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Super-Liquidity

By MELCHIOR PALYI, PH. D.

Holding we have been living in a sea of liquidity for a decade, Dr. Palyi points out present bank lending is but a small fraction of inventories, whereas in 1929, a few points decline in inventory values impaired equity of entire banking system. Says every boom whether inflationary or otherwise is based on excessive liquidity, and liquidity, itself, is not a physical fact "but a state of mind." Sees under rule of excessive liquidity a downward adjustment giving way very soon to an upward readjustment, and contends "over-supply today may mean a shortage scare in due course," thus creating a short-term "cyclical pulsation."

I

For a decade, we have been living in a **prosperity that floats on a sea of liquidity.** Indeed, under any monetary conditions resembling normal—in other words, disregarding run-away conditions—there never has been an economy remotely as permeated with liquidity and with relatively so little in private debt as is the American system at this time and age.

Dr. Melchior Palyi

We have grown so accustomed to this condition of financial fluidity that we no longer are appreciative of it. But whoever has misgivings over the early ending of this prosperity because of an alleged drying-up of mass purchasing power or because of a supposed lack of means to finance corporate or municipal capital expansion, should take a look at a few figures.

There now are some $25-odd billions of **cash** in circulation outside the banks and the Treasury, against a bare $3.5 billion in 1929, and $4.7 billion in March, 1933. Net bank **deposits** amount to a round $150 billion against less than $40 billion in middle 1933. The cash surrender value of **life insurance** policies, which was down to $17.4 billion in June, 1933, now is close to $44 billion; they are "cash", too, from the policy owner's point of view.

In addition, we have presently a form of liquidity that did not exist before the Roosevelt Age: approximately $90 billion of **government bonds** in the hands of the public—other than banks and insurance companies — all convertible into cash at par value, on sight or short notice. The grand total of liquid means of the American people is just about $300 billion, or $2,000 per capita against barely $500 in June, 1933, less than $1,000 in March 1942, and some $1,500 in June, 1944.

Savings in savings banks alone have reached the all-time peak of almost $58 billion—and they do

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See pages 23 to 29 for pictures taken at 13th Annual Conference of Central States Group of IBA, and at Spring Dinner of the Cleveland Security Traders Association.

Financial Aspects of World Trade Problems

By W. R. STRELOW*

Vice-President, Guaranty Trust Co. of New York

New York banker calls attention to world-wide economic planning as impeding international trade. Says exchange and other controls are chief cause of dollar shortage, and attacks foreign bilateral trade agreements. Opposes changing price of gold and warns against implementation of foreign aid program "too much and too fast." Sees almost universal loss of confidence in national currencies and contends without free markets it will be impossible to fix true rates of exchange. Looks for decrease in our exports and imports.

It is a strange thing to see the world united on an objective and yet seemingly unable to advance toward it. That is approximately the situation in international trade today. Almost all countries are dedicated to the aim of stimulating world trade. Yet very little real progress is being made. What is the trouble?

William R. Strelow

Superficially, the trouble is that in most cases a country's efforts to stimulate its foreign trade consist of measures to increase its exports while restricting its imports. Since one country's imports are another's exports, the inescapable effect of import restrictions in one country is to restrict the exports of other countries. When almost all countries are doing the same thing at the same time, the over-all effect is to throttle world trade as a whole.

If this situation were primarily an outgrowth of the war, it would be reasonable to expect

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*An address by Mr. Strelow before the Export Managers Club of New York, New York City, March 22, 1949.

EDITORIAL

As We See It

Two Wars in One

The circus-like performances in and around the Waldorf-Astoria Hotel in New York City last week may have served some good purpose although at the moment we can not quite think what it could have been. They may or may not have somewhat clarified the atmosphere surrounding the so-called cold war between "East and West." They may or may not have added to the haze which seems to obscure the real nature of these antagonisms. Time may provide an answer to some of these riddles, but at the moment it would appear that the situation is left precisely where it was before — save possibly that popular feeling may have been again somewhat whetted by it all.

This is the more unfortunate since there is vital need for a clearer understanding of what is going on in the world today. The "cold war," if such it may be termed, is not one war but two wars in one. The two seem, moreover, at the moment to be more or less inextricably interwoven, although there is no compelling logical relationship between them. One of them is a war of ideas which, of course, can not be fought with bombs and guns; the other is a variant of the centuries-old imperialism which has cost so much blood and treasure in the course of time. That the two should now be more or less merged into one is apparently in large part a

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Early End of the Bear Market

By JOHN H. LEWIS*
John H. Lewis & Co.

Market analyst maintains progressively deteriorating international and domestic business situations will entail large-scale deficit financing and thus cause ending of bear market sometime this year. Mr. Lewis envisions some moderate subsequent lift from the market's lower levels. Predicts, however, continuation of international tension will forestall real bull market, and actual outbreak of hostilities would cause severe break.

I do not believe this bear market, as measured by the Dow-Jones industrial average, has ended. But, assuming peace, I think there is a fair chance that it will die this year. Everyone knows the difficulties of looking ahead in these times. The policies and actions of governments, particularly foreign, and their personalities are now to an unusual degree unpredictable. In the words of Winston Churchill: "It is not given to human beings, happily for them, for otherwise life would be intolerable, to foresee or to predict to any large extent the unfolding course of events. In one phase men seem to have been right, in another they seem to have been wrong. Then, again, a few years later, when the perspective of time has lengthened, all stands in a different setting. There is a new proportion. There is another scale of values. History with its flickering lamp stumbles along the trail of the past, trying to reconstruct its scenes, to revive its echoes, and kindle with pale gleams the passion of former days. What is the worth of all this? The only guide to a man is his conscience; the only shield to his memory is the rectitude and sincerity of his actions. It is very imprudent to walk through life without this shield, because we are so often mocked by the failure of our hopes and the upsetting of our calculations; but with this shield, however the fates may play, we march always in the ranks of honor." That, in language far superior to any at my command, delineates the mental attitude which anybody with temerity enough to prognosticate in these critical days should assume. I have given my sincere opinion on the duration of this bear market. I reserve the right to change my mind.

John H. Lewis

Business and the Market

Some of you may remember that when I spoke here in November, 1946, I had the opinion that the bear market might end in the second or third quarter of 1947. However, I reserved the right to change that idea. I did. I have never said since the Summer of 1946 that the bear market was over. I have been wrong in my timing of the over-all business trend, due in part to a series of unpredictable and temporary stimuli. I recognized that in 1947, but I did not think it mattered too much as far as the over-all stock market trend was concerned. You just don't start bull markets on top of a business and commodity price boom. We never have. I had great faith that we would not do it this time, particularly so, since our economy has been running on a balanced budget basis.

The attitudes of people with incomes of perhaps over $6,000-$7,000 annually probably determine the long-term course of our stock market. It is precisely among these prudent classes of our people that we find, on the average, a hard core of common sense. They rely on their past experience and good judgment for guidance. That teaches them to beware periods of boom and rapid commodity price advances. They know that in such periods large segments of the population are priced out of markets. A gap between production and consumption develops. The inevitable deflation ensues.

Now I have said that in my judgment there is a fair chance of this unusually long bear market bowing out this year. That should not be construed as meaning that immediately thereafter we shall enter a bull market of some vigor and amplitude. I am quite doubtful that we can have a real, big, bull market as long as international tension is with us. For a year or more before World Wars II an I, the Spanish-American and Civil wars, our stock markets were either in moderately declining phases or meandering through narrow movements. In all these four instances, the market seemed to sense the coming breaches of the peace, and either began discounting the coming events as adverse or waited to be sure of them before making an important move. A bull market based on confidence and the workings of free enterprise requires peace and some assurance of its continuity.

The Rearmament Race

We are in a period of rearmament not only in this country and Russia but over much of Europe and in other nations. The pace is being increased and no one can be sure how much it will be accelerated. There seems little doubt that we will have to assume much of the burden in rearming Europe, at least. This rate of military expenditures may easily gain momentum, just as it did before World War II. Then Hitler was bent on rearming rapidly and winning a quick and easy war. England finally became alarmed in 1936 and rushed her defense program as much as her political difficulties and lack of vision would permit. We do not know just what rearmament strides are beng made in Russia. In view of her aggressive moves and conquests, it would seem a fair assumption that she is pushing her own armament industries and those of the dominated satellite countries hard. The North Atlantic Security Pact will arouse her resentment, suspicions and fears and stimulate her efforts, and possibly her aggressiveness. These rearmament races feed on themselves.

It seems apparent that the world faces a crisis, a struggle for power. Russia wants world domination. The Western countries seek only a balance of power that will insure peace. Europe is the key to the ambitions and aims of these antagonists.

The United States now probably accounts for about half of the world's industrial production, as against about 35% before the war. Never before has any nation in modern times attained such a preponderance of industrial power as we have today. That fact in itself is, in one sense, an argument for peace, assuming we wisely use that power and the aggressive nation does not underestimate it or miscalculate the provocations which will cause us to use it. So great was our production power during the last war, that in 1944 our output of munitions was 40% of the total world's production and about 50% more than either all our allies or all our enemies put together. It was more than Germany's, Russia's and Japan's combined.

Russia the "Third World Power"

Industrial Europe has about the same population as the Soviet Union, including its satellite countries and its occupation zone of Germany, but excluding China. But Europe outside the Russian dominated countries has industrial superiority over the Soviet Union. If these undominated European countries were united, Russia would be the third world power, instead of the second as it is today. Should the Soviet Union ever extend its sway to the Atlantic Ocean, it would not only be a second world power, but it might be the number one power within a decade or two, if the prewar per capita production of industrial Europe could be maintained and increased.

Hence, the importance of Europe is apparent. It represents the springboard from which Russia might hope to leap to the heights of its ambition, world domination. Europe, with its large coal, iron, steel, electrical machinery and chemical industries, is the heart of the world crisis. If Russia can take Europe, it would greatly speed up the development of her whole Empire, including China. Otherwise, it will take possibly decades for her to match even the present industrial power of the

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*A speech by Mr. Lewis before The Bond Club of Buffalo, March 28, 1949.

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Are Stocks as Cheap As They Seem?

By RICHARD D. DONCHIAN
Futures, Inc., New York City

Contending low price-earnings ratios and high yields in 1920 did not prevent stocks from declining, investment analyst points out under certain circumstances high earnings and low price-earnings ratios are not assurance stocks are immune from further serious declines. Sees present high earnings largely result of inventory gains and abnormal consumer demands, both of which may evaporate rapidly in readjustment.

Richard D. Donchian

Today's low level of stock prices in terms of prosperous earnings and liberal dividend yields has been widely advanced as one of the strongest arguments in favor of holding and purchasing common stocks. Frequent comparisons have been made with the past to show that when similar low price-earnings ratios and high yields have prevailed, stocks have usually been on the bargain counter and, conversely, at important market tops much higher price-earnings ratios and lower yields have been the rule. Using the familiar Dow-Jones average of 30 industrial stocks, two such comparisons are submitted as follows:

I. AT PREVIOUS BARGAIN LEVEL JUNCTURES

Date	Price Dow-Jones Ind.	Annual Earnings	Price-Earnings Ratio	Income Yield
Mar. 31, 1948	98.95	*$9.81	10.1	7.75%
Apr. 28, 1942	92.92	†10.87	9.2	7.90
May 17, 1947	163.21	‡18.10	9.0	5.03
Dec. 31, 1948	177.30	§21.75	8.2	5.94

*Last three quarters of 1937 plus first quarter of 1938. †Last three quarters of 1941 plus first quarter of 1942. ‡Last half of 1946 plus first half of 1947. §Final quarter of 1948 estimated.

II. AT PREVIOUS MARKET TOPS

Date	Price Dow-Jones Ind.	Annual Earnings	Price-Earnings Ratio	Income Yield
Sept. 3, 1929	381.17	*$19.94	19.1	3.32%
Mar. 10, 1937	194.40	†11.12	17.5	3.75
Sept. 12, 1939	155.92	‡5.18	19.8	3.51
May 29, 1946	212.50	§10.24	20.8	3.23

*Full year 1929—quarterly earnings not available. †Last three quarters of 1936 plus first quarter of 1937. ‡Last quarter of 1938 plus first three quarters of 1939. §Last half of 1945 plus first half of 1946.

