 24)

Elements of Successful Salesmanship

By J. J. HENSLE*
New England Manager, Fuller Brush Company

Asserting salesmanship is a science and real profession and therefore must be studied, Mr. Hensle defines it as "securing progressively profitable patronage." Says a salesman is one who sells a customer something he didn't expect to buy and lists as fundamentals of salesmanship: (1) sticking to it and learning your wares; (2) know yourself; (3) know your customer; and (4) at close of sale, take care of yourself. Stresses giving value, getting customer's interest, and then convincing and satisfying him. Holds salesman should have ability, reliability, endurance, action, and, above all, enthusiasm. They also should know where they are going, how to get there, and be willing to pay the price.

It is always a thrill to see a group of men who are interested in salesmanship. Now, there must be a reason for that, and the reason is that, of course, it is the highest paid profession or job in the country. Now that, I think, will be very outstanding without mentioning the names; men like Patterson and those fellows who are drawing down income figures that you would need a blackboard about as long as this one to write them on. In other words, to any man going into any business, I suggest that he go into the selling end of the business. Of course, that is where the real money is, and that is where the opportunity is.

J. J. Hensle

Now, you have had quite a lot of classes here; I understand, six or eight classes. Salesmanship has been fully explained. I might say some things tonight that you have heard, and that is bound to happen. And I think after I get through, Mr. McCrossin will say some things that I will say, because after all, in this matter of salesmanship, why, you can't beat around the bush very much; it is just one thing, and that is going to be explained, if I can do it in the length of time that I have.

Now, this talking about salesmanship and selling reminds me of the minister that got up on Sunday morning, and this minister of that parish had been sick and he was called on to give the sermon that Sunday, and so he opened the book and found the mice had eaten up the pages overnight. I am going to start in where the mice left off.

Now, I can say this much gentlemen, after 30 years with this company and 15 years with another company, that you can't study enough, as you know, or read enough about this important subject of salesmanship. I am not going to try to be an orator or anything like that; I am not going to try to make a speech, but I am going to get down to some real facts, and whether you like me after we are through makes very little difference, but I am going to hit everybody, and I possibly might hit you pretty hard. You know, you have to be really shaken apart and waked up to the fact that salesmanship is a science; it is a real profession, it is something you have got to study, learn, practice, apply, not have it handed to you, and you don't get it out of a book, either. I told men years and years ago, when we were building this Fuller Brush business, that the way to learn how to sell was to go out and sell, and the customers will teach you a lot about selling, more than you realize.

The Sale in "Salesmanship"

Now, this matter of salesmanship is all in the name. So tonight I am going to talk about the sale in salesmanship, I am going to talk about the man in salesmanhip, and I am going to talk about the ship, which is the product. You have had a number of definitions of what salesmanship really is. Well, no matter what you had, I am going to give you my version, and it will be a very short one. But from what I understand—and I have profited by it—salesmanship to me is just four words, and you can write them down, and if you can build your business, whether it is investments or what it might be, around those four words, you will be all right. So the very simple definition of salesmanship is *"Securing Progressively Profitable Patronage."* Now, here is a business I have been in for over 30 years, and that is just what we are doing, securing progressively profitable patronage. Now, if it can be done in this business, it can be done in any business.

Well, now, that is one definition. In other words, we want to call on these people, make the contacts, make the sale, hold those customers and sell them often, and sell them for years to come. And that is what securing progressively profitable patronage means.

I have a man right now downtown that I bought some stocks from. I don't buy them from him every year, but there is never a Christmas goes by that I don't get a Christmas card from that man. He is not losing that contact. He has made a sale once and he is going to make it again, and he is going to follow that contact right through to the finish. In other words, if you get in his clutches, you are there forever; he is not going to let you get away. He realizes the value of securing progressively profitable patronage. So you sell this man, and you sell this one and this one, and you sell them successfully, and they are satisfied—which I am going to bring out on this blackboard—and you have those customers forever and you can keep on calling on them forever.

Now, another man says that salesmanship is the power or ability to influence people to buy at a mutual profit that which you have to sell, but which they may not have thought of buying until you called their attention to it. Now, that is the kind of business we are in when we get into this direct selling business, and selling in your business or my business is all the same, and I am going to try and prove that and bring it out.

Another man says that salesmanship is the power or ability—

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*These two lectures, by Messrs. Hensle and McCrossin, are the sixth in a series in a course on Investment Salesmanship, sponsored by Boston University and the Boston Investment Club, Boston, Mass., March 8, 1949. The first and second lectures in this series appeared in the March 3rd and 10th issues respectively of the "Chronicle." The third, fourth and fifth lectures, made by Mr. J. Donovan Emery, are being combined into one article by Mr. Emery and will appear in an early issue of the "Chronicle."

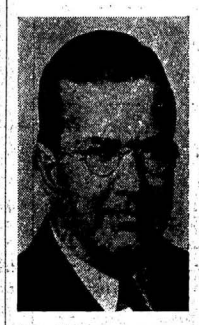
Do You Want Articles Under One Cover?

On this page we give two additional lectures in the series on Investment Salesmanship, sponsored by the Boston Investment Club and Boston University, transcripts of which are being published in the CHRONICLE. (The initial lectures appeared on page 4, in our issues of March 3 and March 10, respectively.) The Boston Investment Club advises that preliminary inquiries indicate that many firms, individuals and Associations in the investment industry are interested in obtaining all of the lectures under one cover. The Club is anxious to determine the maximum potential interest in such a brochure and, accordingly, requests that inquiries in that regard be sent to Dr. Douglas H. Bellemore, Chairman, Economics and Finance Department, Boston University, Boston, Massachusetts.—Editor.

By H. J. McCROSSIN*
Director of Sales, New England Division of Electrolux Corporation

Pointing out close resemblance between securities salesmanship and other forms of selling, Mr. McCrossin recommends use of "cold" contacts and abstention from insincere "smoothie" type of approach. Says attitude of salesmen should inspire confidence, and "a nice wholesome look," with neat, clean and honest appearance, are among salesman's important assets. Urges thorough understanding of securities for those who engage in creative selling.

I thought at the beginning when this program was first proposed to me that there was very little resemblance or relation to investment selling as compared to our type of selling. However, something actually occurred with me recently that caused me to change my mind a bit, and the remarks of these gentlemen of the committee led me to believe that perhaps there is a close resemblance between your form of selling and ours, which is direct selling, as Mr. Hensle so very well outlined.



Hilary J. McCrossin

I did my utmost to think of something that would be helpful to you people here, and an incident that happened to me recently came to mind. A very personable young fellow selling securities for one of the oldest brokerage houses in this country came into my office "cold" to interest me in buying securities. I thanked him and told him that I thought he had given me a good lead. The fact that a young man selling securities would call on a total stranger "cold turkey" gave me something to think about and something I thought I might talk about to you.

I honestly know nothing about securities or how to sell them, but because of this young man's coming upon me cold, I got the idea that maybe it would help if I were to mention to you in your business something that constituted a "fresh" approach. Certainly, to my mind, walking in "cold" to sell somebody something in securities was a "fresh" approach.

In this connection, recently I read an article in the "Wall Street Journal" and while it has to do with selling insurance, it can well apply to us all here tonight. A large group of insurance men decided upon an unusual experiment and the entire group deliberately went out at night to sell insurance on the "cold turkey" approach. This meant calling upon working people who were on a night shift and were coming out of factories at 11 and 12 midnight, as well as people who worked in all-night restaurants and diners, also gasoline station owners and attendants and other night workers. As I recall, the pleasant result of that unusual night's work was the successful writing up of $350,000 worth of insurance by the group collectively.

Good Training and Hard Work

I started as a salesman with my company 24 years ago, and without quoting the copy book or the golden rule of salesmanship too much, the success of my business, aside from being established on a quality product, of necessity, meant "good training and hard work."

I hope the following will be helpful to you. I have mentioned this matter to the estimable gentlemen on your committee. It was in 1930 and 1931 that the Assistant Dean of the School of Business Administration of one of our prominent universities asked me to interview the graduating class. I complied with this request on two different occasions, following which I had classes of six, seven or eight men — some local and others from various parts of the country, such as Cincinnati, Buffalo and New York City. The point I want to bring out is that, as I recall, I worked with these men very diligently with the hope of resultant benefits. However, not one of these men succeeded over a period of time. This, of course, was some years ago and it seems to me at that time it was popular and possible for a smart boy graduating from a fine college such as Boston University, Harvard or any other high grade school to go into your type of business, selling securities, soon becoming "customers" men and in many cases the job was only a sinecure. They were paid a nominal weekly salary which did not encourage incentive, but it seemed to be a satisfactory goal to them at that time. In the majority of cases, these jobs were secured through influence and family connections and, of course, could not be lasting, and did very little to encourage or stimulate creative selling or the desire to go out on their own and build a personal business. It gives me pleasure to be able to say that different conditions exist today. I am very fortunate to have in my employ at this time many young men with similar educational backgrounds, but who seem more mature, some married with the responsibilities of families, and in all cases, what appears to be a much firmer purpose and a willingness to work for success. The fact of your being here tonight to discuss and learn about selling is indicative of the change and advance over the period I spoke of previously.

Continuing with this thought, I would like to cite a discussion I had with a personal friend who was presented with a similiar problem. He is, by the way, the leading executive of one of the largest insurance companies in Boston. We were lunching together some years ago and in discussing the problem of hiring, developing and holding a good salesman, he told me that he had employed a young man from a very prominent Boston family. This young man was famed scholastically as well as athletically. In addition to this specific case, he had others in mind with similar backgrounds that he anticipated hiring. At this point I disagreed and pointed out the lack of sincerity in these men and the fact that when they had exhausted their families and personal friends—what then. I claimed that there was little to gain even from the prestige of having someone of this nature in the business for a short time, selling their Aunt Mabel or their Cousin Bill and then dropping out. A successful selling business cannot be satisfactorily conducted on this basis. I would consider it very impractical in my business.

The "Cold" Approach

As recent as tonight, I was asked how many times a security salesman approached me "cold" without my being a previous customer of his—and I was obliged to answer that this happened only twice in my life. The first man

(Continued on page 34)

Observations . . . .

By A. WILFRED MAY

From Blue Sky to Cemetery: '29—'49

PART TWO

In last week's column we cited the contrast between the large *discounts* below asset values at which the market is presently valuing the closed-end "investment trusts," and the multiple *premiums* freely paid in the 1920s, as illustrating the great oscillations in Wall Street attitudes.

The public utility holding company has similarly been supplying the focal point of manic - depressive investor behavior over the long term.

A. Wilfred May

The Prelude

Before referring to holding company manipulations of the 1928-1929 period, let us take a look at previous practice in this field. *Already in 1927,* Professor W. Z Ripley[1] made this comment on the then prevalent situation:

"Another danger and practice [in utility finance] is the double shuffling and bandying of corporations about from hand to hand without suitable let or hindrance. The utter obfuscation of account, almost inevitable in these set-ups, and the public aspect of it, evasion, cannot be overlooked . . . We used to think that the pedigree of some of the traction companies in the city of New York was a trifle involved, but this mass of corporate involution put that early achievement entirely to shame."

1927

In 1927 the Northeastern Power Corporation, then at the apex, but later a relative base, of one of these structures, was described by Professor Ripley as follows:

"The Northeastern Power Corporation is indeed an apposite example of amazingly complicated involution. What a gulf there is between the consumer of gas who is served by the Municipal Gas Company of Albany and the real head of the concern. All of the stock of the Gas Company is owned by the Mohawk Hudson Power Corporation. A little less than 20% of the stock of this company is in the treasury of the Power and Electric Securities Corporation. Then the Power Corporation of New York in turn owns all the common stock of the Power and Electric Securities Corporation, but all of its preferred shares were held the other way round; that is to say, by the Mohawk Hudson Power Company. This introduces a slight complication. Nor does the Power Corporation of New York stand on its own feet; because a large proportion of its common shares are owned by the Northeastern Power Corporation, the top company. Then the serpent swallows its own tail in part, because some 75,000 shares of the Northeastern are owned by the Mohawk Hudson Power Corporation, which has already been described as standing halfway up this extraordinary genealogical tree. But that is only half the story, which is too complicated to be fit to print. When one enters upon the ramifications of the New England Power Association, the New England Power Company, the Connecticut Power Company, etc., each one of these seems to be owned by and yet to own a substantial block of the shares of the other. It would turn the hair of a Philadelphia lawyer gray to disentangle these relationships. . . . More recently still is the project of the Northeastern which issued three classes of no-par stock from top to bottom, coupled with the minor omission in the prospectus of any statement of income whatsoever—possibly because at the time of flotation the project seemed to be enjoying none. Under such circumstances, both earnings and stock bases being equally ethereal, the charge of overcapitalization can scarcely be substantiated. One is left, therefore, at liberty to give free play to the imagination in deciding what this relationship of assets to capitalization actually is."

1929

But that was only half the story! Here is the epilogue; when the market really went to town instead of the previous child's play:—

In 1929, Northeastern Power exchanged its own stock for shares in a new super-super holding corporation, christened the Niagara Hudson Power Company, formed to acquire stock in the Northeastern, the Mohawk Hudson and the Buffalo Niagara and Eastern power companies. I find that the Northeastern in 1928, its most successful year, had earned exactly $1 per share, and its stock had been selling at an average price-earnings ratio of 25-to-1. But even this high price-earnings ratio was apparently unsatisfactory to its owners. For they formed the Niagara Hudson Power Company, which exchanged two and two-thirds of its shares for each share of Northeastern and sold its own stock to the public at $25 per share, thereby automatically marking up Northeastern stock to a 67. Soon Niagara sold up to 30, so our old friend Northeastern was selling at the equivalent of 84; these prices paid by the public representing the fantastic price-earnings ratio of 84-to-1—prices eagerly paid by those "investing" individuals fortunate enough to be included in the "insiders' preferred lists" of the investment bankers.

1949

Now contrastingly, in our dog days of '49, instead of the above-described earlier multiple-pyramiding the market public is barely willing to buy Niagara Hudson Power stock, representing substantially similar properties, at a 40% discount from the deflated prices of the underlying assets, and at barely 8 times their earnings. Furthermore, this latter already heavily discounted Niagara Hudson Power stock is in turn, with other assets selling at an additional discount of 40% under the market's appraisal of Niagara Share Company, a general management investment company, in whose portofilio it is.

* * *

United Corporation "THEN"

Another striking instance of the pendulum-swinging of investor appraisal of a particular security is furnished by the history of the United Corporation. In January, 1929, very substantial minority interests in the United Gas Improvement Company, the Public Service Corporation of New Jersey, the Mohawk Hudson Power Company, the Commonwealth and Southern Corporation, the Allied Power and Light Corporation and the Columbia Gas and Electric Company exchanged their holdings for shares in a new holding company which they named the United Corporation. The equity of the new parent, United, in the earnings of its subsidiaries was at an annual rate of 56 cents per share, and in dividends 28 cents per share. The book value of the new structure, based on the market prices of the constituent units, was $32 per share. But, despite this easily calculable asset value, and the fact that those assets were already grossly inflated before and while the holding company was formed, the public eagerly ballooned-up the shares of the new structure to $75—a price doubling the inflated asset-value and representing a price-earnings ratio over 100-to-1. That is, that part of the market *elite* which was admitted to the "preferred customer lists," considered the mere use of another holding-company instrumentality reason for doubling its asset-valuation and quadrupling the earnings ratio.

"AND NOW"

Now—in dramatic contrast to this former blowing-up by the public—the United Corporation, largely embodying its original assets, is selling on the New York Stock Exchange at a *discount* of about 40% and at an earnings ratio of only 8½-to-1 in lieu of the former 100-to-1.

Not only in the case of United Corporation, but holding companies generally, the market now increases the discount in correlation with the investor's distance from the assets, both as to time and degree. Thus the reason often ascribed for current holding company discounts is the possibility of delay in the accomplishment of dissolution—irrespective of the uninterrupted accrual of income. This estimate by the public of removal from assets as a liability in lieu of the previous payment of enormous bonuses for just such removal and for the accompanying corporate obfuscation, furnishes another insistance of the manic-depressive processes of the American investor!

* * *

P. S.—and not irrelevantly—The New York Stock Exchange reports the occurrence of a sharp rise in the short interest during the 30-day period ended March 15; marking the third successive "bearish" month in which there have been substantial increases in the size of the short-selling public, calculated both absolutely and in relation to the volume of trading.

[1]In "MAIN STREET AND WALL STREET"—LITTLE, BROWN & CO., 1927.

Charles R. O'Donnell Is With Harris, Upham Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Charles R. O'Donnell has become associated with Harris, Upham & Co., 135 South La Salle Street. Mr. O'Donnell was previously in the trading department of Cruttenden & Co.

With F. L. Putnam

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, MAINE—Payson Gordon is with F. L. Putnam & Co., Inc., 97 Exchange Street.

The State of Trade and Industry

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

Total industrial production in the United States last week reflected a mixed trend with advances in some lines, offsetting declines in other goods and resulting in an encouraging overall picture of continued high output.

For the latest available week ending on March 5, continued claims for unemployment insurance increased 9% and initial claims rose by 8%. As for total claims, they approximated 76% more than the level prevailing one year ago.

* * *

Automotive producers recorded factory sales of 431,284 motor vehicles in January of this year, the best start the industry has made in any year since the end of the war, according to the Automobile Manufacturers Association.

The month's output topped January, 1948, by more than 6% despite model changeovers by several large producers. Passenger cars accounted for 326,019 units of the total; trucks 104,607 and motor coaches 658.

Daily production schedules in January were almost equal to those of the final month of 1948, but December's two additional working days helped to push factory sales to 486,981 units or one of the best monthly totals since the war.

World dollar shortages, import permit requirements of foreign nations and other factors caused exports of American vehicles to decline to only 6.3% of January production, as compared with 8.7% in January, 1948.

* * *

The year 1948 ended with U. S. general imports of merchandise and raw material reaching an all-time high dollar value of $7,100,000,000 which, with a decline in U. S. total exports during the year to $11,700,000,000, narrowed the U. S. export-over-import trade gap to $4,600,000,000, about 47% below the corresponding 1947 margin of $8,700,000,000, according to The American Tariff League's monthly analysis of the Department of Commerce foreign trade statistics, and appearing in the March issue of that organization's paper, "Topics."

U. S. foreign trade in the past year was characterized by a falling off of exports, particularly marked during the second and third quarters of 1948, but which was interrupted in the last quarter when October exports rose above the previous month, and again in December when outgoing shipments increased to a record dollar value level for the year.

General imports of foreign goods and raw materials in December amounted to $721,400,000, representing a 31% increase over the $550,100,000 for the previous month, and were 20% higher than the total of $602,900,000 for the corresponding December, 1947, period. Total U. S. exports totaled $1,237,900,000, the highest level since May, 1947, as compared with $779,900,000 for November, a 59% rise, and were 11% above the $1,113,600,000 shipped in December, 1947.

* * *

New production facilities installed by electric companies will total 995,368 kilowatts of generating capacity for the first quarter of 1949. Of this amount 292,620 kilowatts represented additions in January of this year, 281,736 kilowatts in February with March installations due to total 421,012 kilowatts, President Ernest R. Acker of the Edison Electric Institute revealed on Tuesday of this week.

As 1949 moves into its later months, installation of new capacity will accelerate, the greatest activity occurring during the last portion of the year in anticipation of the customary December peak period, states Mr. Acker. In 1948, electric companies installed 1,556,841 kilowatts of capacity during the last quarter, or over three-and-one-half times the 414,815 kilowatts they installed during the first quarter.

It is also worthy of note that capacity installations in 1948 broke all previous records for a single year, with the electric companies installing about 3,400,000 kilowatts. In 1949, the electric companies plan to install an unprecedented 5,400,000 kilowatts, about 59% greater than their record-breaking total last year. The electric industry's grand total of new capacity added in 1948 was 4,253,000 kilowatts with the industry's total added capacity in 1949 expected to be about 6,700,000 kilowatts.

Increases in generating capacity will continue at a high level in 1950 when electric companies plan to install 4,700,000 kilowatts. A near record is expected in 1951 of 5,200,000 scheduled kilowatts and at the close of the five-year period, 1947-1951, inclusive, the business-managed electric companies plan to have added 20,300,000 kilowatts of new generating capacity, or over 50% of their installed capacity in 1946.

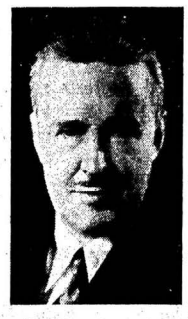
(Continued on page 31)

Television and Motion Picture Industry

By PAUL RAIBOURN*
Vice-President, Paramount Pictures
Director, DuMont Laboratories

Commenting on rapid extension of television, Mr. Raibourn contends its possibilities have been barely tested and predicts it will fulfill purpose of utilizing leisure time of population. Foresees some replacement of radio as television costs decline, but says principal adverse effect would fall on wearing apparel, auto business and magazines. Reveals Paramount Pictures participation in television and concludes television will make people want to see motion pictures.

Television is a new medium of communication. The art of communicating by synchronized pictures and sound is not new. The impressions it leaves on the senses are not new types of impressions. They have been produced heretofore in the theatre and through the motion picture film. The difference is that television can produce them instantaneously at a distance in the home. But it depends for its success on the same arts that made the theatre a success.



Paul Raibourn

This ability to reproduce at a distance has strange results. My faith in mankind and particularly in our representatives in Washington has been considerably increased by my having known, **and only on television,** a man who spent part of his life here in Chicago but who in recent years has lived in New York. His was a fairly well-known public name and he was often asked to carry the messages of his official position to the public over television. Never have I seen or heard a man who was kinder and more scrupulously fair to his opponents in the discussions of our foreign problems or more quick to correct an aspersion on the motives of others with whom he may have disagreed, while withal his own position was carefully and intelligently explained. He died last week at the age of 77. My wife spoke of him when she read of his death. "I wouldn't have given it a second thought except for television. But I do feel as though I have lost a friend." He was Sol Bloom, late Chairman of the House Committee on Foreign Relations.

Instances like this explain more clearly than long dissertations why it is that families will buy a television set which, no matter how anyone figures it, is going to cost them $100 a year when original cost, installation, repairs, electricity, maintenance and obsolescence are considered. This explains why during the past 18 months television has spread through our large cities like the chain reaction of an atomic explosion. It has been so rapid that the astounded Federal Communications Commission late last year called a halt to the issuance of broadcasting licenses until they could reappraise what the results would be with respect to the public interest as far as available radio frequencies and general economic effects were concerned.

The recognition of this condition represents a great change in attitude for many radio experts from their opinions of the late 1930s and early '40s. There were many who said that television development was an impracticable and impossible problem because it was a chicken-and-egg problem, namely, which came first, the set owner or the broadcasters. They raised the question, how could the manufacturers sell sets without extraordinarily appealing programs being on the air and how could such extraordinarily appealing programs get on the air and be paid for unless enough sets were sold to make it worthwhile for advertisers? Some of the most vociferous proponents of these ideas that television growth was impossible were located right here in Chicago. Most of them are, with much flaunting of their colors, reluctantly following the bandwagon now, although still trying to turn it off into every side road which appears along the way. They don't seem to have the simple, direct sense of cause and effect of the small boy who was sent from the neighborhood of Kedzie Avenue and 22nd Street to spend the summer in the open air with a philanthropic farmer down near Bloomington. The farmer's wife asked this worldly wise child, "In the event you should become seriously ill here, whom do you want us to notify?" He answered, "The doctor, who else?"

Possibilities Barely Tested

In the face of much dubious comment from many people, both the organizations with which I am connected and I, have believed for 12 years in the appeal inherent in television even as programmed years ago and have worked to bring it to fruition. We are still working at it. We believe the possibilities have barely been tested and by most people have not even been surmised. We based our belief in television success on our experience with what it could portray on the screen and not, like the radio experts, on it as a mechanical or electrical instrument. For we deal in that portion of human nature which showed up when Man was put into a Garden of Eden where he had every physical comfort but he (and his counterpart Eve) went looking for something more and thereby lost that physical comfort when he was banished from Eden. The human characteristic portrayed was "Man does not live by bread alone, that physical comfort was not enough to satisfy him." The lesson is again taught and the words repeated in the law giving of Moses and in the Gospel story of the temptation of the Master. "Man does not live by bread alone," and the chicken and the egg puzzle assumed that he did. The interesting part of the life of man for us today is that part of his life in which he is not engaged in the physical business of living, that is, of attaining his bread. This is that part of his life which is often called "his leisure time," although why it should be called "leisure" when most of us are so hectically busily engaged in spending it seems beyond comprehension.

Leisure time for the ordinary individual is a matter of recent development, in fact since 1850. That statement comes from figures of the U. S. Department of Labor, and I am going to assume that since the advent of the SEC you who are gathered here have followed the logical sequence of having first endured figures, pitied them, later embraced them and that you are now married to figures. (Note that I said "figures" and not statistics.)

There are 7 times 24 or 168 hours in the week. The normal individual spends eight hours per day, or perhaps I should say by night, in his bed (or a reasonable facsimile thereof). This is 56 hours per week, leaving 112 remaining active hours. Dressing and undressing, shaving, bathing, getting a haircut, buying clothes and personal adornment, the whole process of grooming, of course, varies with the sexes, but even the males can account for seven hours per week. Eating takes anywhere from seven to 21 hours per week, depending on how much social rites and palaver go with it, but it seems fair to assume that 88 of the 168 hours per week is consumed in the simple business of rebuilding our physical body and making it presentable and attractive to our social contacts. This leaves 80 hours for the business of providing economic means of physical living and for leisure time. Approximately ten of these hours are on Sunday, which Biblical injunction states and human experience indicates should be a day of mental, spiritual and physical refreshment. Some of the remaining hours must be spent in traveling to and from work even by the farmer. On any basis, a little over 70 hours are left.

One hundred years ago the working hours of the ordinary laborer and the farmers and their wives were just about 70 per week. They had been that since time immemorial. They actually came to this figure because of the fact that man could not use much more of his time in work and actually maintain his physical vigor and mental health.

Opportunity for Use of Leisure Time

The ordinary man in 1850 had little opportunity to read the papers except on Sunday. He had no time to be anything but a slave to his work. The problems of his wife were even worse. After taking care of the children a few hours were available to associate with other women bringing work which they could continue while they shared the available gossip. But around 1850 a surplus of production of materials for the business of living began to show up in our free enterprise Western civilization, and it became possible to decrease the hours of work and to abolish the age-old institution of slavery on which the leisure time of certain classes had been based.

As the hours of work decreased means were developed to supply entertainment during them. We have the concurrent development of the vaudeville theatre, of professional baseball, of college football, of the motion picture theatre, the mass reading of newspapers, magazines and books, of the automobile as a pleasure vehicle and the radio and now television.

Now we have reached the period when the leisure time available has reached around 30 hours. In fact, it reached 32½ hours in the period of the late '30s just prior to the war. During the war it receded to 26 or so hours but has recently been hovering around the 30-hour mark.

Many of you may believe that the foregoing figures are applicable to men but not to women. To some extent that is true. The increase of leisure time for men over the last hundred years has usually preceded that for women. But not for long. Women have also learned that the business of home-making can be functionalized and their freedom of use of leisure time increased thereby. Our published national income statistics are all somewhat cock-eyed when used for time comparisons because of the situation that a large number of women who formerly produced an unmeasurable product at home are now engaged in producing a measurable product in manufacture and trade and government. Those who haven't yet yielded to the appeal of a business life will do exactly that unless home life can be so arranged by our architects and home economic experts that they can enjoy the same leisure hours as their more adventurous sisters. You who still try to keep servants in your homes know the practical situation as respects this problem only too well.

In general, the adult American over 18 years of age and below 65 has about 30 hours per week of leisure time, time in which he or she exercises their natural propensity for not living by bread alone.

What do they do with that time? If we measure what they do with that time and what industries and commercial enterprises are benefited thereby, and what changes are likely to take place in such use of time under television you can go back and make your own predictions as to which securities you should recommend to your customers.

Replacement of Radio

Most surveys indicated that before television came, the radios were on from about seven to eight hours per week for really attentive listening. The radio time salesman will tell you it was on considerably more. They cost the average family about $42 per year of which $30 was actually spent by the family, and they paid the other $12 as a hidden charge in their purchases while the manufacturer called it advertising. These figures make radio advertising the most inexpensive form we have available.

The family average about 1½ hours per week in the movies, although some members went much more than others to produce this average, and it cost them $35 per year.

The family spent about 1½ hours per week on newspapers at a cost of about $40 per year, $20 dollars of which they never knew about because it was again spent for them by the advertiser.

They spent about three-quarters of an hour per week reading magazines which cost them about $20 per year of which they only spent $10 themselves.

They spent three to six hours in an automobile, about half of which can be characterized as pleasure of the leisure-hour type. The cost of the automobile was about $400 per year to the family, but how much of that is chargeable to leisure depends on how one interprets Bernard Baruch's 1942 report that the American economy couldn't function if our automobiles were taken away from us. Certainly we would have to find a lot of new things to do with ourselves.

The remaining 15 hours are divided into spectator sports, par-

(Continued on page 36)

*An address by Mr. Raibourn before the Central States Group Conference of the Investment Bankers Association, Chicago, Ill., March 16, 1949.

Urges NSTA Lead Movement Toward Abolishing NASD

B. S. Lichtenstein says NASD is an association in restraint of trade and securities business should head movement to abolish it. Calls for new leadership in securities business to combat present socialistic tendencies.

The "Chronicle" has been furnished with a copy of a letter, dated March 22, written by B. S. Lichtenstein of B. S. Lichtenstein & Co., security dealers, New York, to Edward H. Welch, President of the National Security Traders Association, Inc., in which he protests against the portion of the latter's report in which cooperation is offered to the National Association of Securities Dealers, Inc.

Mr. Lichtenstein, in his letter, asserts there is "too much pussy-

B. S. Lichtenstein Edward H. Welch

footing in the securities industry," and calls for firm leadership to combat present socialistic tendencies.

The text of Mr. Lichtenstein's letter follows:

Mr. Edward H. Welsh, President,
NSTA,
Sincere & Company,
231 S. La Salle Street,
Chicago 4, Ill.

Dear Ed:

I read your letter and report dated March 15th, last night, and I want to compliment you upon the Association's progress.

However, I want to protest violently about that portion of your report in which you tell of offering cooperation to the NASD. In my humble opinion the NASD is an association in restraint of trade and, furthermore, it has done more to hurt the securities business than any other single influence (I suggest you read the articles which have recently appeared in "The Commercial and Financial Chronicle"). Far from cooperating with the NASD I think our organization should head a movement towards abolishing it and I would be very happy to serve on such a committee should that be the Association's pleasure.

There is too much pussyfooting in this country and particularly in our industry. There is NO leadership in the securities field. It is probable that this leadership should be assumed by the New York Stock Exchange but that organization, like so many individuals, is working purely for its own benefit and does not realize that our industry must prosper or starve as a whole.

And, while speaking of leadership, why don't we go to the public and show it where this present socialistic tendency must inevitably end.

The enclosed clipping from this morning's "Times" shows what other industries are attempting. Certainly our survival is a great deal more vital to the general public than a tax cut on liquor. These people do not hesitate to come out in the open with their problems and I think we can do a good job and make a good name for the NSTA if we will provide the leadership that is so necessary.

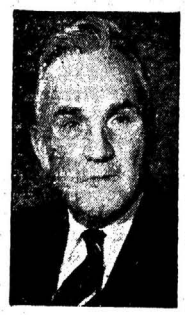
Wishing you every success and awaiting your reply with interest, I am,

(Signed) B. S. LICHTENSTEIN
99 Wall Street,
New York 5, N. Y.,
March 22, 1949.

From Washington Ahead of the News

By CARLISLE BARGERON

The two girls operating the stenographic service agreed to return to their office on Saturday afternoon to get out some work for me and when they had finished I graciously invited them for a cocktail. We had two cocktails and they began working on me to join a Pyramid Club. All I had to do was to pay a dollar, then the next night I was to produce two more guests who would pay a dollar apiece and on Tuesday I would entertain eight people at my home and then all I had to do was to sit tight and wait for the "call" about 10 days later. On this night some 200 people would call me first on the telephone, and then appear in person with $8 each for a total take on my part of $1,600.



Carlisle Bargeron

This thing has been the rage in Washington for several weeks and it has embraced some of the highest officials of our government.

I told the girls "no" about six times, then paid my dollar and received an address where I was to go the next night with two guests. Setting out immediately to get my two guests I found the situation had become saturated and that everybody I approached was looking for guests himself. I thought I would get my daughter and her boy friend, although this would entail three parties in the same family. But she belonged to a club and was looking for guests herself.

Sunday afternoon, a few hours before I was to show up at some place I had never been before with two guests, I had pretty well despaired of getting them. As a last resort I approached a couple of fellows playing gin rummy at a country club. Both have had unlimited expense accounts until a few months ago; one had been selling window shades to a government at a 200% profit, the other a device to be attached to typewriters on about the same basis. Both have been the most pessimistic members of the club since their expense accounts were cut and they have been insisting a depression was coming.

"Will you two fellows be my guests at a Pyramid party tonight so I won't break the chain?" I asked.

They both exploded at once, exclaiming:

"That's what is bringing on the depression. The last depression was caused by the chain letter craze."

I had never heard this explanation for the 1929 collapse before; indeed, I was under the impression the chain letter craze came much later.

But if you think what you have been reading is giddy, you ought to give some thought to our plans for arming the members of the Atlantic Pact, an enterprise that is to cost around $1 billion or $1¼ billion. Consider, too, what this is to entail aside from the expenditure.

We have no arms or equipment to give them. Only a relatively few months ago we had mountains of trucks, planes, guns of every description. But we have successfully gotten rid of this tremendous surplus of supplies which we had at war's end, through straight out destruction, through leaving the stuff to rot on the open ground, through disposal at give-away prices by the War Assets Administration.

Having successfully rid ourselves of these supplies, we are now going to call on industry to manufacture them again.

Herein lies the question being asked in many Washington quarters as to what extent industry, having been reconverted from war to peace, is going to be required to convert back to war, and to what degree of a military emergency we are moving into. With a military emergency of any kind, with the government demanding that guns and other war equipment be turned out quickly, there will be pressure for Truman's overall control bill which has been described as the most complete plan for regimentation ever made in this country.

We are now spending some $15 billion a year on the military, of course, and another billion or a billion and a quarter on top of this does not look so alarming. But the question arises as to whether a large part of this additional money is not to be spent on equipment which industry has pretty generally ceased to manufacture. Of the $15 billion regular military spending much of it goes to an industry, aircraft, that is dependent upon it to keep doing business on a profitable level. But if the Atlantic Pact defense money is to be spent on a rounded out defense, it is not at all unlikely that burdens are to be placed on industries now engaged full scale in civilian needs.

It maybe that my imagination is working too fast, but the thoughts that are occurring to the writer simply reflect the thinking of many men on the Washington scene. The whole subject needs some careful analysis. Mr. Truman and his close friend, Leon Keyserling, may very well know whereof they speak when they contend inflation is still the problem rather than deflation.

William F. Weed With Reuben Securities Co.

(Special to THE FINANCIAL CHRONICLE)

TOLEDO, OHIO — William F. Weed has become associated with The Reuben Securities Co., 618 Madison Avenue. Mr. Weed was previously with Cray, McFawn & Co. in Detroit. In the past he was with A. M. Kidder & Co. and was a partner in Weed, Hall, Berndt & Co.

Edwin Gahan Appointed By Gen'l Telephone

General Telephone Corporation announces that Edwin F. Gahan has been appointed supervisor of information, a newly-created post. Mr. Gahan was formerly associated with Merrill Lynch, Pierce, Fenner & Beane, before that with Doremus & Co. and the New York "Times."

The Federal Reserve's Postwar Monetary Policy

By M. S. SZYMCZAK*

Member, Board of Governors, Federal Reserve System

Describing main problem of postwar monetary policy as coping with continuous inflation, Mr. Szymczak points out difficulties in endeavoring to control money and credit expansion that is not inconsistent with maintaining orderly and stable market for government securities. Defends bond-support policy, though admitting it has nullified traditional instruments of Federal Reserve for influencing money and credit developments. Contends, however, Federal Reserve is now better equipped than ever before to offset deflationary forces.

In my previous lecture I dealt in very broad terms with the subject of contemporary monetary policy in relation to economic stability. Today, I have planned a more specific approach. I propose to discuss the problems of monetary policy as they have developed in the context of our postwar experience to date.

M. S. Szymczak

Since the end of the war, monetary policy has had to cope with more or less continuous inflation. Effective demand, until recently, has consistently exceeded the available supply of goods largely because spending from current income has been substantially supplemented by drafts on accumulated liquid savings and by rapid expansion of private credit. This condition of excessive demand has inevitably placed an upward pressure on prices. Advancing prices accompanied by expanding money income, leading to further price increases, is the spiraling process of inflation with which we are now all too familiar. As a result, between mid-1946, when price controls were initially terminated, and August, 1948, wholesale prices rose 50%, consumer prices 31% and total personal incomes expanded by 24%.

Basically, our postwar inflation is the product of our wartime financial policies. The war cost around $320 billion. This huge volume of expenditures was financed in part out of our current income, tapped through taxation and sales of securities to the public; and in part through expansion of the money supply brought about by borrowing from the banking system.

Purely from the point of view of monetary stabilization, taxation is, of course, the ideal method by which to finance a war. When taxes are imposed, the spending power of the public is reduced by the amount the government's is increased, and current expansionary pressures are thereby held to a minimum. Also, and perhaps more significantly for our problems, taxation does not add to the "liquidity" of the economy, since the taxpayer receives in exchange only a tax receipt which he cannot convert into spending power either in the present or the future.

Borrowing from the nonbank public shares with taxation the advantage of absorbing current spending power, but has quite opposite liquidity implications. The loss of spending power involved in lending to the government is not permanent as with taxation, but may be reclaimed by the lenders at a future date. In other words, unlike taxation, issuance of government securities to the public results in an expansion of the economy's stock of liquid assets.

Borrowing from the banking system is an outright inflationary method of financing war expenditures. It absorbs no current income, but instead produces an immediate expansion of the money supply. Furthermore, as matters have turned out it leaves the banking system in possession of assets that can, when the opportunity arises, be readily converted into reserve funds to back a multiple expansion of private credit.

It was not reasonable to expect our expenditures for war to be financed entirely through taxation. There are serious obstacles, essentially non-monetary in nature, that place a definite upper limit to the tax burden that can be imposed even in wartime. As the tax burden grows, particularly when it grows rapidly, the interrelated problems of administrative feasibility, equity, and incentives become increasingly difficult to handle. More safeguards against widespread evasion and its generally demoralizing effects have to be devised. Numerous special adjustments are required to maintain a general consistency with the community's standards of fairness, without which no tax system can long survive as an effective instrument of policy. And, finally, a rapid stepping up of the tax bill may, at least in the short run, have adverse effects on effort incentives and thereby interfere with achieving a maximum wartime output.

Just where that upper limit of taxation is, cannot be determined exacly, but it is safe to say that we fell short of it by much too wide a margin. Less than one-half of the funds raised by the Treasury between the middle of 1940 and the end of 1945 came from tax sources.

Further, not only did we rely much too heavily on borrowing, but on borrowing of the most inflationary kind. Of the total amount borrowed by the Treasury from mid-1940 to the end of 1945 more than two-fifths came from the banking system, including commercial banks, Federal Reserve Banks and mutual savings banks. Thus, in our war finance we made the twofold mistake of taxing too little and borrowing from the banking system too much.

Excessive Degree of Liquidity

As a consequence, then, of our wartime financial policies we entered the postwar period with an economy characterized by an excessive degree of liquidity. Government securities held by commercial banks—their highly liquid secondary reserves — grew from $17 billion in June 1940 to $91 billion by December, 1945. They constituted the bulk of total bank loans and investments. It is estimated that over the war period the stock of liquid assets—currency, bank deposits, and government securities—held by individuals and businesses, including insurance companies, increased approximately threefold while over the same period the gross national product only about doubled.

This greatly increased ratio of liquid assets to the value of the national product reflected in part a considerable restraint on the part of consumers and business concerns who, for economic as well as patriotic reasons, were willing to accumulate liquid reserves rather than bid for the scarce supply of goods that were available during the war. And, of course, the high "liquidity ratio" that developed over the war reflected the fact that we had generally effective direct controls on prices and materials.

Combined with a heavy backlog of unsatisfied real demands, this high degree of liquidity meant that strong inflationary pressures would inevitably develop, particularly if the wartime controls were prematurely removed.

But our wartime policy of heavy reliance on borrowing held yet another implication for the problem of stabilization in the postwar world. Our national debt grew during the war to a peak of $275 billions, a figure of astronomical proportions by prewar standards. Its ownership was widely distributed and its interest pattern had become integrated into the whole asset and liability structure of our economy. Confidence in the market value of the

(Continued on page 33)

*The second public lecture of Mr. Szymczak under auspices of the Charles R. Walgreen Foundation for the Study of American Institutions, Chicago University, Chicago, March 11, 1949. The first lecture appeared in "The Chronicle" of March 17, 1949.

Revenue Bonds and How to Judge Them

By PHILLIPS BARBOUR*
Vice-President, The First Boston Corporation

Mr. Barbour, after defining and classifying revenue bonds, points out features of their investment value which should be considered. Warns against use of formulas or slide rule methods in choosing bonds, and urges particular attention be given to: (1) how revenue is distributed; (2) provisions for maintaining adequate rates; (3) provisions for issuing additional bonds; (4) remedies in case of default; (5) publicity of earnings and expenses; (6) the budget of sponsoring community; and (7) the margin of net earnings above debt service.

Of the several different types of securities issued by States and their political subdivisions none has caused as much discussion nor seems destined to be issued for more different purposes, nor in more curious and unusual forms, than has the type known as the "revenue" bond. The old-fashioned general obligation, payable from ad valorem taxes on all taxable property within the corporate limits of the issuing body, has been probably the most popular security issued by any State or municipality and is more widely held than any issued by those bodies.


Phillips Barbour

In recent years, however, and for various reasons, bonds issued to provide publicly-owned revenue-producing facilities have grown in number and popularity. This is true particularly of the revenue bond. Some of them, in fact, are challenging the popularity of the general obligation, issued by the same community. It is estimated that today $1¾ to $2 billion, about 10%, of the securities issued by States and their subdivisions, which are at present outstanding, may be classified legitimately as revenue bonds.

I emphasized "classified legitimately" because there have been issued from time to time a good many securities in the name of revenue bonds which would not jibe with the generally accepted definition of the term. Some of these hybrids should never have been issued at all and others, because of fundamental faults, have fallen by the wayside. As they bore the revenue bond label, however, they have brought disfavor, in the minds of some, on the type as a whole.

What Are Revenue Bonds?

Revenue bonds are designed to be self-liquidating obligations, payable solely from revenues of the projects they have made possible. They are issued by States and political subdivisions for the purpose of financing the construction, development or purchase of revenue-producing, publicly-owned facilities which render public services, the cost of which is paid for by the users of those services to the extent that they use them. The revenues so produced, in the aggregate, are intended to be sufficient to cover all expenditures for operation and maintenance, build up the customary reserves, provide ample funds to pay interest and redeem the debt when due, well within the life of the facility financed. As a rule, these bonds are sufficient, the debt is entirely wiped out long before the scheduled maturity. They are issued in various forms—serial, serial and term and term only.

You will notice that "housing" bonds which have been issued under the Federal Public Housing Authority's subsidy contract and by some referred to as revenue bonds will not qualify under the above definition. Neither will those which are issued for purposes which are revenue producing, with the revenue pledged, but which are payable from taxes also. While many of these are excellent none of them are revenue bonds in the accepted use of the term.

The more popular purposes for which revenue bonds are issued are to provide water, electric light and power plants, vehicular tunnels, highways and toll bridges. Sewerage systems and sewage treatment plants are also being financed in this way in growing volume. Several cities, notably Chicago, Seattle, Cleveland and Detroit, have financed the purchase and development of their transit systems with revenue bonds. Some cities are using these bonds to finance municipally owned airports, parking garages, golf courses, recreation areas, swimming pools, auditoriums and a host of other purposes which were seldom thought of as suitable for municipal ownership a generation ago.

No matter what the purpose, however, the fundamental security underlying all well conceived and properly designed bonds of this character is the same. There must be a broad and continuing demand for a public service which is revenue producing—the revenue to be easily and fully collected—and, above all, the plan should provide that the cost of the facility be completely liquidated well within its life, solely from the revenue which the facility itself produces.

Among the better known and widely distributed revenue issues which have been available in recent months are those of the Los Angeles Department of Water and Power, the Omaha Public Power District, the City of Chicago for its water department, the Commonwealth of Pennsylvania Turnpike Commission, the State of Maryland, the State Roads Commission (bridge bonds), the Mystic River Bridge Authority at Boston and the State of Delaware to finance its Memorial Bridge over the Delaware River at Wilmington.

Investment Considerations

In pointing out the features which we think the buyer should consider when attempting to determine the investment value of a revenue bond, I shall not go into all the various details which would occur to the experienced buyer depending on the purpose he might have under consideration. It is obvious that he would want to know certain things about a water bond that he wouldn't ask about a bridge bond. As each issue is tailor-made, and must be judged on its merits rather than by its class, all we can do here is to look at the picture in a general overall manner.

The first thing to consider is the purpose. Will it contribute to the peace, good health and welfare of the community? Will the service rendered be necessary or have popular appeal? Will the revenues be easily collected?

What is the economy of the area to be served? What seems to be the trend there? The long-term investor obviously must give more attention to the future possibilities than the short-term buyer. The past is important, of course, but earnings are coming out of the future. The past may have been dark but the future may be very bright.

The financial statement of the municipality fostering a project financed by revenue bonds is not of great importance in judging these bonds. Debt service is to be paid solely out of the earnings of the project itself and the credit of the municipality is not pledged. Witness the standing of the general obligations of Knoxville and Chattanooga, for instance, ten years ago, when they issued their electric revenue bonds. The latter were accepted immediately as the better bonds and their record has proven the soundness of that judgment.

Has the issuer a monopoly? This is not an absolute necessity, but it is present in most cases and is highly desirable. However, we should not refuse to buy an issue because of possible competition. It depends on the conditions in the community and the kind of service to be given. We are dealing with a public body which has recourse to means of protecting itself against harmful competition no private corporation ordinarily has. Look at the situation in Cleveland where the city-owned electric plant has a certain degree of competition from the Cleveland Electric Illuminating Co. As is well known, the securities of each are entitled to high rating.

Who are the attorneys setting up the indenture, trust agreement or resolution? Have they had experience in work of this type and is their opinion generally accepted as satisfactory on issues of the kind under consideration?

Is there an independent engineer's estimate? One with a national reputation is highly desirable on all projects. It is a must on those of large size and on the smaller jobs too, if at all practicable. This feature is of great importance and should be stressed. If there is to be construction, the estimate of cost should be by a firm experienced in the line. Provision should be made for work progress reports. They are invaluable in enabling the underwriters to keep abreast of the manner in which funds are being spent and supplying other pertinent information regarding construction.

Are there to be bonds guaranteeing completion of the work? They should be required by all means.

There should be an estimate of expected revenues by, preferably, an entirely different engineer. Here it is usually safe to accept the engineer's estimates, particularly if he is one with a wide reputation in this work. A good engineer is in much better position to make estimates than is the buyer. He has to stake his reputation on them, so he's going to be careful what he signs his name to. Engineers have been making estimates on construction for ages. It is almost a science with them and they are seldom far out of line. Traffic engineers also have built up a good record over the last 25 years during which their services have been in demand.

These estimates of revenue should cover not only all minimum requirements, but should be ample to meet reasonable contin-

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*An address by Mr. Barbour before the Alumni of the Graduate School of Banking, New York City, March 19, 1949.

Dealer-Broker Investment Recommendations and Literature

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

Aircraft Industry—Discussion with brief analyses of **Consolidated Vultee** and **Lockheed**—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Equipment Trust Certificate Supplement—For use in conjunction with the **1947 Equipment Trust Manual**—Supplement $2.00; manual $3.50 each—Freeman & Co., 61 Broadway, New York 6, N. Y.

Industrial Preferred Stocks—Discussion of situation—Goodbody & Co., 115 Broadway, New York 6, New York.

Also available are leaflets on **Central Foundry, Eastern Air Lines, Magnavox, Natural Gas, New York Central vs. Northern Pacific, Pennsylvania Central, Charles Pfizer, Phillips Petroleum, Skelly Oil, Standard Oil of Ohio, Texas Co., Texas Pacific Land Trust.**

Market Survey—Analysis—Abraham & Co., 120 Broadway, New York 5, N. Y.

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

Pessimism Unfounded—Analysis of market outlook—Milner, Ross & Co., 330 Bay Street, Toronto 1, Ont., Canada.

Profit Opportunities—List of interesting situations—Kiser, Cohn & Shumaker, Inc., Circle Tower, Indianapolis 4, Ind.

Railroad Equipment Program—Financial phases—Reprints of extemporaneous address by Patrick B. McGinnis at a meeting of the New York Railroad Club—McGinnis, Bampton & Sellger, 61 Broadway, New York 5, N. Y.

Railroads and America's Future—Reprints of broadcast by Ambrose W. Benkert over the ABC network—A. W. Benkert & Co., 70 Pine Street, New York 5, 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 Light & Traction—Circular—G. H. Walker & Co., 1 Wall Street, New York 5, N. Y.

Also available are circulars on **Armour & Co., Caterpillar Tractor, Deere & Co., Lehigh Portland Cement,** and **Louisiana Land & Exploration.**

Bank of Manhattan Co.—Circular—Edward Brockhaus & Co., Union Trust Building, Cincinnati 2, Ohio.

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

Central Hanover Bank & Trust Co.—Analytical study — Paine, Webber, Jackson & Curtis, 25 Broad Street, New York 4, N. Y.

Chicago and Southern—Card memorandum—Peltason, Tenenbaum Co., Landreth Building, St. Louis 2, Mo.

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

Curtiss-Wright Corporation—Memorandum—Bendix, Luitweiler & Co., 52 Wall Street, New York 5, New York.

Dewey and Almy Chemical Co.—Analysis—May & Gannon, Inc., 161 Devonshire Street, Boston 10, Mass.

Allen B. Du Mont Laboratories, Inc.—Special analysis—William S. Baren Company, 42 Broadway, New York 4, N. Y.

El Paso Electric Co.—Memorandum in current issue of "Public Utility Stock Guide"—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

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

General Motors vs. du Pont—Memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, New York.

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

Home Insurance Company—Summary—Blair & Co., Inc., 44 Wall Street, New York 5, N. Y.

Also available is a memorandum on **Central Illinois Public Service Co.** and tabulations of **Insurance Stocks.**

International Furniture Company—Analysis—Straus & Blosser, 135 South La Salle Street, Chicago 3, Ill.

Also available is a study of **Northern Indiana Public Service Company.**

Ludlow Manufacturing & Sales Co.—Circular—Charles A. Day & Co., Washington at Court Street, Boston 8, Mass.

Also available are data on the **Verney Corp.**

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

Moore, McCormack Lines, Inc.—Study—Smith, Barney & Co., 14 Wall Street, New York 5, N. Y.

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

Osborn Manufacturing Co.—Special report—Prescott & Co., Guardian Building, Cleveland 14, Ohio.

Portsmouth Steel—Analysis—In current issue of "Securities News"—Gottron, Russell & Co., Union Commerce Building, Cleveland 14, Ohio.

George D. Roper Corp.—Circular—Clement, Curtis & Co., 141 West Jackson Boulevard, Chicago 4, Ill.

Standard Accident Insurance Co.—Analysis—The First Boston Corp., 100 Broadway, New York 5, New York.

Struthers Wells Corp.—Analysis—Amott, Baker & Co., Inc., 150 Broadway, New York 7, N. Y.

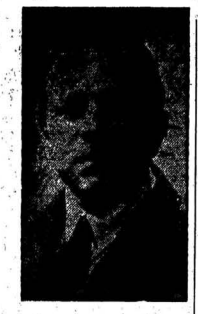
(Continued on page 15)

Is a British Slump Imminent?

By PAUL EINZIG

Noting distinct tendency toward unemployment in some British industries, Dr. Einzig lays it to disinflationary policy of Labor Government. Says prospects of British export trade are disturbed by potential German and Japanese competition, and raw materials imports are hampered by lack of foreign exchange. Foresees, however, no severe depression.

LONDON, ENGLAND—The extent to which politicians and experts, as well as the general public, have allowed themselves to be influenced by the movements of the Stock Exchange in their appreciation of the business prospects is indeed remarkable. Until quite recently it was all but generally assumed in Britain that a slump was most unlikely, if not impossible. As a result of the setback on the Stock Exchange during the first week of March, however, the majority of people have turned decidedly pessimistic about the immediate prospects. It is now freely asserted that we are on the eve of a slump which will result in large-scale unemployment, a deterioration of Britain's trade balance and a marked setback in her economic recovery.



Dr. Paul Einzig

Beyond doubt, there is now a distinct tendency towards unemployment in particular branches of industries and in particular districts. While generally speaking the demand for labor is still in excess of supply, many industries are curtailing their activities and have to dismiss many thousands of employees. In theory these unemployed could easily be absorbed by industries in which scarcity of labor continues to prevail. In practice it is not easy to induce people to switch over from one kind of employment to another, so long as there is hope that they might be re-employed in their own trades. It is even more difficult to induce the unemployed to move from one town to another, owing to the difficulty of finding housing accommodation. Unemployment would have to become much more widespread and prolonged before these rigidities of adaptation could be overcome.

The government's disinflationary policy is largely responsible for the development of unemployment. Spending by the consumers has fallen off very considerably. Restaurants, theatres, cinemas are no longer crowded. The turnover of goods in the stores has slowed down considerably. The supply of unsold luxuries is accumulating. There is not enough money to pay for them. Even essential household goods remain unsold. This is partly due to the fact that the most urgent pent-up wartime demand for them has been more or less satisfied. But the main reason is that the price of most uncontrolled goods and of many controlled goods is beyond the reach of most people. The de-rationing of woolen clothes has failed to result in a flood of demand. Indeed, many people who in the past bought up to the limit of their coupons, now no longer consider it necessary to buy in a hurry, since they are in a position to buy at any time. This is the reason why the government feels itself justified in continuing to de-ration. Lack of purchasing power has resulted in "rationing by purse."

Unless the disinflationary policy is checked there is every likelihood of growing unemployment this year. For this reason many members of the government are all in favor of reversing the policy pursued by Sir Stafford Cripps. They would like to increase the purchasing power of the public by reductions of taxation and by the repayment of the "postwar credits" (compulsory loans imposed on taxpayers during the war) and war damage claims. But the fact that they have embarked on a policy of de-rationing makes this difficult and risky. For, if the purchasing power of the consumers is increased the supplies of de-rationed goods would disappear very quickly, and the government would have to admit its mistake by restoring rationing. To do so on the eve of the general election would mean loss of popularity, and therefore it may be ruled out. But, then, the choice seems to lie between loss of popularity through an increase of unemployment or through a reversion of the policy of de-rationing.

The prospects of export trade are viewed with growing concern. It is feared that German and Japanese competition will accelerate the disappearance of the sellers' market, and that the overall balance of visible and invisible foreign trade of Britain which has only just been achieved will give way to a deficit. What is worse, it is feared that the existing deficit on trade with hard currency countries will increase. Apart from the direct effect of a fall of exports on employment, the need to curtail raw material imports through lack of foreign exchange might also cause further curtailment of industrial production.

Allowing for all this, it would be unduly pessimistic to expect a slump comparable to that of the 'thirties or of the 'twenties. Then the main cause of the trade depression was the state of overproduction in raw material producing countries. At present the demand for food and raw materials still exceeds the supply; prices are high in spite of their recent fall, and producers are on the whole prosperous. Their demand for manufactures should alone go a long way towards preventing a real slump. Moreover, the teachings of Keynes have not been forgotten altogether, and, if and when the government should be faced with a real slump, the policy of disinflation would be replaced by a policy of reflation.

To a large degree, a moderate setback would in the long run prove to be a blessing in disguise. Full employment resulted in wasteful employment, owing to the power of trades unions to dictate costly terms, not only in the form of high wages but also in the form of various regulations under which an unnecessarily large number of hands has to be employed for various purposes, or an unnecessarily amount of time has to be wasted. A change in the balance of power in favor of the employers would go some way towards introducing healthier conditions in industry.

Thomas C. Darst With Reynolds & Co.

PINEHURST, N. C.—Thomas C. Darst, Jr., has become associated with Reynolds & Co., Reynolds Building, Winston-Salem, N. C. Mr. Darst was formerly partner in Thomas Darst and Company of Greensboro and Pinehurst.

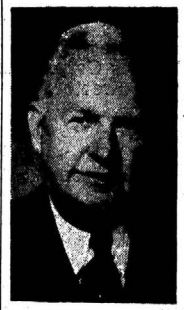
Meeting Changed Pattern of Government

By JAMES A. FULTON*

President, Home Life Insurance Co.

Asserting pattern of government in relation to business and individuals has changed in last two decades and our thoughts and actions must be adjusted to this new era, Mr. Fulton urges: (1) more supervision of government; (2) permanent organization to study how government is spending money; (3) constant and incessant campaign for clarification of rules relating to conduct of private business; and (4) government should not compete with private business when effectively conducted.

I have called my subject "An Appraisal." Now an appraisal cannot be oratorical, which is fortunate because I am no orator. Appraisals, as I have known them, are collections of simple rather obvious facts followed by an almost equally obvious conclusion. I recently had some fun with a friend of mine, the head of a large real estate concern.



James A. Fulton

I had before me two documents emanating from his office concerning the same property. One was a prospectus. It was romantic and glowed with optimism. It was imaginative and glamorous. The other was an appraisal of the same property. It was factual and dull, and led to somewhat different conclusions. When I ribbed him a bit he said, "In one case we are selling hopes and dreams that *may* be realized. In the other we are assembling facts and drawing conservative conclusions." And, he said, "Incidentally, you can have as many copies of the prospectus as you want for nothing, but the appraisal costs somebody several hundred dollars."

I shall dream no dreams with you nor paint you any visions. I shall state simple facts and on the basis of those facts make some suggestions. The facts will be so obvious that I am sure you will say to yourself: "Why, I know that." And yet many sensible businessmen talk and act as if they were not facts at all. Most of our difficulties are caused not by ignorance but by the disregard of rather obvious facts. I shall deal with changes covering the two decades from 1929 to 1949.

Government Responsibility Expanded

Fact number one: Between 1929 and 1949 government has assumed a responsibility for the maintenance and welfare of the individual that has changed the whole pattern of the relationship of government and its citizens. Some people seem to think this is a transient situation. A lot of people seemed to believe that it was all going to change in the twinkling of an eye shortly after a certain Tuesday in last November. But even if the electorate had ratified the findings of the pollsters instead of deciding it for themselves, it would not have changed the fundamental situation. We have that on the authority of the defeated candidate for the Presidency and also the more influential of the Republican elder Statesman, Senator Vandenburg.

The fact is that this change in our fundamental pattern of life was the result of the inexorable march of events. It was not caused by any individual and it is not going to be changed by any individual. Do we like it? Personally I do not. I dislike the rules, the restrictions — the regulations. I should like to go back to a period when I could keep 100 cents out of every dollar I make. But contrary to the popular song, "Wishing Won't Make It So."

There are two types of daydreamers as to government. There are those who believe that some device of government can bring about a Utopia. Equally unrealistic are those who think they can turn back the hands of time and restore some rosy period of the past — probably rosier in retrospect than it really was. If you have a nostalgic yearning for the days of McKinley or even Coolidge, it might be wise to buy a ticket for "Life With Mother" at the Empire Theater or go to see the "Gay Nineties Review" and then come back to the world as it is and is likely to be in your times and mine. We might as well realize that when our economy collapsed in the thirties, when the bread lines formed in this land of plenty, and when Herbert Hoover organized the Reconstruction Finance Corporation, one era passed and a new one started. If we ever have bread lines again, and there is no real reason why we should, you and I are likely to be in them.

Fact number two: Most business and big business particularly is going to be supervised and regulated in the public interest. My own experience as a part of management in a highly regulated business does not make me apprehensive on this score. Given intelligent and competent supervision and it can be a constructive factor not only for the public generally but for the owners of business itself. We must realize that in a large part of American business today management and even control represents something entirely different from ownership. Some outside check on management is clearly indicated.

Fact number three: Govern-

(Continued on page 39)

*An address by Mr. Fulton at the Ninth Annual Appraisal Conference of the New York Society of Real Estate Appraisers, New York City, March 18, 1949.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

Manufacturers Trust Co. of New York announces that William P. Morgan of the bank's office at 18th Street and Fifth Avenue has been promoted to Assistant Secretary.

Mr. Morgan began his banking career in 1925 with the Chatham Phenix National Bank & Trust Co. and came with Manufacturers Trust Co. at the time the two institutions were merged in 1932.

* * *

Mr. George Whitney, President of **J. P. Morgan & Co. Incorporated,** confirmed on March 22 that Mr. William A. Mitchell has accepted an invitation to become President of The Central Trust Company of Cincinnati on May 1, and adds that it is with great regret that J. P. Morgan & Co. Incorporated accepts Mr. Mitchell's decision.

* * *

The election of Mrs. Helen L. Buttenwieser as a trustee of **Title Guarantee & Trust Co.** was announced on March 17 by Barnard Townsend, President. According to available records, the naming of Mrs. Buttenwieser marks the first election of a woman to the board of a prominent New York commercial bank.

Mrs. Buttenwieser is a member of New York law firm of Lindau, Robbins, Buttenwieser & Backer. Since her graduation from the New York University Law School in 1936, Mrs. Buttenwieser's legal work has covered a considerable range, involving extensive activities in the fields of charity and philanthropy in addition to her practice of business and corporation law. She formerly was associated with the downtown law firm of Cravath, Swaine & Moore (formerly known as Cravath, deGersdorf, Swaine & Wood) and was prior to joining her present firm a member of the firm of Hendricks, Robbins & Buttenwieser.

* * *

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, V.-P. of the **Canadian Bank of Commerce (California),** will succeed Mr. Alexander as senior agent in New York.

* * *

James Felt, President of James Felt & Co., Inc., has been elected a trustee of the **Excelsior Savings Bank of New York,** according to Reginald Roome, President of the bank.

* * *

In 1819, when the **Bank for Savings in the City of New York** was chartered, an account was opened for a new born baby, John S. Thorne. Only two deposits were ever made; $10 in 1819 and $5 in 1820.

This month on the 130th anniversary of the Bank for Savings' charter, the account—still alive—amounts to $4,310.24. Of this, compound interest is $4,295.24. The Thorne account is the oldest savings account in New York.

From its front basement room in the Old Alms House in City Hall Park with 80 depositors on opening day, the Bank for Savings, New York's first savngs bank has grown so that today it serves over 200,000 depositors through its three offices. A fourth office, to open later this year, is under construction at Second Avenue and 23rd Street.

* * *

A change in the name of **The Bernardsville National Bank of Bernardsville, New Jersey,** to the **Somerset Hills National Bank of Bernardsville,** New Jersey became effective on March 9. According to the March 14 bulletin of the Office of the Comptroller of the Currency. The bulletin also made known that the bank on March 9 increased its capital from $130,000 to $325,000 by a stock dividend and further increased its common capital stock from $325,000 to $500,000 by sale of new stock.

* * *

George R. Clark, V.-P. of the **Corn Exchange National Bank and Trust Company, Philadelphia,** will assume charge of all operations and personnel in the bank, effective March 21, 1949.


George R. Clark

He joined the staff of the Corn Exchange in October, 1934, and was elected an Assistant Cashier in 1937. In 1943 he resigned to serve in the office of Scientific and Research Development at Washington, D. C. Returning to the bank at the close of the war, he was elected Assistant V.-P. in January, 1946, and V.-P. in April, 1947.

* * *

Edward B. Temple, President of the **Swarthmore National Bank of Swarthmore, Pa.,** and a retired chief engineer of the Pennsylvania Railroad, died suddenly on March 12 at his home. He was 77 years old.

A native of Delaware County, he was graduated from Swarthmore College in 1891, as a classmate of the late Gov. William Sproul.

He had been President of the Swarthmore bank for 30 years and was one of the oldest active bank presidents in Pennsylvania, according to the Philadelphia "Enquirer" from which the above was taken.

* * *

The **Keystone National Bank of Pittsburgh, Pa.,** announced on March 17 its entry into another field of commercial banking by the appointment of R. Kenneth Gollings as Assistant Cashier, in charge of the bank's new time loan department. Mr. Gollings has been associated with the Peoples First National Bank and Trust Co. in its consumner credit department during the past six years. He was previously with Colonial Trust Co.

* * *

Warren F. Whittier, of Chester Springs, Pa., has been named Chairman and Federal Reserve agent of the **Federal Reserve Bank of Philadelphia** for the remaining portion of this year according to the Philadelphia "Evening Bulletin" of March 19, which also said:

Whittier, who had been Deputy Chairman since 1941, and a class C director since 1939, has been appointed by the governors of the Federal Reserve System to fill a post left vacant since Thomas B. McCabe became Chairman of the Federal Reserve Board last year.

Dr. C. Canby Balderston, dean of the Wharton School of the University of Pennsylvania, will succeed Whittier as Deputy Chairman for the balance of 1949. Philip T. Sharples, Chairman of the Board of Sharples Corp., was appointed a class C director.

* * *

Kenneth Birgfeld on March 15 was elected Assistant Vice-President of the **American Security & Trust Co. of Washington, D. C.,** and will serve as Manager of the new Woodley Park branch to be opened soon at Calvert Street and Connecticut Avenue, N. W.

President Daniel W. Bell, in announcing this added that J. Everett White will succeed Birgfeld as Secretary of the bank.

Earl W. Leach will be Assistant Manager of the Woodley Park branch. He is being transferred from his managerial position at the Navy Department branch. The latter office will be in charge of Robert P. Talley as manager and Horace S. Cammack, Assistant Manager.

* * *

The City Bank of Washington, Washington, D. C., has been authorized by the office of the Comptroller of the Currency to open a branch office at 3839 Minnesota Avenue, N. E. Washington, D. C.

* * *

The Board of Directors of **The Central Trust Company, Cincinnati,** on March 22 made the following announcement:

The Company's President, Mr. Chas. W. Dupuis, some months ago requested that he be relieved of the duties and responsibilities of the Presidency, the position he has held for more than 22 years.


William A Mitchell

The Board has given careful consideration to the problem of meeting Mr. Dupuis' wishes and of retaining his valuable services as an executive officer and as adviser and counselor.

With these objectives in mind the Board will request the Company's shareholders, at a meeting to be held by them on April 28, to authorize the Directors to create the office of Chairman of the Board of Directors. When that action has been taken, Mr. Dupuis will immediately be elected Chairman and will resign from the Presidency.

Thereupon the Board will elect as President, Director and Chief Executive Officer, Mr. William A. Mitchell, who is now Director, Vice-President and Member of the Executive Committee of J. P. Morgan & Co. Incorporated, New York.

Mr. Mitchell will resign his office with J. P. Morgan & Co., with which institution he has been identified since 1925, becoming a partner in 1939. Previously he was connected with The Royal Bank of Canada—for a time as a senior officer of the Paris, France, Branch and later at the head office in Montreal in the supervision of Branches in South America, Europe and New York. One of the most widely known bankers of the country, Mr. Mitchell at the present time is also serving as President of the Association of Reserve City Bankers.

Mr. Thos. M. Conroy, Executive Vice-President, will continue to serve in that capacity and as a member of the Executive Committee.

No changes in the official family, other than those mentioned above, are being made.

* * *

Walter V. Dorle, 41, who started his banking career as a messenger, has been named President of the **Northwestern State Bank of St. Paul.** He succeeded the late Fenton M. Blomquist and advances from the Vice-Presidency. He started with the old Mounds Park State Bank in 1926, which was renamed Northwestern in 1933. The above was taken from the Minneapolis "Star" of March 16.

* * *

Virlyn B. Moore, Jr., Atlanta lawyer, has been elected a trust officer of the **Fulton National Bank of Atlanta, Ga.,** by the board of directors, it was announced on March 12 by Erle Cocke, President, according to the Atlanta "Constitution" of March 13.

* * *

Through the sale of $500,000 of new stock the **Capital National Bank in Austin, Texas,** increased its capital on March 10 from $500,000 to $1,000,000, it is learned from the weekly bulletin of the Office of the Comptroller of the Currency.

* * *

H. L. Nichols has been elected a director of the **Mercantile National Bank, Dallas, Texas.**

* * *

Through the sale of $100,000 of new stock the **First National Bank of San Jose, Calif.,** increased its capital on March 4 from $750,000 to $850,000, it is learned from the weekly bulletin of the Office of the Comptroller of the Currency.

* * *

Appointment of Gustav Riedlin to Assistant Vice-President and Manager of the foreign department of **California Bank of Los Angeles,** on March 14 was announced by Frank L. King, President, following the regular monthly meeting of the board of directors.

Well known in local international trade circles, Riedlin is Past President and Past Chairman of the board of the Foreign Trade Association of Southern California, former Chairman of the Foreign Commerce section of the Los Angeles Chamber of Commerce, and Vice-Chairman of the Harbor, Foreign Commerce and Shipping Committee.

National Bank Assets Exceed $88 Billion

Deposits at end of 1948 were $627 million under year ago, while net loans increased during year by $2,338 million or 11%. Percentage of loans and discounts to total assets at end of year was 27.03 compared with 24.29% a year previous.

The total assets of national banks on Dec. 31, 1948 amounted to more than $88 billion, Comptroller of the Currency Preston Delano stated on March 18. The returns covered 4,997 active national banks in the United States and possessions. The assets were nearly $3 billion more than those reported by the 5,004 banks as of June 30, 1948, the date of the previous call, but were $300 million less than reported by the 5,011 banks as of Dec. 31, 1947.


Preston Delano

The deposits of the banks on Dec. 31, 1948 amounted to $81,648 million an increase of $2,648 million since June 1948, but $627 million less than in December 1947. Included in the recent deposit figures are demand deposits of individuals, partnerships and corporations of $47.005 million, which increased $1,801 million since June, but decreased $1,075 million in the year, and time deposits of individuals, partnerships and corporations of $18,828 million, which were $3 million less than in June, but $64 million more than at the end of 1947. Deposits of the United States Government of $1,502 million were $602 million more than at the end of the previous year; deposits of states and political subdivisions amounting to $5,231 million showed an increase of $505 million in the year, and deposits of banks of $7,843 million were $568 million less than in December 1947. Postal savings deposits of national banks, which show little change, continue at nearly $3 million, and certified and cashiers checks, etc. were $1,236 million.

Loans and discounts at the end of 1948 were $23,818 million after deducting reserves of $234 million for possible future losses. The net loans were $2,338 million, or nearly 11%, over the amount reported as of the end of 1947. Commercial and industrial loans of $11,564 million were up nearly 5% in the year, loans on real estate of $5,564 million were up 14%, consumer loans to individuals of $3,790 million were up 21%, and all other loans of $3,134 million, which included loans to farmers, advances to brokers and dealers and others for the purpose of purchasing or carrying securities, and loans to banks, etc., were up 29% in the year. The percentage of loans and discounts to total assets on Dec. 31, 1948 was 27.03, in comparison with 24.29 in December 1947.

Investments by the banks in United States Government obligations (including nearly $3 million guaranteed obligations) on Dec. 31, 1948 aggregated $34,980 million, which is a decrease of $3,845 million, or 10%, in the year. These investments were 39.69% of total assets, compared to 43.90% at the end of 1947. Other bonds, stocks, and securities of $5,248 million, which included obligations of states and political subdivisions of $3,190 million, were $64 million more than in December 1947.

Cash of $1,041 million, reserves with Federal Reserve banks of $13,382 million, and balances with other banks (including cash items in process of collection) of $8,601 million, a total of $23,024 million, showed an increase of $948 million in the year. The unimpaired capital stock of the banks at the end of 1948 was $1,829 million, including $24 million of preferred stock. Surplus was $2,511 million, undivided profits $1,009 million and capital reserves $322 million, or a total of $3,842 million. Total capital accounts of $5,671 million, which were 6.95% of total deposits, were $250 million more than at the end of 1947 when they were 6.59% of total deposits.

Kenney & Powell Offices In New Location

Kenney & Powell announce the removal of their offices to 41 Broad Street, New York City.

Alfred Borden Dead

Alfred Borden, E. F. Clucas & Co., died at the age of 73 after a long illness.

LETTER TO THE EDITOR:

Spain's Attack on Foreign Investments

Commenting on agitation for admission of Spain into the United Nations and for financial aid to Franco regime, Elisha M. Friedman, Consulting Economist, and Chairman, Econometric Institute, Inc., calls attention to action of Spanish Government in allowing seizure by an individual of the Barcelona Traction Company, a foreign owned utility, and in fostering attacks on CHADE, an affiliated utility holding company, largely foreign owned. Holds, before Spain's admittance to U. N. should be considered or any financial aid extended, her policy of confiscating foreign investments must be reversed.

Editor, Commercial & Financial Chronicle:

The Spanish Office of Cultural Relations in Washington has been publishing propaganda pleading for recognition and admission into the U. N. Among the claims made are that "Spain respects foreign property." **At the same time Juan March, with the aid of Franco's Government, is attempting to take over a foreign-owned private utility company, the Barcelona Traction, Light and Power (BTLP).** To this end he also harassed the Compania Hispano Americana de Electricidad (CHADE), a foreign-owned holding company affiliated with the same group. These two utility companies and their affiliate, Sofina, have widespread international banking connections, including: Societe Generale and Banque de Bruxelles in Belgium; Banque Internationale de Luxembourg in Luxemburg; Banque de Paris et des Pays-Bas and J. P. Morgan & Cie, in France; Credit Suisse in Switzerland; Midland Bank, and J Henry Schroeder & Co., in England; Bank of London & South America, First National Bank of Boston and Banco de la Provincia in Argentina; Canadian Bank of Commerce in Canada and Guaranty Trust Co. in New York.

Elisha M. Friedman

The attacks on these two foreign-owned utility companies in Spain has been the subject of extensive comment by newspapers and financial journals of Europe—in London, "The Times" and the "Statist"; in Brussels, "La Cote Libre"; in Paris, the "Agence Quotidienne" and "Agence Economique et Financiere"; in Geneva, the "Journal de Geneve" and in Zurich, "Le Bulletin Financier Suisse," "Finanz-Revue" and "Finanz-Wirtschaft." This *cause celebre* in international investment affairs has been hardly noticed by American financial and business magazines.

But Spain Confiscates Foreign Investments

Some spokesmen for Franco now are urging a friendly attitude by our government. Yet little progress can be made toward such cooperation while Franco and his ministers follow such destructive and confiscatory policies. Juan March is reputed to be the richest man in Spain and has been the principal backer of Franco. Various news items, pieced together, reveal his designs. In 1940, when the fortunes of the Western Allies looked darkest, March seemingly conceived the idea of acquiring the assets in Spain of the foreign-owned Barcelona Traction. He thereupon notified the controlling stockholders that he wanted their company.

The Barcelona Traction has a total installed capacity, hydro-electric and steam, of about 420,000 kilowatt. The company is worth more than $300,000,000. It was built up almost entirely with foreign capital and by foreign engineers over a period of 30 years and has contributed greatly to the industrial development of Spain.

Juan March Would Seize Foreign Utility

When March's demands were refused, he proceeded to buy up the sterling bonds of Barcelona Traction, which were greatly depressed in price by government policies. Though the company had earnings in pesetas practically seven times the charges required by these bonds, the company was unable to pay the interest in sterling because the Spanish Government ceased to approve the necessary exchange transfer from pesetas to sterling. However, though other Spanish nationals were subject to foreign exchange restrictions, March still seemed able to obtain sterling currency and hold sterling bonds.

Thereupon Barcelona Traction proposed to its sterling bondholders a plan of compromise which would have eliminated the sterling debt and relieved Spain of a foreign exchange burden. However, Juan March, holder of sterling bonds, opposed this settlement. He then proposed an alternative settlement, reported at the annual meeting in Toronto of the BTLP by J. Donald Duncan, Chairman. "In the new company Mr. March (owning no stock) demanded three-fourths of the equity and three-fifths of the new bonds, leaving to the present shareholders (owning all the stock) the remaining one-fourth of the equity and two-fifths of the new bonds."

March Attacks Foreign Holding Company

To obtain such control March thereupon conceived the idea of attacking the CHADE Company in order to coerce the affiliated group now controlling Barcelona Traction. The Barcelona Traction, incorporated in Canada, has actual operating subsidiaries in Spain, whereas CHADE, incorporated in Spain, neither does business nor has any property there, but was the owner of an operating utility serving Buenos Aires, Argentina. **The securities of the Barcelona Traction and CHADE are owned in England, Canada, Belgium, France, Switzerland, and the United States. Only a small fraction of CHADE shares, about 15%, are owned in Spain.**

March's strategy was carefully planned. In April and May, 1947, during negotiations concerning BTLP, he threatened that, unless an agreement with him was reached, the Spanish Government would pass legislation inimical to CHADE. The Agence Economique et Financiere of Paris stated that "a spokesman for Mr. March called on the CHADE representative in New York in April, 1947, to say that unless satisfactory arrangement was reached with Mr. March concerning BTLP, Mr. March could not prevent the Spanish Government from taking steps against CHADE. Mr. March's spokesman in New York telephoned to Mr. March in Madrid to confirm this threat to a Spanish-speaking representative of CHADE." In July, 1947, such a decree was published, practically preventing CHADE from functioning in Spain. According to the London "Statist," **"Juan March or his spokesman have told representatives of CHADE that the attacks on the company were designed to enable him to obtain control of Barcelona Traction."** Again, according to the Chairman of the CHADE annual meeting on Jan. 26, 1949, F. Terlink, "The decree of July 17, 1947, which compelled CHADE to go into liquidation was due to the initiative of Juan March."

"Companies Managed in the Higher Interests of the State"

The decree of July 17, 1947, regulated Spanish companies. As "La Cote Libre" of Brussels writes: "This decree states the Nazi principle that a **special law is required for Spanish companies to protect them against their own shareholders.** It made rules which would completely paralyze the freedom of action of the corporation." The London "Statist" reports that this decree "provided that **all corporate actions required the endorsement of the Spanish Minister f Finance** and that **all companies were to be managed to accord with the higher interests of the State.**" Then says the Paris "Agence Economique et Financiere," "This Spanish Minister met in Madrid in May, 1948, with representatives of the majority of CHADE stockholders. Juan March returned to Madrid from Switzerland to keep a watchful eye on the meeting. He had previously told the CHADE representatives that 'CHADE must return to Spain' and that they should consult him concerning the terms of this return. He had previously demanded that certain Spanish directors and particularly representatives of certain Spanish banks would have to resign from the present board to make way for other persons approved by him."

"Escape to Freedom" by CHADE

To circumvent this plot, the controlling shareholders of CHADE decided to transfer the shares of the Argentine company from a Spanish to a Luxemburg holding corporation (SODEC). "When the CHADE board decided to call a stockholders' meeting in Madrid to vote on the dissolution of the company (ordered by the government), **the meeting was suspended by court order and by police interference. Such procedure is without precedent in other countries.**" ("La Cote Libre" of Brussels.)

"The directors knew that the Spanish authorities did not wish the dissolution of CHADE to be ratified by the stockholders. Therefore, it was clearly useless to call another stockholders' meeting in Spain. Thereupon, the 26 non-Spanish directors of CHADE representing a majority, both of the stockholders and of the board, called a meeting in Luxemburg which unanimously ratified the action of the board in dissolving CHADE. For each share of stock of CHADE (Spain), stockholders received one share of SODEC (Luxemburg) or Societe d'Electricite" (London "Statist.")

Yet, in order to induce CHADE to return to Spain from Luxemburg after the Civil War, the Franco Government made solemn promises to give favorable treatment to CHADE. These promises seem to have been a ruse to induce CHADE to return to Spain so as to be able to trap the foreign investors later.

Retroactive Taxes—A New Wrinkle

This dissolution was the last resort, after the Minister of Industry and Commerce had rejected the company's extremely generous proposals. At the Luxemburg meeting, the stockholders by unanimous vote, put on record the fact that the dissolution of the company had been imposed by the Spanish Government under its decree of July, 1947. **Yet the Spanish Government now tries to take advantage of its own arbitrary decree and claims retroactive taxes which are not due,** and, in addition, levies new liquidation taxes. The Spanish Government's attempt to impose retroactive taxes on the company violates all modern constitutions, for under them no *ex post facto* law may be passed.

"The Tax Bureau of Madrid informed the company that it was declared to be in a state of dissolution, pursuant to a decision of the Cabinet, and the Minister of Industry and Commerce stated that CHADE was dissolved 'for tax purposes.'" ("Journal de

(Continued on page 38)

United States Economy Depends on Foreign Trade

By DR. MAX WINKLER*
Bernard Winkler & Co.

Holding American prosperity depends directly on foreign trade because of its marginal impact, Dr. Winkler complains of persistence of economic isolationism. Warning against regional arrangements in the economic sphere, he urges worldwide credit pacts for productive uses, based on currency stabilization.

Despite opinions in certain restricted quarters to the contrary, the prosperity of the United States invariably increases or recedes in direct proportion to the expansion or decline in the country's foreign commerce. Although political isolationism has been largely eliminated as a factor in America's foreign policy, economic isolationism still persists, to a certain degree and manages, from time to time, seriously to influence the economic well-being of the nation.

Dr. Max Winkler

Those who adhere to a policy of economic isolationism argue: Since foreign trade represents only about 10% of the overall volume of the nation's business, its drastic reduction or even entire elimination could not have too adverse an effect on the country's economy as a whole. In consequence, they view with skepticism any serious effort to expand foreign commerce. They contend that such efforts are at the expense of the nation's domestic economy, refusing or failing to appreciate that expanded trade constitutes a corresponding enhancement in the economic status of the country and its people.

The arithmetic of the argument advanced by economic isolationists is accurate. Any statistical study will verify it. Any book dealing with the subject will confirm it. But economics is more than arithmetic. The economist contends that *it is the 10% represented by foreign trade in relation to the business of the nation as a whole which constitutes the margin of profit at which such business is conducted.* If this percentage is eliminated or drastically reduced, the profit to American economy may be eliminated or cut correspondingly.

Marginal Effect on Unemployment

It has been reliably estimated that the number of Americans employed in enterprises directly identified with foreign commerce varies between 6½ and 8½ millions and that those employed in enterprises indirectly identified with foreign trade number between 1½ and 3½ million. In other words, the country would face a total unemployment population of between 8 and 12 millions in the event of total elimination or serious shrinkage in foreign trade. If one adds to these figures the number of those normally unemployed and unemployable, placed at between 2½ and 3 millions, the total of unemployment would reach 15 millions. It is apparent that this figure represents the difference between prosperity and depression. An unemployment population of between 10½ and 15 millions may conservatively represent a shrinkage in the purchasing power of the nation of between $25 and $35 billion. Even the United States, rich and resourceful as she is, can ill afford such gigantic losses.

It is abundantly clear that one cannot underestimate the importance of foreign trade to the welfare of the nation. More than any other factor or combination of factors, foreign trade reflects accurately the economic state of affairs in the country. Expansion synchronizes with prosperous times while contraction is synonymous with depression. Arguments which have been advanced in favor of foreign trade are irrefutable and support this thesis.

Must Be Two-Way Street

However, in order to afford the maximum benefit to the countries involved, foreign trade must be a two-way street. Nations must buy from each other if they wish to sell to each other. Unfortunately, the normal flow of trade is often stopped by wars, hot as well as cold, and other disastrous occurrences in the realm of economics and politics.

After November, 1918, the victorious Allies proceeded promptly to repair the economy of the vanquished. It so happened that the United States was able and willing to furnish the capital needed for the rehabilitation not alone of her European Allies who had won the war, but of the defeated countries as well. As a matter of fact, the economy of our European Allies had become much more seriously impaired than that of our former enemies. All required goods and services, but most of them were unable to pay for them out of their own resources. We extended large credits and underwrote huge loans which were sold to American investors, individuals as well as institutions. These transactions were largely of a private character; that is, private banks and financial institutions underwrote the loans and private investors bought them.

Attempts were made by the government to regulate the flow of foreign credits: In February, 1922, Congress passed an Act providing for the withholding of financial aid to any foreign government which had not previously repaid or refunded obligations received or held by the United States Government or governmental agencies. Foreign nations, desirous of obtaining accommodations, promptly agreed to the refunding of their old debts. Experience teaches that the American investor and the national economy as a whole might have fared better if these debts had been forgiven altogether.

Foreign lending was also circumscribed by the so-called Foreign Loan Policy laid down by the Harding Administration. This policy, if indeed it may be called such, provided that any applicant for a loan must ascertain in advance of the transaction whether in the view of the State Department there should be any objection. Little, if anything was achieved by the ruling.

With the funding out of the way and because of the flexibility of the Foreign Loan Policy, hundreds of millions, nay billions of dollars were made available to the rest of the world. The flow of gold, that is, the extension of loans and credits was accompanied or followed by a marked expansion in foreign trade and a corresponding enhancement in the nation's economic prosperity. When

(Continued on page 42)

*An address by Dr. Winkler at the 29th Annual Get-Together of the Export Managers Club of New York, March 22, 1949.

NSTA Notes

SECURITY TRADERS ASSOCIATION OF NEW YORK

The Security Traders Association of New York has announced that the standing Committees for the current year are as follows:

Arrangements Committee—D. Raymond Kenney, Chairman, Kenney & Powell; Clifford K. Channell, First Boston Corporation; Bernard J. Conlon, P. F. Fox & Company; Edward J. Kelly, Carl M. Loeb, Rhoades & Company; Nathan A. Krumholz, Siegel & Company; J. William Kumm, Dunn & Company; Gustave L. Levy, Goldman, Sachs & Company; Daniel G. Mullin, Tucker, Anthony & Company; Charles O'B. Murphy, Merrill Lynch, Pierce, Fenner & Beane; Frank J. Orlando, Goodbody & Company; Harry J. Peiser, Ira Haupt & Company; Milton Pinkus, Troster, Currie & Summers; Homer Wirth, Mabon & Company; Theodore R. Young, Young & Gerston.

Ticket Reservations—Arnold J. Wechsler, Ogden, Wechsler & Co.

Hotel Reservations—Wellington Hunter, Hunter & Co.

Auditing Committee—John F. McLaughlin, Chairman, McLaughlin, Reuss & Company; Joseph J. Kirk, Delafield & Delafield; Thomas F. Worthington, Winckler, Onderdonk & Company; Irving P. Grace, W. C. Pitfield & Company, Inc.

By-Laws Committee — Stanley Roggenburg, Chairman, Roggenburg & Company; William K. Porter, Hemphill, Noyes & Company; John E. Kassebaum, Van Alstyne, Noel & Company; Walter F. Saunders, Dominion Securities Corporation; Wilbur R. Wittich, Walston, Hoffman & Goodwin.

Employment Committee — John Gahan, Chairman, Schoellkopf, Hutton & Pomeroy, Inc.; T. Frank Mackessy, Abbott, Proctor & Paine; Walter V. Kennedy, Coffin & Burr, Inc.

Forum Committee—Henry Oetjen, Chairman, McGinnis, Bampton & Sellger; D. Frederick Barton, Eastman Dillon & Company; Stanley C. Eaton, Bendix, Luitweiler & Company.

Membership Committee—Robert A. Torpie, Chairman, Merrill Lynch, Pierce, Fenner & Beane; C. Jerome Aal, Aal & Golkin; Henry S. Bartold, Eastman Dillon & Company; Edward I. Becker, Reynolds & Company; William H. Salisbury, Union Securities Corporation.

Municipal Committee — Paris Scott Russell, Chairman, Glore, Forgan & Company; Edward N. Ganser, First Michigan Corporation; Kenneth C. Ebbitt, Shelby Cullom Davis & Company; Thomas W. Gleason, Kirchofer & Arnold Associates, Inc.; Jack B. Hanauer, J. B. Hanauer & Company, Newark, N. J.

Publicity Committee—Ernest N. Robb, Chairman, Paine, Webber, Jackson & Curtis; Alfred F. Tisch, Fitzgerald & Company; Roald A. Morton, Blue List Publishing Company; Herbert D. Seibert, "Commercial & Financial Chronicle"; Eliot H. Sharp, Investment Dealers Digest; Raymond Trigger, Investment Dealers Digest; Graham Walker, National Quotation Bureau, Inc.; Louis Walker, National Quotation Bureau, Inc.

Reception Committee—John J. O'Kane, Jr., Chairman, John J. O'Kane, Jr. & Company; Richard F. Abbe, Richard F. Abbe Company; Chester E. deWillers, C. E. deWillers & Company; Michael J. Heaney, Joseph McManus & Company; John E. Kassebaum, Van Alstyne, Noel & Company; B. Winthrop Pizzini, B. W. Pizzini & Company, Inc.; Stanley Roggenburg, Roggenburg & Company; Walter F. Saunders, Dominion Securities Corporation; Harold B. Smith, Pershing & Co.; Willis M. Summers, Troster, Currie & Summers; Benjamin H. Van Keegan, Frank C. Masterson & Co.; Wilbur R. Wittich, Walston, Hoffman & Goodwin.

Sports Committee—Herman D. Meyer, Chairman, Stern & Company; Arthur J. Burian, Strauss Bros., Inc.; Harry D. Casper, John J. O'Kane, Jr. & Company; James A. Donnelly, Reynolds & Company; Samuel Gronick, Gilbert J. Postley & Company; Charles M. Kaiser, Berwald & Company; Gerald F. X. Kane, Frank C. Moore & Company; Lawrence A. Wren, Allen & Company.

Tax and Legislation Committee—P. Fred Fox, Chairman, P. F. Fox & Co.; Murray L. Barysh, Ernst & Company; Oliver A. Kimberly, J. K. Rice, Jr. & Company; Frank E. Mulligan, E. H. Rollins & Sons, Inc.

Transportation Committee—Harold B. Smith, Chairman, Pershing & Company; Oscar D. Griffin, Louis H. Whitehead Company.

Veterans—William H. Boggs, Chairman, Schafer, Miller & Co.; Joseph Schrank, Shaskan & Co.; Sidney Holtzman, Marx & Co.; George Dedrick, Blair F. Claybaugh & Co.; John E. Demaye, Sutro Bros. & Co.; A. A. Sikora, Wm. J. Mericka & Company, Inc.

The 13th Annual Dinner will be held at the Waldorf Astoria on Friday evening, April 22, 1949. Dinner tickets will be $12.50 per person, including all taxes. Ray Kenney and his arrangements committee have developed plans for a most successful party and members are urged to make their reservations for the dinner immediately. Dress will be informal.

Joins Farwell, Chapman

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Dan E. Penick has joined Farwell, Chapman & Co., 208 South La Salle Street, members of the New York and Chicago Stock Exchanges. He was formerly with Fred W. Fairman & Co.

Charles A. Day Co. Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS — George A. Ballard has become affiliated with Chas. A. Day & Co., Inc., Washington at Court Street, members of the Boston Stock Exchange.

With Merrill Lynch Co.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO. — Morgan C. Day has become affiliated with Merrill Lynch, Pierce, Fenner & Beane, 511 Locust Street. For many years he was associated with I. M. Simon & Co.

With Schirmer, Atherton

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Robert S. Schwartz is now with Schirmer, Atherton & Co., 50 Congress Street, members of the New York and Boston Stock Exchanges.

Taxing Ourselves Into a Depression

By WALTER HOVING*
President, Hoving Corporation
President, Commerce and Industry Association of New York, Inc.

Mr. Hoving, estimating nation's total tax bill of $65 billion, more than 30% of national income, holds burden cannot long be supported without undermining our economy and impeding new capital production. Urges changing tax laws to allow preferred stock dividends as business expense and keeping overall tax levies within 25% of national income.

We seem to be in the habit in this country, at times, of going to excess. This has happened many times in our history, notably in the economic field. After the first World War in 1919 we went to excess in commodity prices. In the late twenties we went to excess in security prices with the consequent long drawn out depression of the thirties.

Walter Hoving

Today we find ourselves going to excess again. This time it is in the field of taxation.

Our total tax bill—Federal, state and local—exceeds $65,000,000,000 per year. This is more than 30% of our national income and is so out of proportion that it is seriously threatening our economy. History demonstrates that such a tax load can only be supported during short periods of inflation or war. At other times it undermines the economy and in about every instance of national bankruptcy the taxload exceeded 25%. Our politicians, both Democratic and Republican, will have to learn this if the country's economy is to be saved from disaster. They can either learn it by recognizing it now and doing something about it, or they can learn it the hard way after the economy collapses.

This high taxation rate is especially evil when it hits the nerve center of our economic system; and that is in the production of new capital. New capital must be produced to keep the economy going. Why is this necessary? Let us get out of the realm of figures and get down to human beings. This year, 1949, the net increase of new workers in the United States is estimated to be 1,300,000. By that I mean the number of boys and girls who will be graduating from or leaving our colleges, high schools, and grade schools and going to work, less those who will die or retire.

Now for every person employed in the United States, $8,500 worth of plant equipment and tools must be provided. Simple arithmetic, therefore, arrives at a figure of $11,050,000,000 that will have to be found just to put these new people to work. In addition to this, of course, many billions will also have to be found to repair and replenish our present plant.

Let us take a look at the record. Last year $15,000,000,000 was invested by industry in plant and equipment. Now $9,000,000,000 came from debt and only $1,100,000,000 came from preferred and common stock financing. The rest plus money for additional working capital, etc., came out of profits and depreciation. In other words business is going further and further into debt. This year with earnings tending to go down, where will the money come from to put these new workers to work, as well as keep our present workers on the job? After the first war over one-third of the railroad trackage of America went into bankruptcy. The reason was their debt was too large a percentage of their capitalization.

Why did such a small proportion of this money come from the sale of equities? The simple reason is that the corporate income tax of 38% is entirely too high. If a corporation pays 50% of its earnings in dividends, it must earn $3.24 to pay $1 in dividends. This is the crux of the matter. Is it reasonable to expect investors to invest in equities when one dollar in dividends has to be earned three and one-quarter times by the corporation? Is it any wonder that people put their money into bonds and mortgages?

Some people don't seem to realize that 38% is too high and there is a good reason for this. During the war it was a great deal higher. But we forget that taxes during war and inflation are an entirely different thing than taxes under deflation. Thirty-eight per cent when we contrast it to the war taxes seems reasonable.

But the fact of the matter is that it is not reasonable. It is too high and it is stopping the flow of equity money and is largely responsible for the fact that only $1,100,000,000 worth of new equity money found its way into business last year.

Now what can we do about it? I have two specific suggestions. The first suggestion is that we must enact legislation placing preferred stock dividends in the same category as interest. In other words, we should make preferred dividends tax deductible on the corporate level just as we now do interest. There is ample precedent for this. Most utility companies are now being handled in this fashion. Their preferred stock dividends are an expense of doing business and there is no reason why the rest of the business community should be discriminated against in this regard. If we do this, stocks will again be in demand and investors of the country will put their money into business through equities rather than through debt.

Second, we must recognize the principle in the United States that 25% is the top ceiling for taxes. That is, Federal, State and Municipal taxes altogether must be kept within 25% of the national income. We must keep the government's expenditures within this percentage because if we don't we will find that the whole economic machine will go into a slowdown and the national income will be greatly diminished below the present level.

I urge all businessmen to make themselves aware of these facts. Then make your representatives in government equally aware of them so that this evil can be corrected now while there is yet time. Only in this way will we escape from the forceable correction which will surely come if we permit ourselves to tax ourselves into a depression.

*An address by Mr. Hoving before the Controller's Institute of America, New York City, March 22, 1949.

With Herrick, Waddell

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CALIF. — Madge Kuykendall is with Herrick, Waddell & Reed, Inc., 8943 Wilshire Boulevard.

Economic Outlook and the Automobile Industry

By J. R. DAVIS*
Vice-President, Sales and Advertising, Ford Motor Company

Stressing a balanced market as "our goal for today and tomorrow," Ford executive says it can be obtained by proper and energetic salesmanship. Cites as factors indicating long-term upward trend of consumer market: (1) population and labor force increase; (2) largest individual savings backlog on record; (3) relatively small volume of consumer debt; and (4) large "discretional spending" funds in hands of public. Refers also to "floors" established by consumer from social insurance benefits, and forecasts still higher U. S. living standards.

One factor in our economic history has always seemed significant to me. Eighty years ago three-quarters of our working population made things. Those men worked on farms, in mines and in factories. Today less than half of our labor force is devoted to production. Yet the total of our output has been climbing continually.

J. R. Davis

I like to think that America's great sales force has had a great deal to do with this trend. I like to think that largely because salesmen stimulated the demand for goods, America today enjoys the highest standard of living throughout the world.

Without the contribution of salesmen, this free economy of ours could not, in my opinion, have reached its great fulfillment—the envy of the whole world.

The vital fact in every business consideration today is that the so-called "seller's market" is disappearing and we face once again a buyer's market.

Unfortunately, so much has been written about the inevitable "buyer's market" that both the public and the businessman have come to associate it with a recession or "loss market." The fact is, however, that this thing we call "a buyer's market" is the set of conditions out of which our profession was born. It is, moreover, the only atmosphere in which we can flourish. A "buyer's market" is nothing more nor less than a "salesman's market." Without salesmen, a "buyer's market" would always be a "loss market." The great social function of our national sales force is to keep the market in balance with production. In my opinion, our goal for today and tomorrow is the balanced market. I also think that statisticians who base their predictions on booms and busts often overlook the fact that it is the ingenuity and vigor of America's salesmen that throws their predictions off.

We do not reconcile ourselves to trends. We make them.

This "balanced market," in my opinion, is a good descriptive term of every salesman's goal. In free enterprise a balanced market means a healthy economic climate; money flows freely; production is geared to a high level; consumption keeps pace with production. The trend is always upward.

Of course, psychological factors often threaten to upset this balance. The more the buying public allows itself to be stampeded by catch words and gloomy potentialities the more we are bound to develop a downward trend, and there is some evidence today that people are willing to look for the worst rather than the best. Just a few months ago public attitudes regarding the future seemed to be just the reverse.

As I see it, the inherent instinct of every American to follow hopeful leadership offers a great challenge to America's returning salesmen.

The job of the American salesman, in my opinion, adds up to a lot more than selling tangibles—and our market adds up to a lot more than plain dollar sales. Markets are greatly inflenced by publice moods. Inflation or deflation is caused not merely by what is in people's pocketbooks, but by what is in their minds. Deflation can occur when people have plenty of money but just won't spend it. Crowd psychology ranks with economics when we take a good look at these factors.

Our power as salesmen can perhaps be regarded as the fulcrum on which a balanced market rests. This power is our skill in stimulating **demand**, in making it easier for people to buy the things that make up our ever-better standard of living.

The production and the procurement challenge have been met. Goods are flowing through this country in deeper and wider streams than ever before in our history. The work of seeing that those goods are kept moving is now up to salesmen. It is now the salesman's job to captain industry's task force for maintaining a balanced economy.

This is quite an assignment. No wonder the big boss is politely saying "Good Morning" and smiling at his sales chief these days. Salesmen are coming back into

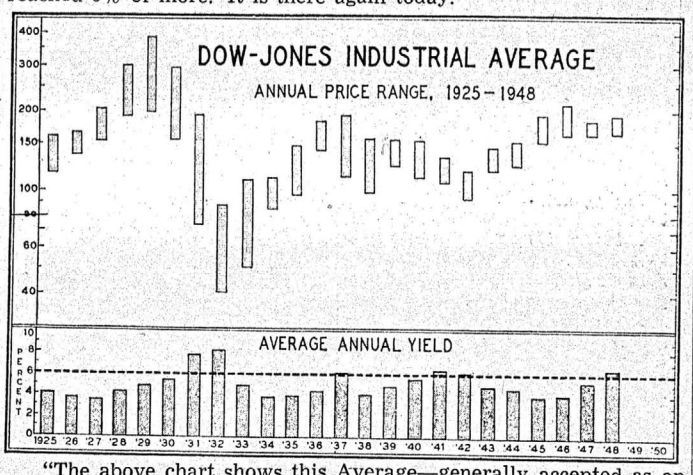
(Continued on page 41)

*An address by Mr. Davis before the Sales Executives Club of New York, New York City, March 15. The Club presented Mr. Davis with its distinguished "Applause Award" in "recognition of outstanding salesmanship in introducing the 1949 Ford."

Mutual Funds

By HENRY HUNT

"Only on three earlier occasions in a quarter of a century has the average annual return from the Dow-Jones Industrial Average reached 6% or more. It is there again today.



"The above chart shows this Average—generally accepted as an index of common stock price levels—from 1925 to 1948, and the average yield available each year.

"Tests were run to determine what an investor's experience would have been had he purchased the Dow-Jones Industrial Average in those periods of high yields (actually, the Average as such cannot be bought)—a $1,000 investment at the end of every year in which the average yield rose to 6% or more.

"The yield reached this level in 1948 and on three previous occasions—1931, 1937, and 1941. The results tabulated below show the annual income received from an investment made at the end of each of these years.

Annual Income

	1931-1949	1937-1949	1941-1949
1932	$59.30	----	----
1933	43.64	----	----
1934	46.98	----	----
1935	58.40	----	----
1936	90.50	----	----
1937	112.70	----	----
1938	63.92	$41.20	----
1939	78.43	50.55	----
1940	90.62	58.41	----
1941	97.43	62.80	----
1942	82.15	52.95	$57.67
1943	80.87	52.13	56.77
1944	84.33	54.36	59.21
1945	85.87	55.35	60.29
1946	96.27	62.06	67.59
1947	118.22	76.21	83.00
1948	147.62	95.15	103.64
Average	84.54	60.10	69.73

"These tests were run on a 'buy and hold' basis, although hind-

(Continued on page 15)

Prominent Personalities

(Eleventh of a Series)

EDWARD C. JOHNSON, 2nd
President, Fidelity Fund, Inc.

Edward C. Johnson, 2nd is a man of medium height who looks considerably younger than his 50 years. Whether his youthful appearance is an asset or a liability is an open question to which he gives no thought; he is too busy dissecting everything he comes in contact with. He might be described as intensely analytical. His friendly blue eyes look out at you from behind his glasses with flattering absorption. Make no mistake about it, he is really interested in you. He correlates his understanding of people with his knowledge of the investment business. That is why his "President's Letter" addressed to shareholders of Fidelity Fund is understandable to business man and housewife alike.


Ed. C. Johnson, 2nd

Ed Johnson, as a young man, had the unusual hobby of studying securities and their markets. Born in Milton, a suburb of Boston, he used to vie successfully with his mathematics teacher at chess. After serving in the Navy in the First World War, he attended Harvard Business and Law Schools. Subsequently, for the next 15 years, he was associated with a leading Boston law firm where his legal practice was devoted primarily to corporate reorganizations and recapitalizations. He also supervised various investment accounts as agent or trustee. His special interest since graduating from Law School has been a study of famous financial personalities of past years and their methods of operation, especially in the field of stock market theory and practice.

In 1935 Mr. Johnson became Clerk of Incorporated Investors. Later he left his practice of law to become Treasurer and then Vice-President of that company. In 1943 he became President of Fidelity Fund, Inc., and since 1945 has devoted all of his time to this investment company, which has shown a steady growth from about $3½ million of assets to nearly $20 million since his incumbency.

Ed is a man who reads extensively, everything from publications relating to finance and economics to philosophy. He loves to browse in a number of widely diverse fields, such as the theory of popular music, dietetics, and psychology. He likes to spend time with his family, which includes his wife, son, and a married daughter; and he believes that doing things with one's family group is the nicest kind of relaxation.

Having many friends throughout the country, Mr. Johnson is one of those Bostonians who enjoys getting away from his desk to make regular trips to the Middle West and the Pacific Coast. He insists that any Easterner needs to sojourn in the West regularly in order to balance his business and personal points of view.

Walston, Hoffman Opens Branch in East Orange

Edmund W. Tabell, resident partner in charge of the New York office of Walston, Hoffman & Goodwin, members of the New York Stock Exchange, announces that the firm has opened a branch office in East Orange, New Jersey. The new office will be under the management of Edward A. Parmele. Opening of the East Orange office is in line with the firm's plans for expanding its operations in the East. The firm established its New York office last December.

Principal offices of Walston, Hoffman & Goodwin are in New York, San Francisco and Los Angeles. Offices are also maintained in 15 other cities in California.

Cohu Corp. Adds Two

Charles W. Backhus and Julius Maier have become associated with the Cohu Corporation, 1 Wall Street, New York City, in the retail distribution of Mutual Funds.

Joins Conrad, Bruce

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Robert E. Davidson has become associated with Conrad, Bruce & Co., 530 West Sixth Street. He was previously with Lester & Co.

Mutual Funds

(Continued from page 14)

sight shows that the investor who simply held his investment missed an opportunity for substantial profits in each period. After the purchase at the end of 1931 the Dow-Jones Industrial Average rose 149.5%; after 1937, 31%; and after 1941 91.5%. Even so, the Average today is considerably above the prices at which purchases were made."—From "Keynotes," published by the **Keystone Company of Boston.**

"D. G." Comments on the Market

"Two factors largely control the movement of security prices—the **actual** and the **psychological.**

"At the present time we are witnessing a recession in business; one which has been long anticipated and which is, moreover, a natural postwar correction. There are, in addition, developments of purely short-term significance which are unfavorable. (The fact that the government is currently collecting about $15 billion for tax payments naturally causes a temporary decrease of the nation's buying power, and thus affects business volume; it is also responsible for some selling of securities by taxpayers who need cash.) All this is **actual**—but public fears are exaggerating the effects and it is this **psychological** factor that is chiefly responsible for the apathy of the securities markets at this time.

"The basic long-term developments are encouraging. In the first place, the extent of the recession is modest indeed: business volume in February was within 3% of its peacetime high; employment is still **above** that of a year ago; national income is close to its high for all time; net savings are still **gaining** impressively.

"Secondly, there are two powerful forces in the making which may well bring about a clearer understanding and hence a better feeling later in the year. Fear of commodity price declines is no longer so acute since the major effects are felt to be behind us and inventory adjustments are now taking place without serious disturbance to the economic structure. Sharp rises in income taxes, which seemed inevitable three months ago, now appear highly improbable. The lifting of both of these fears which until now have been overhanging business should be reflected both in higher volume and in a more realistic valuation of dividend yields in the latter half of the year."—From **Distributors Group's** monthly "Investment Report."

Economists Find Present Business Situation Confusing

"As to the business 'state of the union,' so called economists have been at their wits' end trying to explain or rationalize booming business with our securities markets in the doldrums. These two things have been at variance for so long that one is permitted to wonder whether they have any connection with one another any more. Suffice it to say, that the investing public seems to be in a mood to pay little attention to good news, and to magnify out of all proportion information that is unfavorable.

"In 1929 conditions were exactly reversed. Bad news was ignored, whereas anything good could put the market up 10 points. We all know what happened finally at that time. Can it be that we are building up for something of the same sort, but in the opposite direction, which will explode on us some day, and regardless of what may happen to general business?"—An extract from the report of **The George Putnam Fund** Annual Meeting.

"D. G." Restores 6% Dealer Commission

Effective March 21, the dealer concession on sales of **Group Securities, Inc.** was raised from 5% to 6%. As soon as permission is granted by the SEC, it is expected that the selling "load" will be increased from 7½% to 8¾%. At the same time the company plans to reduce its "load" on switches from one "D. G." industry group to another by about one-half.

Prior to 1947, "D. G." paid dealers 6% but reduced its load and selling commission a couple of years ago.

Hard Work the Key to Selling Success—Bullock

As Reported by DOUGLAS K. PORTEOUS

Prominent mutual fund distributor also emphasizes need for concentrating on prospect's advantages, under the four fundamentals of Safety, Yield, Marketability, and Appreciation.

Sixth speaker in the Retail Salesmanship of Mutual Investment Funds course at the New York Institute of Finance was Mr. Hugh Bullock, senior executive of the Calvin Bullock organization.

The most important rule to observe in retailing funds in his opinion is *work*—intelligent work, hard work,—seeing the people! This is the real road to financial success.

Hugh Bullock

Thomas J. Watson, General Ike Eisenhower, Winston Churchill and others were characterized as successful salesmen, not technicians or processors. Selling rewards are attained with blood, sweat, tears and toil—but the rewards are sweet.

Mr. Bullock suggested that salesmen use modern ethical merchandizing methods to get their ideas across, and that simple language of the Peter Rabbit variety be employed. In merchandising it might be appropriate to emulate the evangelist Billy Sunday who had the knack of "doing the usual thing in the unusual way." The sales interview should be opened always with an "approach" statement on something the prospect will consider to his own interest, or on something he will like to hear.

Appealing to The Prospect's Advantage

It was suggested the "demonstration" portion of the interview continue the theme of "what's in it for the investor—PROSPECT ADVANTAGE." For instance, lead up gradually to the four fundamentals of Safety, Yield, Marketability and Appreciation by making comparisons of a prospect's favorite stock with a mutual investment fund on the basis of these four fundamentals.

In Cleveland, Ohio, the salesman could compare Cleveland Electric Illuminating Co., common stock, with a Fund. First, Safety through diversification and management flexibility is better in the Fund. Second, Yield is slightly better for the local utility, but total income is probably not better. Third, Marketability of the open-end Fund is definitely superior, and fourth, there are vastly improved Appreciation possibilities in the case of the Fund.

Comparisons in other territories were given. Finally, the most widely held "blue chip," American Tel. & Tel. Co., common stock, was analyzed from the standpoint of the four fundamentals and compared with a fund. The purpose of making such comparisons should not be to invite trading but to explain a Fund's salient points in terms readily recognizable by the investor. This subject was ably presented and completely accepted.

Reaching the "New Wealth Individual"

The "new wealth individual" in this country presents tremendous prospect and client possibilities, nevertheless, considerable resourcefulness and work is necessary in reaching these new people. Literature and sales talk must be simple and "corny" to be effective.

Mr. Bullock read a cablegram from his London, England branch office estimating the total assets of British investment trusts at over $3,200,000,000 at present. Obviously, the trusts there occupy a more important position in the economic and social fabric of the nation.

The British trusts are highly respected—based upon their long and successful history—and while they are operated by competent and experienced management groups, it is felt that the size, experience and qualifications of the American specialists in investment company management point the way to a similar widespread growth and recognition of such companies in the United States.

COMING EVENTS

In Investment Field

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 16-17, 1949 (Hot Springs, Ark.)
Spring meeting of NASD Board of Governors and Advisory Council at The Homestead.

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, 1949 (Los Angeles, Calif.)
Bond Club of Los Angeles field day and outing at the Bel-Air Country Club.

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

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.

Newburger, Loeb Adds

Newburger, Loeb & Co., members of the New York Stock Exchange and other exchanges, announce that John M. Berry has joined their organization at their branch office at 57 West 57th Street, New York City, as registered representative.

With Harley, Haydon

(Special to THE FINANCIAL CHRONICLE)

MADISON, WIS.—Robert C. Beck is with Harley, Haydon & Co., Inc., First National Bank Building.

Boynton a Director

Herbert F. Boynton, partner in Laird, Bissell & Meeds, and a past

Herbert F. Boynton

Chairman of the Board of Governors of the National Association of Securities Dealers, has been elected a director of the Mengel Company. Mr. Boynton is also a director of Merritt-Chapman & Scott Corporation and the Eaton Paper Corporation.

Broker-Dealer Personnel Items

(Continued from page 8)

Struthers Wells Corp.—Circular—Hayden, Stone & Co., 25 Broad Street, New York 4, N. Y.

United Light and Railways Co.—Memorandum—Bache & Co., 36 Wall Street, New York 5, N. Y.

Also available from the uptown office, Chrysler Building, New York City, is **"News and View,"** a leaflet of market comment.

United Light & Railways—Analysis—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Insurance Stocks

Another of the fire insurance companies which has issued an interesting and informative annual report for 1948 is the Fireman's Fund Insurance Company of San Francisco.

The company has just completed 86 years of successful operations and some of the highlights of its history are presented in the report. Founded in the early years of San Francisco when eastern companies would not provide sufficient insurance coverage, the name "Fireman's Fund" was selected because of the company's offer to pay 10% of its profits to firemen's charitable funds. After surviving the San Francisco fire of 1906, at which time its home office was burned, the company has grown and expanded until today it is one of the country's leading insurance companies.