Source: Barron's—The Dow-Jones Averages.

It seems to be somewhat of an oversight that financial commentators and market students who indulge in comparisons such as the above have failed to point out that in the summer of 1920, when commodity prices were commencing to turn down from rarefied post World War I heights, the price-earnings ratios of common stocks were also extremely low and the income yields were likewise high. Again using the Dow-Jones industrial, then 20 in number, mid-1920 price-earnings ratios and yields are compared to the current situation as follows:

Date	Price Dow-Jones Ind.	Annual Earnings	Price-Earnings Ratio	Income Yield
June 30, 1920	90.05	*$7.52	*12.0	†6.74%
Dec. 31, 1948	173.30	‡21.75	8.2	5.94

*Eliminating two stocks, American Sugar and Central Leather, which ran heavy inventory loss deficits in 1920, the average earnings on the remaining 18 issues were $12.62 and the price-earnings ratio was only 7.1. †Based on 1920 dividends of $6.07 per share. ‡Final quarter of 1948 estimated.

In the summer of 1920, the fact that yields on average were higher than at the end of 1948 and price-earnings ratios by and large were as low or lower than those prevailing today did not prevent the Dow-Jones industrial average, coincident with a sharp decline in commodity prices, from suffering a 30% drop, from 90.76 on June 30, 1920, to 63.90 some months later.

Back in 1946 and 1947, much attention was directed to postwar economic similarities following World War I and World War II, and the expectation of a postwar price and business recession similar to the 1920-1921 setback was rather widely held. Events of the past two years have apparently made fools out of the believers in postwar parallels, and the optimists have indulged in a goodly amount of scoffing at the expense of the premature prognosticators of postwar economic gloom. Both the premature pessimists and the scoffing optimists, however, seem to have overlooked the fact that inasmuch as World War II lasted longer than World War I and was fought in an all-out fashion which created much greater shortages and pent-up demands, the immediate postwar business and price inflationary boom quite logically took longer to run its course. Without presuming to imply that the post World War II economic price readjustment, in a delayed-action manner, will necessarily unfold in a pattern broadly similar to the 1920-1921 experience (among the more conspicuous dissimilarities are the better credit conditions and our greater foreign

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Techniques and Ideas for Investment Salesmen

By JULIAN L. WATKINS*
Vice-President, H. B. Humphrey Company, Advertising

Discussing use of advertising copy as sales promotion, Mr. Watkins contends that investments are "one commodity in the world that has been advertised unimaginatively." Cites variety of advertising techniques used by leading advertising agencies and points out their application to selling of investments. Stresses value of informative advertisements and praises advertising program of N. Y. Stock Exchange. Advises use of emotional elements in advertising.

Some of the things that have happened in the last 25 years ought to concern you fellows vitally, not things that have happened to me, that is unimportant, but things that have happened to the advertising business and to the sale of merchandise. Great sales epics have been written, and they have been written largely by advertising. And the one commodity in the world that is very seldom—I was about to say never, but that, of course, would be a mistake—but the one commodity in the world that has been advertised unimaginatively is investments.


Julian L. Watkins

I am going to try to prove to you before I finish that that is true and that you fellows have the opportunity of a life time in the investment business to bring to it entirely new sales techniques in which advertising will play a large part, or should play a large part; the way advertising has played such a large part in the sale of life insurance, for example, which in a sense is somewhat parallel to what you are selling.

Bennett Cerf, of whom you have probably heard, has written a book called "Shake Well Before Using." There are a lot of anecdotes in that book and some of them are dreadfully pointed at you people here tonight. There is one which is a paragraph long, but like the picture that says more than a thousand words, this paragraph says more, probably, than two thousand words that I or anybody else could say to you about merchandising securities. Let me read it:

"Two blind beggars were working in the same general area on New York's Fifth Avenue. One was doing far better than the other in obtaining donations. An interested passerby checked to see what accounted for the difference as to degree of success, and noted that whereas the least successful beggar carried the usual sign stating 'I am Blind,' the more successful beggar carried a sign reading, 'It Is Spring and I Am Blind'."

Take the leading avertising agencies in the country today. I have had the good fortune to be with three of them, the three leaders, by the way. No design on my part, just luck. They are J. Walter Thompson Company in New York, with $104,000,000 in billing, and it is somehow still going up, the largest billing any advertising business has ever had.

Next is Young & Rubicam, with seventy or eighty million; I forget which, but an awful lot of millions. And the third one right now is "B. B. D. & O.", which Jack Benny had a lot of fun with over the radio the other night, Batten, Barton, Durstine & Osborne. And number four is—well, numbers three and four seem to alternate a good deal, like a couple of teams in a tight baseball race, one year one is ahead, and the next year another—the agency in third position most of the time over the last 20 years is N. W. Ayer & Son. That is the place I started out.

Variety of Technique

You know, it's a funny thing about those three agencies. They are three agencies that have proved themselves, and yet they employ entirely different sales techniques, both to sell their own merchandise, which is advertising, and to sell the merchandise of the people they advertise for. Let's talk a little bit about Thompson, because all of this, whether you realize it or not, should point up significant things that you might think about if you are interested primarily in moving investments out of vaults into safety deposit boxes of your customers.

J. Walter Thompson has made a success largely through the use of the testimonial. The testimonial is supposed to have formed the vertebra in J. W. Thompson's creative backbone. Certainly, some of Thompson's outstanding campaigns have been based on testimonials. You know some of them, The Lux movie stars, the Ponds Cream girls, and the current Northwestern Mutual Life Insurance compaign which uses men, businessmen, prominent men who have succeeded in their fields to a great degree.

I think the Northwestern Mutual campaign is an excellent example of the Thompson technique. Now, why do they use it? I don't care whether you agree with the use of the testimonial or not. You can't get away from the fact that if you are interested in sales, not only your own sales, but the sales of the companies whose securities you shall some day try to sell to an investor, you have got to reckon with it. It is a potent factor in selling merchandise. Why? Because it puts in an advertisement a human factor that somehow isn't there, and a real factor that somehow isn't there without the testimonial.

For example, you talk about life insurance. There is a good life insurance man in the room here now, and he can probably talk about it very interestingly, but you know yourself the average man comes in to see you about life insurance and he reels off a lot of statistics and you are soon bored to death. This man happens to be an exception. Of course, the life blood in your business is in a sense statistics, and the ability to handle your company's securities, but how much more alive, how those statistics, how those facts, how the information about the company comes to life when you start talking about people. Because people are news. You are news; I am news. The newspapers are built on it, radio

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*These two lectures, by Messrs. Watkins and Chirurg, are the seventh in a series in a course on Investment Salesmanship, sponsored by Boston University and the Boston Investment Club, Boston, Mass., March 15, 1949.

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 previous lectures appeared on page 4, in our issues of March 3, 10 and 24, 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 JAMES THOMAS CHIRURG*
President, James Thomas Chirurg Company

Mr. Chirurg reviews history of selling techniques during last half-century and stresses importance of new ideas in products as aids in their distribution. Says each product should have a basic sales idea and each salesman should study strong points of his product, as well as studying the character of people who buy the product. Advises "if you can't get your prospect to come over to your side of the fence, you haven't made a sale—and drop it."

I understand that you gentlemen are practical salesmen in the investment field. I was told that you wanted to hear about how our firm went about selling advertising agency service, and that it was your job to translate that or interpret it into terms of the investment business, of which I know absolutely nothing. I never have been contacted by an investment salesman. And that is no invitation to be tonight. But because of it, I know very little about the business. I have bought stocks and bonds, but I have done it by calling up and placing my orders, and the man on the other end of the phone got a pretty nice commission on it.


James T. Chirurg

Now, first I would like to review a little bit of the history of selling. The years up to about 1920 could be classified, in my opinion, as the era of pride in manufacturing. In other words, a manufacturer made or turned out a very good product, and he expected people to beat a path to his door to get it. (There are still a lot of people in New England who still expect this to happen. If you have a small family-owned concern and not a big group of stockholders, you can get away with it, and you as the head can usually have a comfortable living even though the people working with you don't.)

Then from 1921 to about 1929 came the era of competitive engineering. That means that Joe Jones over here made an equally good product; but he started to go to work in his research laboratories to see what he might be able to do to add an extra gadget or an extra plus into his particular product. In this way he hoped to give his salesmen something extra to sell, and the extra was manufactured right into the product.

From 1930 to about 1936 came the era of reduced buying power, and cost cutting. In other words, "It is cheaper; see if you can sell it." I have lived through that era. You fellows will probably see the time when you are going to live through a similar era. And that is the era of intense competition. And plenty of people in such a period think, "How can I sell the product for less money? How can I cut the corners?"

From 1937 to 1941 came the era of what I call competitive selling. In other words, another idea was born, and that was, "Here is the product. We will build an idea into that product and you, Mr. Salesman, don't have just a product to sell; you have a product plus an idea." What I mean by that is that you don't merely have a cake of soap to sell; you have a cake of soap that eliminates B.O.; so you have soap plus an idea. Take one of our own clients: "You don't have an air compressor to sell, you have a blue air compressor and the benefits that go with a blue air compressor." It is an idea built into the product, and a little later I am going to explain a lot more about such ideas.

Era of Production

From 1941 through 1948, you had what I call the era of production. There was no selling; there was no worry about manufacturing; it was just "get the goods out." That was due, of course, to the war, and these conditions are just beginning to break up at the present time. How long business will remain competitive we don't know, because if we start getting ready for another war, you are going to see stockpiling, which is already taking place. Then, as before, it won't be a question of selling; it will be a question of producing goods. But it would look in 1949 as if we are starting to get back into that 1937 to 1941 period, which I call the period of competitive selling.

Now, there are two ways to sell in a competitive market. One is to sell by cost-cutting. The salesman says, "I have something just as good, and it will cost you less." The other way of selling is, "I have a product, but it has an extra plus in it, something that will give you more for you money than you can get by buying this other man's product."

And that is really, in my opinion, what selling is. Many a salesman is merely an order-taker. He merely goes to the firm (I am not talking now of your business, but in general) and the man says, "Well, I can get it from Joe Jones, and his price is so-and-so." So the salesman gets on the phone and says, "I can get this sale if you can meet the price." Well, that is not selling. Selling is when you can make a sale stick at a higher price than the other fellow is getting for it. Then you are really selling. Anybody can cut prices.

But now, however, let's bring selling a little closer to the advertising business. And I am going to draw a chart here on the board, if I may.

We will call this vertical line the Market, and let's call this your Product or Service. It makes no difference, the product you have or the service you have to sell. Now, you are going to take that out to market through distribution channels. It may be a salaried salesman or a commission salesman. It may be a combination of that, plus a wholesaler, before it reaches a market.

Now, somebody came along one day and said, "Well, that is all right, but you can't get around and leg it fast enough. Why don't you do some advertising? Why don't you send out a few envelope stuffers? Why don't you send out some direct mail? Why don't you

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Observations . . . .

By A. WILFRED MAY

Clarity and Confusion From the Waldorf

The so-called "Cultural and Scientific Conference for World Peace" which has concluded its round of fast-and-furious sessions at New York's Hotel Waldorf-Astoria may well have left no significant mark on the road to either war or peace. But it has nevertheless been highly significant in highlighting some of the vital confusions pervading various segments of our community, including our State Department, the American Communists, and particularly our well-meaning non-Communist Leftists.

A. Wilfred May

Moreover it has been again strikingly evidenced that the *intellectual* is in the van of confused individuals in every category.

Our Un-Confused Visitors

Contrastingly, our Russian visitors comprised the only group free of confusion, and knowingly pursuing their objectives. Dmitri Shostakovich, the great composer who has been forced to renovate his "bourgois" contrapuntal style to harmonize with political dictates laid down by the Kremlin's music policemen, assuredly has known what he is doing when parading the "free and progressive" culture of the "democratic" Soviets. Despite his presumably lesser familiarity with political than with music themes, even he no doubt also was acting with consistent purpose when at the *fine arts* panel he accused "a small group of American hate-mongers of preparing world public opinion for the transition from the cold war to outright aggression."