The year 1948 from several standpoints was the most successful in the history of the company. Premiums written on a consolidated basis reached a record high of $109,271,000 as compared with $90,124,000 in 1947. This represented an increase of approximately 21%.

With the benefit of a significant improvement in the loss ratio, underwriting experience was favorable and showed a gain of $2,497,000 as compared with a loss of $2,385,000 for the previous year. The net investment income for the group totaled $4,199,000 as against $3,645,000 in 1947. When combined with the underwriting results, earnings were also the highest in the history of the company.

A summary of consolidated operations for the past four years is presented on a comparative basis in the following tabulation:

	(000's Omitted)			
	1948	1947	1946	1945
Underwriting:	$	$	$	$
Premiums written	109,271	90,124	67,657	58,627
Incr. in unearned premium reserve	15,458	14,781	8,547	5,135
Premiums earned	93,813	75,343	59,110	53,492
Losses and loss expenses	51,182	46,222	37,144	33,426
Underwriting expenses	40,134	31,505	24,378	18,257
Underwriting profit or loss	2,497	—2,385	—2,412	1,809
Investment:				
Interest, dividends and rents	4,695	4,137	3,714	3,064
Expenses	496	492	459	415
*Net investment income	4,199	3,645	3,256	2,649
Net income from opers. before taxes	6,696	1,260	844	4,458
Federal income tax provision	1,630	241	241	1,289
†Net operating income	5,066	1,019	603	3,169

*Excludes realized and unrealized gains on capital assets. †Before minority interest and other special adjustments.

The above figures are largely self explanatory and reveal the progress made by Fireman's Fund in the past four years. During this time premium volume has almost doubled and underwriting operations are again established on a profitable basis. According to the President only one major class of underwriting, bodily injury, showed an underwriting loss last year.

Because of the sharp expansion in premium volume in recent years and in order to take advantage of future opportunities, additional funds were obtained during the year through a recapitalization program. New capital in the amount of $14,694,000 was obtained and the outstanding shares increased from 528,210 to 1,000,000.

The company has given the following per share comparison of earnings for the past four years adjusted to the capitalization and ownership of subsidiary companies as of Dec. 31, 1948:

	1948	1947	1946	1945
Earnings before Federal income taxes	$6.49	$1.30	$0.53	$3.54
Earnings after Federal income taxes	4.95	1.08	0.32	2.46
Add — Equity in unearned premium reserve, increase at 35%	5.38	5.13	3.70	1.07
Adjusted earnings	10.33	6.21	4.02	3.53

The report also disclosed that consolidated assets of the company amounted to $208,144,000 at the end of the year compared with $170,472,000 a year earlier. The shareholders equity including 35% of the unearned premium reserve was estimated at $85.92. On the basis of the 1,000,000 shares now outstanding the company estimates shareholders' equity at the end of 1947 would have been $62.75.

From a review of the changes in the investment portfolio it would appear that most of the new funds were placed in U. S. Government bonds. As of Dec. 31, 1948, 63.7% of the portfolio was invested in these securities as compared with 55.9% in 1947. Some increase in the holdings of state and municipal bonds was also revealed. Total bonds constituted 69.6% of all investments at the year end compared with 59.2% the year previous.

Common stock holdings on an overall basis were reduced from 21.4% in 1947 to 15.7% in 1948. However, some small increases within this classification in such groups as public utilities and bank stocks were made. Holdings of preferred stocks were little changed, declining from 6.3% in 1947 to 4.6% in 1948.

With Herrick, Waddell Co.

(Special to THE FINANCIAL CHRONICLE)

LINCOLN, NEB. — Walter W. Kopf and Clarence E. Pospisil are now associated with Herrick, Waddell & Reed, Inc., 55 Liberty Street, New York City.

With Otis & Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO — Stanley Huberty has become associated with Otis & Co., Terminal Tower. He was formerly with Goodbody & Co. and Curtiss, House & Co.

Dangers in Farm Support Program

By HON. GEORGE D. AIKEN*
U. S. Senator from Vermont

Ranking Republican member of Senate Agricultural Committee, urging a farm support program that will minimize price supports, points out rigid prices when tied to acreage curbs mean less farmer income than flexible price guarantees. Predicts price support of 1949 grain crops will exhaust funds of Commodity Credit Corporation, and that rosy promises to farmers are not only beyond power of government to sustain, but will penalize consumers by high food and other prices. Warns farmers cannot get high prices when consumers are unable to pay.

Although I will discuss primarily the farm support price program I do not want you to get the idea that I think a support price program in itself constitutes a complete or well-rounded farm program for America. Our aim should be to work out such a program that will minimize the need for price supports. Continuous research particularly in the field of distribution and marketing is needed. The development of marketing agreements and cooperative management, coordination of soil conservation and soil building programs, promotion of congenial surroundings for the farm home, a high level of diet among consumers, and fitting American agriculture into the world picture are all factors that enter into the programing of a healthy agricultural economy.

Hon. G. D. Aiken

Rather than looking upon price supports as a means of providing a government market for farm commodities and the return of perfectly satisfactory prices to the producer, I prefer to consider the support program as a means of providing consumers and industrial processors with an adequate supply of food and fiber, while insuring the farmer that he will not be courting disaster if he meets the needs of his country and a little bit more.

Our goal should be a fair price in the market place with a maximum degree of independence for the farmer in achieving this goal.

During the war and the years that have elapsed since the surrender of Japan in August, 1945 our farmers have literally performed miracles of production. Under wellnigh perfect growing conditions farm prices and income have reached an all-time high. Industrial profits and the earnings of labor have also set new records. So has our national debt.

It was with the realization that wartime prices and incomes could not go on forever that in July, 1947 both houses of Congress authorized their Committees on Agriculture to make a study of the trends and needs of agriculture. The result of this study was the enactment of the Agricultural Act of 1948.

Frankly, the House and Senate Committees did not see eye to eye and it was only in the closing hours of the 80th Congress that a compromise agreement was reached which permitted a permanent price support program to be placed on the statutes.

The House part of the Act provides for a 90% of parity support for the six basic and a few selected non-basic commodities for the year 1949. The Senate bill is to go into effect on Jan. 1, 1950 and is based on the major provisions of a new parity formula and a flexible range of price supports for all commodities. These provisions of the Senate bill were supported by the three major farm organizations, and the U. S. Department of Agriculture. Since the enactment of the law the Farmers Union has officially shifted its position in favor of higher levels of support.

Since at the present time a strong effort is being made to discredit the long range provisions of the Act, I welcome the opportunity to speak here and hope I may clear up some of the misunderstanding in regard to it.

Opposing Views

There are some people who are opposed to any farm support program at all.

Those who believe in support prices are divided into two schools

(Continued on page 42)

*An address by Senator Aiken before the Minneapolis Chamber of Commerce, Minneapolis, Minn., March 10, 1949.

Sees Railroads Hampered in Meeting Competition

Laurence F. Whittemore, President of the New Haven Railroad, says rails are no longer monopolies, and therefore should be allowed more flexibility in regulation, rates, and practices. Holds, unless relieved of competitive impediments, rails cannot attract equity capital

Laurence F. Whittemore of Boston, President of the New Haven Railroad, in an address before the Western Railway Club in Chicago on March 21 urged that the railroads be allowed more flexibility in regulation, rates and practices in meeting competition, because they no longer are monopolies.

L. F. Whittemore

Mr. Whittemore said that the railroad industry today "finds itself in a perplexing position which has all the elements of a paradox. Since the close of World War I it has become evident that the railroad industry has lost, and is still losing almost every aspect of monopoly and is becoming a giant, beset by several lusty competitors, which are not regulated in the same degree, if at all, but which are in fact subsidized in various ways and for reasons, some good, and others doubtful.

"The railroad industry finds itself not only hampered in its efforts to meet changed conditions and competition, subsidized or otherwise, but in that acknowledged condition cannot attract the equity capital necessary to modernize and change fast enough to meet the situation.

"It is questionable whether as much of a rate increase on the mass interstate traffic of the railroads would be necessary in many instances if the railroads were not required by public authority to perform services unprofitably which can be performed more efficiently on the highway. The flight of the public from rail transportation in those instances to more efficient and convenient service on the highway has been a reason for the Interstate Commerce Commission to allow many abandonments. However, ordinary reductions in service, where total abandonments are not in order and feasible in the public interest, are usually in the hands of State commissions whose position is often rendered difficult and almost impossible by local pressures, understandable, but nevertheless burdensome to the shipper whose freight rates must be increased to pay the bill. There is evidence that a recognition of this fact is becoming general throughout the country, and such recognition is necessary and important to the future of the industry.

"It seems to me that the giant can be safely untied with respect to the speed and flexibility with which it can change the character and price of its service, not only to meet rising costs of wages and materials, but to meet competitive situations as well."

Commenting on railroad labor, Mr. Whittemore declared that "the attitude of labor is the only field of railroading where monopolistic thinking still exists." He continued that "there is no finer group of people in this country than those engaged in working on railroads. It is my considered opinion that the importance of their activities requiring sobriety, regularity, ingenuity and resourcefulness should, and must be recognized, by a high rate of remuneration.

"I cannot believe, however, that in the long run they will be benefited by featherbedding rules which tend to place their employing companies in a non-competitive position, which in turn is the greatest destroyer of railroad jobs. It would seem to me that persistence in requirements of payment for work not done will end in the sons of railroad men becoming truck drivers."

The New Haven's President said that the railroads are "the only major transportation agency which really fits the private enterprise system in regards to payment of total cost of operation and contribution to government service outside such operation."

He urged that industry, the public, governmental agencies and railroad managements, and labor all join in a move towards the unfettering of the railroad industry. "Railroad labor," Whittemore said, "will fulfill its part in the picture by a willingness to give up the ephemeral advantages growing out of working rules and contracts based on conditions which no longer exist. For instance, the fact that the measure of a fair day's work of an engineer and fireman was based on the discomfort and laborious work incident to the operation of a hand-fired steam locomotive, does not constitute the reasonable measure a day's work on a high powered diesel locomotive. Many other working rules and agreements are based on practices which now result in the payment of wages for work not performed. The attitude of labor is the only field of railroading where monopolistic thinking still exists."

Sees Too Much Emphasis on Security

Holgar J. Johnson, President of Institute of Life Insurance, says it can choke off ambition, enterprise and initiative.

Too great emphasis on security can choke off the ambition, enterprise and initiative which have been the making of America, Holgar J. Johnson, of New York, President of the Institute of Life Insurance, stated on March 18 while speaking before the Charlotte (N. C.) Association of Life Underwriters. Security is a means to peace of mind and progress and not an end in itself, Mr. Johnson pointed out, remarking, "Security as an end can be over-stressed, just as security as a means can be under-stressed. This may sound paradoxical, coming from someone who represents an institution whose primary purpose is to provide personal and family security. Actually, it is sound philosophy for every area of activity in America, life insurance included."

Holgar J. Johnson

Continuing, Mr. Johnson said:

"Life insurance itself would be doing this country a disservice if it presented security, even the security it provides, as a goal, the attainment of which would insulate the individual from the world. With life insurance, as with every medium of security, the personal and family security it provides must be used as a means of providing peace of mind to release the dynamic energies of the people, urge individuals on to creative efforts and continued progress."

There is a present tendency on the part of some people to think in terms of security as an end goal, Mr. Johnson continued, due in large part to the fears initiated during the depression of the '30's and revived, perhaps in even greater degree, in the current period of world-wide crisis and uncertainty. "The tragic results of lack of adequate security were among the unpleasant thoughts and recollections of the great depression," he said. "Those who saw these individual and family crises at close hand. will never forget them. And that is why many measures were taken during the '30's and '40's to put a floor of security under our people, as assurance that, in any future time of trouble, they can be assured the essentials of living.

"What we must now watch carefully is the natural tendency for the pendulum to swing as far in one direction as it was in the other. We all want more and more security for ourselves as well as for the nation as a whole, but at the same time, we must be free to continue our advances to still better living, still greater comforts and freedoms.

"There is no such thing as complete security. We must accept some element of risk in life and the limits of security which we choose must be at such a level that American individual initiative and enterprise will not suffer. America does not want to stop growing or cease its progress, today any more than did our forebears of two and three generations ago—and think of the things we now enjoy that we might not have had, if we had 'frozen' our progress then."

Harrington, Righter And Parsons

Harrington, Righter & Parsons, Inc., are engaging in an investment business from offices at 270 Park Avenue, New York City.

United Exchange & Trad'g

Alfred A. Stern and Bruno Hellinger have formed United Exchange and Trading Company with offices at 30 Church Street, New York City, to engage in a securities business.

E. M. Shields, Jr., Opens

(Special to THE FINANCIAL CHRONICLE)

CANTON, OHIO—E. M. Shields, Jr., has opened offices at 2418 Eighth Street, N. W., to engage in a securities business.

Collin & Blood

CANTON, OHIO—Leonard H. Blood and Clifford W. Collin have formed Collin and Blood, with offices at 4756 Navarre Road, S. W., to engage in a securities business.

SOUTHERN RAILWAY COMPANY

Fifty-Fifth Annual Report for the Year Ended December 31, 1948

Richmond, Virginia, March 22, 1949.

To the Stockholders of
SOUTHERN RAILWAY COMPANY:

The Board of Directors submits the following report of the affairs of the Company for the year ended December 31, 1948, which is the annual report it is contemplated formally to present to the stockholders of the Company at the annual meeting due to be held on May 17, 1949.

Foreword

Before stating the facts and figures concerning the operations and results for the year 1948, the Board of Directors desires briefly to call attention to the broad accomplishments of the Company during the period 1940 to 1948, inclusive, and to discuss the maturities of debt affecting the Company and its affiliated companies in the forthcoming period, 1949 to 1956, inclusive.

The Past Nine Years

During the period 1940-1948, inclusive, the Company has acquired, and holds in its Treasury or has cancelled, securities theretofore outstanding in the hands of the public, the fixed charges on which it was obligated to service, having a face or par value of over $85,000,000, including $39,456,000 of its Development and General Bonds which would have been due in 1956. In addition it has (a) acquired $2,000,000 principal amount of Georgia Southern and Florida Railway Company's 5% Bonds, matured July 1, 1945, and (b) acquired and cancelled 24,604 Southern Railway-Mobile and Ohio Stock Trust Certificates, the decrease in miscellaneous income charges attributable to such cancellation being $98,416 annually.

During the same period the Company has made capital expenditures on its fixed property at a cost to its Treasury of approximately $50,000,000, and has bought and put into service new and modern equipment, including over 400 units of efficient and economical Diesel-electric power, at a total cost of about $93,500,000, of which cost it has paid in cash over $65,000,000. There has thus been put into the property nearly $150,000,000 of capital expenditures. The current monetary costs of these capital expenditures have been higher than the value of the items they serve to replace, due to the diminished purchasing power of the deflated dollar (roughly 50¢ in 1948 *vs.* $1.00 in 1940), but despite this inflationary result, for which tax relief should be granted, the property is in good and efficient operating condition.

During the same period, the Company's long-term obligations have been reduced in face or par amount by about $90,000,000, while its net fixed charges have been decreased by $4,446,294 on an annual basis.

The Coming Eight Years

In anticipation of forthcoming maturities, there have been set aside in reserve, subject to further order of the Board of Directors, investments in United States Treasury securities aggregating $24,000,000 as of December 31, 1948. It is contemplated that this reserve will be increased from time to time to enable the Company to provide for the payment or refunding of the outstanding guaranteed or funded debt obligations maturing 1951-1956, inclusive.

These maturities, exclusive of equipment obligations, consist of the following:

Issue—	Year	Amount Outstanding in Hands of Public
The Atlantic and Yadkin 4's (guaranteed)	1949	$ 1,500,000
The St. Louis Division 4's	1951	$12,474,000
The New Orleans Terminal 4's (guaranteed)	1953	$14,000,000*
The ETV&G 5's	1956	$12,770,000
The Development and Genl. 4's, 6's & 6½'s		$71,877,000

(*Including $50,000 owned by the Company.)

The Company will acquire or pay on April 1, 1949, the Atlantic and Yadkin 4's in the amount of $1,500,000, without use of the reserve referred to, and it is planned to consolidate this 100% subsidiary into the Company.

The St. Louis Division 4% Bonds maturing in 1951 are secured by a first lien on the valuable mileage between East St. Louis, Illinois, and New Albany, Indiana, which, with branches appurtenant thereto, aggregates 380.95 miles, which Bonds may be refunded by issuing and selling new first mortgage bonds, similarly secured.

The Company's two subsidiaries, the New Orleans and Northeastern Railroad Company and the New Orleans Terminal Company (each of which is owned 100%), constitute the important southern segment and the valuable terminal facilities in New Orleans of Southern System's line, familiarly known as the "Queen and Crescent Route" between Cincinnati, Ohio, and New Orleans, Louisiana. In 1952-1953, when the New Orleans and Northeastern's $7,195,000 principal amount of 4½% Bonds, and the New Orleans Terminal Company's $14,000,000 principal amount of 4% Bonds, mature, respectively, it is planned that they will be refunded, after reduction from those Companies' treasury cash, aided by Southern Railway Company's cash or credit.

Satisfaction of the $12,770,000 principal amount of the East Tennessee, Virginia and Georgia 5's in 1956 would make available to the Company an equal principal amount of the Company's First Consolidated 5's of 1994. This amount, together with $9,513,000 principal amount of such 5% Bonds, already available in the Company's treasury, would provide a principal amount of $22,283,000 of valuable first mortgage 5% security.

Such security, plus that released upon satisfaction of the Development and General Mortgage, together with other available collateral and reserves, it is contemplated, will provide for whatever amount of the Development and General issue of 1956 which may remain outstanding at maturity.

I.

The Year 1948
Operating Statistics

The Revenue from Operation of the railroad in 1948 amounted to $245,013,413, being an increase of $22,179,978, or 9.95%, over the Operating Revenues in 1947.

The volume of business handled and the receipts therefrom, compared with the previous year, were:

	1948	1947
Freight moved (tons)	65,945,658	66,045,102
Average distance moved (miles)	209.09	218.97
Ton miles	13,788,904,901	14,462,103,633
Average revenue per ton mile	1.503¢	1.287¢
Total freight revenue	$207,256,592	$186,185,803
Number of passengers	4,723,038	5,567,060
Average journey (miles)	173.38	167.71
Passenger miles	818,891,518	933,631,924
Average revenue per passenger mile	2.550¢	2.235¢
Total passenger revenue	$20,877,905	$20,866,952

As will be seen from the above table, total ton-miles showed a decrease from those of 1947, and the increase in Gross Freight Revenue is attributable to the recent increases in freight rates.

Passenger Revenue increased slightly, 0.05%, and this increase is also attributable to increased passenger rates in effect during 1948, as compared with the previous year.

Total Operating Expenses for the year amounted to $184,606,916, as compared with $171,673,513 for 1947, an increase of 7.53%, the increase being very largely due to increased wage rates.

Railway Tax Accruals (on account of the larger amount of taxable income) increased substantially, the total for the year 1948 amounting to $27,721,768, as compared with $24,898,426 for 1947, an increase of 11.34%. Government again thus took more than 11¢ out of each dollar of the Company's Gross Revenue, and the Company's taxes amounted to $8,473,703 more than the Company's entire Net Income (after taxes) for the year.

These increases in expense were in a measure compensated for by the increase of $22,179,978 in Gross Revenue, with the result that Net Railway Operating Income amounted for 1948 to $29,148,740, an increase of $7,773,727, or 36.37%, over the comparable operating results for 1947.

The comparative ratios of the several categories of Operating Expenses, and taxes, expressed in the number of cents out of each dollar of revenue, were as follows:

	1948	1947
Transportation	38.64¢	38.80¢
Maintenance of Way	13.50¢	14.29¢
Maintenance of Equipment	17.62¢	18.19¢
Traffic Expense	1.72¢	1.75¢
General Expense	2.97¢	2.99¢
Incidental Expense	0.90¢	1.02¢
Totals	75.35¢	77.04¢
Taxes	11.31¢	11.17¢
Grand Totals	86.66¢	88.21¢

After Operating Expenses, Taxes and Equipment and Joint Facility Rents (which latter amounted to 1.44¢ for 1948), there was left for fixed charges and other corporate needs and the owners, 11.90¢ out of each dollar of 1948 revenue, as compared with 9.59¢ in 1947.

Net Income

Net Income (after taxes and charges) for 1948 amounted to $19,248,065, as compared with $11,892,761 for 1947.

Fixed charges were covered 2.51 times in 1948, as compared with 1.93 times in 1947.

After dividends of 5% on the Preferred Stock, the balance of Net Income in 1948 was equivalent to $12.51 per share on the Common Stock, as compared with $6.85 per share in 1947.

Dividends

Dividends of 5% on the Preferred Stock were continued, and there was paid on the Common Stock, out of the surplus net earnings for the year 1947 an aggregate of $3.25 per share, consisting of 75¢ per share paid during each of the first three quarters of 1948, and $1.00 per share paid on December 15, 1948.

A dividend of $1.00 per share has been paid for the first quarter of 1949.

Operations

Despite the constantly continuing increases in the cost of labor and materials, the property was operated with efficiency, was well maintained, and ended the year in good condition.

So to operate in a time of inflating costs of material and labor results from long-range planning long since initiated, combined with resourcefulness and indefatigable supervision. That the problem has been confronted, and controlled as well as it has, demonstrates the efficacy of these efforts of management, as a few examples will show:

In 1939, the Company's purchases for all materials for use in shops cost $5,705,471, and 1948 shows the dollar volume of the same purchases had nearly trebled, the 1948 figure being $16,691,789, or a dollar increase of 193%. Eliminating from this increase the amount thereof attributable to increased *price*, the *use increase* of such materials amounted only to 54%, *which compares with an increase of total ton-miles hauled, 1939 vs. 1948, of 84%*. In other words, the expenditure for shop materials was $689,427 per billion ton-miles in 1939, as compared with *an equated expenditure* for the same purpose in 1948 of $577,726, a decrease of 19%.

Again—the Company spent for fuel in 1939 $696,838 per billion ton-miles, while in 1948, with the increasing use of Diesel-electric locomotives, the corresponding equated figure, excluding price increases, was $520,243, again *a decrease of 30%*, as measured by the resulting transportation accomplishment.

A foresighted program of using long-life timber was inaugurated prior to 1938. As a result, there were phenomenal decreases between 1939 and 1948 in the quantities of lumber products required to be bought, amounting to *decreases* of 30% in miscellaneous timber, of 48% in crossties, and of 42% in switch and bridge ties. The significance of this will be appreciated when it is remembered that lumber prices went "out of sight" in 1948.

The steadily decreasing *use* of materials and supplies, as related to the resulting transportation unit of output is continuing. Prices in December 1948 *were at an all-time high*. This decreased *use* of costly materials (and equally costly labor) shows earnest supervision, the "pay-off" for capital expenditures for mechanization, and a determined effort to meet inflation.

Due primarily to these efforts of management and to the constantly augmenting deliveries and use of Diesel power, the Cost of Transportation (which is the relationship of Transportation Expenses to Operating Revenues) was reduced to 38.64¢ from the corresponding figure of 38.80¢ in 1947.

The Operating Ratio (which is the amount of total Operating Revenues consumed by Operating Expenses, expressed in cents out of the dollar) dropped from 77.04¢ in 1947, to 75.35¢ for 1948.

Continued and successful efforts were made during the year in the difficult program of discontinuing unprofitable passenger trains, with the result that 6 trains were discontinued during 1948, with a resulting net estimated aggregate saving of $275,000 on an annual basis.

Many large items of permanent improvements were inaugurated or progressed during the year. Numerous new steel bridges were erected or contracted for and .9 miles of trestles were filled. A large project consisting of the erection of a steel bridge over the Tombigbee River on the Mobile Division near Jackson, Alabama, was undertaken, the total approximate cost being estimated at $1,970,000, toward which cost the Federal Government is making a substantial contribution, in the aid of navigation, pursuant to the provisions of the Truman-Hobbs Act, the work now being in progress.

Southern Railway System companies completed the erection of a modern Diesel locomotive repair shop at Chattanooga, Tennessee, at a cost of approximately $1,000,000; Diesel facilities were erected at Pegram Shop, Atlanta, Georgia, at an estimated cost or $361,000, and extensive improvements to the Company's Inman Yard in Atlanta, Georgia, were undertaken, consisting of the construction of additional yard tracks, changing existing tracks, providing new interlocking plant and an inter-yard communication system, all at an estimated final cost of $1 929,000.

After four years of legal effort, a Certificate of Public Convenience and Necessity was finally obtained from the Interstate Commerce Commission permitting the abandonment of approximately 50 miles of unprofitable track between Rome, Georgia, and Gadsden, Alabama.

In order to provide facilities for certain industries around Rome, it was decided to retire only 41 miles of the segment, Coosa, Georgia, to Gadsden, Alabama. The western end of the Rome-Attalla line, consisting of the 7.1 miles between Gadsden and Attalla, Alabama, which had been operated by The Alabama Great Southern Railroad Company (with whose lines the segment has its only Southern System connection) was sold to The Alabama Great Southern for $145 000, with approval of the Interstate Commerce Commission.

The stockholders of Southern Railway Company having, at the annual meeting held in May 1948, approved, an application to the Interstate Commerce Commission has been filed, and is pending, for authority to acquire the line of The Richmond and Mecklenburg Railroad Company (a subsidiary of the Company), which extends from Keysville, Virginia, to Clarksville, Virginia, 31.20 miles in length, and which has heretofore been operated by the Company under lease.

Substantial and successful progress was made in the Company's program of Dieselization.

As of January 25, 1949, there were in operation by Southern Railway System companies, 423 Diesel-electric locomotives. Diesel freight locomotives, while constituting but 8.18% of the System's total freight locomotives, were handling approximately 46.93% of the System's gross ton-miles. On the passenger side, the System's passenger Diesels represent only 17.37% of the passenger power, but at the year end these passenger locomotives were handling approximately 60.00% of the System's passenger car-miles.

Wage and Freight Rate Increases

The demands referred to in last year's Annual Report, of the Brotherhood of Locomotive Engineers and the Brotherhood of Locomotive Firemen and Enginemen,

which resulted in a strike vote, were finally settled in August 1948, by an award of wage increases of 15½¢ per hour, retroactively effective November 1, 1947.

Effective October 16, 1948, wage increases of 10¢ per hour were agreed upon with the organized operating groups; while a dispute is now pending with the 16 non-operating labor organizations. In this latter dispute an Emergency Board created by the President of the United States recommended an increase of 7¢ per hour effective October 1, 1948, and a 40-hour work week effective September 1, 1949, with 48 hours pay, and with certain changes in rules to enable the 40-hour week to be put in operation without pyramiding the cost. Conferences are now in progress in an effort to reach a settlement of this dispute.

The estimated increase in pay-roll cost and pay-roll taxes to the Company for all employees, based on applying the 1948 awards as if effected on the bases just stated, is approximately $20,800,000 annually.

Faced with realized inflationary increases in costs of materials and supplies, facing these unprecedented wage increases, and seeking a fair return on their invested capital, the railroads in October 1948 sought before the Interstate Commerce Commission, in the proceeding known as *Ex Parte 168*, an increase in rates, which has resulted in the granting on December 29, 1948, of an emergency interim increase averaging about 5½%, effective January 11, 1949, on interstate traffic, and which is estimated to produce for the Company approximately $10,470,000 increased gross freight revenue on an annual basis.

The proceeding is still pending, wherein the railroads are seeking permanent increases in freight rates of approximately 13%, including the interim increase of January 11, 1949; and there are also pending applications for increases in intrastate freight rates before the various state commissions.

New Rail

During 1948 there were laid 27,204 tons of new rail, as compared with 36,313 tons laid in 1947; and orders for 1949 have been placed for 33,500 tons.

New Equipment

During 1948 there were delivered and put into service, (a) 144 covered hopper cars, 1,000—50-ton hoppers, and 3,041 steel sheathed box cars, (a total of 4 185 freight train cars) and (b) 91 units of Diesel power (including 36 units in the 1948 complement which were actually delivered in January 1949).

Of the 91 units of Diesel power just referred to, 16 units were paid for with treasury cash; and 75 units were included in Southern Railway Equipment Trust, Series "OO," to the extent of approximately 75% of their cost, such Equipment Trust Certificates having been issued as of October 15, 1948, in the par value of $8,700,000, with a 2¼% coupon, and which were sold on an interest cost basis to the Company of 2.36%.

As of January 1. 1949, the Company had on order 95 additional units of Diesel power for delivery in the early part of 1949, and the 88 new streamlined passenger cars, ordered in the year 1946, which it is hoped will be delivered during the latter part of 1949.

Use in 1948 of the Company's Financial Resources

After paying its running expenses, taxes payable during the year and fixed charges, the Company used part of its accumulated cash, as to larger items only, as follows:

(1) Expended for capital improvements to the property, $5,978,983 for Road and $15,931,481 for Equipment. an aggregate of $21,910,464 for the year, as compared with a total of $19,335,467 so expended in 1947.

(2) Paid dividends aggregating $7,219,150; and

(3) Had left on December 31, 1948: (a) Investments in United States securities in the principal amount of $24,000,000, set aside in reserve for the acquisition of debt or reduction of maturing obligations, and (b) cash of $36,199,071, as shown in the balance sheet (the latter being reducible by items which were not cleared through the banks as of the close of business for the year).

Funded Debt and Fixed Charges

The table of funded debt at the end of 1948 showed the following comparison with 1947:

	Dec. 31, 1948	Dec. 31, 1947
Funded Debt	$194,650,500	$194,650,500
Leasehold Estates	52,589,600[1]	52,819,600[2]
Equipment Trust Obligations	47,449,320	34,663,760
Totals	$294,689,420	$282,133,860

[1] Includes $9,247,000 of Bonds acquired by the Company or its subsidiaries since January 1, 1940.
[2] Includes $9,189,000 of Bonds acquired by the Company or its subsidiaries since January 1, 1940.

The Company's net fixed charges, on an annual basis, as defined by the Interstate Commerce Commission, less income from securities of its leasehold estates owned by the Company, were approximately $12,070,000 at December 31, 1948.

An early approval by the Interstate Commerce Commission of the independent operation of The Atlantic and Danville Railway, whose line runs from Norfolk, Virginia, to Danville, Virginia, and which has been operated by Southern Railway Company under a lease expiring July 1, 1949, is awaited. In compromise of all of its liabilities of restoration of the leased line and equipment belonging to the A&D, the Company, with the approval of the Virginia courts and conditioned upon the anticipated order of the Interstate Commerce Commission, has agreed to pay to The Atlantic and Danville the sum of $3,000,000, as and when relieved from the obligation of continued operation of the line.

With the ending of the lease of The Atlantic and Danville, the Company's fixed charges will be reduced, on an annual basis, in the net amount of approximately $305,000, representing the fixed and contingent rentals currently payable under the lease, and it will also be relieved from a substantial and long continuing annual operating loss. It is expected that The Atlantic and Danville will assume separate operation of its own line, and will become a friendly short line connection of the Company.

The acquisition of the line of The Richmond and Mecklenburg, when effected, will reduce the Company's fixed charges by $12,600 on an annual basis.

Federal Tax Liability for Past Years

The Company's federal tax liability for the years through 1940 has been settled and closed. Returns for the years 1941-1946, inclusive, for which years $173,878,308 in federal income and excess profits taxes were paid, are now being audited by representatives of the Bureau of Internal Revenue. While no formal report or actual assessment of deficiency has been made, the Revenue Agent has indicated his disagreement with the Company's treatment of a number of items and to the extent, if any, that his position may be persevered in and finally sustained the Company would be required to pay substantial additional taxes and interest for past years.

II.

Industrial and Agricultural Development

The two prior post-war years 1946 and 1947, told a dynamic story of industrial development in Southern territory, there having been established at points served by Southern Railway System in those two years alone 826 new industries, 220 substantial enlargements of existing plants and 73 large new distribution warehouses, the largest industrial growth for any two consecutive years in the Company's history.

By contrast, the year 1948 (though a difficult one) was a year of "fruition" rather than one of marked acceleration of new industrial development. Costs rose, supplies were difficult to obtain and capital hesitated to make new commitments. Despite these hindrances, during 1948 there were established at points served by the System's lines, 204 new manufacturing plants, 106 additions to existing enterprises and 59 new large warehouses for the assembly and distribution of numerous commodities.

The real story of 1948, however, is that of the reaping of the harvest of prior years' "plantings."

The cotton textile industry maintained its important position in the South's economy. At the close of 1948 there were 18,400,000 cotton spindles in place in the cotton growing states, constituting 77.5% of the cotton-spinning machinery in place in the United States. Cotton consumption in the Southern states in 1948 amounted to 8,064,629 bales. Thus, Southern mills, with 77.5% of the total spindles in place in the United States, worked 84.1% of the total spindle hours, taking 88.6% of the total consumption of cotton for the country.

The rayon producing industry continued to expand its production capacity during the year. The domestic production and shipments of rayon yarn and staple during 1948 broke all previous records. Production was started at two new plants on the Company's lines, one in South Carolina and one in Tennessee.

A new rayon yarn plant is now in the course of construction at a point served by Southern Railway System in Alabama.

The commercial production of nylon was commenced during the year at a new plant on the Company's lines in Tennessee.

Greatly expanded during the war years, the iron and steel industry in the South is continuing its modernization and improvement program begun after the close of the war. During the year the South's first mill to fabricate large diameter welded steel pipe for pipe lines transporting gas and oil products was constructed and put in operation at a point in Alabama served by Southern Railway System.

The growth and increased production in electricity, aluminum, lumber, woodpulp and paper, furniture, tobacco, and in the myriad products of Southern soil and factory demonstrated again in 1948 that Southern agriculture and industry are increasingly a factor of fundamental importance in the Country's economy.

Public Relations

The Company continued and intensified its efforts to "humanize" the industry and to earn the good will of the people it serves. In general, the Company's relationship with its customers, with public authorities, and with the whole public, has continued to be friendly and helpful.

Every appropriate means was employed to create a public awareness of the Company's important contributions to the economic well-being of the South, and to bring about a sympathetic understanding of the problems confronting the Company and the industry.

Advertisements telling what the Company does and what it means to the communities it serves, and its plans and aspirations for the future, were placed regularly in locally-circulated newspapers. News and feature stories were prepared and distributed; special material was prepared and sent to educators and students; conducted tours of the property and "open house" days were held; background information was supplied to editors and other opinion makers; a monthly magazine was produced for employees; and a weekly news-letter was issued to the staff.

As an integral part of its advertising and public relations program, the Company continued, through advertisements in nationally-circulated publications, supplemented by publicity and related activities, to invite industries to "Look Ahead—Look South!" for greater opportunity.

Conclusion

The railroad industry, one of the best and largest exponents of private enterprise in the country, has two primary functions, namely, (1) to furnish, in peace and in war, the safe, adequate, economical and indispensable transportation service so necessary to the nation, and (2) to pay a just return on the capital which the thrift of its owners has accumulated and which has been invested in the building of its plant.

To accomplish these two simple and fundamental objectives, the railroads need only to be allowed to earn a fair return, say not less than 6%, on their invested capital; the recent actions of regulatory authorities and the acceptance of higher rates and fares by shippers and travellers show that Government and the public are becoming increasingly aware of the necessity of this deserved and modest recompense.

Southern Railway Company has always striven toward these two objectives, and, continuing so to do, will always adequately "Serve the South."

The management is again most appreciative of the effort, and is grateful for the good-will, of the men and women who have, by working for it, accomplished so much for the Company in the year 1948.

Respectfully submitted, by order of the Board,
ERNEST E. NORRIS,
President.

SOUTHERN RAILWAY COMPANY

Financial Results for the Year

	In 1948	In 1947
The Company received from freight, passenger and miscellaneous operations a total revenue of	$245,013,413	$222,833,435
The cost of maintaining the property and of operating the railroad was	184,606,915	171,673,513
Leaving a balance from railroad operations of	$60,406,498	$51,159,922
Federal, state and local taxes required	27,721,768	24,898,426
Leaving a balance of	$32,684,730	$26,261,496
The Company paid to other companies for hire of equipment and use of joint facilities in excess of the amount received by it from those sources	3,535,990	4,886,483
Leaving an income from railway operations of	$29,148,740	$21,375,013
Other income derived from investments in stocks and bonds and miscellaneous items was	3,112,654	3,513,276
Making a total income of	$32,261,394	$24,888,289
Interest on funded debt and equipment trust obligations, rents paid for leased railroads and miscellaneous deductions totaled	13,013,329	12,995,528
Resulting in a net income of	$19,248,065	$11,892,761

Financial Position at the End of the Year

	On December 31, 1948	On December 31, 1947	Increase or *Decrease*
The Company had investments in land, railroad tracks, terminal facilities, shops, locomotives, freight and passenger cars and other fixed property of	$621,977,597	$598,020,958	$23,956,639
In addition the Company had investments in stocks, bonds and notes of affiliated companies and other investments carried at	62,202,319	61,458,703	743,616
Unexpended proceeds of Equipment Trust "OO", held by Trustee, to be disbursed upon delivery of equipment	4,400,348	----------	4,400,348
Total Investments	$688,580,264	$659,479,661	$29,100,603
The Company had cash and special deposits amounting to	$39,478,087	$36,677,954	$2,800,133
And temporary investments in U. S. Government Securities	24,156,228	21,000,000	3,156,228
Other railroad companies and others owed the Company	16,826,204	16,906,479	*80,275*
The Company had on hand fuel, rails, ties, bridge material and other supplies necessary for keeping road and equipment in good order	15,602,125	15,612,544	*10,419*
Deferred assets and unadjusted debits, including items owed to but not yet available to the Company	5,187,226	7,856,943	*2,669,717*
The Assets of the Company totaled	$789,830,134	$757,533,581	$32,296,553
The Company owed for materials, supplies, wages and balances to other railroad companies, and interest, dividends and rents accrued but not yet due	$36,275,939	$37,838,443	*$1,562,504*
Taxes accrued but not due	22,138,497	16,247,730	5,890,767
Operating reserves	3,049,628	2,611,231	438,397
Reserve for depreciation of road and equipment and amortization of defense projects	104,746,428	98,961,730	5,784,698
Deferred liabilities, including items due to others, but not yet adjusted	10,989,401	13,776,184	*2,786,783*
The total of these liabilities, credits and reserves was	$177,199,893	$169,435,318	$7,764,575
After deducting these items from the total assets there remained, for the capitalization of the Company, net assets of	$612,630,241	$588,098,263	$24,531,978
The capitalization of the Company consisted of the following:			
Funded Debt, including bonds, equipment trust obligations, etc.	$242,099,820	$229,314,260	$12,785,560
Preferred Stock	60,000,000	60,000,000	----------
Common Stock	129,820,000	129,820,000	----------
Making a total capitalization of	$431,919,820	$419,134,260	$12,785,560
After deducting this capitalization from net assets there remained a surplus, largely invested in the property, of	$180,710,421	$168,964,003	$11,746,418

Canadian Securities

By WILLIAM J. McKAY

British and Canadian officialdom continues to dwell and think in a world of its own, wherein wartime controls and sellers' markets apparently remain the motivating factors. In the Canadian House of Commons Finance Minister Abbott in reply to a Conservative opposition spokesman's advocacy of the removal of exchange controls, vigorously defended the maintenance of his predecessor's policy of restrictions in order to preserve the present value of the Canadian dollar. He moreover pointed with pride to the vast quantity of goods exported during 1948 as proof that the Canadian dollar is not overvalued. No thought or reference was given to the fact that in the era of sellers' markets, now definitely passed, the demand for goods was such, that price was of secondary consideration.

Mr. Abbott further deprecated the employment of exchange manipulation as an alternative to governmental controls. No reference was made, however, to the Liberal Administration's masterminding of the economic trend in the United States in July, 1946. At that time, in order to counteract the inflationary pressures engendered by the removal of OPA price ceilings, no hesitation was displayed in arbitrarily raising the value of the Canadian dollar and thus paving the way for the adoption of the subsequent austerity measures.

It is thus difficult to reconcile with the facts the Liberal Government's present attitude in the matter of exchange manipulation. On the one hand the upward revaluation of the dollar to combat a previous economic trend is staunchly defended; on the other hand there is a blank refusal to countenance devaluation, when it is now even more obvious than in July, 1946, that the apparent trend of that time has completely reversed.

When, however, attention is turned to the latest utterances of British Board of Trade President Wilson, the anomalous position of the upholders of the continuance of wartime restrictions and the maintenance of artificial exchange levels, is glaringly exposed. Mr. Wilson exhorts British manufacturers "to be as bold as our merchant adventurers of centuries past" in order to capture a larger share of the world's export markets. Almost completely submerged by a flood of official documentation and governmental red tape, the British exporter can well wonder how he still manages to keep his head above water. To be asked to soar to the heights described by Board of Trade, the principal source of his present afflictions, will tax not only the imagination but also the sanity of the bureaucracy-ridden British manufacturer.

Following upon a previous statement by Mr. Wilson that the chief British economic problem is no longer one of production but of selling, it is apparent that there is now complete awareness in British official circles of the end of the sellers' market. Unfortunately, in the case of Britain and Canada, there is still official reluctance for political reasons to recognize the change in economic conditions which now favor the abandonment of wartime controls and unrealistic currency parities.

Failure to face the present economic facts can only result in eventual loss of foreign markets to countries such as Belgium which has boldly taken the first step by the abolition of exchange restrictions to break the European trade deadlock. Currency devaluation on the part of Sweden also appears imminent. An infinitely greater service would be rendered to the cause of freer world trade, however, by an early decision on the part of the United Kingdom to devalue Sterling and restore its full convertibility. In this event Canada would have little choice except to act accordingly, unless it were decided to steal the Progressive Conservative thunder and move beforehand in anticipation of a British move in this direction.

* * *

During the week there was little change in the external section of the bond market and the internals also were dull and inactive. Free funds were again under pressure and the announcement of the politically minded pre-election budget had only a passing strengthening effect. The corporate-arbitrage rate on the other hand displayed continued firmness. Stocks for the most part were dull and irregular but the industrials finally registered a slight improvement with Canadian Vickers the feature issue. Golds and the base-metal group also showed a tendency to do better but the Western oils were mostly in the downside despite the spectacular showings of Imperial Oil's new Golden Spike field.

Taaffe and Wolfe Join McDougal & Co.

CHICAGO, ILL.—McDougal & Co., 208 South LaSalle Street, announce that Carl H. Ollman, Robert J. Taaffe, and Fred M. Wolfe have become associated with the firm.

Mr. Ollman was manager of the Municipal Department of Kebbon, McCormick & Co. from March, 1942, to the present time. Prior to that, he was Municipal Manager of the Chicago office of Alex. Brown & Sons of Baltimore, Maryland.

Mr. Taaffe has been with the Chicago office of the White-Phillips, Co., Inc., since August, 1946. His activities there included service in the municipal buying, sales and cashier's departments.

Mr. Wolfe has spent the past 18 years with the Modern Woodmen of America, Rock Island, Ill., during the past five of which he served in the capacity of chief statistician in the investment department.

Two Named Directors

Election of two new directors of Transcontinental Gas Pipe Line Corporation has been announced by Claude A. Williams, President of Transcontinental. They are Benno C. Schmidt, a general partner of J. H. Whitney

Benno C. Schmidt O'Kelley Anderson

& Co., of New York, and O. Kelley Anderson, President of Consolidated Investment Trust and of Boston Fund, Inc.

Mr. Schmidt is also a Director of Hodges Research & Development Co., Standard Perlite Corp. and Texla Gas Corp. During the war he was on active duty with the United States Army in the European Theatre of Operations as Deputy General Purchasing Agent for the European Area and was discharged with the rank of Colonel. He subsequently served as General Counsel to the Foreign Liquidation Commissoner of the State Department.

Mr. Anderson is a Director and member of the Finance Committee of New England Mutual Life Insurance Co., and a Director of United Merchants and Manufacturers, Inc., United Corp., Dewey and Almy Chemical Co., Saco Lowell Shops, and other corporations, and is a trustee of Wellesley College.

Transcontinental is building the country's longest pipe line to bring natural gas direct from Texas to New York City.

Sills, Fairman & Harris Is Formed

CHICAGO, ILL. — Sills, Fairman & Harris, Inc., Chicago, investment banking firm, announces the opening of a New York office at 52 Wall Street, under the management of Eugene L. DeStaebler, Vice-President in charge of the firm's municipal bond department.

Mr. DeStaebler was formerly associated with the Chicago office of F. S. Moseley & Co. as manager of the municipal bond department and, more recently, with the New York office in charge of municipal bonds.

Sills, Fairman & Harris also announced a change to the present name from Sills, Minton & Co., Inc., and the election of Fred W. Fairman, Jr., former partner of Fred W. Fairman & Co., as Vice-President, Treasurer and a Directo. The Fred W. Fairman Co., one of the oldest registered securities firms in Chicago, ceased business at noon, Saturday, March 19. Several of its members joined the Sills, Fairman & Harris organization.

William H. Sills and David J. Harris continue as Chairman of the Board and President, respectively, of the new firm, which will occupy the Sills, Minton offices at 209 S. LaSalle Street, Chicago.

H. W. Wilson Opens

Harvey W. Wilson has opened offices at 14 Wall Street, New York City, to engage in a securities business.

Los Angeles Bond Club Hears Sokolsky

Writer and lecturer says World War I never ended and there is no peace or prospect of peace.

George E. Sokolsky, writer, lecturer and columnist, addressed a luncheon meeting of the Los Angeles Bond Club on March 10 on the international situation. In his talk, Mr. Sokolsky declared "there is no peace and no prospect of peace. Our minds are still focused toward a continuance of war. World War I never ended because the same struggle that began during that period is still in process." This struggle, continued the speaker, is between two universal States, the United States and Russia; the one defending the inalienable rights of man, and Russia, the other, seeking to establish a total universal State over the whole of mankind so as to deny these rights.

George E. Sokolsky

Mr. Sokolsky contended that in this struggle, Russia has won most of the victories. Today she has control over a population of 600,000,000 people and a land mass rich in resources that far exceeds that of either Genghis Khan or Alexander the Great. The area includes a very valuable share of China with great resources for the purpose of conquering other regions of that country. Southern China, Mr. Sokolsky stated, cannot hold out without our help, which he estimates would cost $1,500,000,000 in the next year.

Since Great Britain, because of its limitations in manpower, resources and mechanical facilities, is dependent upon this country to carry on war, our only powerful allies today, the speaker argued, are in Asia.

"In this war now going on," the columnist stated, "we cannot, we dare not, lose, but there is the possibility that we may lose by apathy as well as by force of arms." He maintained that anyone who is not against Communism or who is "on the fence" is a Communist, as far as he is concerned.

Says Fear of Higher Taxes Impedes Expansion

L. E. Osborne, senior operating Vice-President of Westinghouse Electric Corp., points out profits to industry are essential to provide more power and better tools to increase productivity and attract capital investment.

In an address before the American Society of Tool Engineers at Pittsburgh, Pa., on March 12, L. E. Osborne, senior operating Vice-President of the Westinghouse Electric Corp., asserted that at the present time tax reduction or "even the simple pledge of government that tax rates will be maintained" would stimulate business activity and provide greater national income. Commenting on increased productivity and its relation to capital investment and profits, Mr. Osborne said:

L. E. Osborne

"The increased productivity of the past 50 years has not come out of the hide of the worker. It has come from the mechanization of all industry and from new and more efficient processes in such industries as chemical, coal, oil, steel, aluminum, and other mass producers of our semi-finished materials.

"It is this tremendous and steady technological advancement that has made it possible for Americans to produce for themselves, with less effort, farm improvements, home comforts, and better conditions of living, and more of them, than the peoples of any other nation enjoy.

"But machines do not spring out of the earth for men to use. They have to be built, and they cost money. Here in America the money comes roughly from two sources:

"(1) From reserves within the business, such as current charges to depreciation accounts, and undistributed profits;

"(2) From sources outside the business itself, such as the banking system, insurance companies, and from the savings of millions of individuals.

"Thus a substantial portion of gross business earnings finds its way directly back into investment channels. These reinvested earnings, from both internal and external sources, constitute the lion's share of the total supply of new capital.

"Whether it be Capitalist America, Socialist England, or Communist Russia, some portion of the national production, whether it be called profits or by any other name, must be snipped off and plowed back into the nation's business in the form of working capital, new and better tools and expanded facilities if the people are—first, to keep up their current standard of living; second, to increase it; and third, to provide a means for the increasing population to earn their own keep.

"One of the most serious troubles arises when people do not understand productivity and want more, without realizing that they themselves must produce more, and then begin to chip away at profits.

"Most Americans are, of course, perfectly willing to pay for the use of somebody else's property as long as it is something like a house to live in, parking space in a downtown lot, a seat in a bus or trolley car, or even a rowboat at a resort. But when it comes to the productive machinery which they use every day to earn their own living, the thinking of many takes a curious turn. Then they fail or refuse to understand why the owners of that kind of property deserve and must have a fair payment for its use.

"You people in this room, however, know that the money you can spend on tools or the money that is available for the purchase of the tools you make depends upon the profits that tools earn, and upon the prosperity of business.

When profits are good and the business outlook is good, and when people are willing to invest in business, then business will install tools. When markets weaken and the prospects for profit are not so good, then business tends to make its old tools do. Last year, American corporations made a total profit after taxes of more than $20 billion. To so many that looks like the other fellow's profit in which they have no stake, and in far too many instances this is the way it is told to American people.

"But corporations plowed back

into the nation's economy, something like $22,100,000,000 in 1948. All the profit and much more was plowed back into inventories, new facilities, and other forms of capital assets. No one tells that from the soap box.

"If it can get the money, says a recent McGraw Hill Survey, American industry will carry on for the next five years with its unprecedented program of expenditures for new plants and equipment. Plans already made call for spending about $55 billion. But these plans do not and cannot show what will be done if they are hampered by political action.

"The survey shows that manufacturing industries are shifting emphasis from expansion to efficiency. Three-quarters of the funds to be spent in the next five years are to replace and modernize facilities.

"To pay for itself in a few years, as equipment must if most companies are to consider buying it, that equipment must produce much better products or make substantial savings in labor and material.

"The savings go first to the owners but, as they always have, they soon spread to everyone in the form of better products at lower costs. This program of capital expenditure planned by American industry is rightly called one of the greatest bargains ever offered the American people.

"All this — American industry plans to do if it can get the money and is encouraged. The answer will come from Washington in what Congress does about taxes on profits and taxes on the income of millions of Americans who might otherwise invest a part of their income in these plans.

"It is at this point of providing more power and better tools to increase productivity, that management comes into head-on collision with a whole complex of misunderstandings—the charge of speed-up, the threat of higher taxes and the cry of excessive profits.

"The essential evil in the attacks on profits is that they provide a foundation for economic and political action by large and powerful segments of society. Such errors of opinion and judgment set up chain reactions, the first mistake leading to another and greater one, until at the end of the string we have a full-sized popular misconception contrary to economic fact.

"These mistaken popular beliefs, I think, form much of the basis for the proposals now before Congress that taxes be increased. That proposal is so dangerous that it deserves careful examination.

"To begin with, there is every sound reason to believe that the Federal Government does not and will not need more money than it already is collecting through taxes. Almost certainly, there will be a cash surplus at the end of this fiscal year of $4 billion; it may well go higher by another billion or two.

"Those of you who have followed the record know that, ever since the war ended, the Treasury Department has persistently and continuously and by very large margins underestimated national income and consequent tax revenue. There is no apparent reason why their latest predictions should be regarded as being more accurate than those which have preceded them. On the contrary, there is every reason to believe that no adequate or just cause exists for increasing the burden on business or on individual taxpayers.

"I wonder if it is not high time to get these essential facts better known, and understood and acted upon, in our own communities and by our representatives in Congress? Shouldn't we go beyond that and make it clear that tax reduction, or even the simple pledge of Government that tax rates will be maintained just as they are, will stimulate business activity and thereby provide an even larger national income basis for future taxation? That very thing, as you will recall, happened in the 1920's when successive tax reductions led to greater Government revenues and to rapid reduction of the national debt.

"When more people come to realize how they themselves benefit when profits are thus put to use, I believe that there will be a lot less glib talk about more taxes on profits. And I believe a lot more people will rise in protest when they find the tools of production getting slapped with heavier and heavier taxes every year — taxes which hurt every citizen because they make it more difficult for industry to operate prosperously. They will realize that this mounting of tax upon tax against people's savings and against people's profits makes it increasingly difficult to replenish the nation's tool box.

"I have taken your time to explore with you these economic ramifications of tools and profits because I believe that the time has come for everybody who has a stake in the American way of doing business to refresh his mind on some of these points. Just as the nation must snip off a certain amount of its national income and plow it back into the nation's economy to make tools possible, so we must all use some of our own time to improve our understanding or what makes our jobs possible. Over and beyond that, we should, each in our own way, cast our influence and encourage others to do the same.

"America has been producing goods to raise its own standard of living and that of the entire world with an energy and with a success that is unprecedented in all the history of mankind. The time has come for us to look up from the job of production and reaffirm the economic facts and faiths which have made our country great in the past and will continue to make it even greater in the future."

Stock Exchange to Study Trading Hours

Emil Schram, President of the New York Stock Exchange, with the approval of the Board of Governors, has appointed a special committee to study the question of trading hours. Members of the committee are: Richard M. Crooks, Thomson & McKinnon, Chairman; Eugene Barry, Shields & Co.; Sydney P. Bradshaw, Montgomery, Scott & Co.; T. Jerrold Bryce, Clark, Dodge & Co.; George A. Dixon, Charles B. Harding, Smith, Barney & Co.; George R. Kantzler, E. F. Hutton & Co., and Robert L. Stott, Wagner, Stott & Co.

Public Utility Securities

By OWEN ELY

Ohio Public Service

Cities Service Company is now generally regarded as an oil and gas company, but it still has in its treasury the stocks of several important utility companies which it must eventually dispose of in order to conform to the Public Utility Holding Company Act. One of these is Ohio Public Service Company. In the near future Cities Service expects to ask for competitive bids for 638,160 shares, while at the same time the company itself will offer 361,840 shares for "new money" purposes. After this offering Cities Service will own 2,000,000 of the 3,000,000 shares.

Ohio Public Service, with headquarters in Cleveland, though it does not serve that city, furnishes electricity to an area of about 3,100 square miles in north central Ohio, with a population of about 526,000. This area includes large agricultural and industrial sections, the principal products being steel and iron, machinery and rubber. The principal cities served, in which subdivision offices are located, are Alliance, Ashland, Elyria, Lorain, Mansfield, Marion, Massillon, Port Clinton, Sandusky and Warren.

The company has a construction program which will require about $26,000,000 during 1949-50. Of this amount about $7,400,000 will be provided through depreciation accruals and retained earnings, $10,000,000 from the sale of mortgage bonds in the near future, possibly some $2,000,000 through the current sale of common stock (after repayment of $3,000,000 bank loans) and the remaining estimated $2,600,000 through sale of debt securities in 1950. The pro forma capital structure (as of Dec. 31, 1948) is approximately as follows:

	Millions	Percentage
Funded Debt	$60	59%
Preferred Stock	16	16
Common Stock and Surplus	25	25
	$101	100%

According to the preliminary prospectus, pro forma share earnings on the common stock were as follows in recent years:

	No. of Shares Assumed	
Year	2,638,160	3,000,000
1948	$1.71	$1.51
1947	1.57	1.38
1946	1.18	1.04

The company has paid dividends on its common stock in each year since 1922, the annual rate in the past two years being $1. Beginning with the quarterly payment March 21, the 1949 rate has apparently been raised to $1.12.

Following are some of the figures and ratios usually studied by analysts in appraising a utility stock: The annual revenues approximate $30,000,000, putting the company in the upper medium-size bracket. Revenues are entirely electric, the company having no other services. About 21% of revenues are residential, 8% rural, 16% commercial, 47% industrial and 8% wholesale and miscellaneous; the proportion of industrial business seems unusually high. Of the industrial revenues, over half were derived from steel and affiliated industries, while a substantial part of the remainder represented machine producers. The average revenue per residential kwh. in 1948 approximated 3.30 cents, which was moderately above the national average of 3.01 cents; however, average residential kwh. sales were 1,647 kwh., compared with the U. S. average of 1,551.