Similarly Alexander A. Fadayev, novelist and vitriolic declaimer of the anti-West diatribes at the World Congress of Intellectuals in Wroclaw, Poland, last August, Friday at the Waldorf, when first refusing to reply to this columnist's press conference query whether he still embraced those "un-peaceful" thoughts and that evening launching a new anti-American attack, was not suffering from any confusion whatever in strategic following of the Party line.

Nor are the visiting "peace emissaries" evidencing confusion when they accuse their hosts of "fascism, warmongering and planned aggression" at the very same moment their own country, having concluded its Chinese campaign, is unloosing fresh military threats against both Iran and Finland. Doesn't this synchronization of sweet-and-peaceful talk with military moves smack of determined Hitlerian strategy rather than of any inner confusions?

The relationship of the Cultural Conference's agitations to the United Nations Educational, Scientific and Cultural Organization (UNESCO) raises another of the many questions confusing to the rest of the world community, but evidently to the servants of the Politburo not at all. Fortunately for the latter, they are wholly untroubled by the simple question why on the one hand their bosses keep them from participating in the cultural branch of UN, which is operating on a worldwide basis to promote peace, and from attending its conferences as the one about to begin in Cleveland—while on the other hand they find it necessary to pursue the avowedly identical objectives under private auspices, and with revolution-passing by hand-picked delegates.

The Befuddled Do-Gooders

One group of really confused people were the many well-meaning American Communists and non-Communist participants. They are basically mixed up in mistaking international issues for their own suppressed but really controlling domestic aims.

For example, Paul M. Sweezy, an economist formerly of Harvard, said at one of the panels: "The present American militaristic and imperialistic policy must lead to war eventually unless people everywhere, but especially the people of Western Europe and America, can be brought to understand that the only possible guarantee of lasting peace is **a new social order that puts the interests of the producer and the consumer above the interests of private capital.**"

Similarly revealing his preoccupation with class struggle rather than with international peace was Clifford Odets, the playwright. Referring to the capitalistic system, he counselled: "Artists must join in spewing out the moral imbecile who talks guns and ethics; and must lead the overthrow of bourgeois society everywhere."

Likewise Dr. Allan M. Butler, professor of pediatrics at Harvard, saw fit to further the cause of Soviet-American peace by plumping for the socialization of medicine and attacking the American Medical Association.

And nearly every speaker, of course, joined in castigating the war-mongering gluttony previously castigated as "Wall Street" (the "appeasers" of the last War).

State Department Inconsistencies

A different kind of confusion characterized the actions of our State Department toward our actual and would-be visitors. First the Department got off wholly on the right foot by laying down the principle of free speech and open-mindedness thus: "The Government of the United States has approved the issuance of these visas because of its unswerving devotion to freedom of information and free speech on any issue, however controversial it may be. As such this government does not feel that the visa authority should be used to prevent any arrangements, however dubious they may appear, for open public debate of outstanding issues."

But immediately after granting visas to the Russian and Satellite applicants in conformity with this exemplary principle, the State Department sharply reversed itself by cancelling visas it had already issued to four Britishers who are not Party members, and refused permits to would-be attenders from France and Italy. The flimsy, incomprehensible excuse for the discrimination was in distinguishing between the "official" and "unofficial" character of the applicants. Then during the Conference two Canadian participants, who are members of the Labor-Progressive, formerly Canada's Communist Party, were summarily evicted from the country at the instance of our Department of Justice; and now even the Russians are invited to leave without bivouacking through the nation.

Pianist OUT—Political Virtuoso IN

But in its contradictory attitudes toward the two musicians from Germany and the Soviet, Walter Gieseking and Dmitri Shostakovich, the Department has evidenced more fundamental and cynical inconsistency. Earlier this year Mr. Gieseking was barred from taking his piano around the country to fulfill a sold-out concert tour, and deported by the authorities because of alleged subservience to the Nazi regime—all after he had received a visa with an official clearance by our Military Government in Germany. About the only definite charge preferred was that he had joined a government - sponsored musicians' organization, and allegations of sympathy with Nazi ideology based on a letter containing friendly sentiments written one month after Hitler's accession to power in 1933.

Whereas, at the instance of the "peace-loving" National Council of Arts, Science and Professions, Mr. Gieseking was prevented from making a concert tour obviously having nothing whatever to do with politics, this same organization now has succeeded in bringing in Mr. Shostakovich—assuredly not for performing in the field of music but for sounding off his shrill dissonances in the cold war of politics. How either this group allegedly sponsoring a peace policy or the State Department can condemn the artistic performances of one musician who has lived under a past regime, and simultaneously condone the above-cited political diatribes of another, is beyond logical understanding.

The Anti-Communist "Liberals"

But the most confused and confusing group surrounding the present "Peace Conferences" are our Socialist so-called "Liberals" who are anti-Communist—now at long last. Our non-Communist Left, which has finally realized that Socialism in Russia has led to the loss of the freedoms which they cherish, still cannot see the danger that the extension of the Socialism which they advocate will lead to statism and coercion in other countries. Even the most of the Laski-ites here and in England now manage to speak out against Moscow. Last week Secretary of Labor Tobin and Senator Paul Douglas joined those at Freedom House crying out against the *Russian* type of Socialism, on the premise that Socialism grows into collectivist evil in accordance with the locale of its furtherance, and under the assumption that their own socialistic experimentation can be stopped half-way.

The current experience in England and other European countries, which have sunk into nationalization and economic stagnation at home and nationalism and exchange breakdowns abroad, should show that the promulgation of Socialism under noble motives is even more dangerous than when it is frankly avowed under the Communist label.

Responsibility of the Intellectuals

Our fighters for real democracy and freedom must realize that today the typical intellectual is the more likely to be a Socialist the more he is motivated by goodwill and that it is much easier to make out a good case for him than it is for the proponents of a free system. Furthermore the historical record shows that in the case of practically every democracy that has slid toward Socialism, the change-over has been preceded by its championing by the country's active intellectuals.

* * *

Note on Etiquette

News Item No. 1—"Waldorf Pickets Denounce Soviet."

Item No. 2—"Bevin Greeted by Egg-Tomato Barrage."

QUERY—Are our citizens who were so shocked by the "rude inhospitality" revealed by item one equally appalled by event number two?

The State of Trade and Industry

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

Work stoppages the past week had the effect of hindering operations in some industries and bringing about a slight decline in total industrial production. Notwithstanding this adverse factor, it was noted that material shortages did not develop and that output remained very moderately above the level of the comparable week in 1948.

In the matter of employment in the week ended March 12, continued claims for unemployment insurance dropped 2%, while initial claims were practically unchanged. As for total claims, they were almost 78% above those of a year ago.

* * *

Both hard and soft coal miners east of the Mississippi resumed work on Monday of this week following a memorial holiday of two weeks' duration ordered by John L. Lewis, United Mine Workers' President, as a protest against President Truman's appointment of Dr. James Boyd as director of the United States Bureau of Mines. It, at the same time, according to Mr. Lewis, served as a memorial to the miners killed and injured the past year.

The Senate's Interior Committee, defiant of John L. Lewis, lost no time following the work stoppage in approving the President's nomination by a 10-to-1 vote. Only a few more days elapsed when the Senate as a body confirmed Dr. Boyd's appointment by a 50-11 vote.

A total of 463,000 miners idle since the shutdown were expected to be mining coal by the end of Monday with everything in readiness for their return. Total recalls of workers of three railroads, laid off as a result of the drop in coal loadings, will amount to 15,650 in number.

The loss in miners' wages during the suspension of operations was estimated by a spokesman for the Western Pennsylvania Coal Operators Association at $55,000,000.

* * *

Factory sales of 426,665 motor vehicles in February set a postwar high for the month, the Automobile Manufacturers Association announced on Thursday of last week, topping the total for the same month of 1948 by 11%.

Passenger car output during February totaled 324,547 units, a daily rate that exceeded January by more than 4%.

Total factory sales for the first two months of 1949 reached 857,941 units, or 9% above the first two months of last year, the Association said.

Passenger cars accounted for 550,566 units of the total; motor trucks, 206,299 and motor coaches, 1,076, compared with 579,928 passenger cars, 206,254 motor trucks and 2,483 motor coaches in the like period of 1948.

* * *

Business failures rose sharply in February to 685, the highest total in any month since 1942. The increase from January was considerably steeper than the usual seasonal rise for February, bringing casualties about 64% above the same month of 1948. Despite the rise, concerns failing were about two-thirds as numerous as in February, 1940, when 1,042 businesses failed.

Dun's Failure Index, which represents the failure rate adjusted for seasonal variation and projected to an annual basis, reflected 29.8 casualties per 10,000 enterprises in operation. This was markedly higher than the previous February's rate of 19.5, but was about one-half the 58 per 10,000 recorded in the corresponding month of 1940.

The liabilities involved in February failures increased to $27,-567,000 from $19,159,000 in the initial month of 1949.

* * *

As many special promotions continued to herald the approach of Easter, shoppers bought slightly more than in the previous week. Total retail dollar volume was slightly below that of the comparable week a year ago and selectivity continued to characterize the shopping attitude of many consumers.

Total wholesale dollar volume rose very slightly in the week and was fractionally below that of the corresponding week last year. Many buyers increased their commitments for spring merchandise. Deliveries were generally improved as compared with this time in 1948, though collections were less prompt than in the similar week a year ago.

* * *

STEEL OUTPUT ENDS TEN-WEEK RECORD PERIOD IN WHICH OPERATIONS HELD AT OR ABOVE INDUSTRY'S THEORETICAL CAPACITY

In the steel market this week all is not serene. Sales officials are now sure that the buyers' market in steel is not far away for the

(Continued on page 37)

Stock Market Trends—Past and Future—Under "Welfare State"

By JULIAN D. WEISS*

President, First Investment Corporation, Los Angeles

Though predicting moderate decline in business activity, West Coast investment analyst says this development is not key to stock market picture. Holds real crux of problem devolves about basic change in economy from risk-taking free enterprise to "welfare state." Says big government spending is only temporary cushioning factor, and danger threatens because of increase in debt financing. Foresees no immediate change in economic situation, however, and says low stock market level has discounted problems ahead.

This is the season of the year when economists and businessmen alike set forth their best estimates (formerly called "forecasts") of what is to be expected in the year ahead. The major factors, which are omitted even in the best of analyses, often are more controlling than the considerations developed at great length.

Julian D. Weiss

Because perspective as to the broad stock market pattern is so important, particularly at this time, it is necessary to attempt to evaluate (a) what has been happening in recent years, and (b) what is likely to occur in the period ahead.

No elaborate statistics are required to prove that for a considerable period we have been enjoying one of the greatest booms in history—whether measured by gross national product, or the FRB Index of Industrial Production, or consumer incomes (either gross or net, i.e., disposable income of individuals after taxes), commodity prices, department store and all retail sales, heavy construction activity, commodity prices, wages, employment, corporate sales and profits, etc. All indices establish the fact that the various tangible measurements of our economic well-being have attained new peaks in 1948 — excepting only stock prices, which have remained in the doldrums, to a degree where the market has appeared to be in a separate world of its own, having no relationship to the other elements of our economy. What is the explanation of this phenomenon and the implications to be derived therefrom?

Basic Changes in Our Economy

The current period has not been characterized by "profitless prosperity." However, the implications of certain basic trends (discussed below) are there for all to see; and they have contributed to an "uneasy prosperity," characterized by the belief that it could not last and we would hit earth with a thud, in the form of another severe depression. Even a quick perusal of the so-called informed prognostications indicates, that each January in recent years has stressed the fact that the boom was over. That this view has not been the exclusive property of economists and businessmen, but has been shared by many stock market technicians (who, unfortunately, influence the views of many) is brought to mind by the recent weighty pronouncement of a technical service to the effect that severe depression lies ahead. This same organization was extremely bearish in the fall of 1946 (at the bear market low) and subsequently in 1947 stated that the Dow Theory bear market signal of Sept. 3, 1946, signalled an unusually deep business panic. They emphasized that without doubt there would be a severe business panic in 1947. (Since that time, business activity and all other economic measurements have gone up tremendously to new peaks.) A combination of unfavorable psychology in reflection of this attitude and of more important considerations, as discussed below, have precluded (and likely will continue to prevent) normal market response to economic indicators.

In recent years the writer consistently has expressed a favorable viewpoint relative to business activity. The current and prospective situation warrants more caution. The weakness and maladjustments in our economic structure are greater—but, at the same time, we definitely do not foresee depression, at least in 1949. A moderate decline in business activity seems certain, partly because of slightly lower physical volume and, in greater degree, because of declining prices. However we do not foresee a major deflationary spiral. Business activity should be down only slightly from 1948 (say 5% to 7%) and is likely to be far above any level attained in prewar years. In fact, it should be above any past peacetime year excepting only 1948. Earnings probably will decline in greater degree for many reasons, but on an over-all basis should be highly satisfactory.

If economic decline is not the key to the stock market picture, what is? There are two major elements:

(1) The fear that business will decline sharply—regardless of how erroneous this view is in fact; the inability to measure the extent of possible decline (once a trend in that direction has been initiated, as appears to be the case) induces a fear psychology. It is known that economic practice does not square with pure economic theory. As supplies increase, and prices begin to decline, buyers hold off, anticipating still lower prices; and sellers, who would not market a given commodity at higher prices, rush in to sell at the new lower price, seeing no price bottom. This tends to accentuate economic swings, but on the upside and downside. However, analysis of fundamental economic factors provides basis for concluding that after a moderate lapse of time, buyers of commodities and finished goods will be back in the market.

(2) The real crux of the situation devolves about a more basic change in our economy, which has been creeping on us, almost imperceptibly. All at once we awaken to a *fait accompli*. It is the change from free enterprise, with emphasis on the entrepreneurial function (risk-taking) as a means of creating employment and a higher living standard, to what for want of a better term can be called the "Welfare State." Under this latter concept, all-powerful, omniscient government is no longer merely the referee that sets the broad general rules of the game. Government plays the game, perhaps on both sides at once. It may not know at any given moment (as for example the present time) whether it is combating inflation or deflation, or both simultaneously.

We Have "Big Government"

What are the implications to be derived from this? First of all, we have "big government." The government's tax requirements are tremendous, as brought out by the recently submitted Federal budget of around $42 billion. We are committed to large defense expenditures and a "world support" program. Some idea of the magnitude of these and related items recently was presented in a discussion by Mr. R. J. Watkins of the National Security Resources Board.[1] He pointed out that the National Security Program will mean expenditures of almost $22 billion in the 1950 fiscal year (year to end June 30, 1950). This compares with estimated expenditures of $19.6 billion in the year to end June 30, 1949. Measure the magnitude of these expenditures and of a total budget of $42 billion against a national income of about $87 billion in 1929; about $72 billion in 1939; and about $104 billion in 1941, the prewar peak. (Figures on national income are as revised by U. S. Dept. of Commerce.) There are certain corollaries to this:

(1) Taxes are high and will remain high. The best to hope for is that Congressional opposition will prevent the Administration's request for increases.

(2) Taxation is based not only on revenue considerations, but equally on social considerations. Based on the philosophy of "spend and spend, tax and tax, elect and elect," the Administration's tax policies will continue to be designed to have maximum impact on the "soulless" corporations and on the middle and higher income groups, who control less votes. (Meanwhile the body politic will carry several million Federal employees on its payroll, and additional millions on state and local payrolls to meet the alleged requirements of our complex society.)

(3) Over the short run, government spending tends to be a cushioning factor. It lessens the full impact of the down phase of the cycle. The Keynes "purchasing power" concept has full sway with the Administration, being espoused by "fairhaired" theoretical economists such as Leon Keyserling of the President's Economic Advisory Board. (In large degree this mass spending philosophy is shared by John D. Clark of the Board. Washington sources indicate that the Board Chairman, Edwin Nourse, who is believed to have a more conservative and less political approach, is losing influence.) This "benevolent government" approach theoretically flattens out both the normal full cyclical upswings and downswings. Frankly, it may lessen a downswing to some degree. The billions poured out tend to sustain employment and mass consumer expenditures over the short term.

Business, not being entirely irrational, sees this all too clearly. It will take this artificial prosperity as it comes, but its state of mind (on which basic economic decisions to expand or contract are made) remains cautious. Therefore some decline in durable goods expenditures by industry are anticipated; and also continued limited desire for risk-taking by in-

*Mr. Weiss prepared this article as of Feb. 15.

1 The Commercial & Financial Chronicle, Feb. 3, 1949 p. 1.

(Continued on page 38)

From Washington Ahead of the News

By CARLISLE BARGERON

In a world in which men seem increasingly to be reaching for power— and nowhere is this truer than in our own land of the Free and the Brave—my mind goes back a few years to the reign of Wayne B. Wheeler. That little fellow—he wasn't more than 5 feet 3—out of Ohio, rode the prohibition racket to attain more power than ever was held by one man until the coming of Roosevelt. Within a few years he came to dictate the complexion of Congress. Not only this, the men who were appointed to public office without his approval were few and far between.

Carlisle Bargeron

His vehicle was the all-powerful Anti-Saloon League. It made no particular difference to Wheeler whether a candidate for office was a bank embezzler or a common crook, if he bowed to the dictates of the Anti-Saloon League, he was OK. Conversely, a man of the highest calibre but who was not a "political" dry, suffered the league's relentless and more often than not, effective opposition.

It came about that capable men, men of the highest character, ceased to run for Congress because they were unwilling to kow-tow to Wheeler. They might be men who never touched a drop themselves, but they were not "political" drys. In the House *today* is a man of unusual ability, a man whom it has often been said should be President, but who sacrificed his place in the Senate because he was politically a wet. He is Congressman Wadsworth.

Washington observers of the hifalutin '20s are of agreement that never in history did the Congress sink to such a low level of membership.

Today, a new master is seeking the domination of Congress, come hell or high water. This new master is the Labor Boss, not one man like Wheeler, but several of them working in one accord.

Their rule-of-thumb measure is 100% playing ball with them or you can't be elected. You may be outstanding in ability, a distinct need to the Congress, but unless you are willing to go along with them, they are determined to run you out of office.

They haven't yet attained the power which Wheeler had. They haven't yet come to prevail as Wheeler did. But they are moving in that direction.

They have exceeded Wheeler in arrogance. He used to sit impassively in the gallery while members of Congress railed and ranted against him. His threats, he made to the members privately in their office.

In the committee hearings on the Taft-Hartley bill we have been treated to the spectacle of labor leaders openly threatening the members then and there. We have been treated also to the spectacle of these labor leaders bluntly telling the majority members of the House and Senate committees what to do and what not to do. Some of these majority members, for example, members listed as "friends of labor," thought that the best strategy would be to accept some amendments to the Administration's bill in the committee with a view to taking some of the heat out of the fight on the floor.

All students of Congress know that the worst place in the world to write legislation is on the floor. It should be done primarily in the committee and the better the job is done there, the better legislation will be.

The new labor legislation is going to be written on the floors of the House and Senate. "Friends of labor" on the committee sought to prevent this. But they were overruled by the Labor Leaders. Report the bill out without change, they ordered.

The Labor press has been screaming about the "powerful lobby" of the employers to retain the Taft-Hartley Act. But I can say without the slightest fear of contradiction that no representative of management would dare demand that a member of Congress do this or that. He presents his argument and he does it in a gentlemanly way.

In fact, I know of no time in recent history when any "lobbyist for the interests" attempted to order a member of Congress to do anything or made any threats. It might well be that the member, in listening to him, is quite aware of the influence of the people whom the lobbyist represents. But the lobbyist himself knows that the way to win friends and influence people is not to make threats or demands, or to boast of his power. This approach is apparently peculiar to the labor bosses.

It is well to realize, too, the distinct difference in the matter of power or influence wielded by the management and the labor lobbyist.

Business generally has no organization with which to support or defeat candidates for office. An individual business may be active in a particular campaign, but the national organizations maintained by business keep out of political campaigns or the support or opposition of candidates, for one very big reason—that their members are usually on both sides of a given fence.

Politically, labor today is one big unit. It is prepared to throw thousands of dollars into Congressional campaigns, and to herd its members to the polls. It received somewhat of a political setback with the 80th Congress. With Truman's victory it is now feeling its oats again. The outcome of the Taft-Hartley Act will reflect to what degree it has again come to dominate Congress. If it should regain its dominance, we may expect to see the time when, as in Wayne B. Wheeler's reign, respectable men will not attempt to seek public office.

Our Mixed Economy—No Socialism

By EDWIN G. NOURSE*

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

President's top economic adviser holds we are pssing into "a healthy and husky buyers' market," and private enterprise has nothing to fear from Administration's policies. Says road we are traveling is neither Socialism nor laissez faire, and Employment Act of 1946 is strictly in line with spirit of 1776. Denies we are moving toward planned economy, but says instead we are trying to find the economic golden mean between "do gooders" and the "do nothings." Holds government should play "facilitating" role and private business an operating role.

Last Friday, I talked to the Executives Club of Chicago on "The Gentle Art of Disinflation." I stressed the point that disinflation means getting over the economic fever of price inflation and income-outgo spirals. It is not a blind force of nature but a sophisticated process of economic leadership, and calm, not panicky, behavior by the rank and file.

Edwin G. Nourse

I refrain as a matter of principle from prediction of what will happen in 1949. Such prediction seems to me quite reckless and utterly unscientific in view of the unpredictable character of the weather, of John Lewis, and of the Congress. But I did, in my Chicago talk, venture an appraisal of the underlying economic situation which furnishes the basis upon which business policy and action must proceed. In a word, I expressed a judgment that that foundation is essentially sound and strong. The question is, how well are we going to build on that good foundation?

The year 1949 is one in which vigorous and intelligent price and cost adjustments must be made in the heavy durables lines and in basic industries such as steel and coal. But these and other major industries are not overbuilt or overextended in inventory or credit. There is no stock market bubble of fictitious stock prices, thin margins, and 12% call money ready to burst as did the bubble of 1929. There are large unsatisfied demands of the population for houses, automobiles, household goods, for plant and for equipment at prices scaling seasonably downward from present high levels. The public has savings which still are large by any previous standard and a strong propensity to spend as long as employment is high and as fast as they are convinced that they are getting fair values.

While obviously we are passing out of the sellers' market, we are passing into a healthy and husky buyers' market. Vigorous and skillful competitive pricing should keep that market active for a long time ahead. For myself I do not believe that American businessmen want to rely on the artificial market in which war makes Uncle Sam the one big buyer and in which he has seemingly unlimited buying power derived from deficit spending. Nor do they have to ride an upward spiral of inflation such as we have just experienced while war savings were being disbursed and credit lines reestablished, nor do they rely on rearmament and foreign aid expenditures being kept at the high level of some $20 billion dollars. I believe American business enterprise expects to get back to conditions in which we show the world that free business under free government can keep resources used as steadily and fully as can authoritarianism and with much higher efficiency and fuller personal satisfaction.

Such are the purposes of the Employment Act of 1946. I believe that the meaning and possibilities of this act should be carefully studied by management, labor and agriculture and that they should participate actively in bringing to fruition its purpose of seeing that employment opportunities are furnished steadily, not intermittently, for "all those able, willing, and seeking to work." If this is to be done, however, we shall all need to get a clearer idea of just what are the desirable roles of private and of public economic activity in the business of life of a free people who demand maximum production to the end that there be the highest practicable level of general consumption.

The Employment Act of 1946 was only a general enabling act, which states a goal and one general line of approach. The details of procedure must be worked out through future years in many, many local and particular decisions and actions as situations rise. One of the most significant things about the Act is that it reaffirms and in fact makes more explicit and comprehensive than ever before in Federal legislation the national policy of adhering to a system of predominantly private enterprise. In so doing it adds one word of great importance to the customary phrase "free enterprise." It refers to "free **competitive** enterprise." If we have truly competitive free enterprise, the purposes of high production are in the way of being realized. It is freedom to get monopolistic that leads to restrictionism and low production.