Plant account is not carried at original cost since (unlike the practice in many states) the Ohio Public Utilities Commission does not require the determination of original cost; plant account therefore includes an undetermined amount of intangibles. From a rate point of view this is perhaps not important, in view of the liberal regulatory standards in Ohio; cost of reproduction is an important factor in the rate base. The depreciation reserve approximates 15% of plant account. In 1948 depreciation and maintenance expenditures were about 15% of gross revenues (after allowance for purchased power).

Electric utility stocks have been selling recently at an average yield of about 3.8% while stocks with average revenues of $25-$50 million offer 6.5%. However, in bidding for new issues not heretofore held by the public it is the usual practice to allow for the unseasoned character of the stock, in applying the yardsticks of yield and price-earnings ratio. New York State Electric & Gas, for example, was recently offered to stockholders at 41 and is currently around 43; the yields would be respectively 8.3% and 7.9%.

NAM Estimates $2 Billion Available Annually After 1952 for Foreign Investment

Informs UN Secretary-General private U. S. funds can continue ECA program without serious strain on our capital resources.

Curtis E. Calder, Chairman of the International Relations Committee of the National Association of Manufacturers, has submitted to Trygve Lie, Secretary-General of the United Nations, a report prepared by its economists in which it is estimated that when the ECA program expires in 1952, there will be $2 billion of U. S. private capital available annually for investment abroad.

"Under optimistic assumptions as to the economic climate at home and abroad," the report states "private foreign investment will amount to approximately two billion dollars per year after the completion of the European Recovery Program.

"This estimate is based largely on the statistical record of the 1920s, expanded to take account of the rise in the price level, and the growth of the economy. It presupposes domestic economic conditions which will permit and encourage venture investments. It also presupposes propitious economic conditions abroad. Unless these conditions are satisfied, foreign investment will probably be much less than this estimate.

"A capital export of two billion dollars per year would not appear in the light of the statistical record, to impose any serious strain on our natural resources, manpower or standards of living or on the domestic price level."

Hail!

Senator Kenneth S. Wherry recently called plans for a Missouri Valley Authority and similar river basin developments "another example of the 'creeping socialism' which confronts the people."

Sen. K. S. Wherry

He said that existing Federal and local agencies were already going "full steam ahead" on coordinated development of Missouri basin resources. Congress, along with State and local governments, had their proper responsibilities under that program, he added.

Giving administrative authority to an appointed board of directors, he said, "would be an improper delegation of Congressional authority, imposition of an all-powerful government upon an unwilling people, and threaten a slowdown, if not a breakdown, in the progress of construction and development programs now under way and constantly accelerating."

"The valley authority idea," he said, "seems to me another example of the 'creeping socialism' which confronts the American people and which is slowly but surely reducing their freedom and their control over their own affairs."

"The valley authority idea" is all of that. The current valley development idea in its other aspects also needs more scrutiny than it is getting.

Baruch Warns Against Over-Regulation

Elder Statesman tells Conference of Mayors mistakes in government planning have been costly and its magical power is a myth.

Speaking at a luncheon meeting of the United States Conference of Mayors in Washington on March 21, Bernard M. Baruch warned that government planning and controls will not solve nation's problems and that free enterprise needs peace, above all, to function.

Bernard M. Baruch

"In recent weeks," Mr. Baruch stated, "there has been much speculation how healthy the country is economically. Dire predictions are voiced that another 'bust' is imminent. These forecasts are countered by reassuring statements that nothing is to be feared. Some warn we must act quickly to prevent deflation; others that the real danger is still inflation. Still others talk of measures which will combine the 'best features' of both inflation and deflation. If prices are too high, these measures are to be used as an anti-inflation program; and if prices go down these measures are to become an anti-deflation program. It sounds a good deal like the operation of a convertible coupe. Press a button and up goes the top to shield off the rain. Press another button and the top comes down to give us the advantage of the sun.

"Little can come from such economics. I have never championed the doctrine of *laissez-faire* in the raw—that men should lie down dumbly before the problems confronting them and say there is nothing to be done. Nor do I believe in the opposite extreme of 'regulate everything.' In whatever action is taken, we must pierce to the crux of the problem, or be doomed to failure.

"Today the crux of our problem is that there is no peace. We must deal with this first.

"It is futile to talk of free enterprise with a threat of war overhanging, for free enterprise needs peace to function. It is equally futile to talk of planning until we have determined how to achieve a decision in the peacemaking. The 'planners' can draw wondrous charts, but until some port is fixed as our destination, we will continue drifting. We will have motion without direction.

"That there is something new and magical in the idea of 'planning' is a myth. With the touch of the magic 'planning' wand everything is supposed to fall into place or, as in the story of Cinderella, pumpkins are transformed into coaches—though I assume you modern mayors would prefer your pumpkins turned into buses.

"You have seen planners of all sorts in every country—and look at the mess. Without America, where would the world be? Some of the worst mistakes of modern times were committed by government planners. In 1927 the Bank of England and the Federal Reserve decided to reduce interest rates to stimulate business. It was this bit of credit-loosening which started the speculative boom of 1928 and 1929 and which led to the bust of 1929, and the subsequent evil years of unemployment when the planners lacked the courage to stop in time what they had started.

"Or, take a more recent example, which helps explain some of our postwar troubles. All remember the dire predictions of a calamitous depression that was to ensue when the war ended. Impressive arrays of statistics were marshalled by various government agencies to prove there would be 10 million or more unemployed. To prevent this, these prophets clamored there had to be more purchasing power—more money—and additional incentives in the form of reduced taxes. As you know, taxes were slashed by about $6 billion, the reductions going mainly to corporations.

"I opposed that tax reduction and the general scuttle-and-run policy. It seemed nonsense to talk of more purchasing power being needed when there had accumulated during the war such a tremendous backlog of demand and so many billions in savings to satisfy these demands. What further incentive did any manufacturer need to get into production as quickly as possible than a world in which everyone was hungry to buy everything?

"To make matters still worse, in 1948 there came a further tax cut, despite greater expenditures for armaments, foreign aid, and the summoning of young men to the colors away from their daily tasks. Through these tax reductions, more than $20 billion were lost to the government, weakening its financial position and aggravating the inflationary forces which have plagued us so terribly.

"Whether taxes should now be lowered or raised hinges on what is decided upon in the peacemaking. That holds for all aspects of our problems—for prices, government controls, the size of our military establishment and other matters. Nothing can have meaning except as it is related to our peace strategy—a strategy we still lack.

"The essence of true planning is thinking in advance of acting. To be effective, the men doing the planning must be competent and the plan must be right. That means it must fit realities, not mere political considerations and pressures, for these will change, while realities will not. Too often, if the facts are unpleasant, they are evaded. But that is a failing common to all humans, planners and non-planners.

"There is too much emphasis on the alleged need for more purchasing power. What the country needs is stable purchasing power. Increased wages, higher pensions, more unemployment insurance—all are of no avail if the purchasing power of money falls faster. You mayors are in a better position to understand the need to halt the race of selfishness than anyone else.

"While your incomes are largely frozen, you are quickly affected by rising costs or by the need to do something about unemployment as soon as layoffs start. In short, you are the most exposed of groups, among the first to feel the squeeze between taxes and rising costs without being able to seek relief by increasing your income. New tax sources are as rare as sources of uranium.

"Whatever your cities can postpone should be postponed. Until the over-all decisions are made, you should hold some of your strength in reserve. Let us all watch for those last straws which may break the camel's back.

"The strain you are feeling in the operation of your cities is a good measure of the strain being exerted upon our whole governmental structure throughout the nation. In your troubles you turn to the State, which for its part, turns to the Federal Government. Washington turns back to the citizens of your communities to get its relief. Everybody wants to lean upon the central government, but who is the government to lean on but the people?

"I cannot see how any economic program can be soundly drawn unless it disciplines all segments of society—for the common good—with special advantage to none. Nor can I see how any segment of society can know what it can expect and what it must give up until we decide on the terms of peace or arrive at some *modus vivendi* between ourselves and others."

Clarence F. Avery Opens In Battle Creek, Mich.

BATTLE CREEK, MICH. — Clarence F. Avery is forming C. F. Avery & Co. with offices in the Security National Bank Building, to engage in the investment business. Mr. Avery formerly conducted his own investment business, Avery & Co., in New York City.

Says Television Will Account for Sales of $1 Billion in 1949

John K. West, executive of RCA Victor, says selling power of video will rival mail order catalog for phone and mail business.

Speaking at a marketing conference of the American Management Association in New York City on Mar. 17, John K. West, Vice-President in charge of RCA Victor Public Relations, predicted television activities should account for over a billion dollars of business activity in 1949.

John K. West

Describing the impact of television on marketing methods, Mr. West termed television a "heart industry stimulating flow from thousands of veins and capillaries of production and pumping out economic lifeblood to as many arteries of commerce." He stressed the importance of such industries as essential to the maintenance of our economic strength at a time when "various ideologies are performing in competition for the favor and support of the people of the world," declaring that "how successful ours will be in this most colossal of arenas depends on how well American Management makes American economy work."

Citing the industry estimates of an annual production rate of around 5,000,000 television receivers by 1953, Mr. West estimated that the raw material from which billions of parts are fabricated for television would aggregate annually 200 million pounds of steel, 47½ million pounds of copper, 40 million pounds of aluminum and, for picture tubes alone, 83 million pounds of glass. Wood required for television cabinets was estimated at over 103 million board feet.

It is in its ability to serve as a selling and advertising force that television would make its greatest contribution to our economy, the speaker said. Among the examples of television's selling power which he cited were Macy's sales of 10,000 Howdy Doody dolls, fashioned after the popular NBC television marionette, at $9.95 each last Christmas; the 95½% sponsor identification won by the "Texaco Star Theatre"; a candy company which, with the aid of television, was able to place a new product in 95% of New York's outlets; and Disney hats, in three months of using television, outselling a rival brand five to one, where that ratio was formerly reversed.

Mr. West reported that the number of advertisers using television had increased 2500% in less than two years and estimated that $25,000,000 would be spent by advertisers on television this year.

Demonstrations via television will result in a tremendous volume of retail sales made without the customer visiting the store, he said. "It is by no means fantastic to assume that, within the next few years, television will rival the mail order catalog in selling products by phone or mail."

Indicative of the speed with which television has captured public acceptance, Mr. West pointed out that 14% of the families in the New York area already had television in their homes, and estimated by next year that over 21½% of the families there would have television. Philadelphia is expected to have television in nearly 20% of its homes by next Jan. 1, Washington in nearly 19, Los Angeles in 15½ and Baltimore in over 18, Mr. West said. He estimated that, even including the new television regions going on the air later this year, over 12% of the families in television service areas all over the country would have television in their homes by next New Year's Day.

Five ways in which he suggested that management harness television to its marketing programs are:

(1) Explore television as an advertising medium and search products or services for effective ways of presenting them on television.

(2) Employ television for practical institutional advertising, showing the birth of a product from raw material to final incorporation of quality features.

(3) Be alert to applications of television's new directions to business. Examples of new directions are wired television for plants (safety, visual intercommunication, etc), Ultrafax, and hospital television.

(4) Plan to cooperate with department stores using intra-store television when this becomes an established service, and

(5) Weigh the promotional possibilities of television, as an industrial attraction at state fairs, in trade shows and conventions, and also the prestige from promoting commercial broadcasts to dealers.

William B. Healy Director

William B. Healy, Comstock & Co., Chicago, was elected a director of the Waterloo, Cedar Falls and Northern Railroad at the annual stockholders' meeting held March 15 at Waterloo, Iowa.

E. J. Cohan Appointed

Edward J. Cohan, a partner in the firm of Pershing & Co., has been appointed Vice-Chairman of the New York Curb Exchange Committee on Outside Supervision. Mr. Cohan has been a Class B Governor of the Curb Exchange since 1944 and a member of the Outside Supervision Committee during that time.

The New York Curb Exchange will not be open for business on Saturdays commencing May 28 and through Sept. 24, by action of the Board of Governors.

Cahill & Bloch Admit

Cahill & Bloch, 11 Wall Street, New York City, members of the New York Stock Exchange, will admit Charles J. A. Fitzsimmons to limited partnership on April 1.

Harter to Be Partner In Sutro & Co.

SAN FRANCISCO, CALIF.—Robert L. Harter will become a partner in Sutro & Co., 407 Montgomery Street, members of the New York and San Francisco Stock Exchanges. Mr. Harter was formerly an officer of The First Boston Corporation.

To Acquire N. Y. Stock Exchange Membership

The Board of Governors of the New York Stock Exchange, on March 31 will consider the transfer of the Exchange membership of John F. Hughes to Herbert H. Lawrence. It is understood that Mr. Lawrence will act as an individual floor broker.

Securities Salesman's Corner

By JOHN DUTTON

One of the reasons why some securities firms are successful today is that they not only have organized their sales efforts, but also, they are DEFINITE REGARDING THE SECURITIES THEY SELL. In other words, they have a plan for *buying* merchandise as well as selling it.

Too often, it seems to me, our salesmen are asked to go out "half-cocked." We get a new situation, go over our customer files, determine who might have some idle cash or what we can trade out, or we just put some prospect cards in our pocket and go around to say "hello." Quite frankly, I believe this lack of organization regarding the products we propose to sell, is a weakness in the retail end of the securities business that has existed for years. A progressive grocer studies his trade, he watches for new items, he arranges his stock attractively, he buys what is in demand, he advertises consistently and promotes his services and his values, and he KNOWS HIS STOCK if he is successful and expects to stay that way. Perhaps a better illustration is the life insurance salesman. Good life insurance salesmen do not sell policies, rates, cash values, etc. They sell retirement income, they cover the mortgage, protect the family or educate the children. They have definite solutions for specific problems.

When a securities salesman goes out and offers stocks and bonds and that is all he is trying to sell, he is doing it the hard way—and it usually won't pay him any big commissions when he does make an occasional sale. People want to PRESERVE their savings and obtain INCOME from their investments. And some want to do these things and also allocate a certain percentage of their assets to SPECULATION in the hope of increasing their capital funds. Who wants stocks and bonds? The answer is nobody. But people do want what properly selected stocks and bonds will provide.

Every salesman should have his selling kit organized so that he has a sales talk to fit all these needs. He should also have securities that he can offer that meet such requirements. For those who desire income and safety, he should have a good mutual fund, an insurance stock or two, some good bank stocks, some industrial, public utility or railroad securities, which he could offer and talk about intelligently. He should have one or two outstanding situations in this group that are priced below other comparable situations, or that offer better yield without sacrifice of safety. These are his account openers, his "aces in the hole," when he goes after the order. After all, you can't sell unless you give someone a chance to buy a specific security—generalities, no matter how intelligently presented, do not ring the cash register.

He should also have a sales talk on the type of service his firm is willing and able to render his prospect if he becomes a customer. He should be able to say, "Here is what we are willing to do to HELP YOU do a better job with your investments." He could offer a complete estate analysis. He could offer follow-up service when new items appeared concerning a client's holdings. He could sell helpfulness and the importance of his service in maintaining steady income and preserving capital. This is the approach that wins confidence and clients—ESPECIALLY IF HE CAN SHOW WHY HIS OTHER CUSTOMERS FIND THAT IT PAYS TO DO BUSINESS WITH HIS FIRM. These two sales talks fit in together. Usually the service approach should be used first. The proper way to open any account is to make an estate analysis first, but sometimes that is not possible. Often it is better to make a sale to open the account and then try to develop it. It is the salesman who must use judgment in this matter, but if he has the right securities to offer and the service to back them up, and he knows these two presentations, he then has his business organized as far as selling and merchandising is concerned.

The third sales talk should be based upon his firm's ability to find special situations of unusual merit that have profit possibilities. He should have one or two securities to offer that fall into this category—and he should know them backward and forward.

With these three items to offer—service to help his customers do a better job of preserving principal and securing a steady income, a diversified group of good grade securities on his list, with one or two special items as a door opener included, and a special situation for capital gain and appreciation—a salesman has his merchandise organized so that he can go out and present it intelligently and effectively.

[On page 4 of this issue we give two additional lectures in the series on **INVESTMENT SALESMANSHIP**, sponsored by the Boston Investment Club and Boston University, transcripts of which are being published in the **"CHRONICLE."** The Boston Investment Club has received inquiries as to whether the entire series will be brought together under one cover. The Club is anxious to determine the maximum potential interest in such a brochure and, accordingly, requests that inquiries in that regard be sent to Dr. Douglas H. Bellemore, Chairman, Economics & Finance Department, Boston University, Boston, Mass.—EDITOR.]

R. S. Dodge & Co. to Open: NYSE Firm

Following the dissolution of Miller & Dodge on March 31, Robert S. Dodge will form the New York Stock Exchange firm of R. S. Dodge & Co. with offices at 61 Broadway, New York City. Partners will be Mr. Dodge and Franklyn H. Vogel, general partners, and Thelma J. Dodge, limited partner. Mr. Vogel will hold the firm's exchange membership acquiring it from Mr. Dodge.

Phila. Bond Club Begins Luncheon Meetings

PHILADELPHIA, PA.—Loring Dam, Eastman, Dillon & Co., President of the Philadelphia Bond Club, announced the inauguration of 1949 luncheon meetings which began March 23. Speaker was Taylor S. Gay, Vice-President of the Phillips Petroleum Co., who spoke on "The Outlook for the Oil and Natural Gas Industry.

John McAdams V.-P. of Albert Frank Agency

The election of John V. McAdams as a Vice-President of Albert Frank-Guenther Law, Inc., has been announced by Emmett Corrigan, Chairman of the Board. Mr. McAdams for a number of years was associate copy director of the New York advertising agency.

John V. McAdams

Jonas C. Andersen With Kuhn, Loeb & Co.

Jonas C. Andersen is becoming associated with Kuhn, Loeb & Co., 52 William Street, New York City, members of the New York Stock Exchange, to supervise underwriting and trading in municipal bonds. He was formerly with Blair Holdings Corp. and Blair & Co.

To Form Nat'l Ass'n Of Customers Brokers

Formation of a national organization of customers' brokers and registered representatives has been undertaken by the Association of Customers' Brokers of New York and the Stock Brokers Associates of Chicago, it was announced by Archie F. Harris, Merrill Lynch, Pierce, Fenner & Beane, and Frank M. Collins, Hornblower & Weeks, Presidents of the New York and Chicago groups, respectively. An organization meeting of representatives from various cities is to be held in New York, April 20.

"This organization of employees will bring in contact the men who are handling the accounts of several millions of investors in all parts of the country. Its aim will be to promote better understanding of the securities business on the part of the general public; to bring the realization that Main Street is Wall Street, and to present this point of view to the government and to the national Exchanges." Mr. Harris stated.

The two major organizations have been in existence in New York and Chicago for ten years. It is planned to encourage similar independent groups throughout the country and bring them together in a national federation. Letters are being sent out to registered representatives in office of New York Stock Exchange members in 90 cities throughout the country.

In New York a committee composed of Thomas B. Meek, Francis I. duPont & Co., Chairman; Jack B. Huhn, Bache & Co.; N. Leonard Jarvis, Hayden Stone & Co.; Richard M. Ross, Dean Witter & Co.; Donald C. Blanke, Eastman Dillon & Co., and Armand Fontaine, Merrill, Lynch, Pierce, Fenner & Beane is drawing up a Constitution to be submitted to the April meeting and By-Laws in conjunction with a similar group in Chicago.

Brown, Harris, Stevens

Brown, Harris, Stevens, Inc., is engaging in a securities business from offices at 14 East 47th Street, New York City.

Market and Business Panic Ahead!

(Continued from page 3)

in their loans to business on a widespread scale. Forced liquidation of inventories will augment the vicious circle of falling commodity prices. Result: A great and sudden increase in bankruptcies. *I predict that the coming business panic will be no mere recession—it will be an extremely severe depression, probably as drastic as the panic of 1932.*

Conclusions Confirmed By Stock Market Action

William Peter Hamilton (editor of the "Wall Street Journal" from 1908-1928) in describing the stock market as an indicator of future business conditions, said: "There is no business so small that it can afford to disregard the stock market barometer. Certainly there is no business so large that it dare disregard it. When coming events cast their shadows before, the shadow falls on the New York Stock Exchange." There is no question that the stock market does foresee future business. Occasionally the market does go off on an erratic tangent, as in mid-1948; but if an error has been made, it is soon retracted. Such a retraction, *and warning of a future business panic*, was contained in the Dow theory bear market signal, which was clearly given on Sept. 27, 1948. That this warning to investors and businessmen was valid, was demonstrated by the post-election stock crash, and by the adverse business news that is beginning to appear, as 1949 progresses.

The stock market crash that occurred right after election day in 1948 had nothing to do with the election results. The tension spring in the stock market was wound up, so to speak—the election was merely the trigger that released the tension. The move in stock prices after election day would have been down, Republicans or Democrats. *Stocks plunged down in November, 1948 in anticipation of the coming business panic.* Stock market movements today predict future business conditions, just as they did in 1920, 1929 or 1937, or at many other times in the past half century. I can never recall an era such as the present, when the clear warnings of the stock market barometer have been so universally disregarded.

Although the law was originally stated by Sir Isaac Newton with reference to physical objects, it applies to economics as well: "To every action there is an equal and opposite reaction." A small business boom would logically be followed by a moderate recession. But a large-scale boom would logically be followed by a large-scale depression. The business boom during and following World War II was the greatest ever recorded. *I predict that the business panic following this boom will also be the most drastic in the economic history of the United States.*

Can business depressions be prevented? I am emphatic in my approval of the fact that we were obliged to spend and destroy around $200 billion worth of goods in order to defeat Hitler and his allies. But I am positive that pay day for the goods destroyed will arrive in the form of want, and human suffering — of unemployment, and a lowered standard of living in this country. The wartime inflation merely postponed the pay day, but could not eliminate it. *Pay day is now about to arrive.*

Business Tides Are Unalterable

From many sources, particularly governmental, have come observations to the effect that no depression is imminent—or that in any case it will be prevented. Past history shows only too clearly that there are unalterable tides in business, just as there are unchangeable tides in the ocean. High tide is followed by low tide, and vice versa. Low tide can no more be prevented in business than can low tide in the ocean. Low tides in business are inevitable. Government has never in the past been able to stop depressions, nor can it do so in the present instance. I think that it verges on criminal negligence to tell people that a depression will be prevented, thus keeping businessmen and investors from taking proper safeguards and precautions.

In my opinion, the one and only way in which business panics might be ameliorated and softened, would be an effort to educate the public. If it could be taught in the schools and colleges that the tides in business are inexorable—that high tide in business absolutely will be followed by low tide—perhaps the public would in some measure hold down the booms, by going less into the excesses generated by unwarranted super-optimism.

In terms of unemployment, there are perhaps three million unemployed in the United States at the present time. *I predict that unemployment will rise substantially in 1949—and that within the next two years the unemployed will number between 10 and 15 million.* Steel ingot production has approached or exceeded capacity operation for so many years, it is all but forgotten that steel ingot production dropped to well under 30% of capacity in 1932. I predict that steel ingot production will start a well-defined downtrend in 1949, dropping probably below 60% of capacity. *I predict that in 1950 or 1951 steel ingot production will drop below 30% of capacity.*

Present Stock Prices High

Corporate profits will show a marked decrease in 1949 and 1950, due in great measure to losses on inventories. Dividend payments will be sharply reduced, and dividend omissions will become increasingly numerous. As for common stock prices, it is always true that when prices are down, no one ever visualizes how high they will go. And when stock prices are up, neither investors nor advisory services ever visualize the low levels that will eventually be reached. At the present time, I regard the current level of stock prices as quite high. *I think that stock prices will drop below the 1942 lows, and will at least approach the 1932 stock price lows.* I do not think that long-term bond prices have by any means reached their bear market lows.

In summary, I believe that all evidence points to the conclusion that we are now in the early stages of a severe business panic of general scope, and one that will be of extended duration. In many respects, I think the coming business depression will be as severe as the panic of 1932.

Appoint Officers of Phila.-Balt. Exchange

At the meeting of the Board of Governors of the Philadelphia-Baltimore Stock Exchange, George E. Snyder, Jr., Geo. E. Snyder & Co., Philadelphia, was appointed Vice-President; Merriam B. Barthold was named Secretary, and H. Gates Lloyd, Drexel & Co., Treasurer.

Appointed for three-year terms were Edward Hopkinson, Jr., Drexel & Co., Philadelphia, Trustee of the Gratuity Fund, and C. Sewall Clark, E. W. Clark & Co., Exchange Trustee.

The Philadelphia-Baltimore Exchange will close Saturdays from May 28 through September.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government bond market continues on the constructive side, despite a minor backing away from prices at the top, attributed to tight money, a quoting down and rumors that some of the restricted issues might be made eligible for purchase by the commercial banks. . . . Nonetheless, funds seeking investment are large and indications are this demand will be supplemented in the not too distant future. . . . All of which should not be unfavorable to prices and yields of Treasury obligations. . . . The demand in the market appears to be well diversified, with the eligible obligations getting attention from both large and small banks, the highest income securities appealing most to the latter institutions. . . . However, it is believed in some quarters that it is only a question of time before the largest banks will be stepping out into the longest-term issues in a very significant way.

It is indicated that an important change is in the making for the money markets, with the trend now towards greater ease and less restrictions on credit in order to bolster faltering economic conditions. . . . The alterations that were made in Regulation W appear to have been the first steps in the direction of easier money conditions. . . . The money markets and bank credit were used to retard the inflation and there seems to be little doubt these same forces will be employed to fight deflation. . . .

REDUCED RESERVES PORTENT

The loan trend, which has been down for eight weeks in a row, is becoming more important as times passes, to most followers of the money markets. . . . The loss of loans has created a demand for government securities because commercial banks must keep funds at work in order to protect earnings. . . . Also acquisition of Treasuries by these institutions will continue as long as assets cannot be put out as loans. . . . While the loan curve is influencing the action of the government market now, the continued down-trend in loans is quite likely to have a much more marked effect not only on the Treasury market, but on the money markets as a whole. . . .

It is believed that another four or five weeks of receding bank loans could bring about changes in reserve requirements of member banks of the system. . . .

EFFECT OF LOWER RESERVES

What would be the effect, on the government security market, of a decrease in reserve requirements of commercial banks of the Federal Reserve System? . . . The answer seems to be too obvious, because the deposit institutions would have more funds to invest in whatever sources are available to them. . . . With loans on the slide, and economic conditions uncertain, investors are generally very cautious, which means they will seek the safest haven possible for funds they will be putting to work. . . . This would seem to indicate the channelling of the bulk of any released funds into government securities because they are the safest investments that could be made by these institutions. . . .

A downward revision in reserve requirements, which would enlarge the demand for Treasury obligations, should have a beneficial effect upon the price trend of all government securities, particularly the longer-term obligations, because of the larger income that is available in these bonds. . . . Although there would be continued lengthening of maturities in order to maintain earnings, there would no doubt be considerable buying of the shorts as well as sizable acquisitions of the intermediate-term maturities. . . . While the greater part of the newly available monies would be used in the government market, some of these funds would probably go into state and municipal obligations, especially the short and intermediate maturities. . . . Purchases of corporate bonds, it is believed, would account for only a minor amount of any newly investable assets of the deposit institutions. . . .

MARKET TRENDS

World Bank securities continue to be well bought, with the longest maturity again under sizable accumulation. . . . Purchases of this bond are being made by institutions both in and outside of the large financial centers. . . . The bank 2½s are being taken by some out-of-town commercial banks after a short period of inactivity, probably attributable to the business of income taxes. . . . The longer partially-exempts gyrate up and down, but progress continues to be made because buyers are still moving these obligations out of the market when they are available. . . . The 2¼s due 1959-62 are well liked by more than a few of the savings banks and they continue to add to their holdings of this security. . . .

The 2s due 1952-54 are being put away again by deposit banks in the money centers outside of the metropolitan areas. . . . The 2¼s due 1956-59 are getting attention from banks that have been largely interested in the taxable 2s. . . . Switches from bank issues into the taps continue but at a slower pace, because the eligible holders are now looking for more of the gravy before they move into the ineligibles. . . . A sizable swap from the 2½% due 1956-58 into the 2¾% due 1960-65 is in the process of completion. . . . Non-bank owners of dwindling amounts of the longest partially-exempts, according to reports, have refused to sell these securities at prices above the highs for the year. . . .

SIGNIFICANT MEETINGS

It is indicated that considerable is going on behind the scenes in a quiet way that will eventually have a very important bearing upon the future financial policy of non-bank investors, particularly the insurance companies. . . . The results of these get-togethers will probably mean that future financial operations of these institutions will be more in line with the spirit of what the monetary authorities are trying to do.

Savings Bank Deposits Rise Slackens

William L. Maude, President of National Association of Mutual Savings Banks, reports $66 million gain in February, representing a slackening of rate of growth in three preceding months.

During February the total savings deposits of the mutual savings banks of the United States rose $66,000,000 to a total of $18,581,000,000, according to a report just issued by William L. Maude, President, National Association of Mutual Savings Banks and President The Howard Savings Institution, Newark (N. J.). The gain included $49,000,000 in regular and $17,000,000 in other deposit accounts (school savings, Christmas Clubs, etc.).

The February increase represented a slackening of the rate of growth shown during the three preceding months, when regular deposits spurted, Mr. Maude said. Between November, 1948, and January, 1949, the increase in regular deposits was 15% greater than a year earlier, whereas during February the gain was 17% less than in the corresponding month of 1948.

The slackening of regular deposit growth reflects the fact that amounts deposited in February were practically the same as in the corresponding month last year, while the amount withdrawn was up 3%.

Portfolio policy during February was marked by a nonseasonal gain of $56,000,000 in holdings of mortgage loans. Corporate and municipal securities rose $27,000,000 and U. S. Governments increased $7,000,000.

Pacific Appeasement and Atlantic Alliance

(Continued from first page)

that may serve their ultimate purpose.

As a matter of fact, two months later the same Western Communist leaders blurted out the obvious: that they would be on Russia's side in the event of war with the West—which is no contradiction of their previous utterances. They are on Russia's side, be it peace, or be it war.

Actually, the Iron Curtain has not and will not be raised, and the cold war—Molotov or no Molotov—goes on unabated. In Russia, anti-western propaganda is as vicious and as vociferous as ever, intended primarily for home consumption. Abroad, the Communists never have ceased to present themselves as champions of Peace—and of "peaceful" civil wars.

What makes Moscow's current peace offensive significant is the fact that it coincides with soft-pedaling moves in Washington. At last fall's session of the UN it already was evident that the American Government carefully avoided offending Russia by having the Assembly declare the Berlin blockade an act of aggression. Then came the stillborn Vinson mission to Moscow, behind Marshall's back, and Truman's mystifying reference to a "peace party" in the Kremlin, followed by the resignations of Marshall, Lovett and Bedell Smith, who were identified with the largely verbal get-tough-with-Russia policy of the last two years. Filling the top diplomatic job with America's one-time Number Two appeaser, who still proudly claims the notorious Alger Hiss as his "friend," was the next step.

Above all, the unblushing readiness to let China go down the Communist drain, scrapping a century's investment in money—$4 billion since 1937 alone—in strategic position, in goodwill, and in civilizatory progress, is a barometer of the trend in the White House.

That China would lose the Civil War was to be expected. All strategic advantages of guerrilla warfare, plus Russian support, were on the Communist side. But that we would desert one of our oldest and most crucified friends, deliberately lose a most important international foothold — political, strategic and economic—that has taken the entire world by surprise. The dismay of the Occident is as hard to describe as it is difficult to understand the apparent indifference and indolence of the American public. This nonchalance reveals a deterioration in the political, if not in the moral fiber of the nation.

Washington's publicity machine insists on the corruption and inefficiency of the Nanking (Nationalist) regime, deluding the American public with the foolish notion that Chinese Communism is altogether different from the Russian. That self-delusion should have been destroyed at once by the Yenan regime's "peace" term to Chiang Kai-shek: that all treaties with the United States should be canceled.

Already at this stage the Chinese Communist leaders—who are notorious Soviet agents—make no secret of their hostility toward America. That should be proof in itself that by sacrificing China we do not hand her over to native liberals and land-reformers. She will be another satellite, more fateful to our security than all the others put together. As a matter of fact for us, far greater security interests are at stake in China than in Europe (as European observers were fast in recognizing). On the eastern side of the Atlantic, there always is a block of 200,000,000 highly civilized people who would resist Russia under all circumstances and would cushion the impact of Soviet aggression. On the other end of the Old World, nothing but the ocean separates us from a Soviet superpower that controls China, unless we should rearm the Nipponese—at the additional and perilous risk of a possible Russo-Japanese alliance against us.

As to corruption and inefficiency in Nanking: they could not be much worse there than in Greece. (And what about the notorious corruption and inefficiency in some western European countries?) Yet, we shall keep pouring out aid to Greece, enhanced presumably to $500 million a year, as against a paltry $180 million lately to an at least 75 times more populous and probably 200 times more important China. We are aware that it will take at least five years at such expense to save Greece for democracy, while half a billion annual expense may suffice (to say nothing of the $800 million proposed by Bullitt, or the $1,500 million China aid program of Senator McCarran of Nevada) to save the Yangtze Valley and southern China, or even to maintain the *status quo* along the Yellow River, south of which over 300,000,000 Chinese live. We provide American know-how and military leadership against the 25,000 Greek guerrillas, while nothing of the kind has been offered against the far better equipped 3,000,000 Chinese Communists. But of course, Greece is vital to the eastern Mediterranean and, therefore — to the British Empire.

Historians will have quite a job trying to disentangle the ideas, if any, underlying Truman's foreign policy. It certainly is not an era in which we economize on foreign spending. We think nothing of $150 million a year spent (with much more to come) upon the Berlin air lift which, incidentally, is totally insufficient to keep the economy of its 2½ million population alive. (It vegetates painfully on smuggling from the Russian sector.) For sheer prestige, we carry on a cold war over a ruined and hopelessly isolated urban spot, but take no notice of the loss of prestige in giving up, without batting an eye, 460,000,000 Chinese whose country contains some of the world's greatest riches.

II

The Root of China's Predicament

The Chiang Kai-shek regime has stood up for 11 years under the blows of Japanese invaders, fighting simultaneously Communist guerrillas at its back, with very little help from the outside. China has bled more, has lost more, and has been more demoralized by continuous warfares and revolutions—since fifty years!—than any other country in the world. And it was a weak nation, putting it mildly, from the outset. Small wonder that after such an ordeal, coming in a country with loose internal coherence and an administrative know-how on oriental level, the strain has proved too much.

After such ordeals, almost any country would collapse. Now, we moralize righteously that the Chinese deserve their fate. In reality, a minimum of moral, technical and material support still may suffice to relieve China, provided the support is given in the proper fashion. Our help since the war was not only too little, but also badly construed, just as the help to Greece has turned out so far to be a failure, and much for the same reasons of internal weakness and external (Russian) pressure.

Once a system is thoroughly shaken up, it is not enough to provide it with money, weapons and food. It takes management as well to put it on its feet. This we have refused China, in addition to restricting our material aid to an ineffective trickle.

As a matter of fact, it was American "guidance" that has been essentially instrumental in ruining China. Without going back much farther than 1944—and a great deal ought to be said about the previous period—it may suffice to point out that it was General Marshall who as Truman's envoy held up for more than a year every aid to China so as to force the Generalissimo into an unholy union with the Communist Mao Tse-tung. (At that time forcing the Vice-President, General Li Tsung-jen, or some other reform-minded politician down the Kuomintang's throat might have saved China.)

It also was Marshall who forced Chiang Kai-shek into letting the Communists enter Manchuria and Jehol while they still could have been kept out. Above all, it was President Roosevelt who behind the back of his ally, the legitimate Chinese government, in effect handed over Manchuria to the Russians, and his successor who tolerated not only that the vast armaments of the surrendering Japanese army, but also its huge arsenals were put at the Communists' disposal.

While the latter were being constantly armed and supplied, and were receiving aid and comfort from Russia, we were sending UNNRA supplies and similar charities to those on our side. Abandoned by the West and hopelessly out-gunned, Nationalist morale had to break. The remarkable thing is that it lasted as long as it did. Small wonder that a relentlessly mauled nation dissolves itself, so to speak, in desperation. Confusion and corruption become rampant. We then enter the scene with self-assured indignation over so much corruption, forgetting all about China's history, her incomparable sacrifices, and our own double-crossing practices and broken promises.

III

The Fruits of Appeasement

To appreciate the consequences of China's fall, her immense influence on the rest of the Asiatic continent should be visualized. Especially so in a restless era like the present one when Indo-China is in full-fledged revolution, the Communist fire is flickering in Siam, British Malaya is held down by a strong display of force only, as is Dutch Indonesia, when Burma is fully infected with the Bolshevist virus, leaving aside India's unpredictable political and social course. The money we save on China will cost us dearly. Enormous expenditures will be needed to protect the half a billion population east and south of Russia's Asiatic empire by some sort of eastern Marshall Plan, Truman Doctrine, and lend-lease combined. As a first imstalment, Japan will have to be "policed" indefinitely, and with an enlarged garrison at that.

Nor should the global implications of this development be underestimated. China is one of the world's greatest coal reservoirs, in addition to containing vast quantities of other valuable raw materials. It is our greatest potential market abroad. It will offer Russia an almost unlimited manpower for slave work as well as for armed forces. For the Bolshevist system reaching from the Baltic to the South China Seas, fantastic vistas open. The prestige of Russia and her influence will grow by leaps and bounds. The hammer and sickle will rise in Asia as the symbols of Christianity and western civilization are bound to go into eclipse.

This may sound like long-term problems of little interest to precinct politicians. But Hongkong will ge lost financially as the Communists cut it off from the mainland, and so will Britain's billion dollar investments in that part of the world. It will be another blow, in the long run, to the Sterling Area, another weakening of its international balance of payments—and, presumably, we will have to pay that bill, too, even though temporarily the Communists will offer trading chances.

The disastrous ramifications and repercussions of China's fall are immeasurable. They are likely to affect Korea, the Philippines, and our Pacific security belt in general. The recent gains of the Communists in Japan—the only country, incidentally, outside the Iron Curtain where they gained votes lately—speak for themselves. But fall China must, if our apparent determination to let her fall stands.

Wishful thinking in this country is illustrated by the prevalence of the idea that Russia will have trouble in "digesting" China. In reality, only highly civilized countries like Poland, Hungary, and Czechoslovakia offer some resistance against totalitarianism. *Backward countries* which have lived for millenniums under tyranny, in which the masses never knew either freedom in the occidental sense, or living standards above the barest existense, are a "natural" for a Marxian set-up. Indeed, they *are the only ones in which Leninism has ever taken a genuine foothold*—of a kind.

Nor will there be any nationalistic resistance in a Communist-controlled China since she will be ruled by Chinese, and her anti-foreign instincts will be canalized against the West (Hongkong!). Even the imperialistic longings of China—if any remain after the extermination of her thin middle class and intelligentsia—will find an outlet in the direction of Indo-China, which is tottering already, and beyond. All we will get will be—more refugees to care for.

The believers in do-nothing-in-China—pretending to ignore the problems is a convenient hide-out for fellow-traveling "pacifists"—argue that the alternative to deserting China would be to drive out the Communists altogether, at enormous cost over a long period of years, and at the risk of a shooting war with Russia. This all-or-nothing argument is a total misinterpretation of the situation even if it stems from Far Eastern experts. The fact is that the Communist armies have been stalled for several months at Nanking in spite of their numerical and physical superiority, in spite of constant desertions and signs of demoralization on the Nationalist side, etc. If they were so overly powerful, they would not hesitate to sweep toward Canton, which is their goal, of course, to consolidate their rule over the whole of China.

The truth is that the Communists' superiority over the Nationalists diminishes as they move southward. They lack even the personnel to organize and control their conquests. Their real strength is in guerrilla warfare which only the Japanese knew how to handle: by burning up and exterminating entire villages. The comparatively sparsely settled Northern areas where guerrilla warfare is at its best and where absentee land ownership is at its worst, are the true domicile of Chinese Communists. Also, in the North, the proximity of Russian-controlled Manchurian arsenals and supply sources is an essential factor that weakens in proportion to the square of the distance.

In other words, not everything is lost in China as yet. Of course, the idea discussed in the National Security Council (Washington) in early March (according to newspaper reports) to resume the sending of Marshall Plan funds to Nationalist China, but under strict exclusion of military help, would be about the most uneconomic way of wasting the American taxpayer's money. If its purpose is to relieve the American market from cotton or similar surpluses, we might as well dump them into Japan where a new threat of famine highlights our glorious occupation policies.

IV

Lull in the Cold War

More than peace talk is, to some extent, under way on the European end of the Cold War. After a $15 million trade deal with Yugoslavia, Britain concluded a five-year $1 billion barter agreement with Poland. That goes to show, in the first place, that the reduction of Russian trade with Yugoslavia as well as Tito's turning to the West for some of his badly needed raw materials and machinery, have little to do with the private quarrels behind the Iron Curtain. Poland, of course, could not have proceeded to such a comparatively sizable deal with Britain—nor could Bulgaria have resumed simultaneously the servicing of her external debt held in Britain (but not the one held in the U. S.!)—were it not for Moscow's blessing.

The resumption of trade between the satellites and the Marshall Plan countries, moderate as it is, coincides significantly with a change of Communist Party tactics in France and Italy. The Commies have dropped, for the time being, their immediate revolutionary plans. (They made much about-face several times before—whenever it suited their strategy.) They suddenly profess to be useful citizens and want to collaborate. In Italy as well as in France, this most recent turn of the extreme left helps to allay the fears of imminent war—but it worries the respective governments which are often more afraid of "peacefully" boring Marxists that of the openly revolting brand.

It is apparent that on the European scene, a sort of armistice—within the Cold War—is in the making. The economies of the satellites are threatened with collapse, lacking essential equipment, which Russia has promised and is unable to deliver. Some concession had to be made even if it benefits Western Europeans as well, who in turn are eager to grab any such concession, given their difficult position. The claims for Marshall funds for the second year of the Plan's operation are virtually the same as for the first, and the interim report of the O. E. E. C. (Organization for European Economic Co-operation) had to admit that even after 1952, Europe still will have a huge deficit in its American trade, with no end in sight. In short, East-West trade is to be resumed in Europe, if only on a very moderate scale.

The insolvency of Europe and the inability of the Marshall Plan to cure it in foreseeable time, naturally burden Washington's "conscience." So does the fact that all dreams of European union or even of close economic co-operation between the Westerners are shattered on the rocks of constant Anglo-French, Franco-Belgian, etc., monetary frictions, while western Germany's ruthless exploitation—somewhat relaxed in the last few months—pays dividends by slowing down European reconstruction. The unity dreams are fading into a sheer military alliance program.

The prospective Atlantic alliance with its multi-billion lend-lease costs, plus the unabated continuation of ERP financing, will expose the Administration to a severe test of public opinion in this country. All of which helps to explain its receptiveness for every gesture of peacefulness, temporary as it may be, emanating from Moscow. The latter, in turn, is anxious to offer such gestures while gobbling up China.

Actually, the Russians may feel that they are "appeasing," too: by tolerating, without violent interference, the slow but definite trend toward reconstructing Western Germany.

Be that as it may, the fact is that the abandonment of China coincides with an obvious lull in the cold war. All signs from London indicate a new readiness of the British to get into fresh "conversations" in Moscow, an unfailing symptom of diplomatic relenting. Another symptom is the recent recovery of ailing Western European currencies, especially of the Deutsche mark and the French franc: it could not have occurred were it not for a relief from acute war jitters.

V

The Principles at Stake

Appeasement means different things at different times. At the time of the Occident's honeymoon with the Soviets, the idea was to win the eternal friendship and international collaboration of that "noble experiment." It was a genuinely stupid policy, carried by war-born mass-psychosis. Presently, appeasement is a mere series of concessions, based on the desire of the American public to avoid war, but without trust in the other side or hope for durable results. It is much the same situation as prevailed in Europe in March of 1939—exactly ten years ago: disappointment over the failure of the Grand Appeasement, and further attempts at maintaining the peace by minor concessions, territorial and economic, but resolution to prevent a new Munich. Chamberlain's efforts to find a *modus vivendi* with the Axis by temporizing concessions at the expense of China (in favor of Japan) and of Albania (for the benefit of Italy) went hand in hand with Britain's accelerated rearmament and her offer of "guarantee pacts" to the smaller nations. The parallel shows that appeasement and war preparation need not be mutually exclusive. Nay, they are correlated: the weakening effects of appeasement create a near-hysterical urgency of fresh armaments and new alliances.

From the point of view of a global balance of power, China may not be much of an asset in our hands. However, with China in Russian hands the balance is badly distorted. No Atlantic Pact could substitute for that loss. What does that Pact mean anyway? It it amounts to the reassertion of the obvious: that the West will not tolerate Russian expansion by force beyond certain limits, it has the value of a verbal demonstration. A pretext for a new lend-lease is not needed; nor would the Pact strengthen the probability that the lend-leased material would be properly used. If it implies new bases (of doubtful strategic importance) at the front door of Russia, it merely strengthens her argument about our aggressive intentions, and calls for counter-measures: more Russian troops in Germany, Austria, and in the neighborhood of Norway, if not the actual occupation of Finland.

But there is more to the coincidence of the Atlantic alliance with the abandonment of China than hits the eye. Basic principles of U. S. policy are at stake; and so is the American system altogether, what is stands for. To begin with, the two moves represent changes in the very foundations of our foreign policy. The Open Door in the Far East, and Non-Intervention in Europe, were two of the pillars on which the international relations of this nation rested — its external peace, economic expansion, and domestic freedom as well. So far. they never have been discarded except in an emergency. Now, they are to be thrown in the ash can—once and forever.

Scuttling two principles at once is an accomplishment. The coincidence is not accidental. The positive aspect of this drive to change the very foundations of American foreign policy has to be visualized in its broad political and economic context. Entering the UN was the first political step in the new direction. But the UN turned out to be a "dud"; the Atlantic Pact is to do the trick of revolutionizing both the geography and the history of the United States. The process of Europeanization has gone far already. Our monetary policy is not ours any longer; it is determined by the International Monetary Fund. The Bretton Woods idea is, as it becomes clearer with the testing of time, to carry the tottering European currencies — the pound sterling, of course, in the first place—on the back of the dollar. Marshall Plans, Truman Doctrines, "Bold New Programs" of spending on a world-wide scale have the same implications. The same idea is underlying the International Trade Charter, signed in Havana but not yet ratified by Congress: to put our commercial policies into international strait-jackets. Global wheat agreements and similar long-term arrangements are to regulate our export volume and export prices. The list is not closed.

The monetary, financial, and commercial implications of this process—some major implications—have been analyzed succinctly in a penetrating new book of Philip Cortney, Coty's President ("The Economic Munich," Philosophical Library, New York). In ultimate resort, this complex system of foreign policy and international planning serves the objective of maintaining and guaranteeing the British type of "Planned Democracy," which neither has a plan nor is conducive to democratic ways of life. We may save very little by waiting, as we do presently, for the disintegration of China, and by hoping the Chinese Communists will kindly consent to do business with us. But we may lose everything by entangling our economic and political setup with the Socialists of Europe, whose artificial price and distributive structures, foreign exchange restrictions, and domestic regimentations necessarily lead to the destruction of everything our system stands for: of free international trade, freedom of capital flow, free gold standard, free disposition of the individual over his fortune, free choice of occupation at home or abroad, freedom from tyranny by irresponsible majorities and petty bureaucracies.

IPAA Rounds Out Plans For Mid-Year Meeting

TULSA, MARCH 19—Committee members and officials of the Independent Petroleum Association of America have announced formation of tentative plans for their 19th Mid-Year meeting to be held in New Orleans May 2, 3 and 4.

Advance committee meetings will be held on Sunday, May 1st. Registrations will begin at 9 a.m. Sunday in the Roosevelt Hotel, which will be headquarters during the meeting.

At 10 a.m. the Constitution and By-Laws Committee, W. M. Vaughey, Chairman; Import Policy Committee, Fred W. Shield, Chairman; Program Committee, 1949-1950, Merle Becker, Chairman; Secondary Recovery and Stripper Well Committee, R. C. Earlougher, Chairman; Supply and Demand Committee, O. C. Bailey, Chairman; and the Resolutions Committee, Gilbert J. Mueller, Chairman, will meet before the official opening of the meeting.

A luncheon meeting will begin at 12 o'clock noon Sunday in Room E on the mezzanine. A meeting of the Executive Committee and State Vice-Presidents, with the President Fred Shield presiding, will be held with the luncheon.

Adjournment of pre-meeting activities will be held at 4 p.m. Sunday.

First general session will be held at 10 a.m. Monday with William Helis, Jr., Chairman of the Committee on Arrangements presiding.

Following the welcome address the opening statement keynoting the meet will be given by President Shield and will be followed by an address by E. C. Moriarty, Wichita. The subject of Moriarty's address will be "The Need For Enlisting Every Independent Producer in America in Our Fight."

Noon luncheon, Monday, will be held in the grand ballroom with K. D. Owen, Houston, presiding. At 2:00 p.m. the second general session will begin, with James A. Upham, Mt. Vernon, Ohio, presiding. A panel discussion by committee chairmen on IPAA's National Oil and Gas Policy will be featured at this session with the report of the Supply and Demand Committee, H. B. Fell, Vice-Chairman, delivering the report. Adjournment of the second session will be at 4:30 p.m. Monday. One general session will be held Monday with W. H. Bird, Wichita, Kansas, presiding.

John W. Hancock, Long Beach, California, will preside at the Tuesday luncheon, which will be followed at 2:30 p.m. by a meeting of the Executive Committee and State Vice-Presidents. The meeting will end at 4 p.m. Monday.

Elements of Successful Salesmanship

(Continued from page 4)

now, I use those two words a lot, and I am going to show you what they mean a little later on—the power or ability to convince or persuade people to purchase your product at a profit. Now, when you sell something—it doesn't make any difference whether it is a brush or a vacuum cleaner, or whether it is an investment, or what it might be—everybody involved is entitled to a profit. The customer has to have a profit, the company has to have a profit, you have to have a profit. They purchase your product at a profit.

This is a powerful statement, and I make it because I know what I am talking about: Every piece of human activity is salesmanship. I don't care what it is, whether a man is a doctor, a lawyer, or a minister, or professors here selling education, brushes, bonds, vacuum cleaners, even religion, going to church on Sunday, it's all a matter of salesmanship.

I am going to try to bring that out on this board. Even to get married is nothing else but a piece of salesmanship; somebody was a good salesman, either the woman was a good salesman or the man was a good salesman. They have to go through the mental steps. Whether it is getting married or buying this building or a hundred-thousand-dollar bond, you go through the same mental steps and I am going to try and show you what happens. Well, let's see just exactly what happens to this duck that gets married, because I went through that 45 years ago and I forget how the thing did happen, but I guess it happened all right. Well, to give you a rough estimate how it happens, a fellow meets a girl, takes her to the movies, buys her dinner, takes her home, and at the gate he kind of gives her a kiss and he gets a slap. And she says, "I suppose you kiss every girl you take out," and he says, "Yes, that's right." And she says, "And I guess you get a lot of slaps, too," and he says, "That's right." And he says, "Well I get a lot of kisses, too."

Well, the fact remains that another appointment is made and they go out again to the movies or dinner, and the first thing you know they go through these mental steps I am going to put on the board, and the first thing you know they are saying to one another, "I guess we ought to get married," and there it is.

The same thing happens when I go in to buy a cigar in the cigar store. I go through the same steps, only in about half a second, a good salesman won't hand me out a single cigar; he will hand me out a half dozen. He's a good suggestive salesman.

Sales—A Mental Process

I don't know whether this has been mentioned before, but sales are made in the mind. It all happens in the head. And it takes two to make a sale, customer and salesman. And there has to be a meeting of the minds or there is no sale. Now, I am going to try and prove all these statements right on this blackboard. A man may know his product, but there is some step that he muffed the ball on and the sale doesn't go through. But you will see it. I tell you, gentlemen, it is made up here (indicating), and there has to be a meeting of the minds for that sale to go across; if the minds do not meet, there is no sale.

Another thing, whatever you buy, and I don't care what it is, you go through the same mental steps. Well, we are going to show you all this before I get through here. This gentleman will tell me when my time is up; I get kind of warmed up some times.

I was asked the other night, "What is a salesman, anyway?" Well, you can give a dozen definitions, but I gave them a very simple one. I said, "A salesman is a man who sells a customer something he didn't expect to buy." And that is exactly what happens. I have had men come in to my office, and knowing these facts, I wonder how some of them get by. Some of them do not know their merchandise, some of them don't know how to ask for the order, and another fellow doesn't know how to create a desire for it. He barges in when I am either on the telephone, or even dictating a letter, and he wonders why he doesn't sell. And I am going to show you why he doesn't sell on that board.

So a salesman is the man who sells a customer something he didn't expect to buy. And I think Mr. McCrossin will back me up on that; we go into homes where they didn't even think of a vacuum cleaner, but we come out with the order, and the same way in the matter of selling brushes.

Now, in salesmanship the five senses play a very important part. Those men in the service know; you got this in the service. Sight is 85%, hearing is 10%, and touch and smell and taste make up the other 5%. Sight is the big one. I have heard it said that the eye is the window of the soul. Anything you see belongs to you; that is yours. I also say you only remember 10% of the things you hear. That is why I am going to put it on the blackboard and I hope that you men coming to these classes will make as many notes as you possibly can, because you only remember 10% of the things you hear. And that has been proven 150 years ago, and more than that, 1,000 years ago. People go to a movie, yet they don't even remember the name of the picture. Yet they see the picture. They don't remember. You men are not going to remember 10% of the things I have already said, unless you get it down.

That used to be a great word, jot it down, jot it down. No matter how big a job you have, you notice we always carry a notebook. Why do we always carry a note book? Well, because Emerson said, "You learn something from everyone you meet." You meet this man, and you meet this fellow over here, and you meet this man here. I am going to get something from him, and he is going to get something from me. I am going to jot it down. And so, you learn something from your customers.

Now, salesmen don't just sell a brush or a vacuum cleaner, or a bond, or life insurance. If we sell a brush, we sell what that brush will do. That is the thing. So with your investments you are selling a service, you are selling your benefits, you are selling needs, you are selling comforts. But through all these things, there has got to be a profit for everybody, or the thing is not going to stand up, as we will prove when we get on the board.

Now, you get down to these fundamentals of salesmanship, and once you get them imbedded in your mind and apply them, or even put this same stuff in a letter—of course, when you write a letter, you are making a sale, just as in the selling of an investment or a bond, you are using the same principles, because I said every piece of human activity is salesmanship.

Fundamentals of Salesmanship

These are some of these fundamentals of salesmanship; there are only four of them, and you know what they are just as well as I do. But it is surprising to see men come in and discover what little they know about the things they are trying to sell. A man says to me, "I wonder what is the big reason for the turn-over," and I say, "The big reason for the turn-over is that the men don't stay at the thing long enough to learn anything about it." There are men who have come in to this very class, and their faces are not here now. Why? Because they haven't stayed at it long enough to learn what they should do about it.

That is the big thing in turnover, and that is not only a salesman, but it hits the managerial end of the business the same way. Mr. McCrossin knows that. And sometimes it hits the sales managers, the men at the top; sometimes the biggest turn-over is at the top. You don't have to get down to the salesmen; it is right on the very top, district managers, sales managers. And I guess it is happening in governments. We saw it happen right over in Russia, they changed their administration, and they are making a little turn-over at the top. Mr. Molotov is going to do something else. And we don't know whether it is going to be for the best, the worst, or what it is, but it is a change. And it has got to be mentioned as turn-over, no matter how you look at it, and we hope that turnover is going to be for the best as far as we are concerned.

Now, what are the fundamentals of salesmanship? Well, you know what they are. I will put it this way:

Know your goods. Know yourself. Know your customer. And the close of the sale takes care of itself. Now, all those things are founded on the principle of service, as I have already mentioned. You are selling comforts, needs, benefits. Those are the things you are selling, not just going out to sell a bond or stock or investment. You are going to sell what that thing is going to do. You are going to show that man it is going to bring him a profit, it is going to bring him a comfort. You are selling needs, wants, comforts, benefits, all those things. You could name 50 of them.

Know Your Goods

Know your goods. Now, without trying to make a speech, or anything like that, how in the world is a man going to be a success if he doesn't know his product and doesn't know what he is talking about? It seems to me when a man is selling investments especially, he would have to know what he is talking about, because he is selling an intangible proposition. Now, my brush, for instance, when you put it before the customer's eye, she sees it and she believes, and the same way with a vacuum cleaner or an automobile. A man who sells a car, he just opens up the hood. Well, I don't know the inside of of my car, I wouldn't know how to change a tire, as far as that is concerned. All that guy sold me was a beautiful hunk of scenery and fresh air. "You are going to love this, you are going to drive through the country and get the fresh air, it is going to be wonderful." He told me very little about the car, but he told me what the car was going to do for me and my family. "You are going to be able to take the family out and see the mountains and see the hills," and all that stuff. He is telling me what the car is going to do, rather than telling me about the automobile itself.

Now, a good salesman never sells a car until he says, "Get in there behind the wheel and feel it," and you sit in there and you just visualize yourself going hell bent 75 miles an hour down the turnpike as soon as you grab that wheel. And that is where the five senses come in, the sense of feeling, the feeling of ownership. The minute you get hold of that wheel, you say, "Boy, I guess I am going to buy this thing; this feels wonderful." There is where the sale is made, the minute you feel that car. And you don't feel with your fingers; you feel with your mind. I know that for a fact, because my dad had one of his legs off and every once in a while he would hit his old stump with his stick and say, "Gee, that old toe is hurting to beat the band." And I would say, "Your toes aren't hurting." And he would say, "Oh, yes, they are," and he didn't have any toes at all. He felt them up here (indicating). There is where you feel; it is in the mind. And that is where all this happens, in the mind.

Now, getting down to customers. By the way, let me stop here for a minute. I can't sell what I don't know. Why do you suppose the Fuller Brush Co. spends the amount of time it does on a new man, steering him and teaching him as to the commodity? Never mind the price of it. It is what the thing will do, how it is made, how it is trademarked, and all those things. Because that has to come out in the sale. Now, Mr. McCrossin is here. I don't suppose he has 25 men who know anything about the motor in the machine. Maybe they do, but I don't. But they do know what that thing will do, they do know what comfort that woman is going to get out of it, they do know that she is going to get service out of it. That is the thing they are selling, the service, and so are you.

Three Kinds of Customers

Well, in my estimation, I can break these customers down for you. There are three kinds of customers. One is the kind that has lots of money, and then those that have some money, and those that don't have any money. That is common sense. How are you going to spend your time? You don't want to fool around with a customer who hasn't any money, although today you could be fooled; I understand a man gave a talk here about these carpenters now getting $22 a day, and electricians $2.40 an hour, and painters getting $22 a day. I wonder where the man is that didn't have any money. So it looks like everybody has money. And we know there is more money in circulation than ever in the history of the country. We know the banks are loaded with it. Down here in Boston and New England is where we have to take it out of the old sauerkraut barrel; we have got to get it out of there.

But they have got it. I will never forget when I came to Boston. I came from New York originally, and they said, "Oh, you're going to Boston. That is where the Fuller Brush Co. started. The people up there have more brushes than they will ever use up." Well, I said, "That will be all right. As long as there is dirt, they will need brushes. I am going to Boston, and something is going to happen." And when you say Boston, with Maine and New Hampshire and Vermont, and beating New York, Chicago and Philadelphia, and leading the world for two years, it proves to you that the money is right here.

One of the greatest books I ever read was by a minister, a Bostonian, and it would pay you fellows to get the book, and that book is "Acres of Diamonds"—I gave away a case of them—by Dr. Russell Conwell, a man that made $8 million with one talk just like I am giving you tonight, $8 million, and gave it away and died a poor man. He gave it all away, every bit of it, and established a school of education down in Philadelphia with all that money. Money was not what he wanted. He wanted only enough money to build these organizations that he left behind him as a monument for underprivileged people who couldn't pay their way to college. Eight million dollars out of one lecture, "Acres of Diamonds." Well, these different kinds of customers, you use your own imagination on that one.

But I can't get away from this too fast. You have got to know what you are doing, and you have got to pay attention to the customer. Study the customer. If I were selling investments, I would look him up ahead of time; I would find out just what he had, if possible.

Having Confidence in Yourself

But this fellow over here (indicating), I am going to spend a lot of time on him, "Yourself"; that means you and me. And a great big percentage of men are turned over right here, and of course, they lack confidence; confidence in themselves, confidence in the product. They lack confidence in the people they are doing business with. Many of them don't have the courage, they don't know how to ask for the business, or they are afraid to ask for the business; I have seen men that are actually afraid to ask the customer to buy. And still, they might have the best product that was ever made, and they are afraid to ask. They haven't got the moral courage to say, "Now, you like that, don't you? I will see that you get it."

Well, how is this sale made, anyway, whether it is investments, brushes, or whatever it is. Even when Professor Emery speaks of salesmanship he is nothing but a good salesman. He is up here making a sale. And if I go to church and listen to a priest, rabbi or minister, he is a salesman; his job is saving souls. Your job is selling investments. Mine is selling brushes. Now I am selling management; I have been selling it for a number of years.

I said sight is 85%, and I said you only remember 10% of the things you hear. Now we are going on the blackboard. Now, how is this sale made? I said the sale is made in the mind, so here it is (drawing circle on the blackboard). Now, there is the mind of the salesman and the mind of the customer. There has got to be a meeting of the minds, or the sale is not made. Now, what is the first thing, you have got to get? Well, I put it down like this, "F. A.". Well, "F. A." is nothing but favorable attention.

I could spend half an hour just on that one thing. What is favorable attention? Favorable attention is the very first step of the sale, and if you don't make it, you are through right there. And that is the approach, the most important part of the sale. Now, I didn't say "attention", gentlemen. There are several kinds of attention, you know. There is attention, just plain, ordinary attention, getting somebody's attention. But getting somebody's favorable attention is quite different. And there is unfavorable attention. But in order to consummate this sale, we have got to have favorable attention.

And I don't mind telling you, if I were selling insurance or stocks or bonds, and I went into a man's office and he was dictating a letter, I would say, "Good-bye, brother, I will see you when you are not doing anything." That is unfavorable to me. Why is it that these men don't come in our offices any more? Because they ran into too much unfavorable attention. The man was busy.

When do they come now? They come around in the evening now. I am not home in the house 10 minutes when the telephone rings, someone trying to settle my estate, or sell me some stocks and bonds, or something else. They want me in the comforts of my own living-room, where they have me at their mercy and can put anything over that they want. They don't have any interference. That is favorable attention, no interference. So when you go in

there, you have got to have favorable attention, or the sale isn't going to go over.

Appreciation of Value

Now, what is the next thing? Keep this step in your mind, "Appreciation of value." I go in and ask for a cigar, and I like this Blackstone cigar. They have quite a story on this Blackstone cigar; before you open the box, it says, "The cigar of successful men." Whether that is true, or not, I don't know, but it is a darn good cigar. It used to be XYZ, and they went down in quality, and so forth and so on, and the sales dropped, and that is what happens. I will show you where it happens right here. I can show you anything here before I get through. It also happens to people that get married, and I will show you where that breaks all up, too. I will show you why the divorce courts are loaded. You can't get away from it.

Here is appreciation of value. I go into this man. I don't know too much about selling investments, but I know there is money being made at it, because I know this boy that was spoken of has made barrels of money, and he is a Boston University boy. He graduated here and went to the Bentley School. He had been a manager under me, and everything else. And he got into this investment business, and I said, "Boy, if that is the thing you want to do, do it. But if you want to do it, go into it with a vengeance." And I told him the various things. and he understood these things, that he would have to know all about his stocks or bonds or investments. And he studied until he put it over. All right, appreciation of value, the thing you have to get; you have to bring that out. And that is where the benefits and comforts come in.

You have the customer here now face to face on that chair. And I am taking it right through between you and him, and while I take you through, this happens (drawing a circle and writing the word "Interest"). You have to get him interested in this thing you are trying to sell, this bond or stock. Now, sometimes this happens in a second, or half a second, or a minute. And other times, it takes hours. And sometimes, it never happens at all. All right, we come over here, and this is called "Conviction."

That is where the convincing, the persuading, comes in, persuading or convincing the people that they want to be the owner of this thing you are trying to sell, convincing a man that it is to his advantage to have it because he is going to get the benefits from it, the returns are going to be wonderful, and so on and so on. And now you are coming to tie these up together, and you get around here and commence to put the heat on. Now, here is where the salesman comes in, the real salesman. And the trouble with a lot of men is that they don't create this desire; a lot of fellows lack the enthusiasm and just don't create enough desire for the customer to want that stock or bond or brush or vacuum cleaner. And you have got to sell those benefits and comforts and needs. Well, as the fellow says, that is not so easy. Well, none of this is easy. Selling anything is not easy, it doesn't make any difference.

All right, a feeling of ownership. Finally, I say to this man: "Now, Mr. Jones, we have gone over this and the return on this thing is going to pay you 6%, and I think that this company that I am talking about is pretty well rated and their standing is good, and so forth, and it might be to your advantage to get it at this time. Now, I can arrange to get that for you, well, in a week or so. Would that be soon enough, or would you want it sooner?" And he might say, "Well, that's too soon." "Well, now, that is perfectly all right. I can bring it to you a week from Saturday, or I can bring it to you tomorrow morning. Which do you prefer?" "Anything," you say. All right, anything. Well, you see, I have already closed that sale.

I wonder if you men ever think of shaking your head up and down like this when you are talking to a customer. I look up and now I can see about 50 heads bobbing up and down like this. How could you do that (illustrating), when I am doing this? Mr. McCrossin can tell you this is a fact, because he has been at the business as many years as I have. "You like that, don't you?" (nodding), and Mr. McCrossin is nodding, too. The minute he nods that head. "That is perfectly all right; I will see that you get it." Now, remember, you can't do that when I am doing this (illustrating). Remember, that is a piece of psychology that I know works.

Getting a Satisfied Customer

Now, this gentleman said a week from Saturday will be all right, so there we are. Now, here is this customer we have sold this bond to, but there is still a step to be made, and it is a big one, and this is called "Satisfaction," a satisfied customer. That is why the divorce courts are loaded; somebody is not satisfied, either the man or the woman, and they got to court and settle it. The satisfaction isn't there. no sale, it's all over, a lost customer, a lost wife, whatever you call it. And that is what happens when a sale is not made.

Now, your companies, whoever they are, must have some way of showing the appreciation of value and getting the interest. I don't want to tell you how we get it with the brush, because you know, your wife knows. We call and give them the brush and show them the brush they are getting for nothing, and while we're there, we open up the book and show them this factory and the beautiful pictures. "But wait until you see the brushes themselves." Now, your real purpose, "I can bring it to you a week from Saturday." "Fine." All right, there you are.

Now, gentlemen, there is what the salesman can't do; there is where he is weak. He is afraid of his close; he hasn't studied his proposition well enough, and he fails to close. He knows his stocks, he knows himself pretty well—we will find out later whether he does or not—he has some idea of the customer, but I have them right in the brush business who are afraid to ask the customer to buy. Why, I don't know.

The ABC of Selling

Well, you notice what I have been doing here. I started closing this sale way around here (indicating). And so I call that the ABC's of selling. You know what the ABC's of selling are, "Always Be Closing." Right from the start, don't be afraid to start in early, always be closing through your mental steps here. "You are going to like that." You don't have to say, "Buy it right now." "Oh, you're going to like that, I think you are going to enjoy that, I think you are going to get lots of comfort from that, yes, I think you are." Well, always be closing, the ABC's of selling, close, close, close as you go along. Something for something. Now, get this, something for something. Not something and nothing.

That is a hard thing to explain, something for something, or something and nothing. That is why I say, "Which do you prefer?" We say, "I can bring it to you a week from Saturday, would that be soon enough," or "Would that be all right," or "Which do you prefer." That kind of reminds me of a story. I went up to see my daughter, and of course, she heard me talk a lot about this word which I say is one of the biggest words in salesmanship. So I am going up there for dinner, and there was quite a stack of dishes, and this daughter of mine, who was a Boston University graduate, Liberal Arts, she approached me and said, "Well, we have a lot of dishes to do. Which would you rather do? Would you rather wash the dishes, or would you rather put the kids to bed? Which do you prefer?" Well, I said, "I guess I'll wash the dishes."

"Which do you prefer." She had me stopped right there and then. I said, "I will wash the dishes."

Well, I heard this statement, and I don't know who said it, but it is pretty true, "I have six serving men and they taught me all I know, and they are the What, the When, the Where, and Why, and Who, and How." Six serving men, and you notice all these talks that you are getting, "When are you going to do it," and "Where are you going to do it," and "How are you going to do it," and "You're going to do it." Oh, yes, those six words, powerful instruments.

Ability, Reliability, Endurance And Action

I am going to talk about you for a change now. My hour is pretty near up and I will have to hurry up. This is supposed to be a square (illustrating on blackboard). Well, I am going to talk about you. I am going to call you the four-square man. And what is a four-square man. It is Ability, Reliability, Endurance—you're a salesman—Action. That is the area of a man, Ability, Reliability, Endurance, Action. Follow those over there (indicating) and see what it says. Ability goes right up here. What does he know? All these things are founded on service that you have given your customers Oh, yes.

Reliability—Has he got the confidence? When you say to a customer, "I will be in your office at 9:30," and you walk in at quarter of ten. Do you call that reliability? Oh, no. Your company says you've got to make so many calls a day, 18, 20, 25 calls a day, and you try to get by with six or seven. You can't call that reliability, gentlemen.

Endurance—A salesman has got to have more endurance, he's got to be able to take the rap. He's got to watch his health, he's got to be right from a health standpoint. He's got to eat right, he's got to sleep right, he's got to be full of fire, full of enthusiasm. What do you think he has me up here for, a man 68 years of age, full of fire and enthusiasm, talking to you? Why? Because I love it, and I could talk for three hours on it and never get tired. Why? Because I love it. When a man likes to do the things he likes to do, you can't stop him.

Action—The weakness is right there, one of the weaknesses. Action means Close. Ask for the business, and don't be afraid to ask for the business. You have something to sell. Don't hold on to it; get it over to the customer. That is what it means. Oh, yes. Remember, gentlemen, the door to selling is wide open; it is wide open, wide open. So get your approach, the very first step of the sale, and then use your personality. Everybody has a God-given personality. Why not cash in on it?

Everybody has initiative. There is no law against a man using his initiative. And again I say, be enthusiastic, have enthusiasm. Where do you get the enthusiasm? You find it right here (indicating). It is ability: that is what it is, ability. That is enthusiasm. It is what you know. Right here in this very building, in this school, the first lesson they teach in this building, what is it? They taught it to my daughter, and she never forgot it. They teach you to think, and think straight. That is the first lesson you get when you go to college. And I am not a man that ever put a foot inside a college, but I had Mr. Fuller in the Exeter Theatre with about 3,000 men from Boston University, the ROTC or whatever you call it, 20 years ago, talking to them about the same things I am talking to you about.

So in college they say the first lesson is thinking. Why? Because everything happens up here (indicating). And think straight. Now, don't take my word for that. All you have to do is open your Bible, and the Bible says, "As a man thinketh, so is he."

You get the greatest demonstration you will ever get in your lives from this man Odom when he flew from Honolulu to Teterboro, N. J. Think straight, and say, "I am going to make it." He tried it once before and it wrecked him, and he said, "I am going over," and he went over. That is thinking straight; it is thinking positive.

So, gentlemen, the right mental attitude is just as important as what you know. And what you radiate is just as important as what you say. I could get up here and talk to you, and they would say, "That guy is dead on his feet, he doesn't know what he is talking about." You have to radiate enthusiasm; you have to radiate success.

Beware of a Mental Slump!

Another word I want to leave with you. It happens quite often, because I have handled thousands of men over half the United States in my time. One thing you want to beware of, and that is to beware of a mental slump. The fellow that ever gets to the place where he feels he knows it all, that fellow is slipping. He is slipping. Even at my age, and I don't have to do it, but I still read everything I can lay my hands on in the way of selling or salesmanship. Of course, nobody will ever know it all. *Any time anything seems difficult, it proves you are going at it in the wrong way.*

Now, that is a broad statement; any time anything seems difficult, it proves you are going at it the wrong way. You can't get away from it.

Gentlemen, success has got to be paid for. As I said, sight is 85%, hearing is 10%. Jot it down, write it down, take it home. Look over your notes.

Quality, Quantity and Mode of Conduct

All right, I am going to make another picture for you (writing on the blackboard). You men know what that picture is; that is an equilateral triangle, three sides equal. One of the strongest things you could ever build is right there. And what does it mean?

Now, some men in this room are doing a wonderful business; some are not doing so well. You will find it somewhere here on this blackboard. This is Quality. This is Quantity. And this is Mode of Conduct. All these are based on the principle of service.

All right, a fellow says, "What the deuce is Mode of Conduct. anyway? What does that mean? Well, we have a lot of it in selling. A fellow knows his goods, he likes the company, and the company says, "Well, look, brother, if you make 20 calls or 25 calls with these City of Hartford bonds that are paying 4½%, or 4%," and here is Springfield paying 3½%, there you have something for something. And you say, "Which do you prefer, the City of Hartford bonds or the Springfield bonds? Which do you prefer? I will see that you get it." Something for something, not something and nothing. You can't just go in to a man and say, "Well, now, I think that is going to be a wonderful thing for you." You have got to give something for something, something and something, not something and nothing. Just as my daughter said, "Which would you rather do, wash the dishes, or put the kids to bed?"; that is something for something, and I wound up washing the dishes. I couldn't say No on either one of them. Mode of conduct.

We say to a man, "You give us so many calls a day and you will do so much business, you will do $25, $30, $40, $50 worth of business." Well, that means, say, 20 calls, we will get $25, $30, $35. But he can't do that if he only puts in four hours a day. So to equal this triangle, all sides being equal, it calls for a full day. The mode of conduct has got to be right, or you don't get the quality and you don't get the quantity.

If the mode of conduct is right and he has put in the time, now the responsibility falls on me or my managers. If he has put in the time seeing the people and he is not getting the business, then he doesn't know what he is doing, and it is up to us to find out where the hole is.

Well, I advise you men in your line of business, and I advise them in my line of business, Plan your work in advance, and then let that plan drive you harder than you would ever let any man drive you. And just like Mr. Odom coming on from Honolulu to Teterboro, I just want to say here, *know where you are going, how to get there*, and *be willing to pay the price.*

Now, gentlemen, I said that success has got to be paid for, and if you don't pay the price, it is never going to go over, I just want you to look at that for a minute, for your own benefit.

This is many years old (hanging up a drawing). I wouldn't sell this for an awful lot of money. The very thing I have been talking about tonight is right there. I say, plan your work in advance, have some kind of a plan, let that plan drive you. Now, this water coming over this wheel is the enthusiasm and enthusiasm is power, and every talk about salesmanship is the power and ability.

And over here (indicating), I say you have got to apply yourself, according to this, to equal that triangle, face to face with the customer. You have got to have the right amount of sleep and endurance, and you have got to pay the price for success. You have got to put in the effort and energy. You have got to have the courage to ask for the business or you don't get the business. I guess you will find that in the Bible, "Ask and you shall receive." You know, the Bible is one of the greatest books on salesmanship you could ever read.

Cooperation. Ninety per cent of the men don't even cooperate with themselves; they don't give themselves a square deal, or they don't give their companies a square deal.

Now, I have down here, Loyalty. Well, gentlemen, I learned years and years ago, where there are no standards there can be no supervision, and where there is no supervision there can be no respect, and where there is no respect there can be no loyalty. Now, I don't mean loyalty to your company; I mean loyalty to yourselves, and that is what I am talking about. If you are loyal to yourselves, if you are willing to pay the price, if you know where you are going and how to get there and you are absolutely loyal to yourselves, you are going to make a success.

Now, I am not preaching a sermon, gentleman; I am just telling you in my own way, and I will just stop right now by saying that

Life is a mirror, for King
and slave;
'Tis just what you are
and do;
Then give to the world
the best you have,
And the best comes back
to you.

The Gentle Art of "Disinflation"

(Continued from first page)

mere public official and writer of government reports. The first instruction, and one of the few the President has given the Council of Economic Advisers, was: "Don't bring me any four-dollar words." And I have gladly lived up to that instruction.

With the aid of the dictionary, I discovered that what Mr. Collins is saying is that he feared that, instead of making a useful distinction, I was employing the word "disinflation" to mislead the public or to disguise the true character of government policy. Hence, I want to begin by saying I had no intention of fooling the public with any assertion that there were no perils lurking in the economic situation by which we are confronted today. Nor was I trying to hold out a hope that these perils were going to be overcome by pleasant or harmless means, whereas in the end we would discover that the remedy was worse than the disease. As a matter of fact, I think the year 1949 will present very sober and serious responsibilities to the American people, both in its private business agencies and in its public policies and actions. I think you will agree with me that getting over the fever of inflation is a healthy process and that I am right in counseling my fellow citizens not to get jittery about some of the inevitable phenomena of convalescence. Undue alarm over normal symptoms will impede the process of recovery, while calmness and courage will promote it. But the phrase "nothing for the public to get jittery about" needs some qualification, which I shall give as we proceed.

Definition of "Disinflation"

Having thus publicly purged my soul of any charge that I was following " a technique of calculated dissimulation," I shall now proceed to explain the dissimilation or contrast that I was trying to draw between corrective and orderly disinflation and a deflationary "bust." The definition of the term which was ascribed to me is essentially correct, namely a situation in which the inflationary upward pressure on prices has been removed. But I think this definition calls for some elaboration, and this I shall attempt to give in the next few minutes.

Let me begin with an analogy. Suppose that 32 pounds is standard recommended pressure for the tires on your car. You have been driving at high speed across the hot stretches of a summertime road. It occurs to you that you may have built up a pressure that carries danger of a blowout. But you don't want to bother to do anything about it. Then, bang! The tire rips open. You get a quick deflation and go into the ditch. But now let us suppose you are a better qualified or more careful driver. When there are conditions that make for mounting pressure, you slow down, stop at the next service station, apply the pressure gauge, and carefully disinflate each tire to the correct pressure and proceed without delay, danger or damage.

Of course no analogy ever jumps on all fours, but I think this gives you a correct general notion of what is meant by disinflation in contrast to deflation by the depression route. I have not at any time said we are surely going to go through 1949 with beneficent or corrective disinflation. That's up to us, the policy line of a few bellwethers, and the mere behaviorism of the common herd. That was the process—leaders' policies and followers' behavior—by which we got to the inflationary point of late 1948, and I believe we should review the major steps in that process to get a perspective on 1949 and its question of orderly disinflation or recessionary deflation.

There have been brisk verbal battles over the use of the word inflation. On one side are those who say inflation occurred during the war, i.e., blowing up of the money supply, and that since then we have had the results of inflation, that is, marked advances in prices. On the other side are those who say we built up an inflationary potential during the war which has expressed itself in actual inflation since, manifest both in a still larger money supply and in progressively higher prices.

What Inflation Means

For myself I take the latter view. Inflation means the actual result—a marked rise in prices, wages, and profits—the big balloon itself—not merely the issue of so-called bonds and "monetization of the debt" which occurred during the war period.

It must be obvious to anyone today that it was not possible to finance so great an undertaking as World War II out of current taxation or on a "pay-as-you-go" basis. So long as we continued to rely on the methods of free government rather than authoritarianism, the government had to pay what it took to induce businessmen to convert to war production, and business had to pay what it took to induce workers to move from one industry to another more needed for war production or to call women out of the home to the riveter's post or older people back from retirement. We had to do deficit financing on a stupendous scale, had to build up a great pressure of monetary purchasing power, and then sit on the safety valve through price and wage controls, meanwhile drawing off all we could into a storage tank of savings, chiefly through bond sales.

After the war, the process of inflation in both the monetary and the price sense continued to gain momentum, especially after we released the safety valve through abandonment of price and wage controls, abatement of the patriotism urge in bond sales, and repeal of excess profits taxes. The devastation of Europe boosted farm and other prices here, and the attempt of hot dollars to catch scarce goods caused wages and prices to spiral throughout 1946 and 1947. This trend was exaggerated by the poor corn crop of 1947, but by the end of that year the movement had overreached itself and farm prices broke sharply from mid-January to mid-February, 1948. This was accompanied or shortly followed by publicly declared efforts of several prominent industrial concerns to halt the spiral by resisting wage advances and cutting prices or at least holding the price line. The United States Steel Corp., which had raised prices in February, made reductions of a somewhat lesser amount in March in conjunction with its denial of wage increases.

Getting Inflation Pressures Under Control

This was a conscious policy of disinflation or trying to get inflationary pressures under control. But it was quickly upset by the announcement of a new preparedness program, reduction of income taxes, and the granting of substantial wage advances to coal miners and electrical workers, followed by price raises in coal, steel, electrical equipment, freight rates, and other utility charges.

I shall not go back to analyze why these and earlier attempts to check the inflationary spiral failed or whether they were badly timed or unskillfully executed. The point of interest to us now is that by the last quarter of 1948 signs were multiplying that supplies were beginning to catch up with demand not merely in minor and luxury lines but in heavy consumer goods and in basic industries such as coal and steel, petroleum, and some lines of iron and steel. The phenomenal cereal crops and large crops of cotton and oilseeds turned these farm prices down from June forward, after a rebound from their February lows. Prices of other than farm and food products levelled off in the last five months of the year. Since January 1, they have gone a trifle lower, while farm prices broke sharply till the second week of February—even below government support levels—and have now recovered to about the mid-January level.

This is not, to my mind, a picture of unforeseen or uncontrollable disaster. It marks the abatement of pressure of monetary purchasing power on scarce goods, and the transition from sellers' markets to buyers' markets—which are the normal estate of a productive and competitive economy. Now the fundamental question is: Are we gong to show the ability of free business enterprise to meet the challenge of real competition, or can American businessmen make the grade only when we have the external stimulus of government orders and a deficit economy and its brief aftermath?

I suggest that disinflation is a rational and guided action by responsible and economically sophisticated persons. It is capable of warding off the unforeseen and catastrophic deflation and depression that would result from blind and impersonal forces. I have called this speech "The Gentle Art of Disinflation," to express my belief that we may, through the process of intelligent diagnosis of business conditions and economic needs, formulate and execute policies and programs to prolong our period of economic health. We may take off some fat, but we shall not die and need not really suffer.

Making Needed Adjustments

I believe the several phases of how this process works are fairly well known to such a business audience as this. For many of those steps have already been taken by business executives, by bankers, or by labor union officials here and there, earlier or later, more or less adequately as partial adjustments have already been made in parts of the economy.

Executives and organizations have been concerned to see that plant capacities were not overexpanded, that inventories were kept down to safe limits and in good balance, that credit lines were not unduly extended. The cautionary program begun by the American Bankers' Association more than a year ago is a good case in point. Similar preventive steps were taken by certain labor unions or by their executives who dragged on the rope while their members were quite understandably pressing for wage increases as living costs rose. Organized agriculture in general accepted changes in price-support legislation that would involve lower levels of government guarantees, and that provide adjustments in prices of individual products in line with current and prospective conditions of demand and supply. But these improvements in farm support devices have not yet been made effective, and some volunteer "friends of the farmer" are proposing a reconsideration of the disinflationary policy adopted in 1948, and urging high and rigid supports as a permanent policy. The real testing time for agricultural policy is coming this year.

The broad objective of disinflation through true economic adjustment has been stated several times in Economic Reports of the President as seeking to find—to work out among ourselves—after the sharp disturbances of depression, war, and reconversion, a "new set of workable price and income relations" on which American business can go forward at sustained high levels of production. How this is to be accomplished is to be discovered by the managerial skill and ingenuity, by the courage and the moderaton, of many men in the myriad operational posts of America's gigantic business system. There has been an easy and I think naive assumption in many quarters that the prolongation of prosperity was to be accomplished by some force of monetary or fiscal magic engineered from Washington and indeed inspired by the Council of Economic Advisers. I for one do not believe in fairies or conceive myself as an economic magician. I firmly believe that governmental policy is one important constituent of any dependable condition of national prosperity. But correct private policy and individual action are also indispensable and are needed to tailor action down to varied and fast-changing local situations.

Contradictoriness of Business Spokesmen

I am somewhat puzzled by the contradictoriness of business spokesmen who insist that "Papa doesn't know best and he should keep his long nose out of private business" and then, when an Economic Report of the President comments on the limitations of government action and stresses the responsibilities of business and labor and farmers, they complain of or deride the "jawbone attack." I for one believe that that is the essence of free enterprise as well as free government in America. It is the tirelessly wagging jawbone of publicly debated legislation and privately but collectively negotiated wage bargains, of radio commercials and voluble salesmen that we find out how to fit production and supply to demand and consumption, that we raise standards of living and believe that we can maintain maximum employment, production, and purchasing power on the basis of "free competitive enterprise" enjoined in the Employment Act of 1946.

1949—A Testing Year

Nor am I one to think this is too difficult an assignment for a people as smart as we admit we are. Not too difficult in our first real postwar testing year—1949, the Year of Disinflation. It is not the voice of Pollyanna but of business statistics that says that underlying conditions are sound and basically favorable. We are not lacking in liquid funds or credit reserves. We are not overbuilt or topheavy with inventory. Our population is in a new phase of growth in numbers and wants. Expanding families are clamoring for more and better homes. Expanding communities are demanding more public service facilities. Automobiles, rolling stock and power, and much plant equipment are over age. I see nothing in the past history of American business to justify the thought that business genius will fail to exploit these markets.

But, oh, that bugaboo of a "high break-even point"! If volume drops 10% our profits will shrink, 20% and we'll be on our uppers. 30% and we'll be in the red. And so says the motor cycle rider on the race track: "If I weren't going this fast, I'd take a spill." And so he keeps the speed up.

Disinflation Means Deceleration

I do not wish to seem flippant or to breathe a too easy optimism. Nor do I wish to suggest that we must keep the inflationary speed of last year. Disinflation means deceleration, but not the kind of uncontrolled or clumsy deceleration that makes the plane nose over or go into a ground loop. Last year was not an illustration of reasonably full employment in the contemplation of the Employment Act but a year of slight overemployment in part cause and in part result of the inflation. It drew housewives from their homes and old people out of retirement because at high prices another pay envelope was needed. It led to rapid labor turnover, low productivity, and high training cost. As we ease down from the position where industries are straining to catch up with their backlog of orders, a small reduction in marginal employees means lower unit cost of labor. Similarly, it means lower machine cost by the retirement of obsolete, obsolescent, or badly maintained machines. More adequate repairs and renewals are made within the five-day week without time and a half or double time. As suppliers reduce prices to a competitive level, it means lower materials costs. And, finally, most managements with which I talk admit that there are marginal costs on overhead that grew up in the easy days when costs could be passed on in a sellers' market. With the four thin lines of cost reductions which accrue under the process of disinflation, that high break-even point is not so terrifying. Profits should be as well or better maintained over the long pull at 90 or 95% of theoretical capacity as under the strained recent conditions of 100% utilization.

This leads to the final point—timing. If one concern or industry in the series tried to make adjustments while the others held back, we are all in for trouble. I am reminded of the old chanty, "A long heave, a strong heave, a heave all together." We must accept the proposition that 1949 is the year in which we complete the catching-up process and that each must show fast foot-work to make prompt adjustment to his supplier's or to his user's or distributor's move. Rear guard actions against price adjustment while positions grow stale and volume is sacrificed to margin will be fatal. I was immensely reassured in a recent off-the-record gathering of executives when the sense of the meeting was summed up at the end thus: We must lead the process of downward price adjustment, not fight it.

Danger of Panicky Feeling

The real danger in the present situation is that the current sense of uncertainty might be converted into a feeling of panic that would result in progressive reductions of business spending and consumer spending. If industrial and commercial concerns abandon, defer, or seriously curtail their 1949 plans of modernization and expansion, this would cause disemployment by construction companies, materials producers, and related services. That would add to the uncertainty of the remaining workers as to their jobs. Both they and the actually unemployed would curtail their buying of durables or even retrench on current consumption. That would force employers to reduce operations, pinch inventories, discharge more workers, and in general give a further push to the downward spiral.

But why should presently discernible factors be manipulated into such an untoward development? We know that the economic activity of 1949 will reflect the results of total spending in three major categories — government, business, and consumers. We have practical assurance that cash disbursements by Federal, State, and local governments will be a little larger than those of 1948. The reported plans by business for spending in 1949 for modernization, for expansion in some areas, and for cost reduction can only a little below the 1948 level and should not be curtailed if they are to keep operating costs

down in the competitive days of disinflation through cost-reducing improvements. With the volume of unsatisfied wants among consumers and the propensity to spend shown by steadily employed Americans, 1949 should show a sustained volume of consumer spending and hence employment only very moderately below last year, production even higher, and prices adjusted to a better structure and a level somewhat but not seriously below the peaks of 1948.

Franklin D. Roosevelt's phrase, "We have nothing to fear but fear itself" was not coined to apply to business affairs, and it was perhaps a bit overstated for any literal application. But it might not be too much to say of the month of April, 1949, so critical to us in the demonstration to the world that we know how to make free enterprise and free government work, "The great thing we have to fear is a possible contagion of unwarranted fear."

Export-Import Bank OKs Credit to Mexico

Grants $1,518,875 to finance purchase of water supply equipment.

The Export-Import Bank of Washington announced on March 21 approval of a credit of $1,518,875 to Nacional Financiera, S. A., a financial agency of the Mexican Government, to assist in financing the purchase and exportation to Mexico of United States equipment, materials, and services required for a treatment plant to be installed in connection with a project for the expansion and improvement of the water supply and distribution systems for the adjoining cities of Tampico and Ciudad Madero in the State of Tamaulipas, Mexico. This credit is an allocation under the $50 million commitment to Mexico made on April 30, 1947.

Management of the system is under a Water Board comprised of representatives of both municipalities, the State, Federal Government and civic organizations. The contract for the delivery and installation of the equipment for the water treatment plant has been awarded to The Permutit Company of New York City. The remainder of the project will be undertaken by the Ministry of Hydraulic Resources of the Mexican Government.

Obligations of Nacional Financiera guaranteed by the Mexican Government will be issued to Export-Import Bank. These will bear interest at the rate of 3½% per annum on outstanding amounts and principal will be repayable in 20 approximately equal semi-annual installments beginning Dec. 31, 1951. The credit will be available until Dec. 31, 1950.

Eisele & King Admit

Eisele & King, Libaire, Stout & Co., 50 Broadway, New York City, members of the New York Stock Exchange, will admit Maurice S. Bruck to limited partnership April 1.

L. Turnure Admitting

Lawrence Turnure & Co.-Blyth & Bonner, 50 Broadway, New York City, members of the New York Stock Exchange, will admit William Post Haring to limited partnership on April 15.

Jacobs & Low to Admit

Jacobs & Low, 29 Broadway, New York City, members of the New York Stock Exchange, will admit Robert W. Bull, Jr., to partnership on April 1. Roland S. Feigus will retire from the firm on March 31.

The State of Trade and Industry

(Continued from page 5)

STEEL OUTPUT SCHEDULED AT MODERATELY LOWER RATE FOR CURRENT WEEK

It was clear this week that for the first time since the war the "extreme" shortage which every one has been disturbed about is over, states "The Iron Age," national metal working weekly, in its current summary of the steel trade. The steel market is now acting like a normal market for the first time since the late '30s. Not only that, it is competitive in price as well as in customer relationships.

It is true, the magazine declares, that if the coal strike lasts for more than two weeks it will affect the steel rate. If not in the near future then at midyear when negotiations for a new United Steel Workers contract are in progress. But even allowing for such an impasse it is still clear that the old "wartime-leftovers" in the steel market have gone by the board. This week the ingot rate is scheduled at 101.1%.

There are several good reasons why the present steel pattern holds little comfort for those who climbed on the Truman bandwagon for government-owned steel plants, this trade authority observes. The steel market this week is normal because the gray market is dead and that by the third quarter of this year most conversion deals will be a thing of the past. Steel firms that have been charging more than the regular mill prices for items are dropping their quotations to that level, while other firms are casting their eyes at new customers whom they haven't seen for some time. Cancellations are increasing, scrap prices have slipped hard and some steel companies are thinking seriously of opening books for all the tonnage they can take as a precaution.

There were still conversion deals being made this week for the second quarter but hardly any large company wants them for the third quarter. Even the present setups for second quarter delivery may be canceled if they are not needed.

More and more of the uncancelable conversion deals are becoming a burden to some steel users—except in the case of large gas pipe line commitments. But the trend, says this trade paper, is seen in the sale of ingots for $75 to $80 a ton when they brought more than $100 just a few months ago. Selling them at all today is becoming a problem.

Other signs indicate that pig iron is easier to get and that it is actually being sold. Some railroads have canceled a small amount of rail tonnages, wire and wire products are almost in balance with demand and alloy steel is just as good as off quota with no trouble at all to obtain. Some car builders, this trade authority adds, have canceled plates, structural shapes, sheets and bars, and the word "reciprocity" is being whispered for the first time in years.

The steel scrap market, concludes "The Iron Age," assumes that a normal steel market is here and that it may be less than normal before the year is out. The heavy amount of scrap available for steelmakers even at the high ingot rate has again depressed prices, and prices may be forced down too far and later rebound, but there is no evidence of that this week.

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 101.1% of capacity for the week beginning March 21, 1949, as against 102% in the preceding week. The Institute reports the schedule of operations down 0.9 point or 1% from the previous week.

This week's operating rate is equivalent to 1,863,800 tons of steel ingots and castings compared with 1,880,400 tons a week ago, 1,849,000 tons or 100.3% a month ago, and 1,725,000 tons, or 95.7% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, highest prewar year.

CARLOADINGS RISE MODESTLY IN LATEST WEEK BUT CONTINUE BELOW LEVEL OF LIKE PERIODS IN 1948 AND 1947

Loadings of revenue freight for the week ended March 12, 1949, totaled 709,326 cars, according to the Association of American Railroads. This was an increase of 3,774 cars, or 0.5% above the preceding week but a decrease of 87,160 cars, or 10.9% under the corresponding week in 1948. It also represented a decrease of 131,821 cars, or 15.7% below the similar period in 1947.

ELECTRIC OUTPUT OFF FOR SEVENTH STRAIGHT WEEK

The amount of electrical energy distributed by the electric light and power industry for the week ended March 19, was estimated at 5,495,769,000 kwh., according to the Edison Electric Institute. This represented a decrease of 34,860,000 kwh. below output in the preceding week; 350,339,000 kwh. or 6.8% higher than the figure reported for the week ended March 20, 1948 and 736,703,000 kwh. in excess of the output reported for the corresponding period two years ago.

AUTO OUTPUT IN LATEST WEEK AT HIGHEST POINT OF YEAR

Production of cars and trucks in the United States and Canada for the past week rose to an estimated 119,674 units, the highest mark of the year, compared to 114,223 (revised) units in the week preceding, according to "Ward's Automotive Reports."

Bright spots in last week's output were the resumption of operations by Kaiser-Frazer and Willys-Overland and gains by Chrysler divisions following low volume the previous week, the agency said. These factors more than offset a decline in production by Hudson resulting from labor difficulties.

Output in the similar period a year ago was 115,556 units and in the like week of 1941, 123,805 units.

Last week's output consisted of 89,110 cars and 25,454 trucks built in the United States and 3,048 cars and 2,062 trucks in Canada.

BUSINESS FAILURES AT POSTWAR PEAK

Commercial and industrial failures increased in the week ended March 17 to 210, the highest total in any week since 1942, Dun & Bradstreet, Inc., reports. Failures rose from 179 in the preceding week, were almost double the 106 of a year ago and were four times as heavy as the 51 in 1947. They continued below the prewar level, however; in the same week of 1939, 298 failures were reported.

Casualties involving liabilities of $5,000 or more rose to 173 from 154, reaching the highest peak in over seven years; 90 concerns of this size succumbed in the corresponding week last year. Small failures with liabilities under $5,000 increased to 37 from 25 and compared with 16 a year ago.

FOOD PRICE INDEX CONTINUES DOWNWARD TREND

Although changes in individual items were small, the general trend in food prices during the past week continued downward. The Wholesale Food Price Index, compiled by Dun & Bradstreet, Inc., showed a further drop of 2 cents to stand at $5.79 on March 15. This represents a decline of 13.6% from the $6.70 recorded on the like date a year ago. The current index figure is 2.3% above the Feb. 8 low of $5.66, but it is down 5.4% as compared with the year's high of $6.12 on Jan. 4.

COMMODITY PRICE INDEX SHOWS FURTHER SLIGHT RECESSION IN LATEST WEEK

Continuing its mildly downward trend, the Dun & Bradstreet daily wholesale commodity price index dropped to 256.34 on March 15, from 258.81 a week earlier. The current figure represents a decline of 8.8% from the 281.22 recorded on the corresponding date a year ago.

Price fluctuation in leading grains during the past week continued to be irregular with a generally easier trend visible in most grains.

There was considerable liquidation in wheat futures on the Chicago Board of Trade due in large part to the failure of the market to respond to recent heavy purchases by the government.

Other bearish factors included liberal marketings of wheat in the Southwest, some let-down in CCC buying, and continued excellent prospects for the new Winter wheat crop. Trading in corn was less active. Prices touched the lowest level in about a month, reflecting slow demand for the cash article, fairly liberal receipts, relatively small government buying and talk of a lower export goal for the yellow cereal. Sales of all grain futures on the Chicago Board of Trade last week totaled 158,854,000 bushels, or a daily average of 26,500,000 bushels, as against 33,000,000 bushels the previous week. Flour prices showed further easiness.

The domestic market was featured by a wave of price cutting which resulted in the heaviest bookings in recent months.

Cocoa was under pressure and prices moved slightly downward, reflecting a continued absence of demand for actuals. Meager supplies sent lamb prices in the Chicago market to a new all-time high March price of $28.75 per hundredweight. Hog and cattle prices were steady to slightly lower.

Trading in spot cotton markets was somewhat more active during the past week although prices continued to fluctuate within a narrow range, with final quotations slightly below those of a week ago. There was a slight increase in inquiries but domestic mill demand was mostly for nearby requirements.

Some of the depressing influences in the current situation included the continued weakness in textile mill prices, particularly industrial cloth prices, the continued lag in export sales, and uncertainties over farm price legislation and domestic mill consumption.

Reported sales of cotton in the ten spot markets totaled 126,800 bales in the latest week, as against 114,100 bales in the previous week, and 110,800 in the corresponding week a year ago.

RETAIL AND WHOLESALE TRADE SHOW SLIGHT VARIATIONS FROM PREVIOUS WEEK AND YEAR AGO

Stimulated by the approach of Easter and encouraged by many promotional sales, shoppers bought slightly more than in the previous week. Retail dollar volume in the week was slightly below that of the comparable week last year, states Dun & Bradstreet, Inc., in its current review of trade. Most shoppers sought good quality merchandise at moderate prices. Seasonal merchandise, it was noted, sold in an increased volume.

Many shoppers slightly increased their apparel purchases last week.

Reduced price sales of women's short-length coats in pastel shades evoked noticeable response in many areas. Cotton dresses continued to be very popular and the demand for skirts, blouses, millinery and hosiery grew larger during the week. The retail volume of men's suits remained moderate, but a slight rise in the sales volume of marked-down hats was noted.

Housewives bought more food than in the previous week, though the total retail food volume did not vary considerably from that of the comparable week a year ago.

Shoppers continued to purchase a moderate quantity of furniture and housewares. Floor coverings and lamps at reduced prices were sold in a substantial volume.

As Spring approached, the demand for garden supplies, plant and hardware rose slightly. The consumer interest in electrical appliances continued to lag behind that of a year ago. The sales volume of used cars continued to be limited in most parts of the nation.

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.

The dollar volume of wholesale orders in the week did not vary appreciably from that of the previous period, holding moderately below the level of the corresponding week in 1948. Most orders continued to be for stock replacement. The number of buyers attending many wholesale centers rose moderately during the week and substantially surpassed that of 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 12, 1949, decreased by 8% from the like period of last year. This compared with a decrease of 8% (revised) in the preceding week. For the four weeks ended March 12, 1949, sales decreased by 8% and for the year to date by 3%.

Retail trade here in New York the past week suffered from the whims of unseasonable spring weather and resulted in a decreased volume of sales.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to March 12, 1949, declined by 11% from the same period last year. In the preceding week a decrease of 10% (revised) was registered under the similar week of 1948. For the four weeks ended March 12, 1949, a decrease of 8% was recorded below that of last year and for the year to date volume decreased by 5%.

As We See It

(Continued from first page)

effective leadership was forthcoming somewhere in Congress! It is in a measure heartening in any event, of course. The doctrine preached by Wilson and practiced ardently by Franklin Roosevelt to the effect that the President, although by the Constitution given a place coordinate with (but not superior to) the legislative and judicial branches of the Federal Government, must be the real leader of the nation is having to take some real body blows now. And experience has shown that it deserves them. The notion is, of course, wholly alien to American traditions and to the ideas of the founding fathers. Once it is fully established and generally accepted and applied within the framework of our governmental system, the result, in the hands of a vigorous and grasping leader in the White House, would be suggestive of any of the familiar dictatorships in many particulars.

Not Like the British System

It is nonsense, of course, to say, as some observers are fond of saying, that this Wilson-Roosevelt idea is similar to the British conception of representative government. It is nothing of the kind. The British Prime Minister is responsible first of all to Parliament, not Parliament to the Minister. Moreover, the whole government is directly and together responsible to the people, and may be voted out of office at any moment by Parliament and sustained by popular vote. The "Government" across the Atlantic is part and parcel of Parliament. The thought that some official, elected independently of Parliament and apart from that legislative body, should be the real ruler is as alien to Britain as it is to the United States.

It is time that Congress again assumed its normal role in shaping national policy and did so as contemplated in the Constitution of the United States. Any development which appears to be heading in that direction is of itself encouraging and heartening. But all this has to do with forms and practices of government in the United States. It may or may not have anything at all to do with the nature of the policies which are adopted in Washington. In the present juncture it appears to have something to do with them—in a negative sort of way—and is encouraging in a negative sort of way. That is to say, what is taking place appears to be giving some assurances, at least for the time being, that some important and dangerous parts of the so-called "Fair Deal" will not find their way to the statute books of the nation. It would hardly be safe at this time to predict precisely the degree to which such an effect will be realized, or for how long, but, despite what are now described as special efforts by the President to retrieve ground lost on Capitol Hill, it is evident that an important blockage has developed there which is not wholly ephemeral.

How Encouraging It Would Be

But how much more encouraging it would be if presently there became evident within the ranks of Congress a really constructive leadership directed at correction of the ills which the New Deal and its aftermath have imposed upon the economy! Certain fortuitous circumstances have tended to strengthen the opposition to the President's ill-advised program at several points. The country in a sense has Mr. Lewis to thank for a stiffening of spines in the matter of the Taft-Hartley Law. Softening prices here and there, and some recession in the rate of activity in business, has taken the steam out of the President's campaign to obtain controls more or less comparable to those exercised during the war—that is if the movement ever had any real steam in it. The reluctance of consumers has caused many in Washington to take a radically different view of drastic controls of consumer credit. Similarly with a number of other situations. This is all helpful so far as it goes—but there must remain in many minds a question as to what would happen if presently there comes a sharp return of the upward surge in prices and a restoration of activity in business in general.

It likewise raises some other questions. Suppose business continues to decline and prices keep on softening for a good while to come—or that we enter what is obviously a more or less major downward turn in what is now commonly termed the business cycle. What nonsense would then be devised or receive a new lease on life as a means of preventing or limiting the downward movement? Already there are reports suggesting that such plans are under advisement "if and when"—although little to indicate that programs of the sort have reached a stage in many instances more advanced than one might expect of the day dreamers. The fact is, of course, that as much danger lies in foolish efforts to lift ourselves up by our bootstraps as in ill-conceived efforts to impose fiat control of rising prices.

Where Is the Leader?

The trouble, obviously, is that few in Congress have given really serious, constructive thought to the needs of the current situation; that those who have done so are for the most part themselves in unfortunate degree tinged with New Dealish ideas; and those who are really capable of independent and dependable judgments about these matters appear to lack influence. If only there were to arise some individual in the Senate or the House, or preferably at least one in each, who combined a level head, a healthy and wholesome respect for American traditions, and influence comparable to that exercised (in the wrong direction) by Franklin Roosevelt in this country or by Mr. Churchill (during the war) in England!

It is easy enough to imagine some of the consequences of such a development—and to imagine them is to realize how far we are from that fortunate state of affairs at the present moment. Of course, it could hardly be expected that the President would be greatly influenced. The amount of constructive legislation that could be expected immediately would be limited, but the groundwork for really getting us out of the vulnerable situation in which we now stand would be quickly laid, and the President would be obliged to decide whether it would be wise to go into a wholesale business of vetoing. And what is fully as important is the fact that a basis for going to the people with the real issues of the day would be laid.

AND HOW HEARTENING IT WOULD BE TO A HESITANT BUSINESS COMMUNITY.

Truman Denies Congress Fight

(Continued from first page)

home here is that you are a group of elected executives. As an elected executive myself, I know something about the problems you face. Some of you are responsible to electorates larger than the total population of the United States in George Washington's day. And the duties with which you are charged seem to increase almost as fast as the population—which is just the way it is at the White House.

As our modern civilization requires people to live and work together in larger and larger groups, cities take on more and more importance—and city governments face greater responsibilities. In many respects, we have failed to adjust our thinking to the increased importance of our cities in political and economic affairs.

It is a mistake to act as if the cities were inferior administrative subdivisions. It is a very serious mistake—because for most of our population, city government is the form of democratic self-government which is closest to the people.

In this country democracy is not just a slogan—nor is it a propaganda smokescreen. It is a practice, a way of doing things. It is a method of adjusting the differences that arise between people in their daily lives in accordance with the principles of mutual tolerance and brotherly love.

The more closely people are brought together—the more they rub elbows—the more necessary it is for them to regulate their affairs on a democratic basis. In meeting this need through local self-government, our cities are among our most important democratic institutions.

As usual, there is an exception to the rule, and the exception in this case is the city you are meeting in to day, the City of Washington, D. C. I hope that the Congress will soon give the District real self-government and make it, like our other cities, a local democracy.

In foreign countries, as well as in the United States, cities show their essentially democratic nature. I am glad to see that the Conference of Mayors maintains strong bonds of friendship with cities in other nations. Out of the understanding which you are creating among the cities of the world, will come added strength for the cause of peace.

I extend my greetings to your honored guests who are here from other countries. The mayors from Canada are such old friends that we almost forget that they come from another country. To the mayors who are here from Europe, we Americans, express our admiration.

They and their cities have given us a wonderful example of the vitality of democracy. In many parts of Europe the cities have been invaded, fought over, and in many cases reduced to rubble. But the spirit of democracy has survived in the ruins. And the cities have been born again.

Mayor Stokke of Oslo can tell you of the brave spirit of the people of Norway who today, as in the past, give proof that they will never surrender the practice of democracy for tyranny. Senator Vinck can tell you of the vigorous democracy of the cities of Belgium. And from Dr. Reuter, Lord Mayor of Berlin, you may hear one of the most inspiring stories of our time. The people of Berlin, after years under the rule of the Nazi criminals, with their city in ruins, have dedicated themselves anew to the practice of democracy in the very teeth of totalitarian dictatorship. The courage they are displaying in their beleaguered outpost is proof to the world of the strength of the democratic spirit.

Here at home our citizens face less terrible problems. But if America is to fulfill its promises, our cities must be healthful, beautiful and pleasant places in which to live and to work. We have been making real progress toward achieving those standards. But much remains to be done.

One of the biggest problems facing us today is that of housing.

It has been obvious ever since the end of the war that we have needed bold and large-scale action on housing. I have repeatedly recommended such action. In particular, we have needed a fresh start in the construction of rental housing for low-income groups, in the clearance of slums and in research to reduce building costs.

The cities have long favored such a program. In fact, nearly everybody has favored it except the real estate lobby, which has managed to delay it year after year. Every year of delay has increased the need for the program and the size of the job we must do.

I believe that the end of this long and unnecessary struggle is in sight, and that this year will see the enactment of satisfactory housing legislation.

In fact, I believe that this year will see the enactment of a great deal of legislation for the good of the people.

No Bad Feeling for 81st Congress

Incidentally, I have been much interested in the attempts of the usual troublemakers to make it appear that there is bad feeling between the 81st Congress and the President. It seems that whenever I make a recommendation to the Congress, many newspapers and columnists set up a howl about the President trying to dictate to the Congress. And then if the Congress makes any decision that varies at all from my recommendations, these same troublemakers start a gleeful chorus about how the Congress has thrown the whole Democratic program overboard.

Of course, I differ with the actions of the Congress on some points, and where these differences are important I shall continue to urge the course I think is right. But basically the Congress and the President are working together and will continue to work together for the good of the whole country. We are going to agree on a lot more things than we disagree on. And when the final score for this Congress is added up, some of the selfish pressure groups are going to be pretty badly disappointed.

As I have already indicated, one of the things we can expect this Congress to do is to pass a good housing bill.

I am told that one of the treasured possessions of your organization is a pen with which President Roosevelt signed the United States Housing Act of 1937. Right now I will make you a little promise. I promise to give you the pen with which I sign the Housing Act of 1949, when it is passed. In this way we can mark another milestone in the program of cooperation between the cities and the Federal Government which was begun under President Roosevelt.

You all realize, of course, that the passage of such legislation will give to your cities the tremendous task of planning and carrying out slum clearance and public housing projects. The Federal Government will be limited to providing financial aid and technical assistance. I am confident that the city governments will meet their responsibilities under this law and make the program a success.

But I hope you will go even further. For the cities can do much to encourage private building, at lower cost.

For example, cities should continue their efforts to modernize their building codes. In too many cases existing building codes are an obstacle to the use of new methods and materials and to the spread of prefabricated housing. Prefabricated housing is still an industry in its infancy. It can grow much faster, and produce more and better housing at lower cost, if codes are modernized and the conflicts and differences between them are ironed out.

We cannot discuss the housing shortage without mentioning rent control. I know that you will agree with me on the necessity of maintaining rent control in those areas where there are still serious shortages and few vacancies.

The lobbyists who have been fighting low-rent housing and slum clearance have also been trying to destroy rent control. They don't want us to build new low-rent houses, and they don't want us to hold down the rents of the houses that are available. If we had let them have their way, they would not only have pushed the whole cost of living up another 10 to 20%, but they would have broken up the homes of thousands of low-income families. It is a terrible and shocking thing that the real estate lobby—which pretends to speak for those whose business is providing houses—has become the real enemy of the American home.

Attacks Real Estate Lobby

During recent weeks the real estate lobby has made a concerted effort to have rent control turned over to the cities and localities. I have no doubt that the elected officials of city and local governments in most large city areas are as strongly in favor of effective rent control as I am. They know that their problems of overcrowding, relief to the needy, crime and juvenile delinquency, would be greatly increased if rent controls were removed now. The point is, however, that most cities have neither the legal authority nor the financial resources to carry out a successful program of rent control. The real estate lobby knows this perfectly well. It wants us to turn rent control over to local authority—not in order to strengthen local authority, but in order to destroy rent control.

Another very serious matter facing our cities is the fundamental problem of finances.

Many cities are paying now—in crime, in disease, and in blighted areas — for the haphazard way their land has been developed. Whole areas now need to be cleared out and put to good uses; utilities need to be improved and rearranged; schools and public buildings need to be rebuilt; and future expansion must be properly guided in the interest of the whole community. You all know how necessary, and yet how slow and expensive, this job is. Many cities today have inadequate financial resources to achieve the large-scale improvements that are required.

Here is a problem at the very core of American life. A solution is required not only in the interest of the cities, but also in the interest of the State and Federal Governments.

One of the most important first steps is to bring some order out of the tangle among cities, States, and the Federal Government in the field of taxation and financial relations. This question has, I know, been high on your agenda for many years. In the near future, the Secretary of the Treasury is inviting representatives of State and local officials to meet with him and other Federal officials in a preliminary conference to work toward a program for action in this field.

Wants Local Tax Coordination

I have asked the Secretary to report to me on the progress of this work. I hope that we can work out some guides, not only for Federal policy with regard to taxation and related matters but also for the policy of the states and localities. In these matters, as in so many others, the three types of government — Federal, State, and local—must act together in a spirit of cooperation for the common good.