But the Employment Act also states more explicitly and comprehensively than ever before a policy of the national government to follow such lines of positive action to promote high production as the legislature may see fit to authorize under the leadership of the Chief Executive or on its own initiative, subject to his veto powers. This declaration of residual public responsibility on a foundation of private enterprise simply reaffirms as a matter of conscious policy the traditional course we have followed ever since Colonial times. This is the "mixed" economy under which in Federal, state, and local matters we have been accustomed to operate.

Neither Socialism nor Laissez Faire

Anyone who stops to think of it realized that we have never had our socio-politico-economic carburetor rigidly set to any particular mixture; but neither have we ever undertaken to operate either on pure air or pure gasoline, neither socialism nor straight *laissez faire*. A century and a half ago, the infant national government planned the disposal of its public lands; the creation of a system of highway, waterway, and railroad transportation; a scheme of international commercial relations and of internal fiscal, monetary, and banking arrangements and institutions that were expected to facilitate and stimulate the vigorous use of our labor and natural resources and to fit our business life effectively into the changing conditions of the world economy. From time to time changes in the government plan have been introduced—from the "internal improvements" controversy of the 1830s to the varied New Deal programs of the 1930s.

The Employment Act of 1946 is strictly in line with the spirit of 1776. It reaffirms the American practice that has been followed again and again as we have found ourselves confronted by new problems. That is, we have generally speaking, given the individual and the privately organized group the first chance to perform a given economic service and to reap its gains—within general codes of proper conduct laid down by law. But when it has become clear that private resources were insufficient or private venturesomeness too feeble or the terms of private trade incompatible with social need, we have quite freely invoked community organization, state activity, or Federal aid or in a few instances outright operation. Sometimes—as in the carrying of the mail—the people have prejudged the case and launched a public agency without giving much opportunity for private business to show what it could do. Sometimes, on the other hand, the public has put up with poor service because of a feeling that the field should, as a matter of principle, be left to private exploitation.

For a surprisingly large number of economic functions we have organized along parallel lines of private and of public activity. We have accelerated or checked the expansion of postal, highway, education, health, power, forest, and amusement services as local and temporary circumstances seemed to require. It is nonsense to say that we have had any consistent or rational policy or economic or social theory in these matters. We have been opportunists trying to get something done, and to **preserve freedom of action of the citizen as well as the business enterpriser** in the process of getting it done.

I strongly suspect that we shall continue these rather unsystematic practices in future much as we followed them for a century or more before the Employment Act was passed. But in conjunction with — and in a sense compensating for — this flexible and easygoing way of business life we have at length enunciated a basic policy of economic responsibility for the Federal Government, coordinated—so far as they will permit—with state and local governments. This policy is in no way to abrogate or interfere with the embarking of the people in such private ventures as seem to them promising. Nor does it propose any logical or ideological rule or criterion for determining the line between private, publicly regulated, and governmental activity, in the economic area. The one distinctive change in this regard that the act introduces is in defining the concept of a national economic goal, attempting to gauge the amount by which actual performance falls short of that goal, and declaring formal governmental responsibility for seeking effective means of closing that deficiency.

Not a Planned Economy

This does not mean that we have passed over to a planned economy. This fact the Council set forth explicitly in its Third Annual Report to the President, when it said:

"The policy declared [in the Declaration of Policy of the Employment Act] does not create a 'planned economy.' By that term, people who speak with precision designate the kind of economic system in which the main objectives for which productive resources shall be used and the means to direct them to the de-

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*An address by Dr. Nourse before the Economic Club of Detroit, Detroit, Mich., March 21, 1949.

Electric Utilities Shares on Bargain Shelf

By HAROLD H. SCAFF*

Vice-President, Ebasco Services Incorporated

Utilities expert supports view electric utility common stocks offer attractive buys on grounds: (1) there has been improvement in utilities financial position during last decade; (2) market for their services is expanding; (3) economies in operation develop as services expand, thus lowering unit costs; (4) outlook is for lower prices for fuel and materials; and (5) regulatory authorities are realizing importance and necessity of adequate earning power to attract capital to utilities. Estimates electric utility expansion program will require $8½ billion in next five years.

I have been strongly of the opinion for quite some time that electric utility common stocks offer attractive buys and I have noticed in scanning the financial news sheets recently that a number of other people feel the same way. The best proof of this optimism may be found in the market action of such stocks. To show what I mean, I have had a chart prepared, which is No. I of a series, that shows the weekly closings of utility, industrial and railroad stock prices for the period Nov. 27, 1948, to March 5, 1949.

Harold H. Scaff

While the chart covers only a period of three months, it is interesting to note the improvement that has occurred in utility stock prices during that period as contrasted with the downward trend in railroad stocks and the static condition of the market in industrial stocks.

A number of factors contribute to this optimistic view, but I would like to stress five categories which completely justify it in my opinion.

The first of these has to do with the improvement that has taken place over the past ten years in the financial position of electric utility companies generally. While some of this improvement was accomplished at the expense of past security holders, nevertheless, the improvement undoubtedly redounds to the benefit of present and future security holders, and particularly equity holders.

Changes that have occurred in capitalization of these utilities have materially strengthened their financial structure. The accompanying chart (No. I) shows the capitalization of class A and B electric utilities at Dec. 31, 1947, compared with the capitalization nine years ago at Dec. 31, 1938, as disclosed by the Federal Power Commission publication, "Statistics of Electric Utilities." The improvement in the capital structures of these companies is apparent from this comparison which shows that debt decreased from 51.5% of total capitalization to 46.8% and common stock and surplus increased from 33.3% to 38.2%. The common stock figure for 1938 has been decreased $850 million to compensate for adjustments made to take care of Account 107 writeoffs.

The average rate of interest on total debt, as well as the average dividend rate on preferred stock, was materially reduced during this ten-year period, which helped common stock earnings to hold up in the face of large reductions in the price of electricity sold and substantial increases in operating expenses due to higher fuel, payroll and other costs. The average interest rate on long-term debt has dropped from 4.03% in 1938 to 2.88% in 1947, a decrease of 28.5%. Interest coverage increased from 2.88 times to 4.64 times, an increase of 61% during the same period. Preferred dividend rate dropped from 5.86% to 4.53%, or 23% for the period.

*An address by Mr. Scaff before the Central States Group Conference of the Investment Bankers Association of America, Chicago, Ill., March 17, 1949.

The average preferred dividend coverage rose from 3.97 times to 6.68 times, an increase of 68%.

The change in depreciation reserves is of considerable interest. Chart No. II shows the extent to which such reserves have increased in relationship to plant account during this period. In 1938, they approximated 11.6% of plant, whereas, at the end of 1947 they had increased to 22.3%. In 1938, the reserves were clearly inadequate by present standards, while now, for some systems, they may be too conservative in the sense that the economic loss due to depreciation is overstated.

Another item, smaller, but of significance, is the progress in the amortization of Account 100.5 Electric Plant Acquisition Adjustments. Some companies have already completed the amortization and the next few years should see it completed for the remaining companies. These annual deductions currently amount to $45 million which, when they are completed, will carry down to common equity.

Market for Services Expanding

A second and highly important category relates to the potential market of the electric utility business.

The development of any modern industrial nation is closely geared to the availability of electrical power. However, the rate of growth in use of electrical power over any lengthy period of time has been considerably in excess of such general economic indices as gross national product. During the period 1929 to 1948 the amount of energy sold per unit of gross national product, expressed in constant dollar value rose 83%, thus indicating the increasing energy requirements of the nation's economy. Little doubt exists about the continual increase of this differential when consideration is given to the tremendous demand for labor savings devices that will involve the use of electric power. Electric power has an obvious part to play in meeting the great need to increase the productivity of the worker to help offset high wages.

The accompanying chart (No. III) shows the relationship of kilowatt-hours used per man-hour to the employee's output per man-hour and to real hourly earnings, based on 1935-1939 dollar values. It is interesting to note the high degree of correlation that exists between these three indices. The trends of wages and productivity show an exceedingly close relationship, while the kilowatt-hours per man-hour shows a much greater rate of increase than either productivity or wages.

The relationship of electric energy use to productivity has a material bearing on the future industrial operations of our country. If, as has been frequently suggested, productivity must increase over its present rate of growth in order to keep a healthy and expanding economy, the industrial energy sales per man-hour will have to increase at an even faster rate than heretofore. In other classes of sales, such as residential and commercial, higher living standards of the people, and efficiency and attractiveness in business establishments will require steadily increasing electric consumption.

One more thought in connection with the market potential. The National Security Resources Board recently released estimates showing that the peak capability of all class 1 utilities will be 73.5 million kilowatts by 1951. This compares with a peak capability of 54.7 million kilowatts at end of 1948. In other words, 18.8 million kilowatts of generating capacity will have to be added during those three years to take care of increased demand.

Vast Expansion Program

To provide the electrical facilities to meet this enormous potential demand over the next few years, the electric industry is confronted with a vast expansion program. A survey conducted by the "Electrical World" shows that the industry plans to spend over $8.5 billion during the next five years on such a program.

The common stock investor certainly wants to know what he is going to get out of the expenditure of so huge a sum of money. This brings me to the third category that I want to talk about, and that is the benefits that will accrue to the companies from their expansion programs.

In the first place, these expansion programs are necessary to meet the heavy demands for electric service that are being made and will continue to be made upon utility companies. The active demands for additional service which necessitate additional investment also provide the revenues to carry that investment. Regulatory authorities, while alert to assure that rates shall be reasonable to users of electric service, are showing clear recognition of the basic necessity that income shall be adequate to attract the increasing flow of investment funds into the enterprise.

Operating Economies Expected

In the next place, while the investment in the new facilities is required to meet the expanding power sales, it will also result in important economies in operating expenses. In particular, a major part of the new funds will be invested in modern and highly efficient generating equipment. At present it is necessary to keep old and inefficient steam-generating units and stations in regular operation producing large blocks of kilowatt-hours at high fuel and labor costs per kilowatt-hour. With the new generating facilities in service, the old units and stations will be restored to their normal status of furnishing reserve and standby service and generating relatively small amounts of energy during emergencies and in short peak load periods. The resultant savings in generating costs will cover a considerable part of the fixed charges on this new generation investment, which is intended primarily to provide for load growth.

My organization released a booklet last fall entitled "Electric Utility Financing," in which it was estimated that the then existing fuel consumption rate of 1.31 pounds per kilowatt-hour generated will drop by 1951 to 1.05 pounds per kilowatt-hour with a resultant saving of $165 million in

(Continued on page 30)

Dealer-Broker Investment Recommendations and Literature

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

Atomic Stocks—Analysis and outlook—Cohu & Co., 1 Wall Street, New York 5, N. Y.

Business Conditions in Southern California—Summary—Security First National Bank of Los Angeles, Los Angeles, Calif.

Corporate Securities—Preferred stocks considered legal investments for trust funds in the State of Pennsylvania—Moyer & Co., 1500 Walnut Street, Philadelphia 2, Pa.

Economic Recovery of Europe and the ultimate effect upon government bonds of Great Britain, Belgium, Sweden, Netherlands, Norway and Denmark — New study—Zippin & Co., 208 South La Salle Street, Chicago 4, Ill.

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.

Railroad Income Bonds—Study—Smith, Barney & Co., 14 Wall Street, New York 5, N. Y.

St. Louis Bank Stocks—14th annual edition of manual—G. H. Walker & Co., 503 Locust Street, St. Louis 1, Mo.

Also available is a circular on **Consolidated Gas Electric Light & Power.**

7.8% Median Yield Registers Status of Dividends—An article reviewing the 1948 dividend records of listed stocks reprinted from "The Exchange Magazine"—Department O, New York Stock Exchange, 20 Broad Street, New York 5, N. Y.

Television — Analysis — W. E. Hutton & Co., 14 Wall 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 Alliance Insurance Co.—Analysis—Geyer & Co., Inc., 67 Wall Street, New York 5, N. Y.

Also available is a circular on **Standard Accident Insurance Co.**

American La France Foamite Corp.—Circular—Boenning & Co., 1606 Walnut Street, Philadelphia 3, Pa.