The financial health of the cities, however, is more than a matter of tax policy. Cities can be financially sound only if the general economic health of the nation is sound.

Many of you know this from first-hand experience. This organization of yours was formed to meet the crisis of the great depression, when the cities were told by the National Administration then in office that they must provide for the unemployed out of their local resources. We have since grown to understand that unemployment is a national as well as a local problem, but we still have far to go in perfecting the democratic instruments by which we can maintain high employment and insure a progressively growing economy.

In this connection, I hope that you are all familiar with the proposals I have recently made to the Congress for helping us achieve economic stability. I hope that you will acquaint yourselves with the facts of the case, and not just the propaganda. I am sure that you will find that those proposals are no more radical than the concept of preventive medicine. In the old days, we used to concentrate on curing the sick. But now, as you Mayors know, we rely increasingly on public health and sanitation measures to prevent disease. In the same way, we are moving from the idea of curing depressions after they happen to the concept of preventing them. That is what my proposals are intended to do.

The spirit of democracy is to find new ways of doing things for the common good. A few years ago it used to be popular to talk about the closing of the Western Frontier in this country, as if that meant we had come to the end of our growth and change. We know now that nothing could be farther from the truth. We have bigger frontiers ahead of us now —greater possibilities for democratic growth—than we have ever had. To find practical, realistic ways to afford a better life for our people is the great challenge which faces our Federal, our state, and our city governments.

I am sure that the Conference of Mayors will continue to lead the way in achieving greater prosperity and greater freedom for all through the confident and progressive practice of democracy.

The Federal Reserve's Postwar Monetary Policy

(Continued from page 7)

public debt was almost synonymous with a stable financial organization.

Clearly, no realistic conception of the problem of postwar stabilization could afford to ignore these facts about the public debt. Yet to take them into account enormously complicated the role that monetary policy was called upon to play in our postwar economy. For it meant that no measures could be undertaken to control an expansion of credit and the money supply that were inconsistent with the objective of maintaining an orderly and stable market for government securities at all times.

The Bond Support Policy

Now, I do not want at this time to cover again the pros and cons of the support policy that the System has followed since the end of the war. Suffice it to say that, as I have understood the arguments set forth by serious critics, they have always seemed to be very uncertain as to just what the consequences of suspending supports would be. And in view of the uncertain effects of such an action and the compensating advantages which confidence in the stability of government security prices has had, it seems to me that the decision to adhere to the support program has been necessary and wise.

Nevertheless, it is true that for the Reserve System to fulfill the role of residual buyer in the government securities market placed severe limitations on the usefulness of traditionally powerful techniques for controlling the volume of credit and deposit expansion. As a residual buyer the Federal Reserve System became a source of reserve funds which commercial banks could tap at their own volition by offering government securities for sale. Banks also received additional reserve funds involuntarily whenever nonbank investors sold securities to the Reserve Banks. And with a fractional reserve banking system, each dollar of reserve funds provides the basis for a manifold expansion of private credit and the money supply.

Moreover, because of the abundant security holders that the banking system acquired through the processes of war finance, commercial banks no longer had extensive need for borrowing funds from the Federal Reserve Banks. Adjustments of reserve positions could be achieved instead through security sales in the supported market. As a result, except for whatever psychological impact it might have, the rediscount rate lost its effectiveness as an instrument of credit control.

Finally, sales from their holdings of government securities offered an easy means by which banks could offset in some measure pressures that might be brought to bear on their reserve position through a rise in reserve requirements. In consequence, relatively small changes in reserve requirements could not be relied on to have severely restrictive effect. And while larger variations in requirements could be an effective weapon, they have not been available to the Federal Reserve during most of the postwar period because of practical exhaustion of statutory discretion on the upward side.

Thus, under the circumstances that have existed during most of the period since the close of the war, the traditional instruments available to the Federal Reserve for influencing money and credit developments in this country were either ineffective, inoperative, or near exhaustion. Meanwhile, the volume of credit extended to private borrowers during this period underwent a considerable expansion. From the end of 1945 to the end of 1948, commercial and industrial loans of all insured commercial banks almost doubled, which represented an absolute increase of approximately $9 billion. Agricultural loans of these banks rose by $1½ billion over the same period, while real estate loans increased by approximately $6 billion. Finally, the increase for the period in the consumer loan category of insured banks amounted to almost $4½ billion.

I do not mean to suggest that our post-war monetary policy has been a failure. There have been significant elements of restraint, without which the situation would have been decidedly worse.

The most important factor of restraint in the postwar period has been the Treasury cash surplus. For the calendar years 1946, 1947 and 1948, Treasury receipts from taxes and other sources exceeded cash outlays by a total of about $14 billion. This surplus has exerted a powerfully constructive effect directly on the expenditure-income stream and on the supply of credit and money. Without it the upward pressure on prices would unquestionably have been more severe.

Further, a substantial portion of the surplus has been used to retire debt held by the Reserve Banks. As I pointed out in my first lecture, this disposition of the surplus is the one most consistent with a policy of monetary restraint; for it results in a withdrawal of funds not only from the general income stream, but from the commercial banking system as well, thereby bringing pressure to bear on the reserve position of commercial banks. The Treasury also exerted a similar pressure on bank reserves by drawing down the deposits that had been permitted to accumulate previously in the war loan accounts of commercial banks.

The Credit Curbs

Moreover, the System has vigorously used its relatively modern accessories — control over stock market credit and control over consumer instalment credit. Since the end of hostilities in mid-1945, margin requirements for extensions of credit on listed securities by banks and by brokers and dealers have not been below 75%, and for the year ending January, 1947 were at the level of 100%. Bank loans for purchasing and carrying securities other than U. S. Government securities amount to only about a billion dollars today. These loans have not increased since the war—in fact, they have declined slightly while debit balances of customers at their brokers and dealers have also decreased since the end of the war and are today actually less than their credit balances. Credit and monetary expansion in the postwar period has not been due to speculative credit in the stock market.

Regulation of consumer instalment credit, in the periods it has been in force since the war, has also been an influence in restraining the increase in this type of credit. As you know, Congress, in mid-1947, terminated this authority effective Nov. 1, 1947. Subsequently expansion in this credit went forward at a sharply increasing rate. Since September of 1948, when the regulation was reinstated on the basis of authority granted in the special session of Congress, consumer instalment credit has increased only moderately, although prior to that action it had been expanding at a rate of nearly $200 million a month. Only a few days ago, as you know, the Board modified somewhat the September terms of consumer instalment credit.

The System has also used carefully its influence over interest rates. To raise the cost of reserve funds to the banks, and also to encourage banks and nonbank investors to hold on to the short-term government securities they own and to buy more rather than to unload them on the System, short-term market rates and Federal Reserve discount rates have been permitted to rise. Rates on Treasury bills have risen from ⅜ of 1% in mid-1947 to more than 1% today. Yields on one-year certificates have increased from ⅞% to 1¼%, while the Federal Reserve Banks have raised their discount rates from 1% to 1½%.

The System has applied more vigorously than the banking community has desired available statutory authority to regulate member bank reserve requirements. Prior to the legislation enacted in August, increasing member bank reserves was a possible course of action only for the New York and Chicago banks, since for all other classes of banks requirements were at their legal limit. In January, and again in June of last year, the Federal Reserve Board raised by 2 percentage points the reserve requirements on net demand deposits at New York and Chicago banks. On the basis of the temporary authority granted by the Congress in August, the Reserve Board raised reserve requirements by 2 percentage points on demand deposits and 1½ percentage points for time deposits early last Fall.

Finally, the System has used its informational resources to urge upon Congress and the public the importance of restraint in credit expansion and of the need for a strong fiscal policy.

The American Bankers Association has cooperated in this program by urging bankers to practice self-restraint in their own as well as in the national interest, and some other lenders have taken a similarly enlightened view of the need for self-restraint in lending.

The fact that despite a vigorous application of those powers which could be used under existing circumstances, we nevertheless experienced considerable postwar inflation has, it seems to me, one very clear implication. There is a basic need for strengthening our monetary powers.

Monetary authorities should have at their disposal at all times adequate means for checking growth of the money supply without endangering the government's credit. To this purpose the System needs to be given authority to prevent or restrain credit expansion by an increase in reserve requirements of banks. By this authority the System could absorb or immobilize additional reserves acquired from a return flow of currency, from gold inflow, or from sales to the Reserve Banks of government securities, either by banks or by their depositors. Furthermore, on grounds of fairness as well as on grounds of making the requirements more effective, the authority ought to be extended to all insured banks.

As a supplement to quantitative controls over bank reserve positions, selective-type controls need to be developed further to strengthen the System's influence over monetary and credit developments. Experience with controls over stock market and consumer instalment loans has demonstrated the helpfulness of operating directly on the demand side of the credit market. The Board strongly believes in the continued usefulness of both of these controls for achieving greater economic stability, and has recommended to the Congress enactment of legislation which would replace the present temporary authority to regulate consumer instalment credit with a permanent authority.

The case for continuing regulation of consumer instalment credit merits special comment. Consumer instalment credit is directly associated with the distribution and financing of durable goods. In an advanced and rich economy such as ours, increases in our standard of living come about more and more in terms of ownership and enjoyment of a greater volume of durable goods. These goods, however, usually have a long and variable life of service. They are generally items of high unit value and not many of each are purchased in the average consumer's lifetime. Original purchases and replacements can be postponed for indefinite periods. Even if their purchase were on a strictly cash basis, demand would be unstable with changing conditions of unemployment, income and buying psychology. With unrestrained use of instalment credit financing, instability in the demand for durable goods tends to be accentuated. In periods of business expansion consumers draw heavily on their future income to swell their purchases of these goods. When a downturn sets in, instalment loans are being paid off and the payments reduce further an already inadequate volume of consumer purchasing power. By limiting or relaxing the terms of instalment credit, not to **stifle** its growth but to **spread** its growth, much can be done to space our purchases of durable goods more evenly over time. This will add to the stability of the entire economy.

Recently we have had an interruption of the inflationary course. In an increasing number

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The Federal Reserve's Postwar Monetary Policy

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of areas supplies have caught up with, and in numerous lines, exceeded demand at current prices. Indicative of the changed situation are the recent declining prices, the moderate slackening of investment in producer's goods and business inventories, and the increased supplies of goods, many of which were in tight supply a year ago. Average wholesale and consumer prices have been declining from their August peaks. In fact, by mid-February average wholesale prices were slightly lower than a year ago, while consumer prices were probably very close to their levels of February, 1948. Prices of farm products in mid-February were 8% and foods 6% below a year ago. Average prices of commodities other than farm products and foods were only 3% above a year ago, and have been virtually unchanged on the average since August, with prices of most commodities in their group other than metals generally either remaining stable or drifting down. Retail sales have recently shown substantial evidence of increasing consumer resistance. When figures become finally available on department store sales for February they will probably show a decline from a year ago despite intensified merchandising efforts.

Though employment has continued at generally very high levels there have been recent declines. Claims for unemployment compensation increased more than seasonally and by mid-February they totaled about 750,000 or 45% higher than a year ago.

Notwithstanding these developments I strongly emphasize the need for making the System's authority adequate to cope with inflation. I certainly hope that there will not be further inflation. My emphasis rather reflects my concern that our System at all times be equipped to cope with whatever monetary problems we may be facing.

The Reserve System today is far better equipped than ever before to help offset deflationary forces should they actually develop. A major deficiency of the banking system that has aggravated business contractions in the past—the inability of the central bank to provide adequate funds when needed by the market—no longer exists. The System his virtually unlimited means of supplying the market with additional reserves through purchase of government securities. The Reserve Banks at present hold $23 billion of gold certificate reserves, and, on the basis of existing legal gold reserve requirements, the System could more than double its outstanding note and deposit liabilities. Moreover, as a result of the liberalized lending authority provided by the Banking Act of 1935 advances can now be made on any assets of member banks that are acceptable to the Reserve Banks as security. Thus the supply of funds will not be undesirably restricted by the need to adhere to "eligibility" rules. Further, when other lenders are not available, the System is empowered to make direct loans to business firms for working capital purposes. Finally, the System can always contribute to monetary ease generally by a reduction in reserve requirements and in special areas through relaxing instalment credit and margin requirements.

My point, then, is that monetary policy must be as adequately forearmed to cope with expansive forces in the economy whenever they occur as it now is to counteract the forces of contraction (always bearing in mind that on the downside our major contribution is to create a monetary climate favorable to business expansion; the forces that generate expansion lie outside the realm of monetary policy alone). Only if the System is forearmed can we have the full advantage of the stabilizing potentialities of action in the monetary sphere—about which I have already indicated my optimism. It is my conviction that monetary policy, along with coordinative action in the fiscal area, can contribute a great deal to curbing the effects of unstablizing elements in our economic life. However, I want to emphasize again the essential role that timing will always play in determining the success or failure of even the best of available weapons. Not only must we have the power to act, but it is essential that our action be undertaken in the right amount at the right time.

In conclusion, I would like to say that my interest in this general monetary approach to economic stabilization is based not only on my optimism with regard to its results. My interest is also based on the conviction that this is a good approach for a free competitive economy. It calls for no great expansion of the allocative powers of government over the nation's resources. It calls for no proliferation of government directives—the mechanism of a regimented economy. Rather, it promises both economic stability—which we somehow have to achieve—and economic freedom—which we dare not give up.

(Ed. Note: Foregoing is second of two lectures by Mr. Szymczak, the first having been published in the "Chronicle" of March 17.)

Scovill Mfg. Offers 4.30% Preferred Stock

Scovill Manufacturing Co. is offering to the holders of its common stock the right to subscribe at $100 a share and accrued dividends from March 1, 1949, to April 6, 1949, to 49,850 shares of its 4.30% cumulative preferred stock (par $100) on the basis of 1/24th of a share of preferred for each share of common held of record at the close of business March 22. Such rights will expire at 3 o'clock p.m. (EST) on April 6. This offering is being underwritten by Morgan Stanley & Co. and associates.

The 4.30% cumulative preferred stock being offered is convertible prior to June 1, 1959, into common stock of the company, initially at the rate of 3⅓ shares of common for each share of preferred. The stock is redeemable at $105 on or before June 1, 1950 and thereafter at prices decreasing to $102 a share after June 1, 1952, in each case plus accrued dividends.

Proceeds from the stock sale, together with the proceeds of a $6,000,000 3% loan due 1974 being negotiated with two insurance companies, will be applied by the company toward the payment of bank loans incurred for its postwar construction and equipment program and to complete such program.

The company, which with its predecessors has been in business for 147 years, is engaged principally in the melting, casting and processing of brass and other non-ferrous metals and manufacturing therefrom a wide diversity of products. The company is one of the five largest brass producers in the Unted States.

Elements of Successful Salesmanship

(Continued from page 4)

to approach me was a friend—or at least became a friend—and the other, which was definitely "cold turkey" occurred very recently. In order to increase your business, or rather get business that does not exist now, you must find new contacts, or, in the language that Mr. Hensle and I know so well, just plain "cold turkey," such as calling upon someone whom you have had not previous contact with whatsoever.

I do not know how this will impress you, but I am going to tell you that it made a very, very strong impression upon me in my business and I think that it has a place here with you in your business of selling. I am a television fan, I like television, and since we have had television in Boston I have watched many boxing bouts. At one time I thought that the only boxing bouts worthwhile were the ones that you went to New York and paid fancy prices to see, such as the Joe Louis fights or some great championship bout. Now, because of television I have become interested in the amateurs, and I refer specifically to the Golden Gloves exhibition held recently in Lowell, Mass.

There was one boy there that sort of took my eye. He is heavyweight champ from this section—the son of a former Governor of this State with good breeding and every opportunity for the nicer things in life. The first time I saw him fight on television, his opponent was a great big fellow—a head taller than he and with a much greater reach. The only way the local boy could win his bout was to get in close and clinch. This he did and took advantage of every opportunity he could to do whatever damage was possible at the time. This may appear to be a crude simile but the point or moral, I am trying to bring out is that when we assume a job we must take advantage of whatever means we have to attain our end, however unpleasant or arduous they may seem at times.

So many times I have heard of men who feel above direct selling and whose comments are: "Why, that's calling upon the home, house-to-house selling." Well, you see, it is like this fellow in the television fight—it is a means to an end. He had to clinch and in-fight to succeed and he did all he could to create the opportunity. This is in contrast to what I have experienced from the weaker man who would say: "Well, do you have leads? Do you give leads?" Ours is creative selling. We must make our own opportunities. This is the way Mr. Hensle and myself have had to get and develop our business. I think that this is the best thought or idea I can leave with you tonight.

Now, this is not original. I have heard it said that your clientele is aging and is dying out. If this is the case and you are to survive, you must get new business and develop it. The only way to get new business is the plain "cold turkey" attack; in other words, calling upon a total stranger without benefit of previous introduction or contact.

If in 24 years you have worked with thousands and thousands of men, if you have hired and trained them, organized and developed them, all over New England, have 14 main branches (and they are big branches, at the present time employing over 800 people) you are bound to have gained considerable experience. I do not care how dull a man may be, if he works with a lathe long enough in his home, he will finally find out how to work the thing.

The "Smoothie" Type

As you are aware, gentlemen, our business is selling Electrolux Vacuum Cleaners, which are tangibles—something which will perform a service—which will do something visual in contrast to your business, the selling of intangibles, which amounts to selling conversation only. However, even in our business the insincere "smoothie" type has never succeeded. My judgment, based on experience, directs me towards the simple sincere type who would inspire confidence, rather than the "smoothie." This has proven successful for me and I can cite a specific case. I have in mind a man who wanted very much to work for me in an executive capacity in New Hampshire. He talked at length, endeavoring to impress me with his ability as a super-salesman, and, among other things said: "Why, you know, I have had 25 years selling experience." When he got through blowing his own horn, I was rather skeptical about him. He did not strike me as being genuine. I selected a man far less prepossessing. This later proved to be the much wiser judgment on my part, for the man I decided upon worked out wonderfully well for our business and is now very successfully managing my branch in Worcester. This should emphasize a point to you which I consider very important, that a man must inspire confidence in order to sell successfully. I must repeat that if this is true in selling a piece of tangible merchandise, certainly it would be multiplied, I should think, in what you are selling.

I have another man in my organization who very well illustrates my point. He is a salesman in the State of Maine, working in one of my branches there. I didn't mean to bring earnings into this talk tonight, but I must mention them here, because the fellow was only 22 years of age when he started with us. He is almost 25 now. His home is in Lincoln, Maine, north of Bangor. He made more than $12,000 his first full year on the job, when he was 22. I met him at a banquet in Portland recently and had a chat with him. He is a clean-cut, fine boy, with a charming wife and one baby. I commented on his success and the amount of money he earned. I asked him what he thought brought about his great success. He gave me some sort of answer which is not important here. He could not attribute it to selling experience, because he had never sold before. He came to us after leaving the service, where he had been a fighter pilot during the war. He has, however, a nice wholesome look, is neat appearing, clean and honest looking, all of which are great assets for the proper approach in any business. In baseball they say, "if you can't see them — you can't hit them"—well, if we are not presentable, we cannot get in, and we cannot sell. In my opinion a pleasing personal approach is all important.

Following the proper approach, one must know one's product thoroughly, in order to bring out its points forcefully, in order to properly advise the prospective customer of its advantages. Here is an important thought you might consider. How many people in America know and understand securities? I don't think many people do. I honestly don't myself. You can call it an educational program, or what you will, but I know if you were to call on me, you could do me an awful lot of good, if you could sit down and explain to me the laws and requirements that would permit me to be classified in the capital gains tax. That is just one part of your business about which the public has just a vague understanding. A great many people stand in awe with regard to the "big board," so-called, or your own brokerage offices. If you could discuss your business on a common ground basis, I think your prospective client would feel more comfortable and would be better able to understand your business, what you are selling, and the advantage it would be to him to buy. I think such an approach would "pay-off" not only in attempting to sell men like myself, but also with a lot of men to whom possibly it had never occurred to purchase a share of stock—most of them having bought bonds — Government bonds, that is. I think this might be well worth giving some thought to, and experimenting with, particularly with people who are not well informed with regard to the purchase of securities. It is my understanding that the insurance companies work this way very successfully. They approach you with the helpful attitude of analyzing and advising you as to whether or not you are overlapping on your insurance, and what your needs really are. Before the insurance salesman is through, he has you for a new sale of his own. Certainly here is a parallel to security selling.

I always wanted to be a salesman—even as a little fellow. My folks were in business, and were called on constantly by salesmen. I was deeply impressed by their well dressed, smart appearance. They always seemed to have plenty of money in their pockets—I think—and that doubly impressed me. Through my experience in hiring over the years, I have learned that I was not alone in my desire to become a salesman. Many men want to become salesmen. I find a number of young men who were in the armed forces, during the war, do not want to go back to their prewar jobs of stock clerks, mill workers, and the like. Many of the veterans I interview tell me that while they were at the front, they determined that when and if they got home, they would forget their previous jobs and become salesmen. To use their own expression—"Nuts to that former boss of mine. I am going to be a salesman." These decisions were arrived at by these young men because it is common knowledge that the selling profession is the highest paid profession on earth, that is, the right kind of selling. What kind of selling is the right kind of selling? You cannot make real money by selling such items as bread, chewing gum and similar products. One must not lose sight of the fact that selling becomes a profession only when the salesman convinces the unwilling prospective buyer that he needs and wants the product being marketed. **That is creative selling.** It is a matter of record, that inside of five minutes by the clock, customers have paid $70.00 to our salesmen for an Electrolux Vacuum Cleaner, that 10 minutes previously they had no idea they were going to purchase. I repeat, this is creative selling, and, I might add, the most profitable kind of selling.

Salesmen "Turnover"

One of the biggest problems encountered in a selling organization is that much talked about "turn-over" in salesmen. Naturally all of us in the selling business do our utmost to retain promising young men, develop them, and endeavor to help them to become successful in the selling field. Earlier this evening it was mentioned, that a great part of this difficulty is caused by men like yourselves, who do not stay long enough in the business to gain enough "know how" to learn what it is all about in order to make a good living and go on to greater success. In my opinion, and through my own personal experience with men, I find that this is chiefly so because in a majority of the cases the new salesmen, or the man who wants to become a salesman, cannot stand

the economic pressure; in plain words, it is important that a new man has some little income, even at the end of his first week. Again, being practical, this is necessary to put food into his stomach and a roof over his head. In my business, every possible effort is exerted by myself and my management staff, toward this end, thereby giving that new man not only inspiration and encouragement, but good instruction and real help in closing sales, and getting him off to a good start in our business. Our method of combating the "turn-over" bugaboo has proven to be most effective.

Several years ago on a similar occasion I lectured at Boston University. At that time I emphasized the fact that a man sincerely interested in entering the selling profession, must not accept just any kind of selling, merely as a "stop-gap." Take time to find out just what you want to do; by that I mean, what form of selling do you want? There seems to be a certain amount of glamour about automobile salesmen. They always have a car in which to ride around. They look pretty smart. Whether they make much money or not, I don't know, but there always seems to be that glamour which is so attractive. There is glamour about securities, stocks and bonds also, but my point is, whether it is selling my particular product, or the more glamorous products, a man must never foolishly enter into any selling field, saying to himself: "Oh, well—it's just one of those things, a 'stop gap' — I'll give it a try." You cannot hope for success with that attitude. You can readily see the wisdom of my advice in this direction. First you must select the form of selling you prefer—give it all you've got —dedicate yourself to that job— and learn every phase of it thoroughly.

Before closing I am going to give you a few facts about my own business. This is not intended as a plug—but in this very month of March the Electrolux Corporation will sell more machines than the combined output of every manufacturer of vacuum cleaners in America. This statement is not made as an idle boast but rather to acquaint you with the supremacy of our position in this particular selling field. Further, it should serve to substantiate my statements as to the different factors which I consider very important in successful selling, and which certainly have proven themselves in my business.

In discussing my business with Mr. Hoffman, a committee member, at dinner earlier this evening, I remarked that one of our fellows might call upon him around midnight tonight—and well he might —and if he did it would not be at my direction. My point in mentioning this to you is to bring out the fact that if you hope to be a success in the selling line, you cannot count the hours but rather must adjust your time to the convenience of your prospect. Do not let us forget the breathtaking $350,000 worth of insurance sold in one night, which I referred to earlier in my talk.

In closing I would like to say to you very sincerely that I think you gentlemen are directing your efforts in excellent channels. The committee working with you is deserving of great credit. Your willingness to give up your evenings and "burn the midnight oil" in an endeavor to gain more knowledge and better yourselves, will surely bring you greater success in your chosen field. I hope that in some small measure I have contributed somewhat.

That's all, gentlemen—good luck to you all.

The ECA and American World Trade Interests

(Continued from page 2)

face either present or ultimate starvation and permanent shuting out of their goods in markets they have built up over many years.

Traditional Flow of Goods Required for Exports

Consideration must therefore be given, and some plan worked out, whereby the taxpayer will not be unduly burdened, the individual exchange resources of these countries will not be seriously endangered, and yet American goods will be permitted some flow into traditional markets so that American exporters will be in a position to extend their trade when the recovery envisaged by ECA has taken place.

This was recognized at the National Foreign Trade Convention in 1948 when, in the Final Declaration, it pointed out that there might be involved "a temporary diversion of international trade from normal channels to stimulate the greater use of productive facilities abroad, and to relieve unnecessary drains on American production." But the Convention recommended that "the ECA obtain assurances from participating countries that American producers will be given the opportunity to again enter the market involved, on the basis of equal competition with producers of other exporting nations, when the immediate purposes in view have been served." Further, it urged "that shipments of American products temporarily excluded from such competition by the operation of the program be admitted into beneficiary countries in sufficient volume to assure the preservation of existing distribution channels and the maintenance of trade names."

Another aspect of ECA operations in which American business is interested has to do with the improvement or expansion of industrial production. Here care must be exercised to see that the desires of individual countries for self-sufficiency are not catered to excessively. Plans must be worked out for economic coordination among the Western European nations rather than the building up of many self-contained units. Further, any development of industrial production must be economically sound. It should not lead to arbitrary, permanent elimination of our exports from traditional markets, nor discrimination against them, where they could be re-established on a competitive quality and price basis. If arbitrary selection and exclusion of imports by recipient countries is permitted to be carried too far, it will, in effect, confiscate the investment of American exporters in advertising, sales, distribution and services. In building up Europe as an economic unit and as a better place in which to live and work, ECA must be watchful so that American dollars are not used in a way which will permanently injure American overseas trade. In this connection, patience as well as vigilance is needed on the part of the American exporter even though this may be difficult. There is a balance which can be arrived at which will permit movement of American goods into traditional markets with a speed-up of European recovery and without placing undue burden on the American taxpayer; all looking forward to the time when a revitalized Europe and a revitalized world present better markets and better business opportunities for all concerned.

Private Enterprise and ECA

Another matter to which attention must continue to be directed is the utilization of private enterprise both in the United States and abroad. Congress made this a basic principle of ECA, but continued caution must be exercised to see that government operation and government control are not substituted for the fundamental principle and efficiency of private business, on the erroneous claim that time or labor will be saved. Much of the business done here, outside of shipments of agricultural products, has been through private channels although admittedly the private importers abroad may not have had an equal opportunity to participate on the same basis. In this connection, it must be recalled that ECA agreements and allocations are made with sovereign foreign governments and the internal policy of any foreign government must be taken into consideration as a factor in determining what private or government agencies abroad handle imports. However, the influence of ECA and its missions abroad should be aggressively directed to the utilization of private channels.

Off-shore purchases for the European program, as authorized by ECA to the end of December, cover a total of close to $1,500,000,000, of which $250 000,000 has been in ERP countries and their possessions; approximately $350,000,000 in Latin America; and $800,000,000 in other countries, chiefly Canada and the Middle East. The effect of these ECA operations is apparently not fully recognized. Not only have these off-shore purchases reduced the burden of furnishing many commodities which are in tight supply in the United States but, of equal importance, they have provided dollars to other countries. American exporters have been thus helped by the dollars so provided for sales to traditionally good markets although they may not realize they have benefited from nor shared in ECA operations.

I feel the ECA missions abroad will have to do a more definite and aggressive advisory job with the recipient nations in order to attain greater speed in recovery. They can not be largely watchdogs for ECA expenditures and observers of local recovery. When decision is made on what goods or services recipient countries will use or where they can be obtained, prompt realistic delivery dates and actual mechanical efficiency for quickest results should be the deciding factors even if it requires dollar expenditures rather than use of local currencies. There is increasing insistence by American business that the ECA officers abroad should step into the picture and use all their influence and ability to see that when purchases are made they will be in line with American manufacturing and delivery schedules and practices.

Renewal of Export Controls

Another important factor affecting our foreign trade is the renewal of export controls. As you will recall, this was originally started in 1940 as a prewar defense measure. Throughout the war it became an important part of our overall effort, and postwar it has been continued to protect our domestic economy from excessive strain on materials in short supply and to aid in activation of our foreign policy.

This subject has been one of continuing vital interest. There is neither need nor time to review the long and somewhat confused record of changes in administration, revised regulations, new licensing procedures, altered enforcement, and the evidence at Congressional investigations. The present opinion of most exporters with whom I have been in touch was summarized in the Final Declaration of the National Foreign Trade Convention last fall. It was stated that the fulfillment of the purposes of the foreign policy of the United States may require the maintenance of certain temporary export controls; that such controls be held to an absolute minimum; that, in the implementation of such controls, account be taken of, and provision made for, uncompleted orders already on the books; that such controls be adequately policed to ensure their just and effective application; and that any license application should be dealt with promptly in order to eliminate or minimize delays in shipment.

Further, controls should be subject to continuing review so that items whose retention on the Positive List is not absolutely necessary may be promptly removed. New regulations should be drawn in clear and understandable terms, after previous consultation with business representatives. Also, licensing procedure should take into account the needs of American enterprises established abroad and the desirability of developing resources through direct investment of American capital in foreign countries.

Lastly, export control regulations should not be so cumbersome and exacting as to stifle America's export trade in the effort to prevent abuses by a small number of exporters.

Congress has now approved extension of export controls to June 30, 1951, although business organizations and individuals—including the National Foreign Trade Council—indicated to Congress that the extension of this temporary emergency authority should be no longer than to June 30, 1950, even though the new law is subject to revocation at any time by action of Congress or by the President. While the new legislation does spell out and emphasize the authority to impose broad controls and enforcement procedure, these are no greater than those which would be available under a short law giving full discretionary authority to the President, such as we have had previously.

There would be greater difficulties for exporters if Congress had attempted to write fixed detailed administrative legislation on such a rapidly changing subject. As long as control legislation does not contain unworkable and unduly restrictive provisions, administration of the act can and should be such as to keep pace with the current real necessities for export control.

Specific provision is made in the law for a continuation and amplification of advisory business contacts with practical exporters. This important procedure has been greatly increased during the past year and will now be placed on a more permanent and continually effective basis. Business can contribute greatly to a realistic and effective administration, if given the opportunity to do so.

The Secretary of Commerce and control officers in the Department of Commerce have given repeated assurances that they intend to reduce controls to the minimum. A continuing, aggressive, and realistic approach on this basis would assure that export controls, for the period they must be in effect, will interfere as little as possible with business operations and the growth of world trade.

There is danger that the policy and enforcement of export control can go far afield from the concept of protecting the domestic economy and preventing all shipments contrary to our foreign policy. Export control alone should not be over-emphasized as a political weapon in a cold war or as a means of policing the world.

Too tight and too rigid enforcement can throttle American exports. We must be careful not to have administrative policy and procedure which, in effect, burn down the forest to catch a few skunks. Because Congressional attention is directed at some news item which may indicate an unwise or dishonest shipment, the fear of legislative investigation should not provide a reason for suddenly imposing unwise and unworkable regulations which do more damage both here and abroad than the continuation of a few undesirable exports. Attempts to make a control system 100% perfect can result in excessive regimentation and red tape. Unless serious damage is being done to our economy or to our foreign policy, a reasonable rather than an impulsive approach must be maintained. It is impossible to police Europe or the world by export controls, and we should not worry too much about limited diversion of shipments. I believe that attention should be given to the important things and that we should take the unimportant in our stride.

As the Council stated in its brief to Congressional Committees, restrictions aimed at a very small group of irresponsible exporters should not involve all exporters in an unnecessary increase in paper work and handicap the vital export business of our nation in its normal operations because of the acts of this small minority. It was suggested that in the case of those found guilty of violating export control regulations, prompt and maximum punishment would serve to eliminate the lawbreakers and act as a deterrent to others.

Dollar shortages abroad, import and exchange permits, together with increased production at home, have removed many of the necessities for our export controls. While exporters have regretfully learned to live temporarily with export controls, every step to reduce the cost of paper work, the delays and the necessity for bureaucratic rather than competent business judgment will be acclaimed. In many lines, the day has arrived when export trade promotion rather than export trade restrictions should receive the preferred attention of government.

Trade Agreements Program

Still another factor of overall effect of our trade with other nations and the re-creation of multilateral world trade is the continuation of the Trade Agreements program. Since its inception in 1934, and through subsequent renewals of the Trade Agreements Act, this program has had the general support of our foreign traders. They have realized that trade barriers must be reduced and every reasonable means undertaken to improve our imports without doing damage to our industry and labor. Unfortunately this program, at least on occasions for renewal of legislative authority, still becomes involved in what appears to be too much political controversy. Up to 1948, the program had been continued without change and had resulted in agreements with over 41 countries.

Last year the Act was renewed for but approximately one year and restrictions and changes were incorporated, chiefly as to the position of the Tariff Commission in negotiations and its determination of so-called "peril points" for import tariffs. This presented a cumbersome and unnecessarily duplicative and restrictive procedure. Congress is now considering restoration of the procedure which existed before 1948 and of extending the negotiating authority to June, 1951. This has been approved by the House of Representatives and hearings by the Senate Finance Committee have just been held.

Under the authority given to the President by Congress, there was negotiated the so-called Geneva Agreement, known as GATT or the General Agreement on Tariffs and Trade. This cov-

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The ECA and American World Trade Interests

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ered negotiations between 23 countries, including the United States, and constituted an outstanding step forward in trade cooperation. Two-thirds of the import trade involved among the participating countries, which comprised the principal trading nations of the world, was covered in negotiations and agreement on some 45,000 trade items. General policy provisions as to reduction of barriers, equal trade treatment, and many other related subjects were involved. Subsequently, negotiations were announced last fall for an expansion of this agreement to include 13 additional nations at meetings to be held this spring in France. While the full effects of previous separate agreements and of GATT have not had an opportunity to become evident due to war and disturbed postwar conditions, the reduction in trade barriers agreed to will have progressively beneficial results as the world engages in increased trade. The agreements have not been perfect and many exceptions have been permitted, based mainly on balance of payment dislocations. Nevertheless, the base for freer trade has been established. If we are to obtain the realistic reciprocal benefits, we must not permit exchange regulations, quotas, and other barriers not covered specifically in the agreements, to operate against American exports. We have in the trade agreement program a forward looking and progressive background for better multilateral trade. It is our duty to increase its effectiveness. With present provisions for escape clauses no nation or no industry need be damaged, so that unproven fear of harm need not force us to withhold action.

Comment on the Reciprocal Trade Agreements program and the GATT naturally leads to though of the International Trade Organization, or ITO. Here we are confronted with a basically meritorious objective for better world trade and investment which over three years has grown to a document, with 106 articles, signed at Havana by the representatives of 52 nations.

Mere reading of the Havana Charter is a man-sized task, unfortunately undertaken by too few of the people who will be greatly affected by its provisions and exceptions. A great deal of time will no doubt be devoted to analysis and discussion of its good and bad points when it is placed before Congress by the President either for ratification as a treaty or for adherence by joint resolution. Certainly any real study will indicate both desirable and undesirable provisions, in most cases qualified by exceptions, so that in the final analysis it must be accepted or rejected on balance. The National Foreign Trade Council has expressed its opposition to the Havana Charter. I do not at this time intend to set forth the reasons for this conclusion. The Charter should be required reading and study for every one with direct or indirect interest in the responsibility and commitments of the United States in world trade.

World trade and American participation in international commercial relations will be affected by many other factors. I shall mention only a few, such as:

Modernization of treaties of friendship, commerce and navigation, with realistic and up-to-date provisions to protect investment and trade;

Extension of the tax treaty program, with removal of double taxation and specific agreements on procedures;

Development and implementation of a definite program, as mentioned by the President in "Point Four" of his Inaugural Address, in regard to help for economically backward countries;

Return to convertibility of currencies;

Restoration of trade with the Occupied Areas of Germany and Japan;

Reduction of import and exchange restrictions;

Limitation of state trading;

Stimulation of private direct American investments abroad.

It may appear that I have overemphasized the difficulties in world trade. However, it is not my intention to be pessimistic, but rather to be realistically optimistic with an appreciation of influential developments.

We need to be ever watchful that American interests are protected for the long run, but without restricting or channelizing our overseas business within a pattern of the past or present. Adaptations must be made to meet conditions as they do, and will, exist. Based on the record, American business has always been able to keep astride of new conditions in its relationships throughout the world. Determination to stick to our principles will be challenged but, with clear thinking and courage, there is no need to fear the outcome.

Blyth & Co. Offers Pacific Light Pfd.

A syndicate headed by Blyth & Co., Inc., on March 23 made a public offering of 100,000 shares of Pacific Lighting Corp. $4.50 dividend preferred stock, cumulative, without par value, at a price of $101.50 a share.

Part of the proceeds from the sale of the stock will be used to make advances to, or investments in, the company's subsidiaries, Southern California Gas Co. and Southern Counties Gas Co. of California. Part of the remainder will be used to finance the expansion and construction programs of the company and its subsidiaries. Construction and acquisition of additions, replacements and betterments to plants, systems and properties of the company and its subsidiaries are estimated at nearly $44,000,000 for 1949.

At the conclusion of the current financing, capitalization will consists of 200,000 shares of $5 dividend preferred stock, 100,000 shares of $4.50 dividend preferred stock and 1,930,357 shares of common stock. Dividends have been paid on the common stock every year since 1908, the present annual rate being $3 per share.

The company is now in its 41st year of corporate existence and the 62nd year of operations including its predecessors. The company is not a public utility but is primarily engaged in the purchase, transmission and sale of natural gas under special contracts, principally to its subsidiaries, Southern California Gas Co. and Southern Counties Gas Co. of California. These two latter companies are public utilities. The company and its subsidiaries, from the standpoint of number of customers served, constitute the largest natural system in the United States, supplying natural gas to approximately 1,350,000 meters and a population of over 5,000,000 persons located throughout the major part of Southern California.

Total operating revenues on a consolidated basis for 1948 were $95,319,989 and net income for the period amounted to $9,987,434.

Television and Motion Picture Industry

(Continued from page 6)

ticipant sports, card playing, social visiting and gossiping, cultural and educational activities, hobbies, dressing up and going out, "doing the town," sex and for childhood and old age doing generally nothing except just sitting.

Here we have a picture of the normal American family life. Now let's see what happens to it when television becomes an exciting new thing for them to talk about.

Of course, the situation is different in each family, depending on the age of the members and the income level at which they live.

But even the lowest 5% families in these United States are so far above the subsistence level that their attitudes toward almost everything are determined not by economic pressures but by their emotional attitudes.

Generally the first demand for a television set in the average home will come from the children or strangely enough from the head of the house himself who is a little tired of having some business associate tell him about the wonderful prize fight or variety show he saw on television last night without being able to produce as interesting an emotional experience himself which would allow him to monopolize his proper share of the conversation.

The Costs of Television

So the fun of buying it begins. As it costs several hundreds of dollars it is an item of much discussion and the stating of much profound and often inaccurate knowledge by the male members of the family concerning the merits of electronics and radar and their relation to the various makes of sets. Maybe the set advertising is responsible for this.

Does economic analysis of the cost and its uses determine whether they will buy the set or not? It does not except to a limited middle-class group. Do questions of obsolescence and standards control the decision? They do not except to the same limited group. The only determining factors are whether it fulfills an ever-present want and the money is available to buy it.

Finally, the television set is in the home with the antenna on the roof. What happens to the family and its leisure time? Plenty. What I am going to tell you now is a summary and analysis of eight or 10 surveys which have been made of families in the New York area where there have been six programs available for over a year. New York is selected because it is the only area which had had that extensive amount of television, although the general results in Chicago, Philadelphia and Los Angeles are not essentially different. Six stations insure a substantial variety of programs continuously available, although the trend seems to be similar to that in network radio in that each station tries to meet the competition of an extraordinarily good show on another station with a similar program on its station.

When the set is in and a few months have passed, radio listening during the important leisure hours when television programs are available has practically disappeared. The television set averages being on 15 hours per week at least. The entire family gathers around it when it is on. The neighbors come in to look at it. The consumption of liquor and cigarettes increases. This is a new collateral cost which the head of the house didn't expect and which he doesn't approve of. I remember well the family which called me up last summer and asked me if they could come to the Paramount Theatre in New York to see the Louis-Walcott fight even though they had a beautiful new television set at home. This fight was scheduled for Wednesday and was rained out. It was scheduled for Thursday and was rained out. Postponement in both cases did not take place early in the evening. Each evening the neighbors had come in to see the fight and had eaten, drunk, and smoked their hosts out of house and home. In desperation the wife locked the door and pulled the shades on Friday night and brought herself and the three children to the Paramount Theatre.

Almost all the other forms of amusement and relaxation including going to the movies, the reading of newspapers, magazines and books, automobile riding, "doing the town," cultural and educational activities dropped off about 20 to 30%. Let us call it 25% as an average. The most interesting point is there seemed to be very little discrimination as to how television affected these leisure activities. Its effect on all of them was alike, except for radio which, of course, is a form which is exactly similar to television and which television readily replaces. There is a possibility that as far as network activities are concerned radio may pass out, but because of the economics involved this may not be true for local radio stations.

Effect on Motion Pictures

We have made a great many studies of motion picture attendance, trying to determine whether we could measure the effect of television at the box-office. So far we have been unable to, but this is not surprising since in the New York area where the maximum set density exists less than 10% of the families in any area have sets as yet and the 10 to 20% variations in motion picture attendance which arise from weather and picture popularity completely overshadow them, a 2.5% loss arising from 25% less in 10% of the families.

A pregnant possibility arising from these observations is, if "going out on the town" is going to drop 25%, how is that going to affect the sales of "dress up" clothes to go out with?

For a long time I have considered the possibility of the newspaper being the business most likely, outside of network broadcasting, to be adversely affected by television. Television's ability to portray a documentary simultaneity seemed to make it almost inherent that the newspaper would be seriously affected. But so far television has failed in rapidly combining news in detail with an editorial attitude to produce a product which has the informative value of the columns of the New York "Times" or the striking journalistic color of the Chicago "Tribune" or New York "Daily News." Maybe it will finally arrive there, but it is also possible it may find the costs prohibitive.

I don't go along with the editor of a Sunday newspaper who recently wrote: "In the coming television age, Sunday will be the day reserved for reading." . . . "Soon there will be a potential audience for television of 50,000,000 people who will be able to sit at home and visit the ball park, the prize fight arena, the wrestling bouts, the legitimate theatre and the motion picture by merely turning a dial. Certainly this will be tremendous competition for the printed word.

"So in the coming struggle for the reader's time, newspapers should fare much better than the magazine, generally speaking, especially the Sunday newspaper. Studies we have made recently seem to indicate that Sunday morning reading, particularly, is little affected by the presence of a television set in the home."

Outlook of Paramount Pictures

Such a defeatist attitude is not the outlook of Paramount Pictures for the motion picture business. We have been helping develop television since 1937. DuMont Laboratories, which we financed in 1938, opened a New York television station in 1939. Paramount has been operating stations in Chicago and Los Angeles since 1941. We expect the Los Angeles station within a short time to be the most powerful television station in the world.

Until lately we have been practically alone in the broadcasting of programs from the latter two cities but we have learned a lot from it.

We recognized in 1938 the relationship between film and television. We have done something about it.

We have developed apparatus for the recording of pictures and sound transmitted by television onto 35 millimeter theatrical film.

We have developed methods of showing that film on the theatre screen eight seconds later.

We, alone, have shown televised events on the theatre screens to regular audiences in motion picture theatres. We have studied them and recorded their reaction and found out some very helpful things and even some which we wish we didn't know.

We have been giving serious study to the problem of how to take the know-how which characterizes a Hollywood "Oscar Candidate" picture which cost $25,000 to $50,000 a minute and apply it to produce a film for television which at the best may not be able to stand over $500 a minute and whose present possibilities are in the neighborhood of $50 a minute. I think we are getting somewhere and I think the advertisers will shortly agree with us.

We have learned that in television, the viewer likes his entertainment in quarter and half-hour segments, as he does in radio, while in the theatre he likes two to three hours of relaxation.

Artistically these pictures will be different, too. The fact that the Hopalong Cassidy Westerns are "tops" as television pictures is no accident. The subtle nuances of emotion and taste which Hollywood uses to tempt you in the darkened theatre and on the large screen are lost on the average home television set. Such pictures as are made for television will be broader in their acting, faster in their pacing, and depend more on action rather than characterization for their attention value. What I am saying is that the so-called "B" picture will find competition in television and is likely to disappear from our screens. But television has, as yet, produced no serious competition for the "A's".

We have learned many other things. In particular, I want to tell you about the Louis-Wolcott fight last Summer which was shown in the Paramount Theatre in New York by television. We paid over $1.00 per audience member for rights and television paid under 5c per viewer. By contract, we were allowed thirty minutes before the fight began, to announce it. The television broadcaster was allowed to announce it two days ahead. Yet, within that thirty minutes, the Paramount Theatre was packed to the rafters. Evidently the fight promoters were more afraid of the theatre announcement. Perhaps, in this, they showed great wisdom.

For the audience in the Paramount Theatre were laughing and cheering the fighters and yelling encouragement to them while the

crowd in the stadium was booing and while our observers in the homes and bars were reporting a popular reaction that it was one of the dullest fights ever.

In order to understand what was happening, I have looked at our film recording of the theatre showing of that fight many times. I have read many reports as to what happened at the stadium, in bars, and in homes. My conclusion is that the theatre has characteristics that cannot be reproduced elsewhere.

On the theatre screen the images of the fighters were over 20 feet high. The seats furthest away, in the balcony, were the equivalent of only forty feet from the ringside. Walcott's attempts by grimaces and gestures to induce Louis to open up so he could get his swinging right in, were plainly visible. They weren't visible to many people in the stadium and to those to whom they were visible were influenced by the complaints of those who only saw a lack of action because of their inability to see the intimate situation. At home, most of the screen images were six inches high. To be forty feet from the ringside, one had to be three feet from the television set. And if one head was in that spot, the other eight people in the room couldn't see anything. The same was true in the bars. So, no one at these two spots saw the intimate details of the fight and, of course, they didn't enjoy it. But, in the Paramount Theatre all reacted with the crowd mind and had a wonderful time. We have again and again had the same experience with outstanding events of national political importance.

Television Creates Desire to See Motion Pictures

Finally, we have learned that the television set in the home is going to be such a marvelous instrument for making people want to see motion pictures that one wonders sometimes if it wasn't just devised for that purpose. Only 15,000,000 of America's 148,000,000 see the average so-called "A" picture. I feel ashamed of our advertising and publicity work when I give you those figures. But there are limitations to the static printed page in portraying the appeal of the action in our features. We believe there is no way of making a person hungry as completely effective as that of giving him a small taste of a delectable dish. Through a television broadcast we will come into your home to show you just enough of a picture to make you hungry for the rest of it. And if you don't come to the motion picture theatre to see it after that then either we have done a bad job or you are becoming old and blase. We will take care of the first part. We believe you will take care of the second.

If we pursue this attitude I think you will agree that we are not going to be like the officer in the Air Force, where men become generals at 35, who reached the unheard of age of 51 and was still a junior officer, a captain. It seems that he had been stationed on one of the jungle islands in the Pacific and had been disgusted with the martinet ideas of the commanding officer who each night sounded "alerts" with no results for many nights in succession. While crabbing about the situation he at least conceived a brilliant idea. He trained a young and tame orangutan who was hanging about the camp to jump into his plane, put on the goggles and start the motors, whenever an alert sounded in the night. It worked for weeks.

One night the "all clear" didn't sound and the Squadron went out after the enemy. Our Captain jumped from his bed, dressed and rushed out to his plane just in time to see it take off in perfect alignment with the others. The commanding officer gave the captain a derisive look and walked away.

The captain said he wouldn't have minded one bit remaining a captain if they hadn't made the orangutan a Lt. Colonel for gallantry in action after the raid was over.

No one can know the potentialities of television but we aren't treating it as a tame orangutan. It is a medium for portraying pictures in motion. For years there has been a business developed of showing motion pictures in theatres. Television shows motion pictures at a distance and either as they are made or as they have been stored on film. Economists and inventors are busy trying to figure new ways of showing them. Some of these enterprises will succeed. If a tenth of those who have told me of their dreams are successful the business of making motion pictures with synchronized sound is still in its "infancy" whether they are shown on film or in some other way.

The business of providing man with "something to live by except bread alone" will reach new heights if the present trend toward leisure time continues. It would be my guess that should our leisure time increase from the present 30 to 40 hours (a work week of 30 hours) during the next several decades that television will have become a feature in the American home without the slightest setback to all those other industries which satisfy the wants of leisure time, namely, the motion picture, the newspaper, the magazine, the automobile or the "dress up" apparel business.

Revenue Bonds and How to Judge Them

(Continued from page 8)

gencies as well. Remember there is probably, or there should be, a provision for increasing rates or tolls if necessary, so adjustments can and must be made in the rates if estimates are not accurate.

The amount of coverage desired is not necessarily the same in all purposes. Let me emphasize here the meaning of coverage as used in revenue bonds. It is the number of times the annual principal or maturity (if a serial) or sinking fund payment (if a term issue), *plus* the interest, is exceeded by the net income pledged and available to pay them each year. "Coverage" does not refer to the annual interest requirements alone.

In a well set up water project, for instance, where the city is taking over an established water company a coverage of 1¼-1½ times would be satisfactory, whereas in some other situation and some other purpose we might want a coverage of 1¾ to 2 times. I am not attempting to give you a formula. I want to emphasize that. Rather I am suggesting a possible range of coverage for average situations and different purposes. No one should attempt to lay down an inelastic yardstick here. In one place you may find a good property in a town with a name that it is difficult to market and vice versa, so we must allow leeway.

A few years ago before the Port of New York Authority had made the very fine record it now has, it called a $24 million issue and refunded $16 million of it at a lower rate when the projected coverage was only approximately 1.1 times. The bonds were sold to several insurance companies, sophisticated buyers, at a premium. That was one extreme; here's another. There is going to be a water revenue issue offered in a few days with the coverage of the peak debt service requirements the first year estimated at 3½ times and at an even higher rate each year during the 30 it is scheduled to run. So it's well to be flexible on this point.

Here's a story by Charles F. Kettering, former Vice-President of the General Motors Corporation, which I like in this connection. He spoke before the New York Bond Club a few years ago. He began his talk by saying that he probably knew less about the financial and investment business than any man in an official position in the country. He said whenever he had been asked to buy stocks or bonds and the salesman had quoted great quantities of statistics in an attempt to get his money, it had left him cold. But, when he was given information which enabled him to realize that the security represented a partnership or an obligation of some important corporation or community and he was able to visualize the position which that corporation or community occupied in the economy of the country and the kind of service it was rendering, he had something then that to him was tangible and he felt that he had a reason for buying.

He told a story about the slide rule because he said that it was the best story he knew which illustrated what happens when one gets absorbed with methods or statistics and misses the main point. "At McGill University in Canada a man was lecturing to the first-year class in engineering. He explained the slide rule, told them what it was, that it was invented by Lieutenant Manheim of the German Army, how you could make calculations, and that sort of thing. "I will give you," he said, "a specific example of how this works. Let's multiply two by two." He told them to set the slide at such-and-such a place, etc., and said, "Now we will read the results—the answer is 3.998"! I told that story at an engineering congress in Chicago one time and after it was over, a very serious-minded gentleman came around to me and said, "I don't see anything funny about that story at all." I said, "Why not?" He said, "Because that is about as close as you can read a slide rule." So, sometimes we miss the whole picture because we have written down a formula.

Avoid Slide-Rule Method

The moral of this story is of course obvious. There are a lot of people who are buying bonds who use the slide rule method only in choosing them, so frequently they miss some of the best buys which are offered. In all investments there are what someone has called "imponderables" which should be taken into consideration, and the slide rule will not measure "imponderables."

The ability of the issuing body to produce the service must be well established, particularly in water bonds. There should be plenty of evidence that the water supply is ample to take care of the present demand and to meet expected or likely growth as well. Here again the general economic character of the area should be known.

Having satisfied himself as to the general soundness of the project, the buyer should note carefully various covenants to be found in the indenture or trust agreement. They are of the utmost importance. They must provide ample protection for the bondholders and yet allow the management sufficient freedom to operate efficiently when unlooked for problems arise.

For instance, the proceeds of the bonds should be deposited, preferably with a trustee, and be disbursed only on order of the issuing body. If construction is involved the engineer's approval should also be required. He assumes responsibility for completing the job within the funds provided.

Care should be taken to see that the proposed construction will be completed. A partially completed bridge or electric plant is of no value as a revenue producer. If the proceeds of the bond issue should not be sufficient, authority to issue additional bonds should be present or there should be some other guarantee which will assure a finished job. One of the problems in setting up the Delaware Memorial bridge was because the legislation limited the bond issue to $40 million. There was no provision for raising additional funds if the estimates of cost were too low. A solution was found in assurances that additional legislation would be passed, and as it is a State project they were accepted as satisfactory. In addition there was a firm contract available for $11 million of the work before the underwriters bought the issue. There was also a 20% item for contingencies to protect the estimates, which in turn seemed good.

Revenues and Their Disbursement

The flow of revenues, the order in which they are to be disbursed, is of prime consideration. The generally accepted practice is to have gross revenues go into the gross revenue fund. Out of this payments are made to various reserve funds to assure proper distribution, to protect the interests of bondholders and yet provide the managers moneys to carry on operation satisfactorily. Disbursements should follow a course something like this, and may be varied somewhat depending on the purpose of the issue:

(1) Operation and maintenance expenses.

(2) Monthly payments into interest and principal or sinking fund.

(3) Operating and maintenance reserve, sufficient for two or three months' operation.

(4) Debt service reserve equal to one year's requirement to be built up over the first four or five years.

(5) Emergency maintenance reserve.

(6) Reserve for purchases of new equipment—renewal and replacement.

(7) Balance available for other legal purposes which must be used to retire a portion of principal by call whenever fund exceeds a specified level.

You may notice I have not referred to a "depreciation reserve". Our feeling is that where we have provision for ample maintenance and serial maturities or sinking fund payments, of reasonable amounts, beginning within a year or two after the operation of the facility starts, that a depreciation reserve is not necessary, except in rare cases such as a transit issue. Retirement of the debt well within the life of the facility, takes the place most effectively of a depreciation reserve, in such case.

What is the covenant which fixes the rates or tolls? This should provide that the issuer maintain them at a level which is designed to produce a specified coverage for debt service. The issuing body must have complete freedom to adjust—raise or lower—rates to meet the provisions of the covenant. This right, by the way, is one of the features peculiar to revenue bonds, as compared with those of privately owned corporations.

One of the best known and successful projects financed by revenue bonds is the San Francisco-Oakland Bay Bridge. It was placed in operation early in 1939. Originally the toll on passenger cars was 50 cents. It has been steadily reduced to 25 cents, the present toll. The truck tolls have also been greatly reduced. Meanwhile the debt, originally $71 million, serial and term, has been reduced to a total of only $27,340,000. All this has been accomplished in the short period of 10 years, and with tolls much lower than originally authorized. There are other instances which could be mentioned where the public has been benefited in this way.

Provisions for Issuance of Additional Bonds

What are the provisions for the issuance of additional bonds? This is a very important covenant. The buyer must be careful that the revenue will not be unduly diluted by an increase of charges for principal and interest. The usual custom is to limit the amount of additional bonds by the amount of earnings available for debt service. The ideal situation is where the average earnings over two or three years have been sufficient to cover the present debt service requirements plus those of the additional bonds as well, a given number of times, say 1¼ to 1¾, depending on the character of the issue. In some cases, the Pennsylvania Turnpike is one, the expected earnings from the improvements provided by the additional bonds may be added to the current average in arriving at the coverage. When that is done the requirements may run up to two times. A coverage of 1½ times is probably a safe average in the first illustration, if the project is established and running well.

Is the preparation of an annual budget required? And is a public hearing on this budget provided for? The public hearing is the best method yet devised for uncovering too liberal payment of salaries, emoluments of one kind or another, or unnecessary expenses, in a project whose revenues are running well ahead of requirements.

Is ample insurance carried? Are there any prior or equal claims on the net revenue? Is there a covenant requiring the issuer to make public either directly to inquirers or through the trustee or the head of the underwriting syndicate a report of operation annually at least, oftener if practicable? If the project is a large and important one, monthly reports should be made, as is now being done by several of the best managed. The custom of having these reports published in some financial publication should be encouraged. They need not be elaborate, but enough to show which way your ship is sailing. A committee of the Investment Bankers' Association has recently prepared report forms for some of the popular purposes for which revenue bonds are issued. When one of these forms is filled in it should enable an experienced investor to determine the investment value of a given bond and to tell how well the project is getting on. A set of these forms may be obtained through members of the Association and I think you would find them interesting. I suggest that you get a set. They will be ready for distribution in about thirty days. Managers of bank portfolios should find a file of these reports on the revenue bonds which they own, extremely helpful when the examiner calls.

Is there a corporate trustee and what are his duties? Is an independent audit provided for? In some small projects the cost of these services is sometimes difficult, if not almost impossible, to meet. However, they are highly desirable and should be provided for in the indenture if any way can be found to do it.

Remedies in Case of Default

What are the remedies in case of default? What are duties of the trustee if trouble arises? May a receiver be appointed? Protection should be provided against a

(Continued on page 38)

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

"Talking the Market Up" isn't going to get it up. Wall Street version of Pyramid Club makes for interesting conversation—not profits.

The most talked of subject last week was "Life's" piece about how many stocks were selling at less than their net working capital per share. This in turn started the boys with the slide rules digging for other so-called situations. The subsequent lists that came from various sources were interesting and even impressive.

* * *

It proved, or purported to prove, that a great many stocks were on the bargain counter leading to the wide circulation of the statement that many companies were worth "more dead than alive."

* * *

Those who obtained the advance copies of "Life's" piece, saw in it the Moses that would lead so-called underpriced stocks out of the desert into the promised land of booming markets. It was the boardroom version of the Pyramid Club. You buy some stock, get two others to do the same, and so on ad infinitum. It was a beautiful picture. There was one thing wrong with it. The market being what it is just turned its nose up and went on doing the opposite of what everybody had hoped it would do.

* * *

Tying net working capital to market value is always a pleasant pastime. There's one trouble with it. If a company loaded with big assets, bigger per share than its stock is selling for, were to apportion them out to stockholders, it would make buying their stocks a highly profitable venture. But if a company is thinking of doing that, the chances are the causes that lead to the move will be such that the assets would disappear long before the stockholder got around to getting any of them.

* * *

In the final analysis stocks go up on future earnings and prospects, not past performance or so-called inherent cheapness. Every stock is worth just what it's selling for, no more, no less. If X is selling for 100 today it's worth 100. If it sells for 50 tomorrow, it's worth 50, and so on. All the ponderous and specious arguments in favor of higher or lower prices will have only a temporary effect. Anybody who doesn't proceed on that basis had better fortify himself with a good supply of aspirin.

* * *

Last week I suggested buying Bristol and Myers at 31 with a stop at 29. I also spoke highly of the oils, though I didn't specify prices. Bristol came in and you're now theoretically long of it. I don't know what oils you have.

* * *

From what I can judge of current market action, I think stocks will go up some more in the next week or so. But don't be too optimistic. Things aren't as rosy as your newspaper and magazines tell you.

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.]

Cost Men to Hear Eric A. Camman

"Management Control Through Cost Accounting" will be the subject of a talk by Eric A. Camman, partner of Peat, Marwick, Mitchell & Co., to the Brooklyn Chapter of the National Association of Cost Accountants at their regular monthly meeting on Wednesday evening, March 23, 1949.

This topic is of extreme importance particularly at this time when business is in a state of flux because of the return to a buyer's market. Mr. Camman will present practical information on the role of the cost accountant in presenting figures to management, what figures should be presented, the importance of cost figures to proper control, and the use that management can make of proper cost data.

Mr. Camman is eminently qualified on this subject since he has lived with it for a number of years. He is the author of many accounting books and articles, including the authoritative "Basic Standard Costs." He is a past National President of NACA and is a member of the American Institute of Accountants, American Management Association, and the New York State Society of Certified Public Accountants.

Guests are welcome to attend the meeting which will be held at the Clement's Club, Third Avenue and 35th Street, Brooklyn. Dinner at 6:30 p.m. Meal tariff, $3 per person; technical session at 8:00 p.m.

Revenue Bonds and How to Judge Them

(Continued from page 37)

small group of bondholders acting in their own interest alone, without consideration for all. The record of properly designed and well conceived revenue bonds is so good, that we have not had many court decisions to define the rights of bondholders in case of trouble, therefore remedies should be given in some detail.

So far I have made no reference to plant valuation. The subject sometimes comes up when a city purchases a water or electric plant, for instance. We do not give as much consideration to that feature as we do to prospective earnings. As a matter of fact valuation is not always easy to fix. A given plant may be worth much more under certain conditions than under others. Our chief concern is with the amount of net revenue expected to be available for principal and interest after expenditures for operating and maintenance. Obviously, the rates to be charged for the service have to be in line with similar situations elsewhere and the economic ability of the community to pay the rates satisfactorily established. The freedom and obligation to raise rates if necessary should always be present.

Of course, I have been talking about an ideal setup. There are a good many which are ideal and more which are good, although not quite ideal. So long as the purpose is well conceived, the area economically satisfactory and the design of the issue the work of capable craftsmen, in line with accepted practices, the chances are you have a good bond.

I urge you to pay particular attention to the covenants as they provide for:

(1) The distribution of revenue
(2) The maintenance of rates
(3) The issuance of additional bonds
(4) The remedies in case of trouble
(5) The budget and public hearing
(6) A report of operations at regular intervals
(7) And, of course the expected debt service coverage should be ample.

If these covenants are reasonably satisfactory, you can sleep nights. However, it is well to wake up now and then, to look over the reports of operations with some care. The better attention the bondholder pays to them, the better bonds the bondholder will have. That's rather trite but its worth remembering. Insist on having those reports and you'll get them. The forms prepared by the IBA already referred to, provide a good pattern. No prudent investor should be without current authoritative information regarding the revenue bonds which he owns any more than about other securities in his portfolio.

Deputy Comptroller of the Currency Robertson in his letter of March 11 clarifying the position of the Comptroller regarding revenue bonds for bank investment, points out that just as all bankers have adequate information regarding loans they have made, they should have it on the bonds they have bought also. If you have not read that letter I urge you to do so, and keep a copy in your files.

Five With Straus & Blosser

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—Thomas B. Gardner, Allen Logan, Frances B. McKee, Timothy P. O'Neil and Frank R. H. Richards, Sr., have joined the staff of Straus & Blosser, 15 West Tenth Street.

Spain's Attack on Foreign Investments

(Continued from page 11)

Geneve.") "Under this Spanish law CHADE becomes liable for the payment of liquidation taxes. But as it has no assets in Spain and as under international law such fiscal claims cannot be enforced beyond a country's borders, the payment of these liquidation taxes now is subject to voluntary agreement." (The London "Statist.")

Phony "Bankruptcy" of a Solvent Company

Meanwhile, March has shifted his attention back to the Barcelona Traction and proceeded to put it into bankruptcy even though the company had 160 million pesetas in cash, or more than enough to pay off all the arrears of interest on the sterling debt, had the government permitted the sterling transfer. "A recent valuation of the BTLP is reported to show that the assets exceed liabilities by 2.5 billion pesetas (or about $250 million)." ("Journal de Geneve.")

March finally succeeded in finding a local judge in a small town (Reus) who was willing to issue the decree of bankruptcy. The bankruptcy proceedings were rushed through in two days like a "blitz." The testimony was given by only one side so that the company was not even allowed to be heard. No notice was given, until six months later, to the bond trustee, The National Trust Co. of Toronto. One day after the bankruptcy order was issued, March's agents hastily became the administrators and promptly proceeded to dismiss the executives (in Spain) of the company. All legal proceedings brought by the company in its defense were delayed by technical obstacles, but all motions brought by the instigators of the bankruptcy were speedily executed.

According to the Bulletin Financier Suisse "This bankruptcy was based on the ground that for years the two sterling bond issues of Barcelona Traction were in arrears. From the legal standpoint this (Spanish) adjudication of bankruptcy is an outrage since the 'bankrupt' company is incorporated in Canada, as is also its main subsidiary company. Moreover the suspension of interest payments on the sterling loans is due solely to the fact that the Spanish Government does not permit conversion into sterling of the pesetas earned by the Spanish companies."

According to "Finanz-Revue" of Switzerland "The deplorable and incredible developments of this affair were that a judge of a small provincial town could be prevailed upon to declare bankrupt the Barcelona Traction Company on the ground of non-payment of coupons of its sterling bonds, the payment of which had been prevented by government action. **This is a legal atrocity which apparently is possible only in Spain.** The question arises as to how this was possible, since Mr. March was freely permitted exchange transfers that were denied to Barcelona Traction."

Collusion of Government Officials

If this scheme is successful, it will follow that March will be able to deprive foreign investors of the Barcelona Traction Company's assets in Spain. **Such seizure of foreign investor's property, however, would be possible only with the active cooperation of the Spanish Government.**

According to "Finanz-Revue" of Switzerland **"What is involved is a plan between Mr. March and the Spanish Government, manifestly designed to eliminate the shareholders of Barcelona Traction in order to acquire at sacrifice prices these valuable industrial undertakings,"** on the bargain counter by administrative stratagem.

Similarly "Finanz-Und-Wirtschaft" of Switzerland writes, "Juan March has been unmasked, as well as his evil collusion with the Spanish Governmental authorities. **The Spanish Government** must promptly make every conceivable effort in order to be cleared of the suspicion that it is in cahoots with Juan March and **has, if not condoned, at least tolerated one of the greatest robberies in history.** It is high time that the veil be lifted here. The affair of the Barcelona Traction throws a rather unfavorable light on Juan March and certain Spanish courts. What is not possible under a dictatorship!"

"The Last of the Mediterranean Pirates"

Juan March was thus described by Francis R. Bellamy in his book "Blood Money" (N. Y., Dutton, 1947, p. 202) and by the Swiss "Finanz-Und-Wirtschaft" recently when his attempt to seize Barcelona Traction was exposed. The Chairman of the Luxemburg meeting stated that the "Spanish Minister for Industry and Commerce had been informed that **Mr. Juan March had publicly declared that he hoped to extract a profit of 1.5 billion pesetas** ($150 million) from his investment (sic?) in Barcelona Traction." (London "Statist.") According to "Finanz-Und-Wirtschaft" of Switzerland "This amount is big enough to stimulate the interest of a financial tycoon of Juan March's size. Obviously, the possibilities of profit in such a transaction are so colossal that there would still be ample left completely to satisfy those governmental and court officials who have been his collaborators."

This unprecedented policy of the Spanish Government was criticized by the Agence Quotidienne of Paris "We have seen governments nationalizing public utilities, i.e.: handing the services over to the nation as they say. **But this is the first time that nationalization is being made for the benefit of an individual."**

Funds that should have been used to pay interest and dividends were stopped that March might levy on the peaceful traffic of honest citizens. To paraphrase in reverse Charles C. Stickney, U. S. Ambassador to France, 1796 **"Millions for tribute but not one cent for defense"** of lawful investment.

According to Charles Beard, "In the piracy in the Mediterranean during the early 19th century, diplomatic negotiations and payment of tribute failed to win immunity for American commerce. The United States resorted to force against the Barbary pirates. Jefferson sent Commodore Preble who worsted the Pasha of Tripoli. The last of the pirates in Western World was eliminated." Juan March is living 150 years behind the times.

Legal Experts Declared Procedure Illegal

Eminent lawyers in Spain have advised the management of Barcelona Traction that the "bankruptcy" maneuver by March is wholly invalid and improper. Outstanding authorities in international law, such as Professors G. C. Cheshire and Martin Wolff of Oxford, have likewise declared that the course taken in Spain in this case is illegal. Furthermore, **diplomatic representations to the Spanish Government have been made by both the British and Belgian Embassies in Madrid in the**

attempt to avert this international brigandage.

Foreign Investments Unsafe in Spain

The policy of the Spanish Government created internationally widespread and biting criticism. The "Journal de Geneve" wrote, "The practical effect of this stupid policy will be to deprive Spain of the resources and prestige of this important international company. **Spain has shown foreign investors that there is no longer any security for investments in Spain.** Since Spain is in urgent need of foreign capital, the country's economy would certainly feel the disastrous repercussion of the measures which it has taken against these two companies which have so largely contributed to the international prestige and development of Spain." Likewise Mr. Redvers Opie, a stockholder and also a well-known British economist and businessman stated, as reported, at the Toronto meeting of BTLP "it is difficult to believe that there are no elements in Spain, governmental or other, that understand the gravity of the situation. The possible damage being done extends far beyond Barcelona Traction and will obviously have serious repercussions on the economy of Spain itself."

The London "Times" **called for positive measures. "It seems important that there should be some sort of diplomatic inquiry** into the manner in which the company and its operating subsidiaries have been treated in Spain. The treatment is not of a kind which foreign enterprises ought to have to expect on general ethical grounds in Spain or any other country. It hardly seems that the United Kingdom and Canadian Governments should disown all interest in the matter. **The precedent which it creates is too disturbing to be ignored."**

Evil International Effects of Spain's Policy

The effects of the Spanish Government's policy toward Barcelona Traction and Power will be felt abroad. Its orders for equipment and supplies, which had been placed regularly in the United States, Great Britain, Canada, Belgium and Switzerland must be discontinued.

Miss Olive Holmes, of the Foreign Policy Association, who recently visited Spain to make a first-hand study of the Spanish economy wrote an incisive summary which bears on future American investments in Spain. She wrote, **"Since 1936 the economy has been living on its own fat. Spain must re-equip and modernize** its transportation system and the power, mining, steel and textile industries if it is to raise the productive capacity of the economy, increase its exports and redress the chronically adverse balance of trade. Electric power production is already sadly inadequate to the potential demand."

Foreign Loans Desperately Needed

The FPA reports "The Spanish foreign exchange situation, in consequence, could hardly be more serious. Imports in the first seven months of the year were down to little more than a third of the import indices based on the relatively stable years of the Primo de Rivera dictatorship. **If the vicious circle is to be broken at some point, this will manifestly have to be done through foreign aid."**

The Gold Collateral Requirement Reflects on Spain's Credit

The FPA report continues, "Official Spanish circles are jubilant over the Chase National Bank loan of $25 million to Spain's Foreign Exchange Institute, the purpose of which has not yet been announced. They are confident that the loan, announced Feb. 8, represents only the first substantial injection of dollars into the ailing Spanish economy. **The Chase credit,** carrying an undisclosed rate of interest, extends for only six months and **is entirely secured in gold, which the Spanish Government has deposited for this purpose in London.**

"The 'extremely modest' program of 'extraordinary imports' drawn up by the private Urquijo Bank of Madrid, in its 1948 report, value at $777 million the cost of equipment from all sources needed during the four-year period, 1948-52, to rehabilitate the Spanish economy. The Urquijo Bank program was intended to be fitted into the European Recovery Program and Franco himself no longer disclaims interest in that project. **The gold security feature of the Chase loan indicates that private American sources do not regard Franco as a particularly good risk."** So writes Miss Holmes of the Foreign Policy Association.

Undoubtedly American banks agree. In fact, the Spanish Government has been trying for a long time to negotiate a loan with the Chase bank, but the bank obviously had to be sure of the principal and hoped for a guarantee by our government. This, however, was unobtainable. The advance was finally made when Spain agreed to put up as collateral, 105% of the principal in the form of gold deposited not in Madrid but in London. The fact that Spain received a loan from a private bank constituted favorable publicity for her. However, borrowers seek loans of banks when the business to be financed gives a higher return than the interest charged. To borrow at 4% against securities paying 6% is sound business. But it is difficult to see the business basis for an interest-paying loan based on non-income producing collateral like gold. The newspapers have been reporting in the past two years that Spain was sending representatives to the United States to negotiate credits. Thus far, however, private unsecured loans have not been available at any bank. If Spain had treated foreign investments on the basis of the business ethics prevailing in other countries, she would enjoy good credit and be able to obtain unsecured short-term loans as do other foreign governments.

But, as the FPA report concludes, "Whether help will be forthcoming beyond the piecemeal assistance which American private enterprise may be able and willing to offer depends, in the last analysis, upon a decision by the United States to reverse its policy of excluding Spain from the benefits of Western political cooperation."

Fair Play by Spain Might Reopen Credit Possibilities

Whether the United States will reverse its stand will depend, in some measure, on the Spanish Government's policy toward existing foreign investments like CHADE and Barcelona Traction. **Certainly, the governments of the world, interested in the recovery of Europe, have good reason to expect that the Spanish Government reverse its present policy and refrain from future threats to investors which will prejudice European recovery** and economic rehabilitation of the world. Spain is now seeking membership in the UN. Spain also is hoping for aid under the Marshall Plan and for a loan either by the United States Export-Import Bank or by the International Bank for Reconstruction and Development or by private banks. **Surely, the Spanish Government will improve its prospects in obtaining foreign credits and investments in the future if it ceases the destruction of present foreign investments.** Surely, foreign industrialists will look with greater favor on setting up branches in Spain if this government will cease to permit one of its citizens, no matter how powerful, to harass existing foreign properties in Spain. Surely, foreign banks would be more likely to consider unsecured loans to the Spanish Government or to Spanish companies if and when the universally observed principles of business ethics are applied in Spain, without exception or qualification.

Furthermore, prerequisites for membership in the United Nations are specified in the UN charter. The preamble states as the aim of the UN "to establish conditions under which justice and respect for the obligations arising from treaties and other sources of international law can be maintained." Does Spain qualify now? Membership in the UN is "open to all peace-loving states which accept the obligations contained in the present charter and in the judgment of the organization are able and willing to carry out these obligations." Does Spain now meet these conditions? Likewise, the exchange of ambassadors implies the mutual acceptance of such obligations.

According to "Finanz-und-Wirtschaft" of Switzerland, **"An improvement in the political relation of the Western powers with Spain will become possible only if Spain promptly suppresses the unfortunate manipulations in the Barcelona Traction affair."**

"If the Spanish Government still has a trace of integrity and decency, it cannot remain indifferent to the shocking exposures and to foreign criticism. Juan March and the government are now on the defensive and this attitude may be the prerequisite for an ethical settlement of the CHADE affair."

Deeds Count, Not Words

Spain will be judged among the nations, not by the words of its publicity bureau in Washington, but by deeds of its government in Madrid. Unless Spain observes the universally recognized principles of international law in dealing with foreign investors, it can hardly realize its hopes, concerning the UN, the ECA, and international loans, public and private. The nations of the world cannot and will not ignore the breaches of faith involved in the mistreatment and virtual confiscation of foreign-owned property. In the language of equity jurisprudence, **"Spain must come into court with clean hands."**

ELISHA M. FRIEDMAN.

March 22, 1949.

Meeting Changed Pattern of Goverment

(Continued from page 9)

ment is and is going to be in business in a big way. The United States Government is by all odds the biggest business of the nation. After all, this change is one in degree rather than fact. Government has been operating our postal system and our schools for a long time. Personally, I hope the extension of government into business will be retarded rather than accelerated. That will depend partly on business itself.

Fact number four: Individuals in government service are not necessarily less efficient or industrious than people in private enterprise. I think it is time we stopped hurling the term bureaucrat at all government officials and assuming that their abilities are small and their jobs sinecures. I wonder some times at the high order of ability which government commands when the low level of compensation is considered.

My own connections bring me in closer contact with the Superintendents of Insurance and of Banking of New York than with any other government officials. I have not always agreed with Superintendent Dineen or Superintendent Bell. I never agree with anyone all the time. I can with complete sincerity cite them as examples of public officials of complete integrity, unflagging industry and a high order of ability.

What does all this add up to? To me it means that as a result of events between 1929 and 1949 we have entered into a period with a changed pattern of the relationship between government, business and citizens. You and I are going to have to spend our lifetime in this new era. We had better adjust our thought and action accordingly.

Affirmative Conclusions

Does this mean that we should just sit back and accept things as they are? Decidedly not. Having marshalled some facts, I shall now venture four affirmative conclusions.

Conclusion number one: If private business should be supervised in the public interest, government when it assumes a business role is in equal need of supervision.

Now, obviously, government cannot be particularly effective in supervising itself and you may say that there could be no other body with power to enforce its findings. I do not agree. My own experience teaches me that the most powerful weapon that government itself has is publicity and that weapon is equally available to us. Do not think for a minute that management in government is not responsive to the exposure of waste and inefficiency, provided the exposure is factual and is not tainted with a political atmosphere. It must be the result of thorough investigation, be fully documented and not merely accusation and name-calling.

I suggest that it is up to you and to me as citizens and as businessmen to create an organization to supervise government in business. With all due respect to the many excellent business organizations now in existence, I doubt that any of them is presently fully equipped to perform this task. The ideal organization would not only have to have an adequate staff and resources, but should be broadly representative of all American business. My remaining conclusions will be confined to the objectives of such an organization.

Conclusion number two: A constant study of how government is spending our money should be carried on year in and year out.

The Citizens' Budget Commission is doing an excellent job along this line for New York City. It is heartening to see our present mayor working with them on a cooperative basis. I should like to see the Citizens' Budget technique applied to our proposed billion dollar budget in Albany and our $42 billion budget in Washington.

Mr. Hoover and the group which has been working with him say that we can save $3 billion in our national budget without any sacrifice in essentials. That is $20 a year for every man, woman and child in America. Mr. Hoover and his associates make their report and must, of necessity, go back to their normal pursuits. I should feel more comfortable if some vigorous effective organization outside government was going to stay everlastingly back of the program until that $3 billion and more is saved.

Clarification and Rationalization of Government Controls

Conclusion number three: There should be a constant and incessant campaign carried forward for a clarification and rationalization of the rules laid down by government for the conduct of private business.

Currently, only too often, progress in business cooperation is brought to a standstill while we engage in a guessing contest as to what the rules of the game are and whether we are going to wake up and ourselves defendants in an anti-trust action.

Conclusion number four: It is time to establish a broad front to contend for the sound principle that government should not engage in any business that private business can carry forward effectively in the public interest.

It is doubtful that this principle would meet with much opposition in abstract discussion. Its application to specific cases is something else again. In the absence of a strong and representative organization to vigorously further this viewpoint, private business has been fighting a rear guard and losing action on this front in recent years.

The facts which I have enumerated warrant a much more elaborately worked out set of conclusions, but time does not permit. My plea today is for a program by American business of limited objectives within the bounds of existing realities. It is for whole-hearted cooperation with government whenever possible and when not possible for an appeal to the great court of public opinion on the basis of facts and sound basic principles. Such an organization as the Committee for Economic Development has demonstrated the value of factual studies and statements. I hope a way can be found to broaden and intensify the trail they have blazed.

After all, we must remember that this government is our government and both it and business must be responsive to the interests of the American people. To a large extent the success of this great American effort to combine adequate security with individual liberty depends on the cooperation of business and government. To an even larger extent the preservation of the liberty of free men in all the world depends on the success of American democracy through American cooperation.

First California Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Grace S. Stoermer has been added to the staff of the First California Company, 647 South Spring Street.

Business Man's Bookshelf

Price Supports—W. M. Curtiss—Foundation for Economic Education, Inc., Irvington-on-Hudson, New York—Paper—Single copies no charge; ten copies $1.00 (lower prices in greater quantity).

Railroads and America's Future—Ambrose W. Benkert—A. W. Benkert & Co., 70 Pine Street, New York 5, N. Y.

Renegotiation of War Profits—Richards C. Osborn—Bureau of Economic and Business Research, University of Illinois, Urbana, Ill.—Paper.

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. 27	101.1	102.0	100.3	95.7
Equivalent to—					
Steel ingots and castings (net tons)	Mar. 27	1,863,800	1,880,400	1,849,000	1,725,000
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Mar. 12	5,123,350	5,186,800	5,330,050	5,264,850
Crude runs to stills—daily average (bbls.)	Mar. 12	¶$5,452,000	§5,515,000	5,404,000	5,407,000
Gasoline output (bbls.)	Mar. 12	§17,487,000	§17,705,000	17,754,000	15,608,000
Kerosene output (bbls.)	Mar. 12	§2,093,000	§2,158,000	2,485,000	2,547,000
Gas oil and distillate fuel oil output (bbls.	Mar. 12	§7,325,000	§6,947,000	7,617,000	7,754,000
Residual fuel oil output (bbls.)	Mar. 12	§8,125,000	§8,542,000	8,561,000	9,292,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines —					
Finished and unfinished gasoline (bbls.) at	Mar. 12	§125,801,000	§126,266,000	119,780,000	111,918,000
Kerosene (bbls.) at	Mar. 12	§18,517,000	§18,999,000	20,524,000	9,677,000
Gas oil and distillate fuel oil (bbls.) at	Mar. 12	§51,804,000	§52,109,000	61,517,000	32,108,000
Residual fuel oil (bbls.) at	Mar. 12	§59,297,000	§59,568,000	82,340,000	48,546,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Mar. 12	709,326	705,552	699,442	796,486
Revenue freight received from connections (number of cars)	Mar. 12	623,037	632,622	618,248	713,963
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Mar. 17	$127,282,000	$184,579,000	$146,604,000	$90,318,000
Private construction	Mar. 17	59,828,000	66,103,000	112,754,000	32,729,000
Public construction	Mar. 17	67,454,000	118,476,000	33,850,000	57,589,000
State and municipal	Mar. 17	38,090,000	67,962,000	31,190,000	38,877,000
Federal	Mar. 17	29,364,000	50,514,000	2,660,000	18,712,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Mar. 12	10,350,000	*10,260,000	11,440,000	13,454,000
Pennsylvania anthracite (tons)	Mar. 12	700,000	697,000	748,000	1,214,000
Beehive coke (tons)	Mar. 12	155,200	*159,500	153,800	122,700
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Mar. 12	255	*244	238	279
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Mar. 19	5,495,769	5,530,629	5,650,279	5,145,430
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Mar. 17	210	179	180	106
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Mar. 15	3.75198c	3.75434c	3.75434c	3.27585c
Pig iron (per gross ton)	Mar. 15	$46.74	$46.74	$46.74	$40.29
Scrap steel (per gross ton)	Mar. 15	$35.58	$36.25	$37.58	$39.75
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Mar. 16	23.200c	23.200c	23.200c	21.200c
Export refinery at	Mar. 16	23.425c	23.425c	23.450c	21.625c
Straits tin (New York) at	Mar. 16	103.000c	103.000c	103.000c	94.000c
Lead (New York) at	Mar. 16	18.000c	19.500c	21.500c	15.000c
Lead (St. Louis) at	Mar. 16	17.800c	19.300c	21.300c	14.800c
Zinc (East St. Louis) at	Mar. 16	17.500c	17.500c	17.500c	12.000c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Mar. 22	101.68	101.68	101.63	100.80
Average corporate	Mar. 22	113.12	113.12	113.12	111.25
Aaa	Mar. 22	119.00	119.00	119.00	116.41
Aa	Mar. 22	117.20	117.20	117.20	115.04
A	Mar. 22	112.19	112.19	112.19	110.70
Baa	Mar. 22	104.83	104.83	104.83	103.47
Railroad Group	Mar. 22	108.16	108.34	108.70	105.86
Public Utilities Group	Mar. 22	113.89	113.89	113.50	112.93
Industrials Group	Mar. 22	117.40	117.40	117.20	115.24
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Mar. 22	2.38	2.38	2.38	2.44
Average corporate	Mar. 22	3.00	3.00	3.00	3.10
Aaa	Mar. 22	2.70	2.70	2.70	2.83
Aa	Mar. 22	2.79	2.79	2.79	2.90
A	Mar. 22	3.05	3.05	3.05	3.13
Baa	Mar. 22	3.46	3.46	3.46	3.54
Railroad Group	Mar. 22	3.27	3.26	3.24	3.40
Public Utilities Group	Mar. 22	2.96	2.96	2.98	3.01
Industrials Group	Mar. 22	2.78	2.78	2.79	2.89
MOODY'S COMMODITY INDEX	Mar. 22	368.1	370.5	373.6	409.3
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	Mar. 19	216.6	217.7	216.7	232.1
Fats and oils	Mar. 19	151.5	155.3	162.2	246.2
Farm products	Mar. 19	235.3	236.9	230.7	251.5
Cotton	Mar. 19	310.1	310.4	307.9	322.5
Grains	Mar. 19	200.1	205.1	197.7	266.7
Livestock	Mar. 19	235.1	236.2	229.1	241.0
Fuels	Mar. 19	233.5	235.9	238.1	228.6
Miscellaneous commodities	Mar. 19	165.3	167.3	166.3	173.5
Textiles	Mar. 19	190.3	190.8	191.1	210.8
Metals	Mar. 19	187.8	190.0	190.1	163.5
Building materials	Mar. 19	215.8	217.4	217.9	233.4
Chemicals and drugs	Mar. 19	142.5	142.5	143.3	156.3
Fertilizer materials	Mar. 19	142.9	142.9	142.9	137.7
Fertilizers	Mar. 19	150.5	150.5	150.5	143.7
Farm machinery	Mar. 19	155.6	155.6	155.6	138.0
All groups combined	Mar. 19	209.5	210.7	209.5	218.0
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Mar. 12	158,333	178,515	155,095	188,104
Production (tons)	Mar. 12	162,692	157,814	177,390	188,587
Percentage of activity	Mar. 12	80	79	86	102
Unfilled orders (tons) at	Mar. 12	278,632	287,302	319,066	481,757
OIL, PAINT AND DRUG REPORTER PRICE INDEX — 1926-36 AVERAGE=100	Mar. 18	137.3	138.1	140.1	145.9
WHOLESALE PRICES NEW SERIES — U. S. DEPT. OF LABOR — 1926=100:					
All commodities	Mar. 15	158.5	159.0	158.5	161.7
Farm products	Mar. 15	169.9	171.6	168.9	188.8
Foods	Mar. 15	161.0	161.1	159.0	173.6
All commodities other than farm and foods	Mar. 15	152.0	152.3	152.9	147.7
Textile products	Mar. 15	141.7	142.2	143.0	149.9
Fuel and lighting materials	Mar. 15	135.6	135.9	138.0	130.9
Metals and metal products	Mar. 15	177.6	177.8	178.1	155.8
Building materials	Mar. 15	200.1	201.3	201.3	193.1
All other	Mar. 15	131.5	131.5	131.0	134.9
Special indexes—					
Grains	Mar. 15	161.5	164.6	158.6	221.4
Livestock	Mar. 15	207.1	208.1	198.4	227.6
Meats	Mar. 15	222.2	220.4	208.3	240.7
Hides and skins	Mar. 15	179.9	177.6	190.3	181.8

*Revised figure. ¶Includes 414,000 barrels of foreign crude runs. §On new basis of reporting in California. Principal changes exclude cracking stock from distillate and residual fuel oils.

	Latest Month	Previous Month	Year Ago
ALUMINUM (BUREAU OF MINES)—			
Production of primary aluminum in the U. S. (in short tons)—Month of December	53,474	50,714	47,589
Stocks of aluminum—short tons (end of Dec.)	13,171	8,075	15,549
BUILDING CONSTRUCTION PERMIT VALUATION IN URBAN AREAS OF THE U. S. —U. S. DEPT. OF LABOR — Month of December (three 000's omitted):			
All building construction	$424,366	*$473,476	$479,967
New residential	199,891	*239,266	232,951
New nonresidential	158,859	*165,182	177,386
Additions, alterations, etc.	65,616	*69,028	69,630
BUILDING PERMIT VALUATION — DUN & BRADSTREET, INC.—215 CITIES—Month of February:			
New England	$8,129,918	$6,238,003	$8,141,187
Middle Atlantic	73,570,480	76,958,642	53,277,733
South Atlantic	23,598,851	21,146,483	22,631,690
East Central	35,260,200	37,346,113	38,965,760
South Central	39,980,726	30,713,329	41,558,175
West Central	10,925,903	10,110,942	8,246,656
Mountain	4,576,587	4,077,857	6,544,474
Pacific	48,152,886	35,898,427	56,425,947
Total United States	$244,195,551	$222,489,796	$235,791,622
New York City	51,217,797	64,741,267	37,895,315
Outside of New York City	192,977,754	157,748,529	197,896,307
CARBON BLACK (BUREAU OF MINES)— Month of January:			
Production (lbs.)	106,000,000	112,342,000	114,566,000
Shipments (lbs.)	94,024,000	104,728,000	108,225,000
Producers' stocks (lbs.)	128,296,000	116,320,000	78,745,000
Exports (lbs.)	28,950,000	23,125,000	20,117,000
COAL EXPORTS (BUREAU OF MINES)— Month of January:			
U. S. exports of Pennsylvania anthracite (net tons)	305,452	408,373	395,984
To North and Central America (net tons)	274,449	398,026	301,105
To South America (net tons)	12	------	54
To Europe (net tons)	30,991	10,263	94,825
To Asia (net tons)	------	84	------
To Africa (net tons)	------	------	------
COMMERCIAL STEEL FORGINGS (DEPT. OF COMMERCE)—Month of January:			
Shipments (short tons)	124,582	131,544	118,534
Unfilled orders at end of month (short tons)	570,665	600,500	618,155
COTTON AND LINTERS — DEPT. OF COMMERCE — RUNNING BALES—			
Lint—Consumed month of February	640,182	674,463	785,627
In consuming establishments as of Feb. 28	1,617,962	1,627,055	2,244,151
In public storage as of Feb. 28	7,500,407	8,213,189	4,474,308
Linters—Consumed month of February	119,007	123,038	98,104
In consuming establishments as of Feb. 28	373,735	363,665	273,146
In public storage as of Feb. 28	87,664	88,501	62,182
Cotton spindles active as of Feb. 28	20,758,000	20,927,000	21,485,000
COTTON GINNING (DEPT. OF COMMERCE):			
Running bales (exclusive of linters) crop of 1948	14,540,345	------	11,557,138
INTERSTATE COMMERCE COMMISSION —			
Index of Railway Employment at middle of February (1935-39 average=100)	†123.7	†128.0	131.7
LIFE INSURANCE—BENEFIT PAYMENTS TO POLICYHOLDERS—INSTITUTE OF LIFE INSURANCE—Month of January:			
Death benefits	$123,024,000	$131,229,000	$121,007,000
Matured endowments	46,076,000	42,975,000	38,987,000
Disability payments	8,580,000	8,812,000	8,723,000
Annuity payments	24,207,000	18,641,000	24,275,000
Surrender values	40,654,000	50,796,000	32,694,000
Policy dividends	54,399,000	80,727,000	52,452,000
Total	$296,940,000	$333,180,000	$278,138,000
LIFE INSURANCE PURCHASES — INSTITUTE OF LIFE INSURANCE — Month of February (000's omitted)—			
Ordinary	$1,143,000	$1,129,000	$1,115,000
Industrial	375,000	357,000	361,000
Group	193,000	335,000	204,000
Total	$1,711,000	$1,821,000	$1,680,000
METAL OUTPUT (BUREAU OF MINES) — Month of January:			
Mine production of recoverable metals in the United States:			
Copper (in short tons)	50,928	50,668	73,150
Gold (in fine ounces)	118,875	151,267	162,270
Lead (in short tons)	35,008	36,997	33,144
Silver (in fine ounces)	2,831,728	2,925,798	3,145,852
Zinc (in short tons)	52,914	55,141	48,068
MONEY IN CIRCULATION—TREASURY DEPT.			
As of Jan. 31 (000's omitted)	$27,579,534	$28,223,786	$28,110,578
NEW CAPITAL ISSUES IN GREAT BRITAIN—			
Midland Bank, Ltd.—Month of February	£5,430,000	£6,578,000	£4,390,000
NEW YORK STOCK EXCHANGE—As of Feb. 28 (000's omitted):			
Member firms carrying margin accounts—			
Total of customers' net debit balances	$526,649	$537,264	$536,636
Credit extended to customers	57,529	55,882	56,968
Cash on hand and in banks in U. S.	349,532	347,492	396,428
Total of customers' free credit balances	565,359	573,205	596,416
Market value of listed shares	65,324,673	67,478,248	63,158,207
Market value of listed bonds	131,863,412	131,896,587	136,313,176
Stock price index, 12-31-24=100	69.9%	72.9%	70.5%
Member borrowings on U. S. Govt. issues	$111,722	$120,973	$74,121
Member borrowings on other collateral	201,486	218,073	217,026
SELECTED INCOME TERMS OF U. S. CLASS I RYS. (Interstate Commerce Commission) —Month of December:			
Net railway operating income	$64,661,934	$84,065,713	$76,669,096
Other income	38,696,341	20,450,484	46,859,852
Total income	103,358,275	104,516,197	123,528,948
Miscellaneous deductions from income	5,919,013	4,867,888	5,963,658
Income available for fixed charges	97,439,262	99,648,309	117,565,290
Income after fixed charges	63,421,821	64,754,855	80,383,219
Other deductions	13,531,824	2,994,505	7,600,554
Net income	49,889,997	61,760,350	72,782,665
Depreciation (way & structures & equip.)	32,848,365	32,276,606	29,654,285
Amortization of defense projects	1,158,622	1,396,566	1,420,890
Federal income taxes	33,649,024	41,338,248	23,908,620
Dividend appropriations:			
On common stock	28,854,228	52,961,970	20,496,866
On preferred stock	10,256,958	6,853,158	9,105,346
Ratio of income to fixed charges	2.86	2.86	3.16
TRUCK TRAILERS (DEPT. OF COMMERCE)— Month of January:			
Production (number of units)	2,766	*3,426	3,378
Shipments (number of units)	2,566	*3,453	3,303
Shipments (value in dollars)	$8,983,900	*$11,018,414	$9,216,540

*Revised figure. †Preliminary figure.

Railroad Securities

There has been considerable discussion recently of the large equipment programs undertaken by most of the major railroads since the end of the war, and the consequent substantial increase in the amount of equipment debt outstanding. Most of the new equipment has been financed this way, with interest rates generally very low. In individual instances certificates have been sold in amounts ranging from as low as 65% of the cost to as high as 100%. Such certificates mature serially with final payments varying from 10 to 15 years from the date of issuance. The question that has arisen is the extent of the cash drain on the railroads in meeting these serial payments in the event of a sharp decline in earnings.

Theoretically in the past it has been assumed that charges made for equipment depreciation would be more than sufficient to cover cash payments on account of annual serial equipment maturities. With the large volume of new equipment obligations sold during recent years, and the additional financing of this nature still in prospect, this theory no longer holds for a number of Class 1 carriers. For many roads equipment maturities, at least in the years immediately ahead, run in excess of charges they have been making for equipment depreciation. The Bureau of Transport Economics and Statistics of the Interstate Commerce Commission in a recent Monthly Comment on Transportation Statistics had some interesting figures and comments on this situation.

For the Class 1 carriers as a whole principal maturities of equipment obligations for 1949 were given as $209,341,073. Equipment depreciation charges for these roads amounted to $250,826,003 in 1948. In other words, maturities would absorb 83.5% of the depreciation. As is usual throughout the field of railroad statistics there are wide variations throughout the industry. Percentagewise the Pocahontas region showed up the best. Its 1949 equipment maturities are only 63.3% of the 1948 equipment depreciation charges. Next in line was the western district with 78.8%, followed by the eastern district with 85.5%. The southern region was the only section where 1949 equipment principal maturities topped the 1948 equipment depreciation.

The report also gives statistics for 39 individual roads which reported payments in excess of $1 million due on equipment obligations during 1949. More than half (19) reported payments due this year in excess of last year's depreciation accruals. Kansas City Southern, and its controlled companies, was at the top of the list. Its maturities are more than double the 1948 equipment depreciation charges. Two others, Clinchfield and Nickel Plate, have 1949 maturities almost double their 1949 equipment depreciation while Wheeling & Lake Erie's and Boston & Maine's run more than one and a half times their reported depreciation.

Percentagewise Atchison, Topeka & Santa Fe, and affiliated companies, is in the best position, followed by Chicago, Rock Island & Pacific. In both of these cases reported 1949 equipment trust maturities amount to less than 50% of the 1948 equipment depreciation. On a dollar basis New York Central and Pennsylvania show up well, with the latter also in a strong position percentagewise. Pennsylvania's reported 1949 payments amounted to $15,957,000 or only 60.1% of its 1948 equipment depreciation. Central's reported maturities amounted to $17,325,280 compared with 1948 equipment depreciation of $21,811,703.

Equipment obligations have always been considered as the prime investments in the rail field. The experience of holders of these obligations during the bankruptcy wave of the 1930s fully supported this investment regard. Just because maturities in many instances now exceed depreciation charges is no reason for any change in this attitude. Purchase of the new equipment is, in itself, a step toward greater operating efficiency and if this operating efficiency is to be retained there could obviously be no thought of losing the equipment through failure to meet the payments when due. It may be expected, however, that heavy serial principal requirements may dictate conservative dividend policies in many instances.

Halsey, Stuart & Co. Inc. and Associates Offer New England Telephone & Telegraph Debs.

Halsey, Stuart & Co. Inc. heads an underwriting group that is offering publicly today $35,000,000 New England Telephone & Telegraph Co. 25-year 3% debentures, due March 15, 1974, at 100¾% and accrued interest. The group was awarded the debentures at competitive sale on a bid of 100.10.

On receipt of proceeds from the sale the company will deposit with The First National Bank of Boston $35,000,000 (which may be temporarily invested until June 1, 1949, in whole or in part, in short-term U. S. Government obligations) to be used for the redemption on June 1, 1949, at their principal amount, of the company's first mortgage 30-year 5% bonds, series A, due June 1, 1952, outstanding in the amount of $35,000,000. The company will use the balance, if any, of such proceeds for other capital purposes.

The debentures will be redeemable at prices ranging from 103¾% to and including March 14, 1954, to 100% on and after March 15, 1969.

The company furnishes telephone service in Maine, Massachusetts, New Hampshire, Rhode Island and Vermont. On Dec. 31, 1948, the company had 2,132,405 telephones in service and a subsidiary had 5,904 in service. About 57% of the company's telephones are in metropolitan areas having a population of 100,000 or more, about 32% being in the metropolitan area of Boston.

With Carl F. Mead Co.

(Special to THE FINANCIAL CHRONICLE)

MARIETTA, OHIO—Harry K. Lown has joined the staff of Carl F. Mead & Co., Peoples Bank Building.

Harris, Upham Co. Adds

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — James B. Powell has been added to the staff of Harris, Upham & Co., 232 Montgomery Street.

Two With Invest. Programs

(Special to THE FINANCIAL CHRONICLE)

HARTFORD, CONN. — Everett H. Barth and Herbert S. Larson are with Investment Programs, 50 State Street.

Economic Outlook and the Automobile Industry

(Continued from page 13)

their own. The Prodigal Son has returned — not to eat the fatted calf, but to keep the calf fat.

With the help of our national sales force, can a balanced market be maintained today and kept on its long-term upward trend? I think so.

Consider the following facts:

The number of families in this country has increased by 12 million in eight years. That represents a lot of new human needs. At the same time, our labor force has grown by 12 million. That's a lot of buying power.

Productivity is higher than ever before.

The backlog of individual savings is three times greater than it was in 1940. In fact, the present savings figure of $207 billion is about two and one-half times greater than our whole national income in 1940. And compared to our disposable income, we are saving at a much higher rate than we were eight years ago.

In 1941 this country's ratio of consumer debt to savings was about 63%. That was considered a conservative figure. Yet today our consumer debt is but 32% of our savings—a very low ratio and one which taken by itself would reflect a sound national economy.

And in these days when many of us think we have seen some reckless, wild consumer spending, we discover that people are actually spending at a slower rate than before the war. Bank deposits, for example, when contrasted with spending figures are at a much higher ratio.

Perhaps the most amazing fact of all is the actual buying power of American customers today. Adjusting our figures to a 1940 standard, we find that if consumers maintain the same living standards they had at the start of the war, they still are left with **four** times as much money for discretionary spending as they had in that year. That sum is $103.1 billion. It represents what consumers have to spend after their basic needs are satisfied. This sum is greater than our entire national income in 1940.

We face a very different set of economic facts than existed at the time of the depression of 1921, 1933 and 1938. Floors have been built or established under our national economy designed to absorb extra weight of downward business trends; I refer particularly to unemployment insurance, social welfare compensation, accumulation of funds by State and Federal government for use in providing employment on State and Federal highway and building projects. Whether these floors are mostly plywood or concrete is not the point. Time will answer that question. We are assured, however, that these floors will at least bridge any temporary collapse in our economy. So, here again, as I see it, both buyer and seller can face the immediate future with renewed confidence.

Automobile Business Prospects

In the automobile business we are taking a long look at such facts and a lot of others as well.

The damned-up, urgent need for automotive transportation has been largely satisfied. With it has gone the speculative market—the selling of new cars by new car buyers at premium prices. The automobile business is showing another sign of normalcy—seasonal buying, a factor familiar to all of us in normal business years.

Another factor behind the recent shift in the automobile market has been consumer hesitation—the psychological factor I mentioned a few minutes ago. Dips in employment have worried some people; at least they have been sufficiently doubtful about the future to postpone their new car purchases. Others apparently have postponed buying in the hope of lower prices—a hope based on the drop in some food and other living costs. Wide publicity given to these price decreases seems to have expanded rather than decreased consumer price resistance in the automotive field. The fact that wages and material costs for car construction have not been lowered or that the automobile industry is faced with current demands for even higher wage costs apparently has not altered their attitude or decision to "wait and see."

While these factors have caused a shift in the automobile market, they have not, in my opinion, reduced by 5% the basic need and demand for new car transportation.

I am convinced that the automobile industry could sell between 5.5 and 6 million cars and trucks this year, if they could be produced. That's about 10% more than were produced by the entire industry in 1948. Let me point out that I said **sell 10% more—and I stress this word sell** because, in my opinion, at least 50% of these vehicles would have to be **sold.** I believe the genuine demand and actual need for car and truck transportation is large enough to absorb the largest production in the history of the industry, provided salesmen can rekindle the "desire" to buy.

Against this general background, perhaps we can appraise the opportunities the Prodigal Son finds as he returns to work.

The main thing I see directly in front of America's sales force is the obligation and opportunity to push upward the living standards of the people of this country.

This is a creative assignment, but salesmen have always been the ones to create new demand to make possible the savings of mass production. Salesmen have helped to make progress like this possible.

In 1909 a 60-watt light bulb cost 9 hours' work, or 1½ bushels of wheat. Now it costs 5 minutes work, or 1/20 of a bushel of wheat.

In 1909 a tire cost 155 hours' work, or 25 bushels of wheat. It was good for 3,500 miles. Today, a tire that runs 25,000 miles costs 9 hours' work, or 5½ bushels of wheat.

In 1909 a car cost 4,650 hours' work, or 750 bushels of wheat. Today it costs 1,175 hours' work, or 730 bushels of wheat.

In addition, thousands of new products which we take as a normal part of our daily life have appeared on the scene because salesmen saw their potential market.

Still Higher Living Standards

Too many of us seem to have accepted the status quo with respect to America's living standard. I presume this is so because it's so much higher than that of any other country in the world. But such an attitude completely ignores facts and possibilities like these:

There are 13 million American families without cars. Almost three million American homes don't have radios. More than eight million homes with electricity don't have electric refrigerators, to say nothing of the fact that about four million of our homes have no electric service of any kind. And even with greatly increased farm incomes, two-thirds of all farm homes in the United States still have no running water. Four out of five still do not have modern bathrooms. And more than 50% of American farms are still without a tractor.

There is not a rural area, town or city in the United States where living standards cannot be raised today by intelligent salesmen. Millions of people need more goods—need more goods than they now have, or need goods they have never had before. And they can afford to buy them. More selling and better selling is required, however, to turn these needs into higher living standards. And this brings me to another point about America's sales force — and it should give all those responsible for sales results plenty to think about.

There is an entire generation in the business world today who have never been "sold," and who have never "sold." They entered business since 1941. Their experience has been entirely in a strong seller's market. How this new generation will react or respond to a reversal of buying and selling tactics, I don't pretend to know. But, we do know that this unique and unprecedented situation presents a nice problem. The substantially reduced profit margin on a per unit sales basis in a rough, tough, competitive market, may cause timid, unresourceful and less aggressive souls to fold their business tents.

In any event, here again, is a job for America's sales force to maintain a stable, healthy retail business front.

I have enjoyed talking to you gentlemen today about salesmen. I like to talk about them and to them—it's a tonic for me to be among them. The optimism and enthusiasm of a salesman may not always be warranted by the facts, but neither are the predictions of the gloom squad. As far as forecasts go, I don't know whether the batting average of the sourpuss brigade is higher or lower than that of the smiling salesmen. I do know, however, that in this jet propulsion age people need the stimulating influence of hope. Just as fear is emotionally contagious, so is the optimism and hope of the salesman.

Summary

To summarize briefly:

First—Salesmen's efforts are of major importance in our national commercial life. It is just as important to **sell** as it is to **make.**

Second — Times are rapidly changing. In most lines the seller has lost his advantage. The buyer is back in control. It is up to us to do all we can—and that is a very great deal—to see that this buyer's market becomes a **balanced** market. Our goal is a healthy and constantly expanding economic climate.

Third—We are geared to the highest production achievements in our economic history. Statistics show that a balanced market is possible if we do our part of the job.

Finally—It is once more our obligation and opportunity to help raise American standards of living. That is not only the **hope** of the American people; it is their intention. They will be looking for leadership to the salesmen of America—not to the prophets of gloom.

Florida Securities Adds

(Special to THE FINANCIAL CHRONICLE)

ST. PETERSBURG, FLA. — Richard A. Rutter has been added to the staff of Florida Securities Co., Florida National Bank Building.

With Coburn, Middlebrook

(Special to THE FINANCIAL CHRONICLE)

HARTFORD, CONN. — Eleanor A. D. Lennon is with Coburn & Middlebrook, Inc., 37 Lewis Street.

With Kennedy-Peterson

(Special to THE FINANCIAL CHRONICLE)

HARTFORD, CONN.—Keith F. Kennedy is with Kennedy-Peterson, Inc., 75 Pearl Street.

United States Economy Depends on Foreign Trade

(Continued from page 12)

loans ceased, trade contracted and the economy deteriorated.

Mistakes of the 1920s

It is regrettable that a large portion of the credits extended to foreign nations during the '20s was not directed into constructive and revenue producing channels. The recipients had not employed the borrowed funds to create an economy of their own which could of itself continue to absorb American goods and services when financial aid from abroad would cease. Had they done this, the prosperity of the lender, that is the United States, would not only have accompanied the process of lending, but would have continued after the lending stopped. It would be utterly futile to endeavor to determine where to lay the blame. It is a condition with which we had to cope and not a theory.

Following the cessation of hostilities of World War II, it was found that the physical destruction resulting from the cataclysm was immeasurably greater than after the First World War. In addition, the sources from which needy nations could obtain aid in the form of goods and services became greatly restricted.

After 1918, the productive and manufacturing capacity of Central Europe, especially Germany, was unimpaired. In the Far East, Japan emerged as an important source of supply. Since the United States was rather generous in supplying German and Japanese industry with working capital, American manufacturers were called upon to meet very keen competition which had additional advantages in the form of cheap labor, governmental subsidies and low-cost transportation. In this way the trade which America had built up during the war, notably in Latin America, was gradually being lost.

As a result of World War II, Germany's capacity has been destroyed, probably for years to come. Japan as a competitor has been eliminated, at least for the time being, perhaps forever. The United States is virtually the only place where the rest of the world can, nay must come for aid in their rehabilitation efforts. We are once again ready and willing to aid today as we were a generation ago. Only the method has slightly changed.

In the '20s, loans and credits were made available through private channels, directly. Today, aid is furnished by the government, which means that American taxpayers are supplying aid indirectly. To what extent we shall succeed today in rebuilding a war-torn world to a point where it will be able to buy and pay for American goods and services out of their own economy, once we find it necessary or expedient to discontinue aiding them, time alone will tell. In this connection, it may be of interest to refer to a few observations in a recent issue of the London "Economist":

"The period of European economic convalescence will have to be extended beyond 1952. Western Europe's crisis is insoluble if it is simply considered in terms of Western Europe.

"The (trade) deficit is likely to be nearer $3 billion than $1 billion. And even this demands prodigious efforts.

"The schemes of mechanization upon which increased productivity depends are most unlikely all to come to fruition (because of) restricted supplies of capital.

"(It is a) question whether the nations can achieve the scale of exports they have proposed. For instance, to reach the target . . . would seem to entail capturing half the United States' South American markets."

It is noted that the "Economist" speaks of "prodigious efforts" on the part of countries which are scheduled to receive American aid. The unforunate consequence of extending aid on a very generous scale without demanding a *quid pro quo* is that the recipients develop a habit of relying almost solely upon outside aid, a habit they find difficult to abandon.

Admittedly, ECA—the European Cooperative Administration—has done wonders for the economy of countries receiving aid, to say nothing of the achievements in the realm of politics. Nations which were on the verge of economic chaos have been resuscitated. Governments which have been threatened by sinister forces from without and within, have been rendered safe. And what is of particular interest, the cost of all this to the benefactor—the United States, has not been unduly large. The National Industrial Conference Board finds that "the program is costing the American public about $31 a person, or roughly, $113 for an average American family." There are some who will argue that this is quite a sizable amount.

Analysis of what has been accomplished in countries which have been aided, compared with what has taken place in countries deprived of such assistance, is of interest:

In Italy, for example, the Index of Industrial Production is only slightly above the prewar figure. According to statistics supplied by the United Nations, the latest index (at the beginning of September, 1948), stood at 101, taking 1937 as a base. It is worth noting that according to the General Confederation of Italian Industry, the General Index Number of Industrial Production at the end of August, 1948, stood at 71, taking 1938 as a base. It reached 82 in September, 1947, and declined to a low of 67 in January, 1948.

The value of Italian imports for 1948 was estimated at about 2¼ times the 1938 total, while exports were estimated at only 1½ times. The cost of living is almost 50 times the 1937 figure, while the official value of the currency has declined from about 19.4 to the dollar in 1938 to 575 to the dollar, or about one-thirtieth of its value 10 year ago.

Skepticism Over Italy

It is difficult to share the enthusiasm in certain quarters over Italy's gains in the realm of economics. It is also difficult to state how much is attributable to Italy's own efforts and how much to American dollars. It would be illuminating to ascertain the extent of the improvement which would have taken place if Italy had to depend on her own efforts, if she had to work out her own salvation, without appreciable aid from the outside world, as was advocated by one of Italy's great leaders of the past—Cesare Balbo who insisted: L'Italia fara da se (Italy will do it by herself).

An idea as to what can happen in a country which is dependent on her own resources may be obtained by examining the economic progress registered by another European country which has been unwilling or unable to avail itself of financial assistance offered under ECA—POLAND. According to latest available statistics, the Index of Industrial Production stood at 159 against 48 in 1945 and 100 in 1938. One may perhaps speculate on how much higher industrial output would have been in Poland if the country had received financial assistance, as was the case in Italy. The recovery in Poland is especially significant because the damage caused by the war was far more extensive than in Italy.

The volume of imports, taking 1938 as 100, stands at 141 and the volume of exports at 84, against 17 in 1945. The extent of the hardship facing the nation will become apparent from the published statistics relative to living costs. Compared with 1937, the Cost of Living Index has advanced 130 times while exchange in the free market has declined from about 5⅛ zloty to the dollar to more than 400 to the dollar, or about one eightieth.

France and Czechoslovakia

Comparing France and Czechoslovakia, we find the following illuminating statistics:

In France the Index of Industrial Output stands at 97, taking 1937 as 100. Imports have risen 40% compared with 1938, and exports about 37%. The official rate of exchange has advanced more than 8½ times, while the Cost of Living Index has risen more than 16 times.