Arkansas Natural Gas—Memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

Babcock & Wilcox Co. — Circular—Carl M. Loeb, Rhoades & Co., 61 Broadway, New York 6, N. Y.

Also available is a circular on **United Corp.**

Bank of America, N. T. & S. A.—Summary—Blair & Co., Inc., 44 Wall Street, New York 5, N. Y.

Bank of the Manhattan Co.—Circular—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

City of Jacksonville, Fla. water revenue certificates — Circular — Allen & Co., 30 Broad Street, New York 4, N. Y.

Columbus Auto Parts—Study—E. E. Smith Co., 52 Wall Street, New York 5, N. Y.

Columbus & Southern Ohio Electric—Circular—Ernst & Co., 120 Broadway, New York 5, N. Y.

Also available is a list of **Common Stocks.**

Grinnell Corp. — Card memorandum—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

Haloid Co. — Memorandum — Schafer, Miller & Co., 15 Broad Street, New York 5, N. Y.

Home Insurance Co. — Factual memorandum — Trading Department, Merrill Lynch, Pierce, Fenner & Beane, 70 Pine Street, New York 5, N. Y.

Also available is a memorandum on **Maryland Casualty Co.**

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

Muter Co.—Analysis—Frank C. Masterson & Co., 64 Wall Street, New York 5, N. Y.

Nebraska Municipal Subdivisions — Statistical information — Wachob-Bender Corp., 210 17th Street, Omaha 2, Neb.

Plymouth Oil—Detailed circular—Newburger, Loeb & Co., 15 Broad Street, New York 5, N. Y.

Samson United Corp. — Analysis—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Shamrock Oil & Gas Corp.—Analysis and opinion—E. F. Hutton & Co., 61 Broadway, New York 6, N. Y.

Southern Union Gas Co.—Report—Sills, Fairman & Harris, 209 South La Salle Street, Chicago 4, Ill.

Also available are data on **Ampco Metals.**

Texas Gulf Producing Co.—Analysis — Goodbody & Co., 115 Broadway, New York 6, N. Y.

Also available are analyses of **U. S. Rubber Co.** with added comments on tire industry outlook, and **Railroad Estimates of 1949 Bond Coverage**, as well as leaflets on **Atlantic Refining, Chicago Corp., Merck, Ohio Oil, Otis Elevator, Pennsylvania, Pepsi-Cola, Socony-Vacuum, Standard Gas & Electric** and **Texas Co.**

Trane Co.—Analysis—in current issue of "Business and Financial Digest"—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

In the same issue is an analysis of **Maryland Casualty Co.**

Westinghouse Electric Corp.—Circular—Auchincloss, Parker & Redpath, 52 Wall Street, New York 5, N. Y.

With Herrick, Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Bernard F. Shea is now affiliated with Herrick, Waddell & Reed, Inc., 332 South Michigan Avenue.

With Coffin & Burr

(Special to THE FINANCIAL CHRONICLE)

SWANTON, VT.—Howard A. Roy is with Coffin & Burr, Inc., 60 State Street.

Retail Prices

By ROGER W. BABSON

Mr. Babson explains why retail prices of food products continue high when prices of farm products are declining. Points out farmer and fisherman receive only small part of retail price, largest part going to processors and distributors. Says farmers should invest in food processing and freezing industries.

We see much in the newspapers and picture magazines about snow in California, freezes in Texas, drought in Florida, and floods elsewhere. Readers then wonder why weather conditions do not have more effect on retail prices, either to raise or lower them.

Roger W. Babson

Congressmen like to point to the fact that farm prices have declined, but there has been little decline in food prices. The reason is that the farmer gets only 15% of the retail price under any conditions. Labor for picking and packing gets 25%, and this has not come down; transportation—trucks and railroads—get 20% and this is increasing; while retailers' rents, wages, waste and other expenses remain the same or are higher. Hence, consumers should not blame the retailers.

Competition of Canned and Frozen Products

When I was a boy in Gloucester, Massachusetts, I peddled vegetables for my grandfather. He made a specialty of beets. In those days, canned beets could not be purchased. Today much better beets can be purchased in cans and for less money. Why anyone buys stale beets from the stores when they can get truly "fresh" beets in a can! The development of the canning and freezing industry is another factor in the situation.

Having spent every summer of my life, excepting during World War I, in Gloucester, I know something about fish. Of course, the finest fish is what we, ourselves, catch, and fry by the side of the stream. Then only an hour elapses from the time the trout is in the water until it is in our stomach! Otherwise, I much prefer frozen or canned fish. It truly is "fresher" than anything you can get at a fish market. When I buy whole fish at a store, it is two or three days older than when I buy it frozen or in cans. Some fish, like sardines, which are seined near shore will be in cans within a few hours from the time they are caught. What price the fishermen get, however, is a small factor in the retail price. This is dependent upon labor costs, transporation costs, and rent costs, all of which are surely going up.

Investments for Farmers

Often the farmers have asked me to recommend some investment for their loose money. When prices were low, I have suggested either the American Can Co. or General Foods, which leads in the freezing industry and has a valuable distributing system. I also like merchandising stocks, especially those of established "5 and 10" cent stores and the good grocery chains.

To my friends in Florida who have never controlled their surplus crops, I am tempted to say, "Sell your grove and reinvest at the right time in the United Fruit Co. This concern is now doing with bananas what you for 30 years have failed to do with oranges and grapefruit. It raises, packs, ships, transports and distributes bananas and hence can control the cost and price."

Small Merchant Opportunity

I believe in small sustenance farms as insurance for people whose income is not dependent upon the land. But I cannot recommend a small farm as a business. Farming, ranching and fruitgrowing is becoming "big business" whether we like it or not. The present owners of small units will sell out or combine with larger units. Agriculture is going on a factory basis the same as the manufacture of shoes, shirts and bread.

There always will be an opportunity for the small merchant who will live over or near his store and open up before the big stores and keep open later at night. He cannot get rich or become a country-club member, but he can be free from labor worries and many other headaches. Hence, I am much interested in the Small Businessmen's Association which my friend Ernest Gaunt is fathering. This organization is not blaming either the growers or the retailers, but rather the railroads and the labor unions.

City Nat'l of Kansas City Issue Elaborate Statement

KANSAS CITY, MO.—The response to the elaborate Statement to Stockholders which the City National Bank & Trust Co. of Kansas City, Mo., has just issued has been surprisingly gratifying. Hundreds of congratulatory letters have been received and several dozen schools have asked for for supplies to use in their classroom work in their business departments. Kansas City printers say this is one of the most attractive and pretentious printing jobs ever produced in Kansas City.

W. S. Conning Dead

William Smith Conning of Conning & Co. and Ballard, Hartford, Conn., died at the age of 71.

With Bailey & Davidson

(Special to THE FINANCIAL CHRONICLE)

FRESNO, CAL.—William H. Bryan has become associated with Bailey & Davidson, Fulton Fresno Building. Mr. Bryan was formerly Fresno Manager for E. F. Hutton & Company.

Two With Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Richard A. Fay and Donald R. Matthiesen have been added to the staff of Merrill Lynch, Pierce, Fenner & Beane, 523 West Sixth Street.

With Buckley Bros.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Ross T. Smith has joined the staff of Buckley Brothers, 530 West Sixth Street.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

The announcement on last Monday by the Board of Governors of the Federal Reserve System of a reduction in margin requirements is considered significant from the standpoint of banks operations.

First of all, this action when considered together with the relaxation of consumer credit controls approximately one month ago, in effect admits that the problem now facing the economy is one of deflation rather than inflation. As a result the passage of certain portions of the Administration's anti-inflation program, including additional authority over bank credit and economic controls is extremely unlikely.

Second, the next logical step for the Federal Reserve to take in relaxing credit controls would be a reduction in reserve requirements. In as much as the monetary authorities used this power aggressively during 1948, raising requirements on three separate occasions by two percentage points each time, it is considered possible that with a reversal of business trends a lowering of reserve requirements will be made. In view of the fact that the banks lost over $1 billion in earning assets because of higher reserves last year, any appreciable lowering of requirements could be beneficial from the standpoint of earnings.

Within the next several days New York City banks will be issuing their statements for the first quarter of 1949. Although there have been varying influences at work over the past year, the different factors have tended to offset each other with the result that indicated earnings for the period should, in general, compare favorably with those for the first quarter of 1948.

There is no adjustment in the above figures for the distribution in January, 1949, by Manufacturers Trust of one additional share of stock for each 11 held. If such an adjustment had been made, indicated earnings would have been lower by approximately 8.33% and equal to $4.76 a share in 1948 and $4.33 a share in 1947. For the first quarter per share earnings on a comparable basis would have been $1.19 and $1.06 respectively.

In viewing the above comparisons it should be remembered that during 1948 some of the banks had started to build up tax free bad debt reserves in accordance with the ruling of the Collector of Internal Revenue. Figures for 1949, therefore, should be more nearly comparable with those of 1948.

Thus although the earning assets of most banks have been reduced over the past year because of a modest decline in deposits and additional reserve requirements, the loss of income has been offset by a number of other factors. Interest rates have been rising on both loans and investments. On prime names the rate has increased from around 1½% to 2%. On short-term government securities the change during the past year has been from 1% to 1¼%.

These changes and the growth in the loan volume have enabled the banks to maintain operating earnings. These factors continued to operate in the current quarter and for this reason indicated earnings for the period should reflect this relatively stable situation.

As a basis of comparison the following table presents the indicated earnings for 15 New York City banks by quarters for the past two years. Figures were compiled from changes in book values and adjustments for dividends, accrued or paid. No allowance has been made for transfers to or from reserves but figures have been adjusted to give an idea of the actual earnings of the banks during the period.

Indicated Earnings

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Total	Year
	1948	1947	1948	1947	1948	1947	1948	1947	1948	1947
Bankers Trust	$0.87	$0.64	$0.76	$0.61	$0.69	$0.69	$0.76	$1.06	$3.08	$3.00
Bank of Manhattan	0.53	0.47	0.56	0.45	0.57	0.48	0.71	0.49	2.37	1.89
Central Hanover	1.50	1.50	1.50	1.50	1.50	1.50	.237	2.76	6.87	7.26
Chase National	0.45	0.47	0.61	0.77	0.63	0.61	0.68	0.83	2.37	2.68
Chemical Bank & Trust	0.73	0.71	0.75	0.71	0.74	0.66	0.61	0.58	2.83	2.66
Commercial National	0.86	0.80	0.85	0.94	0.75	0.83	0.95	1.09	3.41	3.66
Corn Exchange	1.21	1.24	1.24	1.25	1.25	1.25	1.03	1.13	4.72	4.87
First National	20.52	18.38	21.59	22.21	18.68	17.59	23.21	29.47	83.99	87.65
Guaranty Trust	4.88	5.60	4.30	4.14	4.48	3.92	4.56	4.62	18.22	18.28
Irving Trust	0.30	0.28	0.30	0.28	0.30	0.29	0.29	0.31	1.19	1.16
Manufacturers Trust	1.30	1.16	1.29	1.14	1.18	1.10	1.42	1.32	5.19	4.72
*National City	0.75	1.14	0.80	0.73	0.76	0.80	0.84	0.72	3.15	3.39
New York Trust	1.56	1.54	1.58	1.63	1.69	1.70	1.67	1.66	6.50	6.54
Public National	1.14	1.05	1.19	1.02	1.23	1.06	1.12	1.11	4.68	4.25
United States Trust	8.96	9.10	9.88	9.02	10.51	8.31	15.81	10.13	45.16	36.55

*Includes City Bank Farmers Trust Company.

Raymond J. Hefner Is With Cohu & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Raymond J. Hefner has become associated with Cohu & Co., 634 South Spring Street. Mr. Hefner was formerly with John B. Dunbar & Co. and with Cruttenden & Co., both in Los Angeles and Chicago.

Scharff & Jones, Inc. In New Location

NEW ORLEANS, LA.—Scharff & Jones, Inc. announce the opening of their new quarters on the ground floor of the Marine Building, 219 Carondelet Street. The firm which was organized in 1932 specializes in municipal bonds.

Grimm, Peticolas With Wheelock & Cummins, Inc.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Richard H. Grimm, Jr. and James M. Peticolas have become associated with Wheelock & Cummins, Inc., 135 South La Salle Street. Mr. Grimm was previously with Daniel F. Rice & Co. Mr. Peticolas was with Deuell & Co. in the buying department.

COMING EVENTS

In Investment Field

March 31, 1949 (Pittsburgh, Pa.)

Annual meeting of Bond Club of Pittsburgh at Roosevelt Hotel.

April 1, 1949 (New York City)

Wall Street Riding Club Gymkhana at Split Rock Riding Academy, Pelham Manor, N. Y.

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 6, 1949

St. Louis Municipal Dealers annual outing at Norwood Hills Country Club.

May 7-8, 1949 (Virginia Beach, Va.)

Southeastern Group of Investment Bankers Association Spring Meeting at the Cavalier Hotel.

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.

May 27, 1949 (New York City)

Toppers Annual Outing at Rock Springs Country Club, West Orange, N. J.

June 10, 1949 (Los Angeles, Calif.)

Bond Club of Los Angeles field

June 10-12, 1949 (Minneapolis, Minn.)

Twin City Security Traders Association Summer Party at Gull Lake.

June 10, 1949 (New York City)

Municipal Bond Club of New York Field Day at Sleepy Hollow Country Club.

June 17, 1949 (Boston, Mass.)

Municipal Bond Club of Boston Annual Outing at the Concord Country Club, Concord, Mass.

June 21-24, 1949 (Canada)

Investment Dealers Association of Canada 33rd annual meeting at Minaki Lodge, Ontario.

June 24, 1949 (Toledo, Ohio)

Bond Club of Toledo 15th annual outing at Inverness Country Club.

Oct. 5-9, 1949 (Colorado Springs, Colo.)

National Security Traders Association Annual Convention at The Broadmoor Hotel.

Dec. 4-9, 1949 (Hollywood, Fla.)

Investment Bankers Association Annual Convention at the Hollywood Beach Hotel.

Correction

In the Financial Chronicle of March 24 it was reported that Brown, Harris, Stevens, Inc. of New York City, was engaging in a securities business. We are now informed by the firm that they are engaged in all branches of the real estate business, including the sale of cooperative apartments, the stock of which is closely held by the residents, but they do not engage in a general securities business.

Regulation W—Its Role In Economic Stability

By R. M. EVANS*

Member, Board of Governors, Federal Reserve System

Pointing to stability of durable goods production as purpose of instalment credit, Federal Reserve Board member asserts "without instalment credit, mass production of durable goods would not have been possible." Upholds instalment credit regulation as diminishing instability of consumer demand and as offsetting inflationary pressures and excessive personal indebtedness. Denies explicit purpose of Regulation W is to influence trade practices, and contends instalment credit regulation is not inconsistent with democratic or capitalistic institutions.

I am very glad to be here today to discuss with you consumer instalment credit. A quarter of a century ago, a member of the Federal Reserve Board would not have been invited to discuss this subject before a meeting of your Association. In fact, your Association would probably not have held a public meeting to discuss instalment credit. In respectable financial circles, consumer instalment credit was regarded as a threat to the American institution of individual thrift and therefore as a taboo subject.

R. M. Evans

In all likelihood, the total volume of retail and instalment cash loan credit outstanding 25 years ago did not greatly exceed a billion and a quarter dollars, and this represented a very rapid growth from the early twenties. A very creditable and pioneering study of such financing, made in that period under the auspices of your Association, failed to win endorsement for publication. About the same time, the supervisory authorities, through their bank examiners, undertook a spot check of the activities of banks in the field, with the thought that some bankers might be dangerously transgressing the bounds of legitimate banking business, as it was then considered, by encouraging credit spending at the expense of thrift.

I mention these few facts to remind you that while it is no longer news for the bankers and a Federal Reserve Governor to be discussing this subject together in open meeting, it is still something of a novelty. We have not done it enough since the banks acquired an active interest in consumer credit and since the Board itself came to have some recognized responsibilities for the soundess of credit conditions in the area. In particularly welcome this opportunity, therefore, to be here today to talk about a type of financing that has only, in relatively recent years, become a concern to commercial bankers and to Federal Reserve bankers.

When an economy reaches the stage where it has a surplus of production over immediate survival wants, it employs that surplus in the output of durable goods. In the first instance, these goods are more largely producers' items. When development has reached the point where the stock of producers' wealth is reasonably ample, the surplus tends to be composed increasingly of consumers' goods. We can generalize this observation by saying that advance in the standard of living of the people generally finds more and more expression in the possession and enjoyment of durable goods.

*An address by Mr. Evans before the National Consumer Instalment Credit Conference of the American Bankers Association, St. Louis, Mo., March 30, 1949.

In addition, their unit costs are high; and instalment credit financing is often required for their purchase. Durable goods are capable of a long span of service, and users can postpone replacement or purchase for an indefinite period. In addition, their unit costs are high; and outside financing, usually through credit, is often required for their purchase. Durable goods demand tends to be unstable because of changing employment and credit conditions or because of the psychological whims of buyers. This instability of durable goods demand transmits itself into general instability. We can accept as a virtual truism that the richer a nation is in its stock of durable goods, the more unstable its economy is likely to be.

These broad observations about the role of durable goods in economic stability are not without their relevance to our subject of discussion this morning. The Congress in the Employment Act of 1946 declared that "it is the continuing policy and responsibility of the Federal Government . . . to promote maximum employment, production, and purchasing power." If this policy is to be carried out, we shall have to solve the problem of unstable durable goods demand and output.

Instability in this area, it is true, has not been a problem since before the recent war; but we have been passing through a wholly abnormal period of war and postwar prosperity. We would be very foolish indeed if, on the basis of so exceptional a period, we should discard one of the well taught lessons of economic history. If we are to make progress towards greater economic stability, we need to keep firmly in mind the sources of instability that have been made plain to us through painful experience.

This problem of unstable durable goods production is of vital importance to all of us. We have attained riches unrivaled by any other civilization the world has ever known. Our vast wealth is more widely shared than has been true of any other economy. We have developed mass production of consumer durable goods and we have invented and developed a financing mechanism—instalment credit—for the mass distribution of such goods.

A Factor of Instability of Consumer Demand

It can be said fairly, I think, that without instalment credit, the mass distribution of durable goods would not have been possible. It can also be said in all fairness that if our mass-production economy is to sustain its expansive character, we will need to have concurrent expansion of consumer instalment financing. I mean this, of course, as a long-run trend. Accompanying these trends, there was a marked liberalization of instalment credit standards.

I regard the consumer instalment credit problem in the short

(Continued on page 46)

The Job of Consumer Credit

By ROGER STEFFAN*
Vice-President, The National City Bank of New York

Mr. Steffan stresses importance of adequate and efficient personnel in providing consumer credit and reducing loss ratio. Notes increasing loans based on household appliances and equipment, particularly in television and radio. Denies consumer credit has material effect on the business cycle, but contends business conditions influence volume and demand for consumer credit. Sees flexibility required in credit policies.

We workers in the field of bank Consumer Credit are up to our necks in "people." That is true in whatever direction we look. It applies when we survey our operations. It applies when we view our field of services. Of all the sectors of bank credit, Consumer Credit has the largest "people"—salary — content per dollar of loans made. In fact, a metropolitan bank, whose salary ratio is not more than 2% of personal loans outstanding, would have such an exceptionally favorable salary level that an increase in service to the customer might be in order. But the commercial banker with a prime interest rate of 2% would find the going rough if his personnel costs even approached ours. This is not news either to us or to the commercial banker. It is a factor that needs pointing up to reemphasize that salary cost in our type of banking always has been of greater weight than all other factors, including credit loss. This expense item adds up in the running of our business to our need for "people." This is the first and largest slice from our discount rate and is many times higher than the slice for losses—the price we pay on behalf of those "people" who fail in credit-worthiness.

Roger Steffan

Our customers take all of this for granted. They still want their money instantly. If they were aware of how we work for them they might be impressed as I was the other day by a demonstration that our Accounting Division gave for the benefit of our Credit Division. It was brought out that the canceled checks used in paying out several hundred thousand credits in 1948, if piled atop each other, would have built a monument 180 feet high. The coupons involved in taking in several million payments in the same 12 months would have piled up nearly to the top of the Empire State Building. And to confirm the fact of enormous activity, a group of porters came marching into the meeting room with mail bags over their shoulders illustrating one day's portion of the 1,716,000 incoming letters received last year by our single Department.

Since the war thousands of banks have engaged more actively in this field with full-time organizations. How many persons are really needed to run a Personal Loan business with, say "X" volume? Some standard of comparison on that point has become increasingly pertinent. Naturally the answer varies a good deal from bank to bank. For what it may be worth we find in our Bank, with a relatively large number of customers, we utilize 22 persons for each 10,000 accounts on our books. That provides complete service—credit, accounting, and collection—with the exception of receiving teller service which, in our bank as no doubt in many others, is provided as a part-time function of the general tellers. While the Personal Credit Department compensates our branch system for this teller service, that is the only element in which employees are not engaged full-time in this specialized work. It may be that by measuring your personnel with your number of accounts in relation to the above figure you may have a yardstick for local use, even though not exactly comparable.

How do costs and earnings in this business in your bank compare with other banks? How do postwar and prewar comparisons stack up? I can transmit to you some comparative figures which probably provide the best cross-section in the country. In New York State, under the law providing special rates and conditions for making Personal Loans, and according to the procedure set up by the State Banking Department, uniform accounting is required on the part of all participating State Banks. Therefore, we have at hand an excellent laboratory work sheet of income, expense, and operating detail reported by 126 State Banks of all sizes. Included are comparisons for 1941, 1946 and 1947.

The figures do not include the business of any national bank. Therefore they do not include the Personal Loan business of the National City Bank which considerably exceeds the combined volume of the 126 State Banks and would not be typical. But because this cross section embraces State Banks of widely varying stature and location the

(Continued on page 45)

*An address by Mr. Steffan before the Consumer and Instalment Credit Conference of the American Bankers Association, St. Louis, Mo., March 29, 1949.

EXTRACT FROM 98TH ANNUAL REPORT
SUPERINTENDENT OF BANKS STATE OF NEW YORK

	—1947—	—1946—	—1941—
Number of departments included	126	113	111
Number of loans made	210,731	150,914	168,487
Amount of loans made	$89,446,335	$57,061,055	$45,430,686
Average loans outstanding	41,706,259	23,767,979	22,210,542
Average amount of loan made	424	378	269
Net interest earnings	$3,717,407	$2,162,195	$2,311,075
Total current operating earnings	3,840,108	2,231,338	2,414,433
Salaries	1,098,915	712,719	594,099
Advertising	139,470	108,542	123,742
Rent	132,305	109,460	86,781
Other current operating expenses	638,480	373,620	372,853
Total current operating expenses	2,009,170	1,304,341	1,177,475
Net current operating earnings	1,830,938	926,997	1,236,958
*Maximum potential loss on loans made	184,259	117,546	93,588
Net profit before allowance for cost of funds employed and taxes on net income	1,646,679	809,451	1,143,370

*Based upon the ratio of maximum potential loss (unpaid balances and net charge-offs) on all loans made prior to 1946 as reported Dec. 31, 1947 which was .206 per cent.

Is It Inflation, Deflation, Disinflation or Stability?

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

Maintaining businessmen's present conservatism and caution are a constructive factor of strength, Mr. Zelomek holds danger of severe recession is mitigated by minimizing of speculation and heavy buying. Concludes while seasonal factors indicate some leveling-off and stability, the new order position of capital goods industries will be decisive factor.

This title, gentlemen, is a very generous mouthful of words. But I selected it nevertheless because these words are being used,—very carelessly, it seems to me—on the average of 24 hours a day. Inflation and deflation have meanings that are reasonably clear. I don't believe anyone hears the word inflation without getting a mental image of things going up, vigorously and more or less continuously.

A. W. Zelomek

Deflation is the negative of inflation. After things have gone up, they come down. Perhaps because we are so accustomed to the idea of gravity, the belief that things must come down after they have gone up seems to be a generally accepted principle of nature, whether these things are prices, or income, or production, or employment, or a baseball thrown into the air.