Hourly earnings have advanced somewhat less than 7½ times, suggesting that taking into account the change in the rate of exchange, wages have remained virtually stationary. This is a serious problem which faces any French Government, whether headed by de Gaulle or Queuille.

In Czechoslovakia, which unfortunately was prevented from availing herself of aid offered under ECA, we find relatively more impressive progress than in France: Industrial output stands at 110, taking 1937 as 100. Imports are about 2½ times as large as in 1938 and exports about twice as large. Hourly earnings are about three times higher, corresponding almost exactly to the increase in the Cost of Living Index which stands at 317 against 100 in 1937.

The London "Economist" also warns of the possibility that a restored Western Europe might entail the loss of half of America's markets in Latin America. Those who recall what happened to our trade in this area after World War I, cannot dismiss this warning lightly.

The solution of economic problems which face the world is not the adoption of a regional recovery scheme. The way in which the world is situated today does not permit of prosperity in one area and chaos in another. Economic isolation, however enticing in theory, does not work in practice. It is held in certain quarters that the conclusion of regional pacts in the realm of politics and finance will achieve the millennium for all. This method has been tried before. It has not succeeded. It is being tried again. Judging by precedents, it is feared that it might not work this time.

So long as tension continues in the world and so long as people everywhere are in the grip of fear over a new catastrophe, it will be difficult, if not impossible, to establish a sound and lasting prosperity in certain areas, unless we feel that we possess the means and the willingness to continue to supply indefinitely, goods and services to those who pretend to be or who actually are our friends.

The situation today does not differ radically from that in the '20s. Because of our ability and willingness to lend, we created a period of almost unparalleled business activity and prosperity. Because of our ability and willingness to give aid today, we are creating a high volume of business today.

One of the factors which played a very prominent role in world recovery after the First World War was the successful effort to stabilize world currencies and devise means of maintaining currency stability. It was realized then, as unfortunately it does not seem to be fully realized today, that *without stability in the world's leading exchanges, trade and economic well-being cannot be promoted successfully.* Not only do we seem indifferent in regard to the currency situation, but certain of our legislators, as evident from the proposed McCarran, Johnson and Engle bills, appear determined to render currency stabilization more difficult, if not impossible.

The serious setback in our economy following the cessation of lending towards the end of the 1920-1930 decade, was, to a large degree, due to the fact that not all of our loans in the '20s were used productively. Our grants today may be prevented from going into constructive avenues, because of the steadily mounting fear that what one builds today may be destroyed tomorrow.

If a way could be found, or a method devised to resolve the existing tension, the restoration of a war-torn world and the development of backward areas could be undertaken with assurance and confidence.

Statesmen and diplomats have been telling us: It cannot be done; that is, the tension cannot be resolved. Intelligent opinion must repudiate such defeatism. The sign of true statesmanship is not to tell the world that problems can NOT be solved, but to find ways and means of HOW to solve them.

If those who are charged with guiding the destinies of the world are unable to provide solutions, they should be replaced by men who can. In this way alone will it be possible to effect world recovery in which the United States can and will play a glorious part for her own benefit as well as for that of the rest of the world. In this way, it will be possible to create for ourselves and our neighbors an era of lasting peace and genuine prosperity, fully warranted by the vastness of America's resources and the energy and industry of the American people.

Dangers in Farm Support Program

(Continued from page 16)

of thought. One group wants high, rigid supports. This group is making its principal appeal to the producers of cotton, tobacco, peanuts and wheat. They express a willingness to accept controls if necessary in order to get these high prices.

The other group endorses a flexible support price program and is generally opposed to government controls.

I am willing to assume whatever responsibility goes with identifying myself with the flexible support school of thought. I am unalterably opposed to government production controls, except in emergencies, for reasons which I will soon make clear.

I have no quarrel with those who advocate a 100% government guaranteed price for farmers, but personally I do not want to obtain such income at the price which their proposal would require us to pay. Allotments, quotas, controls and penalties should be exercised only as a last resort and not be permitted to become the regular order.

If 100% of parity price guaranteed by the government is the objective, then those who want this signed, sealed and delivered guarantee should no longer beat around the bush, but should come right out in the open for a government controlled agricultural economy. In no other way can a 100% guarantee of price to farmers be made to work.

I, for one, do not want to see a controlled agricultural economy in which our responsibilities and our destiny as farmers are surrendered to the Federal Government. I want our people—and particularly our farmers—to have the fullest opportunity to exercise their initiative, manage their farms, and think and plan for themselves.

That is the reason that I am opposed to a fixed, rigid guarantee of price for agricultural commodities in peacetime.

Above all else, I cannot believe it wise nor democratic to put the farmer in the position where his work is laid out for him and his efforts are directed by agents of the Federal Government, except on an emergency basis.

To presume that equality of income can be satisfactorily achieved by a Federally controlled economy is to presume that all men holding positions in government are capable, fair and honest. Unfortunately, men in government are subject to the same weaknesses as men out of government.

The power to direct American agriculture also carries the power to dominate, and, in spite of the esteem in which I hold most of the officials of the Department of Agriculture today, I would rather trust the future to the combined judgment and cooperative effort of the six million farm families of America than to a few men who might some day yield to the desire for more power or personal glory.

The Present Level of Price Support

We are confronted with the stark reality that the level at which support prices of agricultural commodities is fixed is a fundamental issue today not only of economics but of philosophy of government. The level of price support is a powerful force which can be used either to weaken or encourage farm initiative and individual resourcefulness.

From this fulcrum of price support, the lever of control can operate to sway the destiny of our farm people.

It has been my belief, and it still is, that the support level for farm commodities should be just below a fair market price, thereby providing incentives for the development of new uses and markets, and for the conversion of crop production which will prevent the accumulation of burdensome surpluses or undesirable shortages. That is the reason I insisted upon giving to the Secretary of Agriculture a flexible range within which he can fix support levels.

One of the major provisions of the Agricultural Act of 1948 is a new parity formula. This formula is intended to correct inequities in the price relationship between agricultural commodities.

The original formula has become so badly outmoded that it is used for only about 40 out of 150 farm commodities today.

For instance, wheat growers know that there is a nice profit in producing wheat at 90% of parity, while dairymen know that 90% as computed under the old formula scarcely represents the break-even point in the production of dairy products.

By using a new formula which reflects conditions which have prevailed during the latest ten years, each commodity is put more nearly in the proper relationship to all others.

The parity value of all agricultural commodities combined remains the same under the new formula as it was under the old formula which will go out of use on Jan. 1, 1950. It is only the re-

lationship between commodities that changes.

As a result of using this modernized formula which was endorsed by the major farm organizations and the U. S. Department of Agriculture, there will be a drop in the parity price of grain and an increase in the parity prices of dairy products, meat products, wool, poultry products, flax, soybeans and others.

The end result of this change in the parity formula should be to encourage the marketing of a greater part of our grain crop in the form of animal products.

The effect of this will be to place the American consumer on a higher dietary level, to return a larger share of the consumer's dollar to the farmer, to provide greater employment both on and off the farm, to encourage a greater production of soil building commodities and to provide a far wider market for grain than would be the case if it were marketed in the form of cereal rather than animal products.

The time has come when the grain producer must look to expanding his market in the United States rather than to foreign countries as an outlet for his surplus production.

The framers of the Agricultural Act of 1948 believed that an increased animal industry in America would definitely improve not only our entire national and agricultural economy but would expand the grain market faster than any other means except, of course, the delivery of our surplus to foreign countries at our own expense.

I now wish to discuss the reports that the new law will reduce price supports to 60% of parity.

The Agricultural Act of 1948

The Agricultural Act of 1948 provides minimum levels at which the six basic crops—corn, wheat, cotton, peanuts, rice and tobacco—must be supported. These minimums are based on the total supply of the commodity according to a formula incorporated in the Act. Theoretically, supports might have a 60 to 90% range. Actually, this could not happen.

Although the Act puts full emphasis on the avoidance of controls it does require that quotas must be voted upon whenever the total supply of a basic commodity reaches a certain percentage above a normal supply. In the case of wheat this is 120%. Whenever quotas are in effect a 20% premium is added to the support price.

If the producers of wheat vote for quotas when the supply reaches 120% of normal, the minimum support level would be 78%. The Secretary must then fix the actual support level somewhere between 78% and 90% unless the national security needs make a higher level necessary to get production.

In no case could the minimum support price of a basic commodity drop below 72% when quotas are in effect.

This is quite different from the 60% figure which has been so freely reported as the support level which would prevail. To assume even a 72% support is to assume that the Secretary would give the farmer the worst possible deal under the Act.

The Secretary at all times has full authority to maintain a support level of 90%, if in his opinion circumstances warrant it, guided by criteria established in the Act.

I have a great deal of confidence in our present Secretary of Agriculture, Mr. Brannon. I feel that he will use the discretionary powers of this Act wisely, nor can I conceive any future Secretary using this Act to give farmers the lowest permissible income.

The law does not fix a minimum support level for the 150 non-basic commodities, but it was made clear on the floor of the Senate that the Secretary of Agriculture is expected to support the price of those non-basic commodities which correspond closely to the so-called Steagall commodities such as dairy products, poultry, hogs, beef and soybeans, at approximately the same level as the basic commodities are supported. For other more perishable crops the Secretary is authorized to support the price from nothing up to 90%.

After all, why should we put all emphasis on supporting the prices of a few basic crops when several non-basic commodities are even more important in terms of farm and national income.

An amendment adopted on the floor of the Senate provides that potatoes shall be supported at from 60% to 90% of parity.

Another amendment provides that wool shall be supported at a level that will induce the production of 360 million pounds of shorn wool annually. This will doubtless mean 90% support for a few years at least.

High Price Support Does Not Mean High Farmer Income

Let us look now at the theory that high price supports and controls means high incomes. This theory is untenable. High support levels involving reduced acreage do not necessarily increase or even maintain farm income. In fact, the result of quotas and controls will more likely be reduced incomes.

As acreage is reduced, the cost of producing a bushel of wheat or corn or other grains increases in proportion to the acreage taken out of production.

In this age of mechanized farming, with its high investment in tractors, harvesters, combines, storage bins and other equipment and facilities, a large part of the cost of production is represented by fixed costs such as interest, taxes, repairs, depreciation, etc. These costs remain about the same regardless of the acreage planted.

The U. S. Department of Agriculture has worked out some very significant cost and income figures showing that on a farm of 605 acres, of which 276 is normally planted to wheat, that when acreage is cut 25%, the operating costs of the farm are reduced only 10%.

These Department figures show that a normal planting of wheat selling for $1.55 per bushel, will return a greater farm net income than if the acreage planted is reduced 25% and the crop sold at $2 per bushel.

This year's experience with high, rigid price supports is going to be costly.

There are heavy overplantings this year of certain commodities purely because of the 90% of parity guarantee for such commodities.

I make the prediction that should 1949 prove to be a good crop year, the total borrowing authority of the Commodity Credit Corporation, which is fixed by Congress at $4¾ billion, will be pretty well exhausted by Jan. 1, 1950 or at least by next Spring. This situation will not make the farm support programs more popular with either consumers, taxpayers, or the Congress.

Less than 20% of the people in the United States live on farms today.

Over 80% are employed in other occupations.

There is already increasing unemployment.

Consumer Dissatisfaction

Too high guarantees to farmers will result in increasing dissatisfaction in the cities.

The public will stand for a fairly high level of farm supports but it will not tolerate cost-plus guarantees for farmers when other people are down and out. It is not the small percentage of industrialists that always seem to make good profits that we have to think about—it is the great bulk of our population that will rebel.

Should the advocates of 100% support for farm commodities prevail with their views, I predict that the entire farm support price program will collapse within a few years. I do not anticipate that their views will prevail, however.

I anticipate that the major provisions of the Agricultural Act of 1948 will remain largely undisturbed in spite of political and group pressures which would overthrow them. I further predict that the Secretary of Agriculture will use the power vested in him by this bill to prevent agriculture from leading the way to another depression.

Keep Farmer From Losing His Shirt

The support levels provided for in this act guarantee the producers against precipitous declines in prices.

Barring major calamities, such as drouth, the act will serve to keep the farmer from losing his shirt or undergoing losses such as prevailed during the depression of the Thirties. This, of course, is quite different from guaranteeing him what he considers to be a perfectly satisfactory price and income.

I have heard many comments to the effect that we ought to have a law which provides for forward-pricing of farm commodities so that farmers can plan ahead.

The fact is, the Agricultural Act of 1948 does permit forward-pricing and the Department of Agriculture has so interpreted it.

The Secretary of Agriculture may announce in advance of planting the minimum level at which commodities will be supported.

In return for support of non-basic commodities, the Secretary of Agriculture may require compliance with production and marketing goals or even conformity to marketing agreements.

It would seem unreasonable to expect the Secretary to deal with thousands of widely scattered, unorganized producers of a perishable or semi-perishable commodity.

When the bill was under consideration the question arose as to how the Secretary could bring about compliance with production goals.

This prompted the committee which sponsored the bill to write into it a provision that the Secretary could support prices through loans, purchases or payments.

The provision for supporting prices through payments is new. It means that if producers fail to comply with the Secretary's request for reduced production or reduced marketing, he may direct all or part of the commodity concerned to be put upon the open market and reimburse those who do cooperate for the difference between the average price received in the market and the support price.

Those who fail to cooperate would receive only the open market price for what they produce. Cooperation in a support program is not compulsory. It will be up to each producer to decide whether to cooperate or not, but if he does not he cannot be assured of the support price.

Had this provision of the law been in effect this year, the Secretary could have directed all or part of the huge potato crop to be put upon the market so that the consumer could have received the benefit of lower prices and better potatoes.

As it is, potatoes have been priced off the table in so many instances that we are actually consuming a smaller quantity than we did in prewar days, in spite of the large increase in population.

Government has in many instances bought number one potatoes for use as cattle feed, while the low grades have been put upon the open market for human consumption. The costly debacle of the potato program brought on purely by a 90% price guarantee would be multiplied many times over by a flat guarantee of 90% or more for all important farm crops.

In determining the amount of assistance which government should give to any class or group, let us remember this—government is not an institution possessing unlimited resources to be expended for our benefit.

What we get from government, we must first put into government or else go in debt for it as we have already done to some extent. Government is an agency set up by the wise founders of our nation which we as individuals or groups can use for the mutual welfare and protection of us all. Government is no better than the men who hold positions in it. Therefore, let us think long and wisely before turning our personal destinies over to them.

There are good men and poor men in government. There are men who make rash promises to get into government and thus put themselves in a position to exercise power. There are men who today are advocating a largess for farmers far beyond our power to permanently sustain and, while they promise farmers high prices and high incomes, some of them also weep for the plight of the consumer, who, they say, pays too much for food and other living costs.

Farmer vs. Consumer

We must not be deceived by these protestations of concern—protestations of high prices for farmers and low costs for consumers.

Farmers cannot get high prices for what they produce unless city people pay well for what they buy. Unless farmers receive good prices for what they sell, city people will find themselves without a market for the industrial goods which they produce.

Very few of us in this world get something for nothing. Let us not be deluded now by the promises of those who offer high inducements to farmers to part with the most precious of all assets, their independence.

I reiterate—a rigid 90 to 100% price support program must be accompanied by strict controls.

Once we start to apply controls and penalties in the grain belt, for example, there will be no end.

The acreage taken out of production will also have to be controlled or it will be used to produce other crops which in turn will create excess production of other commodities.

We may expect that such a process would go on and on until a fully controlled agriculture results.

The question is whether, for the sake of illusionary increased incomes for a short time, American farmers are willing to surrender those rights for which their forefathers endured hardships—that we might know the meaning of freedom.

I do not mean to imply that government should remain aloof or indifferent to the needs of the people.

We need an efficient, democratically run government in this day of big business and a world made small by modern methods of communication and travel.

We need a government that lays down the rules of the game and enforces fair play; we need a government that protects the welfare of the needy and afflicted; we need a government that sees to it that our natural resources are developed and used wisely in the interest of the people, and a government that safeguards and maintains the nation's security.

The 30-odd million persons who live on the farms of America constitute the very backbone of our democracy and of our free enterprise system.

They are rooted in the traditions of self-reliance, honest work, and democratic processes. They are inheritors of the pioneer, progressive spirit of our forefathers.

The challenge now is to keep alive that spirit, and not let it be broken or weakened by false prophets or short-sighted promises, born of expediency and nurtured by illusionary gains. Our nation was not built on paternalism; and it cannot endure on paternalism.

An agriculture under governmental guardianship cannot be a strong agriculture. A nation whose people are not free cannot be a happy nation.

I want to see agriculture and the nation prosper on a sound and secure basis.

I want to see farm people and city people remain free—free from economic and political domination.

I want to see our country go forward in such a way that Americans can be masters of their own destiny.

We have shown to the world what a freedom-loving nation can accomplish.

We must demonstrate to ourselves and to the world that the torch of freedom is still alive, and that we can keep our economic system of free enterprise in balance without jeopardizing our liberty.

To do this is the responsibility of all of us—farm and city people alike.

I have confidence that we will meet that responsibility through far-sighted, united action.

Eastern Gas & Fuel Bds. Placed on Market

An underwriting group headed by Halsey, Stuart & Co. Inc. is offering publicly today $12,000,000 Eastern Gas and Fuel Associates first mortgage and collateral trust bonds, 3¾% series due March 1, 1974 at 102.459% and accrued interest. The group won award of the bonds at competitive sale on a bid of 101.239.

Of the net proceeds, approximately $5,300,000 will be added to the working capital funds of Eastern Gas and Fuel Associates, and will be applied to payment of its presently outstanding short-term notes payable to banks and balance to working capital. The balance of net proceeds, amounting to approximately $6 700,000, will be deposited initially with the Indenture Trustee, to be withdrawn from time to time pursuant to the provisions thereof upon certification to the trustee of additional property. It is anticipated that, based on the Association's present construction program, a substantial amount of this deposit will be withdrawn during 1949 and the remainder during 1950.

The bonds will be redeemable at general prices scaled from 105.46% to 100% and at special prices ranging from 102.46% to 100%.

The Association coordinates under one management an organization primarily for the conversion of coal into coke, gas and other products. It is engaged in the production, transportation and sale of bituminous coal, the conversion of coal into coke, gas and other products, the distribution and sale of such products, the operation of general merchandise stores, a blast furnace, and the carrying on of other allied operations. Its principal executive office is located in Boston, Mass.

With Barclay Investment

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — James E. Spelman has become affiliated with Barclay Investment Co., 39 South La Salle Street. He was previously with Herrick, Waddell & Reed, Inc.

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

● **American Hostess, Inc., Akron, Ohio**
March 14 (letter of notification) $125,000 of 6% promissory notes, 200 shares ($100 par) 6% cumulative preferred and 120 shares ($100 par) common. Price, par or face value. No underwriter. To purchase merchandise.

● **American Oil Exporters, Inc., Oklahoma City, Oklahoma**
March 17 filed 5,000,000 shares of common stock (1c par). **Underwriter**—Tellier & Co., New York. **Offering**—Stock will be offered at $1 per share. Stock purchasers will receive a fully paid up life insurance policy equal to the amount they pay for stock. The purchases must amount to not less than $250 nor more than $2,000. **Proceeds**—To purchase life insurance policies and for working capital to provide funds for oil exploration and development.

● **Arkansas Power & Light Co.**
March 18 filed $8,300,000 sinking fund debentures, due 1974. **Underwriters**—Names to be determined through competitive bidding. Probable Bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co.; The First Boston Corp.; Lehman Brothers and Stone & Webster Securities Corp. (jointly); Equitable Securities Corp. **Proceeds**—Reimburse treasury for funds expended in property additions, etc.

● **Arnold, Hoffman & Co. Inc., Providence, R. I.**
March 16 (letter of notification) 14,367 shares ($10 par) common. Price, $20 per share. **Underwriter**—Cohu & Co., New York. To make capital improvements and to provide additional working capital.

Associated Telephone Co., Ltd. (4/6)
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.

● **Bardwell & McAlister, Inc., Burbank, Calif.**
March 16 (letter of notification) $150,000 6% subordinated convertible notes and 100,000 shares ($1 par) common, issuable upon conversion of said notes at rate of one share of common stock for each $1.50 principal amount of notes. **Underwriters**—William R. Staats Co. and John B. Dunbar & Co. To repay a loan and for working capital.

Bell Telephone Co. of Pennsylvania (4/12)
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). **Proceeds**—To be applied toward repayment of advances from American Telephone & Telegraph Co. (parent). Expected April 12.

● **Bennett-Ireland, Inc., Norwich, N. Y. (3/30)**
March 23 (letter of notification) $100,000 15-year sinking fund first mortgage bonds. Price, par. **Underwriter**—Mohawk Valley Investing Co., Inc., Utica, N. Y. Reduce bank loans, general corporate purposes.

● **Big Valley Gold Dredging Co., Inc., Bremerton, Wash.**
March 8 (letter of notification) 60,000 shares of common stock (par $1). **Price**—$1 per share. No underwriter. For drilling and testing program.

● **Blue Moon Foods, Inc., Thorp, Wis.**
March 14 (letter of notification) 500 shares ($1 par) common. Price, market. **Underwriter**—Green & Co., acting as dealer, will receive commission for sales. Proceeds to selling stockholder.

● **Broad Street Investing Corp., New York City**
March 17 filed 150,000 shares of capital stock ($5 par). **Proceeds**—For investment. **Underwriter**—Broad Street Sales Corp. Price, market.

● **Brunswig Drug Co., Vernon, Calif.**
March 15 filed 24,000 shares ($4 par) common stock. **Underwriter**—William R. Staats Co. **Proceeds**—To selling stockholders.

● **California Life Insurance Co., Oakland, Calif.**
March 18 (letter of notification) 15,000 shares ($5 par) class A capital stock. **Price**—$10 per share. No underwriter. To raise additional capital and surplus.

California-Pacific Utilities (3/30)
March 11 filed 50,000 shares of 5½% cumulative convertible ($20 par) preferred stock. **Underwriters**—First California Co. heads a group of 12 underwriting firms. **Proceeds**—To pay off short-term bank indebtedness and for the company's expansion program. Expected Mar. 30.

Central Hudson Gas & Electric Corp. (4/1)
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 May 1.

Central Oklahoma Oil Corp. (3/31)
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.

● **Central Zone Property Corp., New York**
March 21 field voting trust certificates for 21,165 shares of common stock (par $1). Certificates extend for an additional five-year period a voting trust agreement between the same parties dated as of Jan. 2, 1944.

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.

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. Expected in April.

● **Commonwealth Investment Co., San Francisco**
March 18 filed 750,000 shares ($1 par) common stock. **Proceeds**—For investment. **Underwriter**—North American Securities Co. Price, market.

Continental Engineering Co. (4/1)
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.

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. **Bids**—Bids will be received by the company at Room 2033, No. 2 Rector Street, New York 6, N. Y., up to noon (EST) on March 28, for the purchase of the bonds.

● **Darden (William T.), Inc., Boston, Mass.**
March 17 (letter of notification) 4,100 shares of common. **Price**—$10 per share. No underwriter. To repay bank loans and for additional working capital.

● **Elfun Trusts, New York City**
March 23 filed 100,000 units of trustees' certificates.

● **Fidelity Fund, Inc., Boston, Mass.**
March 17 filed 350,000 shares ($5 par) capital stock. **Proceeds**—For investment. **Underwriters**—Paul H. Davis & Co. and the Crosley Corp. Price, market.

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.

● **General Telephone Corp., New York**
March 17 filed $10,000,000 of debentures, due 1964. **Underwriters**—Paine, Webber, Jackson & Curtis, Stone & Webster Securities Corp. and Mitchum, Tully & Co. **Proceeds**—To make additional common stock investments in subsidiaries and temporary advances to subsidiaries.

● **Glauber Brass Inc., Kinsman, Ohio**
March 14 (letter of notification) $150,000 5% first mortgage bonds, due March 15, 1961. **Underwriter**—The Ohio Co., Columbus, Ohio. **Proceeds**—To retire bank loan and provide additional working capital.

● **Hamilton Management Corp., Denver, Colo.**
March 14 (letter of notification) $200,000 20-year, 5% debentures. No underwriter. To finance the expansion and development of a retail sales organization.

● **Hotel Concord Co., North East, Pa.**
March 17 (letter of notification) 300 shares of 6% preferred stock. Price, $100 per share. Payment of existing obligations.

Hotelevision, Inc., L. I. City (3/30)
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.

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-Nebr. Natural Gas Co., Inc. (4/1)
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. Expected April 1.

● **Liggett & Myers Tobacco Co.**
March 21 filed 784,235 shares of common stock (par $25). **Underwriting**—None. **Offering**—To be offered for subscription by stockholders in ratio of one new share for each four shares held. **Proceeds**—To reduce short-term notes outstanding under company's credit agreements.

● **M. E. Realty Corp., Indianapolis, Ind.**
March 16 (letter of notification) $200,000 of unsecured promissory notes which may be guaranteed or endorsed by Mouldings, Inc. No underwriter. To pay part of the cost of the construction of a building.

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.

Magnavox Co., Fort Wayne, Ind.
Feb. 7 (letter of notification) 3,500 shares ($1 par) common stock. Price at market. **Underwriter** — Cruttenden & Co., Chicago. Securities being sold solely for benefit of Richard A. O'Connor.

● **Market Basket, Los Angeles, Calif.**
March 16 (letter of notification) 18,000 shares of preferred, Series C ($15 par). Price, $16.50 per share plus accrued dividends from April 1, 1949. **Underwriters**—Bateman, Eichler & Co., First California Co., William R. Staats Co. and Lester & Co. For additional working capital.

● **Matchless Mining Corp., Wilmington, Del.**
March 15 (letter of notification) 25,000 shares of common stock. Price, $1 per share. No underwriter. To purchase additional equipment and provide funds for expenses.

● **Mayflower Co., Salt Lake City, Utah**
March 14 (letter of notification) 100,000 shares (1c par) common. Price, 10 cents per share. **Underwriter**—The Cromer Brokerage Co., Salt Lake City. To liquidate debts and provide funds for operating expenses.

● **Midwestern Insurance Co., Oklahoma City, Oklahoma**
March 16 (letter of notification) 5,000 shares of common stock. Price, $25 per share. No underwriter. To increase capital.

Mississippi Power Co., Gulfport, Miss. (4/11)
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. and E. H. Rollins & Sons, Inc. (jointly). **Proceeds**—For construction. Expected April 11.

Montgomery Chiropractic Hospital, Inc., Norristown, Pa. (3/28)
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 March 28.

● **Mountain States Power Co., Albany, Ore.**
March 18 filed 50,770 shares (no par) common. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—The net proceeds of the stock together with the proceeds of $2,000,000 of bonds to be placed privately will be used to pay for part of the cost of retiring presently outstanding short-term notes and for additions and improvements to properties.

NEW ISSUE CALENDAR

March 25, 1949

Illinois Central RR., 11 a.m. (CST)__Equip. Tr. Ctfs.

March 28, 1949

Dallas Power & Light Co., noon (EST)_____Bonds
Montgomery Chiropractic Hospital Inc.___Common
Super Market Stores Corp._____Common

March 29, 1949

Chicago Milwaukee St. Paul — Pacific RR., Noon (CST) _____Equip. Trust Ctfs.
Colorado Fuel & Iron Corp._____Bonds
Illinois Power Co._____Preferred

March 30, 1949

Bennett-Ireland, Inc. _____Bonds
California-Pacific Utilities Co._____Preferred
Missouri Pacific RR., noon (EST)__Equip. Tr. Ctfs.
West Coast Telephone Co._____Common

March 31, 1949

Central Oklahoma Oil Corp._____Common
Ohio Public Service Co._____Common

April 1, 1949

Central Hudson Gas & Electric Corp._____Preferred
Continental Engineering Co._____Common
Kansas-Nebraska Natural Gas Co._____Preferred
Orange & Rockland Electric Co._____Preferred

April 4, 1949

Associated Telephone Co. Ltd._____Preferred

April 6, 1949

Pennsylvania RR., noon (EST)_____Equip. Tr. Ctfs.
Tucson Gas, Elec. Light & Power Co._____Common

April 11, 1949

Mississippi Power Co._____Bonds

April 12, 1949

Bell Telephone Co. of Va._____Bonds
Ohio Public Service Co._____Bonds

May 10, 1949

Public Service Electric & Gas Co._____Bonds

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.

● **Mutual Plywood Corp., Eureka, Calif.**
March 16 (letter of notification) $250,000 of 6% promissory notes. No underwriter. To complete plywood mill.

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 21 (letter of notification) 136,381 shares of common stock ($1 par). **Underwriters** — Aetna Securities Corp. and W. T. Bonn & Co. Price, market. 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. Rights expire April 18. **Underwriting**—None. **Proceeds**—For construction and to replenish working capital.

Ohio Public Service Co. (3/31-4/12)
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. **Bids**—Bids for purchase of stock expected to be opened on or about March 31 and for the bonds on or about April 12.

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.

● **Orange & Rockland Electric Co. (4/1)**
March 16 (letter of notification) 2,600 shares of 4% cumulative preferred stock (par $100). Underwriting, none. Price, par. Capital additions.

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.

Pepsi-Cola Bottling Co. of Wash., D. C. (4/4)
Dec. 21 (letter of notification) 31,500 shares (10¢ par) common stock to be sold to public at $3 per share; 40,000 shares to be offered to trade accounts; 27,500 shares to be offered on behalf of a stockholder at $3 per share and 10,000 options at 1¢ per share. **Underwriter**—Willis E. Burnside & Co., Inc., New York. For working capital and payment of taxes. Expected early in April.

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.

● **Rare Earths, Inc., McCall, Idaho**
March 11 (letter of notification) 750,000 shares (10c par) common and 2,500 shares ($90 par) preferred. To be offered in units of one share preferred and 300 shares common at $120 per unit.

● **San Diego Gas & Electric Co.**
March 18 filed 300,000 shares 4½% cumulative preferred stock (par $20). **Underwriters**—Names will be supplied by amendment, together with offering price. **Proceeds**—to reimburse company's treasury for capital expenditures, etc.

Super Market Stores Corp., N. Y. (3/28)
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.

● **Supervised Shares, Inc., Des Moines, Iowa**
March 23 filed 400,000 shares (25c par) common stock.

● **Tennessee Gas Transmission Co., Houston**
March 23 filed for $500,000 of contributions to be made by company employees under the thrift plan.

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**—Miihous, 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 Electric Service Co.**
March 22 filed $8,000,000 30-year first mortgage bonds. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co., Inc.; Hemphill, Noyes & Co. and Drexel & Co. (jointly); Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); Union Securities Corp. and Glore, Forgan & Co. (jointly). **Proceeds**—Net proceeds, together with $4,000,000 to be derived from sale of additional 2,000,000 shares of stock to parent (Texas Utilities Co.) and from other funds will be used to pay short-term notes and for construction of new facilities, etc.

● **Tip Top Mining & Milling Co., Tucson, Ariz.**
March 15 (letter of notification) 125,000 shares (no par) common stock. **Price**—$2 per share. No underwriter. For construction and operation of copper mill.

● **Toledo (Ohio) Edison Co.**
March 18 filed $2,500,000 first mortgage bonds, due 1979. **Underwriters**—Names to be determined through competitive bidding. Probable Bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & Co.; Harriman Ripley & Co.; Equitable Securities Corp.; Union Securities Corp., and Salomon Bros. & Hutzler (jointly); Kidder, Peabody & Co. and White, Weld & Co. (jointly); Lehman Brothers and Bear, Stearns & Co. (jointly). **Purpose**—To provide part of the new capital required for construction.

● **Tonopah Divided Mining Co., Reno, Nev.**
March 16 (letter of notification) 97,000 shares ($1 par) common stock, being offered to Arthur E. Orvis at 15 cents per share. No underwriter. For exploration and general expenses.

Tucson Gas, Elec. Light & Power Co. (4/6)
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**—At market. Offering available to dealers only; no solicitation being made to the public. Company's proceeds will be used to discharge accounts payable and for working capital.

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. and Blyth & Co., Inc. (jointly); Otis & Co. **Proceeds**—For corporate purposes, including construction.

West Coast Telephone Co. (3/30)
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.

● **Whitehall Fund, Inc., New York**
March 17 filed 25,000 shares of capital stock ($1 par). **Proceeds**—For investment. **Underwriter**—Broad Street Sales Corp. Price, market.

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.

Prospective Offerings

● **American Cyanamid Co.**
April 18 stockholders will be asked to approve a proposal to sell up to 40,000 shares of cumulative preferred stock to key employees at not less than $100 a share.

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.

● **Bangor & Aroostook RR.**
April 19 stockholders will be asked to approve an increase in authorized common stock from 322,852 shares ($50 par) to 468,000 shares, and authorize directors to issue available common stock at not less than par. The purpose of this, Curtis M. Hutchins, President, states, is to have available for issuance sufficient common stock so that funds for corporate purposes, including retirement of debt, may be provided in the future.

● **Boston Edison Co.**
March 17 reported company contemplates the sale of about 123,000 shares of common stock. Probable bidders: Merrill Lynch, Pierce, Fenner & Beane; Stone & Webster Securities Corp.; Smith Barney & Co.

● **California Oregon Power Co.**
March 14 A. S. Cummings, President, in 1948 annual report reveals an expansion program of $50,000,000 for next five years, requiring issuance of new securities, of which $8,100,000 approved for 1949, is expected during second half of 1949. Probable bidders: For bonds: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co. and Glore, Forgan & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane, Kidder, Peabody & Co. (jointly); White, Weld & Co.; Salomon Bros. & Hutzler; Blyth & Co., Inc. and The First Boston Corp. (jointly). For stock: Blyth & Co., Inc. and The First Boston Corp.; Harriman Rippey & Co.

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 will receive bids up to noon (CST) March 29 at its Chicago office 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.

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● **Cincinnati Gas & Electric Co.**
March 21 reported company planning a new common stock issue to finance its expansion program, which will involve about $50,000,000 in the 1949-1950 period. New issue, it is expected, will be offered stockholders on the basis of one new share for each nine shares held. Based on the 2,244,000 shares now outstanding, the new offering would amount to 249,333 additional common shares.

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. Probable bidders if any stock sold competitively: Blyth & Co., Inc.; Coffin & Burr and Spencer Trask & Co. (jointly); The First Boston Corp. If bonds: Halsey, Stuart & Co. Inc.; Dillon, Read & Co. Inc.; Coffin & Burr and Spencer Trask & Co.

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.

Florida Power Corp.
Preferred stockholders will vote March 30 and common stockholders March 31 on increasing 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. Company proposes to raise about $6,000,000 through equity securities to meet its construction requirements. Common will be offered for subscription by stockholders and preferred through underwriters. 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.

● **Gulf Public Service Co., Inc.**
The stockholders at their annual meeting adopted an amendment to the company's charter authorizing the issuance of 51,000 shares of common stock ($4 par). This will increase the outstanding common to 561,000 shares. Proceeds from the sale will be used for construction and other corporate requirements. Allen & Co. may be underwriter.

● **Idaho Power Co.**
March 22 company asked the FPC for permission to issue 200,000 common shares (par $20) and $1,000,000 4% preferred stock (par $100). Company also asked the Commission to authorize $4,000,000 of interim borrowings during 1949, pending receipt of the proceeds from the proposed stock issue. Company plans to use the money for expansion. Company has under consideration the sale late this year through competitive bidding of $12,000,000 of bonds. Probable bidders include Blyth & Co., Inc. and Lazard Freres & Co.

Illinois Central RR. (3/25)
The company will receive bids up to 11 a.m. (CST) at its Chicago office 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.

● **Illinois Power Co.**
March 10 company's construction program for 1949-1953 is estimated to cost $95,000,000 necessitating the issuance of some $60,000,000 new financing, in addition to the 200,000 preferred shares now in registration. Probable bidders for any bonds include Halsey, Stuart & Co. Inc.; Glore, Forgan & Co.

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.; Hemphill, Noyes & Co. and Drexel & Co. (jointly). 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.

● **Kentucky & West Virginia Power Co.**
March 15 reported company may be in market in May for the sale of $10,000,000 bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Glore, Forgan & Co. and Lehman Brothers (jointly); Union Securities Corp., Harriman Ripley & Co. and Kidder, Peabody & Co. (jointly); Shields & Co. and Salomon Bros. & Hutzler.

● **Merck & Co.**
April 19 stockholders will vote on a two-for-one split-up of the common stock and authorization of 100,000 shares of new convertible preferred stock, the latter to be issued at an opportune time to raise about $7,000,000 of new capital. Goldman, Sachs & Co. and Lehman Brothers, according to present plans, will manage a public offering of the shares.

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. Kalman & Co., St. Paul, may be underwriter.

● **Missouri Pacific RR. (3/30)**
The trustee will receive bids up to noon (EST) March 30 at company's office, St. Louis, Mo., for the purchase of $4,320,000 equipment trust certificates, series LL, dated April 15, 1949 and due $288,000 April 15, 1950-1964. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. and Lehman Brothers (jointly); White, Weld & Co.

● **New England Electric System**
March 18 reported company is considering plans for an offering, probably in June, of additional stock to its present shareholders. The amount involved is said to be from 600,000 to 850,000 additional shares. Probable bidders include Merrill Lynch, Pierce, Fenner & Beane, Kidder, Peabody & Co. and White, Weld & Co. (jointly); Harriman Ripley & Co. and Goldman, Sachs & Co. (jointly).

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.

● **Northern Indiana Public Service Co.**
The company expects to spend $49,000,000 in the next three years to expand its electric, gas and water facilities. Approximately $25,000,000 of the total will have to be financed through the sale of additional securities, Dean H. Mitchell, President, disclosed in the annual report. The remainder will be provided from cash on hand, depreciation reserves and the $11,000,000 realized through the sale of bonds last November.

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 and Blyth & Co., Inc. (jointly).

Pacific Gas & Electric Co.
To permit flexibility in planning the financing of its large construction program, company is asking stockholders on April 12 to increase authorized first preferred stock from 8,000,000 to 12,000,000 shares and the authorized common from 10,000,000 shares to 12,000,000 shares. At present time no decision has been made regarding further sales of stock (other than present offering to stockholders of 754,038 common shares).

● **Pennsylvania RR. (4/6)**
Bids for the purchase of $9,990,000 equipment trust certificates, series W, dated Nov. 1, 1948, and due in 15 annual instalments of $666,000 from Nov. 1, 1949-1963, will be received by company at Room 1811, Broad Street Station, Philadelphia, up to noon (EST) April 6. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Salomon Bros. & Hutzler; Harriman Ripley & Co. and Lehman Brothers.

● **Pennsylvania Railroad**
May 10 stockholders will vote on a proposal to authorize an increase in the indebtedness of the company. Details of the proposal will be contained in the company's proxy statement which will be issued later this month. The increase will be when and as prescribed by the board of directors. It is customary for the road to seek authorizations in debt increase and to issue securities under the authorization as required.

● **Potomac Electric Power Co.**
March 23 the District of Columbia Public Utilities Commission turned down a proposal by the company to sell $37,000,000 of bonds to three large insurance companies. Investment banking firms of Halsey, Stuart & Co. Inc. and Otis & Co. had filed objections. In denying the application, the Commission said the sale would not be in the public interest. J. F. Reilly, counsel for the company, said the company will formulate a new proposal to finance construction and refund its outstanding debt. Other probable bidders besides the foregoing, if sale is competitive, include Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Bean (jointly); Blyth & Co., Inc., Lehman Brothers, Harriman Ripley & Co. and Alex. Brown & Sons (jointly); White, Weld & Co. and Salomon Bros. & Hutzler (jointly).

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.

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 California Edison Co.**
March 14 company reported additional new capital of about $45,000,000 needed for 1949 construction program, the financing to be common stock. Traditional underwriters: Harris, Hall & Co. (Inc.); The First Boston Corp.

● **Southern New England Telephone Co.**
April 5 stockholders will vote on a proposed four-for-one stock split and a reduction in par value from $100 to $25 a share. There are 600,000 shares outstanding. The split, it is stated, is designed to make the stock more attractive to investors. The company plans to meet some of its need for construction funds in the next few years by sale of stock.

● **Southern Railway**
March 22 company is planning to refund all or part of the $12,474,000 St. Louis division first mortgage 4% bonds maturing Jan. 1, 1951. Stockholders will be asked at their May 17 meeting to approve creation of a new first mortgage for this purpose. Bonds will be sold at competitive bidding.

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.

● **Tennessee Products & Chemical Corp.**
March 15 stockholders voted to increase authorized common stock by 150,000 shares. New shares will be retained for issuance in the future discretion of the directors and no immediate use of the new stock is contemplated.

● **Texas Co.**
April 26 stockholders will be asked to approve increase in authorized capital stock to 20,000,000 shares from 14,000,000. The company states it has no present plans for issuing new shares of stock.

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; White, Weld & Co.; Stone & Webster Securities Corp. and Lehman Brothers (jointly); Harriman Ripley & Co.; The First Boston Corp.; Salomon Bros. & Hutzler.

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.

Yield on Insurance Investments Up in 1948

Rise from 2.88% to 2.96% marks turn in decline extending over two decades.

The Institute of Life Insurance reports that the net rate of interest earned on invested life insurance funds in 1948 increased for the first time in many years, marking a turn in a 20-year sustained decline that took the rate from a high of more than 5% to a low of 2.88%.

"While the upturn was not sharp, it was sufficient to bring the 1948 rate earned by U. S. life companies to 2.96%, the highest reported since 1945," the Institute said. "This rise is a direct reflection of two things: the slight upturn in interest rates generally and the increased investment of funds in channels that produce a greater return.

"These two factors were both operative, although to a lesser extent, during 1947, but the decline continued that year because of the time required for the full impact of investment changes to affect the net earning rate. As the investment re-distribution and the rise in interest rates both continued through 1948, they may be expected to have a further effect on the earning rate this year."

"The 1948 earning rate was still about one-fourth less than the average for the '30's and only slightly more than half the rate for 1925. The effect of the lower level of investment earnings on life insurance operations is indicated by comparison of current earnings with figures of what might be earned at the higher rates. If the average rate earned in the '30's had still applied in 1948, the earnings on invested life insurance funds would have been well over half a billion dollars more than the year's actual earnings. The earning rate of the '20's would have produced even greater returns for policyholders.

"It was because of the long-sustained drop in earning rates that life insurance companies generally adjusted downward the interest rate guaranteed in new policies for the accumulation of reserves. It also explains the rising cost of life insurance in recent years, although the cost increase has not been as great as the earnings decline would indicate. This is because the earnings decline has been in part offset by an improvement in mortality among policyholders."

The net rate of interest earned on life insurance funds in recent years is reported by the Institute as follows:

1930-39 average	4.10%
1940	3.43
1941	3.41
1942	3.40
1943	3.29
1944	3.19
1945	3.07
1946	2.92
1947	2.88
1948	2.96

Geo. W. Pflug-Felder With Dempsey-Tegeler & Co.

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CALIF. — George W. Pflug-Felder has become associated with Dempsey-Tegeler & Co., 214 North Canon Drive, in charge of the research department. Mr. Pflug-Felder was formerly Los Angeles Manager for Conrad, Bruce & Co.

With Hornblower & Weeks

(Special to THE FINANCIAL CHRONICLE)

SPRINGFIELD, MASS. — William J. Hartt is with Hornblower & Weeks.

Charles T. Matz Joins Reynolds & Co. in Chi.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Charles T. Matz has become associated with

Charles T. Matz

Reynolds & Co., 208 South La Salle Street. Mr. Matz was previously with Harriman Ripley & Co. in the corporate trading department.

Our Reporter's Report

The first quarter of the year is rapidly drawing to a close and there is little prospect for any substantial pickup in the tempo of new underwritings in the time that is left.

Bankers and investors alike, presumably will be glad to write finis to this period which has not been especially helpful for either. The former can find reason for little but chagrin in the sluggish pace of business and the latter can do little more than bemoan the lack of opportunity afforded for the placement of funds.

This week held promise of a bit more activity and likewise diversification. But it was more or less agreed that what is really needed is a somewhat clearer picture of the outlook which might reasonably be expected to induce investors to become more active in the markets.

So far as new corporate issues of recent vintage are concerned, underwriters and their distributors have accomplished the task of distribution in a manner which has left little or nothing remaining on their shelves.

This has not always been along the most satisfactory lines, since some issues have lagged and finally been turned loose to take care of themselves. Such instances have been the exception, however, and by and large the situation in that respect is good.

An exception is in the case of railroad equipment offerings which came in some profusion during the quarter with some little backing up as a consequence.

Preferred Success

Underwriters who brought out Pacific Lighting Corp.'s 100,000 shares of new no par value cumulative $4.50 preferred stock yesterday were able to report quick oversubscription.

Priced at $101.50 a share to yield approximately 4.45% to the buyer, the stock was reported moving at a premium of about ½ point above the offering figure.

The big coast utility will apply the proceeds to financing construction programs of itself and its subsidiaries.

Eastern Gas & Fuel 3¾s

Another issue which was reported to have encountered a brisk reception was the $12,000,000 of first mortgage and collateral trust 25-year bonds of Eastern Gas & Fuel Associates.

In this instance the term, shorter than that for most recent issues, and the liberal yield by comparison with current returns afforded, appeared to stimulate broad interest.

The bonds, which attracted three separate bids at competitive sale, were placed at 102.459 to yield a return of 3.60% to the buyer.

A Bit on the Slow Side

Although the market for new issues appears to have good powers of absorption if the situation at hand carries appeal, it is indicated that institutional buyers still refuse to budge from their notions as regards yields.

Dealers report, for example, that Columbia Gas System 3s, brought out last week priced at 100.70 to yield about 2.96% net return, are still available at the issue level.

Moreover, it was indicated that Wisconsin Electric Power Co.'s new 2⅞%, due 1979, and offered at 101⅜ to yield 2.81% this week, were a bit on the sluggish side.

New England Tel. & Tel.

The controversy over rates, which the company plans to take into the courts, apparently did not deter banking groups interested in the New England Telephone & Telegraph Co.'s 25-year debentures from going all out for the issue yesterday.

Two groups bid for the $35,000,000 offering, with the successful group paying the company a price of 100.10 for a 3% coupon. The runner-up bid 101.7899 for a 3⅛% interest rate, indicating a spread of approximately ⅝ of a point between the bids.

In dealer circles the general observation was that winners must have based their bid on the convictions that an improved market is impending. At any rate, reports indicated that immediate interest in the reoffering at 100.75 to yield 2.96% was not especially keen.

Keena President of Curb ¼-Century Club

Martin J. Keena, Vice-President in charge of the securities division of the New York Curb Exchange, has been elected President of the Employees Quarter Century Club of the Curb Exchange, it was announced following the annual meeting. He succeeds Louis S. Burgers, a member of the trading floor supervisory staff.

Edwin J. O'Meara, who is in charge of trading floor personnel, has been elected Vice-President of the club. Christopher Hengeveld, Jr., Vice-President and Treasurer of the Curb, continues as Secretary-Treasurer of the club for another year.

Mr. Keena joined the old Curb Market in 1920 to become the first member of the department he now heads. Mr. O'Meara joined the Curb staff on June 27, 1921, the day the market moved from Broad Street to its present quarters to become an indoor exchange. Mr. Hengeveld became an employee a few months before the transition.

Halsey, Stuart Places Gulf Power Bonds

Halsey, Stuart & Co. Inc. is offering to the public today $2,500,000 Gulf Power Co. first mortgage bonds 3% series due April 1, 1979 at 100.56% and accrued interest. The firm won award of the bonds at competitive sale March 22 on its bid of 100.1099.

Proceeds will be used by the company to provide a portion of funds required for the construction or acquisition of permanent improvements, extensions and additions to its property or to reimburse its treasury in part for expenditures made for such purposes.

The bonds will be redeemable at regular prices ranging from 104.75% to 100% and at special prices scaled from 100.56% to 100%.

The company is engaged, within the northwestern portion of the State of Florida, in the generation and purchase of electric energy and its distribution and sale in 68 communities, as well as in rural areas, the sale at wholesale of electric energy to a non-affiliated utility and 4 rural cooperative associations and, incident to its electric business, the sale of appliances. The territory served directly by the company has an estimated area of approximately 6,500 square miles and an estimated population in excess of 240,000. As of Dec. 31, 1948, the number of electric customers served directly was 44,743.

The company is an operating subsidiary of The Southern Company which is in turn a subsidiary of The Commonwealth & Southern Corp. (Del.).

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—At least two of the smartest operators on both sides of the new "coalition" of conservative Democrats and Republicans which smashed the Truman leadership in the Senate on the filibuster issue, are privately passing the word to their boys, "be careful how you use this word, 'coalition.' "

This is more than the obvious. The obvious is to seek from getting too far out in front and getting shot at. The boys are not merely trying shyly to avoid the public appearance of having again conjured up that miraculous institution, a bi-partisan coalition of like thinkers, in order that their beautiful machine shall avoid having to be tested by the bright sunlight of publicity.

Actually what some of the smarter boys are trying to get across, particularly for the benefit of the newer members of the Congressional club, is that a coalition is something far from a legitimate and legal political marriage. Instead it is in the nature of a paramour relationship. The achievements of a coalition are informal and casual and inconstant.

* * *

To the casual reader of newspaper headlines this may make little difference. The fact is that Mr. Truman's leadership has suffered a decisive defeat in the Senate. A great deal of the entire Truman legislative program is in jeopardy even if the President has not yet found out about it, judging by his opening remarks this week to the U. S. Conference of Mayors.

Mr. Truman, in a reckless gamble for his civil rights program, tossed in all the prestige of a winning political candidate, and the momentum of a going political concern, in a desperate gamble to tighten up the Senate rules so as to prevent a filibuster against a later civil rights program. He tossed in, as it were, nearly all his political bankroll. And he lost.

As a consequence, conservative Democrats who, if the President had not gambled away his prestige and influence, might have tended to go part way with the President on many matters, won't go nearly so far. They will as a result of the fact that they have split once with the White House, split again, where they think it is to their advantage to do so. Republicans not too "liberal" will lose their fears of a Presidential attack if they do not follow the President, and even the dozen out and out "liberals" are fed up with the President's leadership.

Hence when legislation comes up, party discipline among the Democrats and Presidential prestige among the wavering Republicans will count for less and less. This means that the actual majority of the Senate will vote according to their "convictions" upon each piece of legislation as it comes up, by which is meant an inexact synthesis of their personal convictions about what ought to be done, plus their convictions about what is good for their political careers.

* * *

Since the bi-partisan "coalition" of relative conservatives (relative to the President's more radical program) is more numerous than the partisans of both parties for the President's program, that means that a majority of the Senate will amend in far-reaching respects the President's proposals on wage-hour, labor, and other legislation, and may succeed in killing other proposals, such as for increased taxes.

This business of people of like mind voting together when it suits their politics or convenience to vote alike is all there is to the "coalition," insiders want stressed.

In particular, the parties to the late filibuster fight will from time to time part company on particular issues. Thus, Senator John Sparkman, one of the ablest of the southern "liberals" as well as one of the most bitter foes of cloture, will vote for much of the "Fair Deal" and Republicans shortly will underline the fundamental instability of the "coalition" by plumping almost unanimously for an anti-lynching bill. It is not that the GOP Senators are personally so avid for anti-lynching legislation as that they think this is good politics for the 1950 Congressional elections.

* * *

What in particular should be noted, say the insiders, is that a "coalition" connotes something of a working organization. This the Senate "coalition" is not. There is no top leadership with lieutenants to carry out the policy, and no regular provision for reaching agreement from time to time as mutual interest arise. Thus, friends of Senator Taft describe as "nonsense" the allegation that since Taft led a nominal majority against the tightening of the rules on filibusters, he is *de facto* majority leader of the Senate.

Likewise the amorphous parties to the "coalition" are not dedicated to voting against what they conceive to be their own political benefit, just because to do so would happen to displease Mr. Truman. They are not that angry.

And the "coalition" only has power to "stop" Truman at many points. It is powerless, unlike a legitimate and formal political arrangement, to initiate its own program of legislation to carry the country progressively forward on more enlightened legislation.

* * *

While the usefulness of the "coalition" as a positive device for wresting control from the President is deprecated, the negative usefulness of this arrangement for stopping or modifying much of the Truman program is not. And the situation which resulted in this severe defeat of the Truman leadership, before its program of legislation was reached, is described as a neat and large victory for the Republican Senate leadership. The usual thing is for civil rights to be postponed until the end of the session and then dropped after a filibuster. By needling the Democrats into taking up the basic civil rights fight so early as Feb. 28, the GOP leadership played a large part in the defeat of the Senate Majority and its hold on its following. This is rather ruefully acknowledged by "good" Democrats themselves, who wonder why Mr. Truman fell for the political trap.

* * *

Whatever finally comes out of conference between the House and the Senate on a rent control bill, the implicit idea of both bills is that rent control shall finally end June 30, 1950.

* * *

It is now beginning to appear as though the latest "shot in the arm" to the economy won't get under way until about next January. That is the refund to veterans of the last war of their overpayments for their National Service Life Insurance. These refunds are due because the life expectancy tables used in the initial NSLI were too conservative, and since the veterans' insurance is a mutual fund, the excess is repayable to the policyholders.

Mr. Truman estimated the overpayment at $2 billion in his last Budget message. The Hoover Commission estimated it at $1.5 billion, and the Veterans' Administration has made no estimate.

The mechanics are that each veteran's account must be audited to determine the appropriate reserve for his particular life insurance circumstances, and the amount of the refund for each figured. This auditing is nearly completed.

However, the mechanics of paying the money will be tremendous, since about three-fourths of the payments will go to veterans whose policies have lapsed, and who do not maintain their addresses currently with the government.

Until recently it was hoped that the bulk of these outpayments could be completed by the end of this calendar year. Now it is anticipated that the volume payments will not begin until about January, 1950.

* * *

Most people who have followed in even a cursory way the problem of overlapping state, local, and Federal taxation, wonder if Mr. Truman "knew what he was walking into" when he promised the U. S. Conference of Mayors he would have the Secretary of the Treasury do something about this subject.

Actually the current interest in this enormously complicated and difficult problem developed near the end of 1948, when Treasury Secretary Snyder casually and with no advance thought threw out the idea to the meeting of the American Municipal Association, that something ought to be done about eliminating conflicts in taxation. The municipal group snapped up the offer so quick it figuratively made the Secretary's head snap, and he had not grounded this offer in any advance preparation. Mr. Truman repeated the delectable prospect before the U. S. Conference of Mayors.

Mr. Roosevelt made similar overtures during the '30s, also to the U. S. Conference of Mayors. The only thing which might have been construed as a concrete result of this promise was an obscure report in 1943 of a committee appointed by the Treasury to study this subject and make recommendations.

As a result of the offer to the municipal group, Mr. Snyder some time next month will hold a preliminary conference with a few municipal officials to discuss what should they do to begin to do something about this subject.

It is said that while all governments, state, Federal and local, are reaching out for more and more revenues, conflicts over objects of taxation will be mighty hard to iron out.

* * *

With Presidential approval, the State department expects to enliven the present chaotic legislative situation by shipping up to Congress the proposed charter of the International Trade Organization and agreement thereon, and to ask for approval.

Furthermore, the decision has been reached to submit it as an agreement in a form requiring, like Bretton Woods, only a majority of both houses, rather than as a treaty, which would require a two-thirds vote for approval.

Congress is pretty well primed to slice that one up. Congressmen declare that what in the ITO was intended to be a declaration of a few principles in favor of freer trade, has become a blessing for all sorts of trade restrictions, and provides "free trade for every one else but the U. S." Finally, they disagree with its general language favoring the planned economy throughout the world.

Submission of ITO was said to be imminent.

Its prospects for approval by Congress at this distance look slim.

(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

"What would a baby do with a bond?"

Joins Curlette & Co.

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA. — W. Douglas Handley has become associated with Curlette & Co., Chamber of Commerce Building. Mr. Handley was previously with Blair F. Claybaugh & Co., Inc.

With William S. Beeken Co.

(Special to THE FINANCIAL CHRONICLE)

WEST PALM BEACH, FLA.—MacDonell Moore has become connected with William S. Beeken Co., Guaranty Building.

With Goldman, Sachs

BOSTON, MASS. — Goldman, Sachs & Co., members of the New York Stock Exchange, announce that Robert Alden Dole has become associated with the firm in its Boston office, 75 Federal Street.