The other two words, disinflation and stabilization are a little hard to explain. It seems to me that they are political words, rather than economic words, and that we must look on them with suspicion. We must try to decipher them first in relation to their political context, and then translate them into terms that can be understood by the purchasing agent when they are applied to the economic outlook.

Disinflation, it seems to me, is a typical weasel word. I think it is used by people who believe in their hearts that deflation must follow inflation, but don't like to use such a harsh word.

The dictionary I consulted did not list the word. Used politically, as the word has been, it seems to promise a benign correction of the recent inflation, or what might be called a painless deflation. It is very hard for an Administration to be reelected if times are bad. It is quite natural that a political spokesman, in discussing the events of the day, and the outlook for tomorrow, should prefer a mild and meaningless word to one that has a clear cut association with bad times.

Stabilization has a meaning that is clear enough. It says flatly that business won't go down, that it won't be permitted to go down. Its political connotation is that of the welfare state, of the managed economy, of the central government as the great regulator of private affairs.

What will we have in the economy during the next 12 to 18 months? Will it be more inflation? Or deflation? Or Stabilization?

Let me give you my opinion first, before we discuss these important questions. My opinion is this—

If the normal workings of supply and demand are the decisive factor, we will have some further deflation.

But if the government turns out to be the decisive factor, we will have stabilization.

The Government's Role

I wonder if any of you realize how far the government is willing to go in order to preserve good times.

I know you have heard all the talk about inflation and deflation going on at the same time. And that the government will use its right hand to bat inflation down and its left to guard the economy from deflation.

Actually, if it can get its bills through Congress, the government wants to do much more than that. It wants to provide all the jobs that a growing labor force can use. It wants to keep the unit volume of production expanding continuously at the average rate of 3% annually.

It has said all this in so many words. If you haven't read the statement made by Leon Keyserling before the Senate Committee, you should. You will see why any official statement about the future must be carefully translated, for you will see that the Administration is thinking in terms that would be fatal for the private businessman if he acted on them.

You and I know what we mean when we talk about the business outlook. We are talking about what we think will happen to prices and production and employment and income in the next 6 months or so. Sometimes we may be wrong about what we think will happen, but at least we try to balance off strength against weakness and reach a common-sense conclusion.

But not the government. It says in so many words that there may be a big difference in the "outlook" as you and I regard it, and the level of production that will provide jobs for everyone who needs them. It admits that the businessman must be concerned about demand, but states that it is concerned only with needs. It practically admits that present steel capacity will provide all the steel that consumers can use in the next 12 months, but insists the public will "need" more than that.

This difference in basic viewpoint is the most important domestic political problem of the day. It means that the Administration's Fair Deal program is to provide the first postwar test of how far and how rapidly we shall move toward the concept of a welfare state, its goal set at full employment, Administrative order replacing the action of supply and demand, private enterprise preserved chiefly as a source of financing for economic activities that will come progressively under government control.

If you haven't recognized this plain political fact, I believe you should, for it affects you directly. But I mention this point here not as the prelude to a political debate, but to emphasize the first question that we must answer in talking about the business outlook.

Will the Government Be Able to Prevent a Deflation?

I have made a careful study of this question, and will be quite honest in telling you that no one, in the government or out, knows exactly what it will do if deflation should begin to gain momentum. But there are some things that are outside the limits of physical possibility, and others that can be done easily, and the least we can do is to distinguish one from the other.

The government **can:**

(1) **Increase its spending**—Annual rate of spending in the fourth quarter, if state and local governments are included, is expected to be 8 to 10 billion dollars higher than in the fourth quarter of 1948.

(2) **Run a deficit**—This also is likely, because I doubt that Congress will meet the Administration's tax requests, if indeed it raises taxes at all.

(3) **Ease credit**—However, this is largely a negative action, since the real problem in a period of decline is not merely to increase the supply, but to stimulate the demand for credit.

The government **can't:**

(1) **Do much to stimulate housing construction**—A careful estimate of experts is that no more than 25,000 new government-sponsored dwelling units could be built within the next 12 to 15 months.

(2) **Start large-scale public works**—The blueprints simply aren't ready.

(3) **Get much of an increase in munition production in the next six to nine months.** It takes too

(Continued on page 41)

*An address by Mr. Zelomek before the Purchasing Agents of Alabama, Birmingham, Ala., March 30, 1949.

Mutual Funds

By HENRY HUNT

Money at Work

All of us have savings in one form or another. Some make it their principal aim to preserve their savings—at the expense of income. Others, prudently setting aside a portion against unforeseen emergencies, seek some means to put the remainder profitably to work. Unfortunately, few of these people become really successful investors.

The first group overlooks a most important factor—purchasing power. They tie all their savings to fixed dollar contracts (savings accounts, annuities, bonds, and mortgages) which afford no protection at all against increasing costs of living. The second group, although prudent in this respect, too often confuses speculation with sound investment in common stocks. The result is that few people understand how to enjoy the benefits of stock ownership, as a balance to their **fixed** dollar savings.

The great need has been to provide people of moderate means with those elements of sound investment which will bring them peace of mind and freedom from investment worries. These elements are:

(1) Complete investment counsel service at low cost.

(2) Continuous supervision of funds by full time professional management.

(3) Diversification of investments among many companies and industries.

(4) Safeguards afforded by government regulation of investment management.

These elements of sound investment are available to you today in Mutual Funds, managed by Investing Companies.—An excerpt from a **Kidder, Peabody** bulletin.

Newborg to Start Mutual Funds Department

Newborg & Co., members of the New York Stock Exchange since 1900, plan to start a Mutual Funds Department and are looking for qualified salesmen.

Newborg & Co. is joining the ranks of Bache & Co., Shields & Co., Eastman, Dillon; Kidder, Peabody and other leading member firms who have recognized the fact that mutual funds are a growing business.

Wellington Reduces Management Fee

Effective April 1, **Wellington Fund** reduced its management fee from ½ of 1% to ⅜ of 1% on assets in excess of $70 million.

Currently, Wellington's assets are at a new high, slightly above $70 million.

Brighter Prospects for Public Utilities

"Many reliable signs indicate that the public utility industry has entered a new and more profitable period. Amony the more important factors that make this development seem likely are:

"(1) The granting of some 100 requests from public utility companies for rate increases shows a considerably improved attitude on the part of State regulatory bodies.

"(2) The accounting adjustment made necessary by the changeover to the 'original cost' concept are just about completed.

"(3) The industry's large postwar expenditures for expansion have broadened the rate bases (the amount of capital investment on which the State regulatory bodies determine the 'allowable' rate of return).

(4) New and highly efficient facilities are beginning to replace obsolete high-cost generating equipment.

"(5) The rising cost trend has been at a far more moderate rate than has been the case in the last decade; and fuel costs, which account for 33% of total operating expenses, are expected to reflect the decline in coal and oil prices.

"(6) And last, but not least, the amazingly sturdy and lusty long-term growth in demand for electric energy is likely to continue.

"All of this seems to point to an almost unavoidable upward trend in earnings for public utility common stocks—especially at a time when the prices of these stocks are at such an historically low level in relation to current earnings and dividends. Hindsight (in the form of charts kept for many years) shows that only under panic conditions have top-quality utility operating companies' stocks sold as low as 10 times earnings, and that they could have been bought confidently at prices below 13 times earnings. Today, many of the issues that sell around 10 times earnings appear to be unusually good investment values."—From the **Broad Street Sales Corp.'s** "Letter."

Prominent Personalities

(Twelfth of a Series)

DOUGLAS K. PORTEOUS
V.-P. of The Cohu Corp.

A retailer of Mutual Funds with an original approach is Douglas K. Porteous of the Cohu organization in New York City. This friendly fellow is a believer in training salesmen to understand this business and particularly in teaching them salesmanship.

Douglas K. Porteous

In originally setting up a retail activity for Cohu & Co., a member of the New York Stock Exchange, the plan of operation embraced recruiting men entirely from fields of activity outside "Wall Street." Then the process of education began in a series of morning and afternoon classes which continued for a period of two weeks. The latter part of this program was devoted to the principles of salesmanship; Approach, Interest, Conviction, Desire, and Close.

"Doug," also known as the "Skipper," has long experience in the investment field and standing out in his career is the word "merchant" for he well understands merchandising and selling. After obtaining a B. S. degree at Tulane University, he began his sales career on Gravier Street in his native New Orleans, La.

It was in New Orleans that his yachting career started which led to many championships. Let's say he earned the nicknames of "Skipper" and "Champ" in one of the most thrilling and beautiful of all sports, the racing of one-design sail boats. The trophy room at his home in Manhattan is replete with mementos of his sailing days.

Retail selling for Halsey, Stuart & Co. in Chicago was the Skipper's pleasure in the late '20s. And it was Chicago that initially brought him into the Mutual Fund field for it was here that he joined the Loomis Sayles organization. For the seven years immediately prior to World War II the Skipper was head of Porteous and Company, Inc., investment counsellors.

During the late war he was one of Mr. Forrestal's officers, performing the unique task of selling the "stay on the job" idea to war workers in shipyards and industrial plants from Kansas to New York; making personalized speeches on the day shifts, evening shifts and night shifts.

The current course of the New York Institute of Finance on the Retail Salesmanship of Mutual Investment Funds was originally suggested by Mr. Porteous (now the Instructor of this course by appointment of the Institute's Director). Each Wednesday afternoon the Skipper is retained to teach "How to Make Money in Mutual Investment Funds" to the assembled staffs of four Wall Street firms. He will shortly be the lecturer on "Building a Successful Sales Organization" in the Investment Salesmanship Course organized by the Boston Investment Club in Cooperation with Boston University.

There's a lift of light-hearted friendliness in the Skipper's conduct of a sales meeting. He grins all over in uttering the theme song of all his meetings, "Time not Spent in the Presence of the Prospective Client is Time Wasted." There's optimism and an affirmative feeling when he says "Use Peter Rabbit English—keep it simple—draw pictures, make diagrams," and "ask for the order several times in each interview." Yet his salesmen are his pals and they thoroughly enjoy "helping their prospects become clients and provide Retirement Incomes for those Sunset Years."

Some day in the sweet bye and bye when those Sunset years arrive for "Doug," he and his attractive wife will return to picturesque Sunshine Plantation in the Evangeline country of Louisiana, but I'll wager there'll be a sleek 60-foot sloop nearby and it'll be named "Bid and Asked."

E. M. Brown With Reynolds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Edith M. Brown has become associated with Reynolds & Co., 208 South La Salle Street. Miss Brown was formerly with Mason, Moran & Co. and prior thereto was with First Securities Company of Chicago in the statistical department.

With Turley & Tegtmeyer

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Louis J. Urland has joined the staff of Turley & Tegtmeyer, 120 South La Salle Street.

Joins Bache Co. Staff

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Howard H. Axelrod has become affiliated with Bache & Co., 21 Congress Street.

H. M. Byllesby Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Jerome M. Berman has become associated with H. M. Byllesby & Co., Inc., 135 South La Salle Street. Mr. Berman was formerly with the Continental Illinois National Bank.

With Pacific Company

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Arthur L. Claude has been added to the staff of Pacific Company of California, 623 South Hope Street, members of the Los Angeles Stock Exchange.

Joins E. F. Hutton & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Gordon B. Crary, Jr., is now with E. F. Hutton & Company, 623 South Spring Street.

Allen & Co. Offers Colorado Fuel Bonds

Offering of a new issue of $12,000,000 first mortgage and collateral trust 15-year sinking fund 4% bonds of The Colorado Fuel and Iron Corp. was made March 29 by Allen & Co. The bonds mature April 1, 1964, and are priced to the public at 100% and accrued interest.

Net proceeds from the sale of the bonds will be used in part to prepay bank loans evidenced by $7,250,000 aggregate principal amount of promissory notes, and to prepay $1,600,000 due to the War Assets Administration, on account of the purchase of certain properties, after payment of a $50,000 quarterly instalment of principal on March 31, 1949. The balance will be used to finance in part a program of improvements and additions, or for other corporate purposes.

The bonds are redeemable at the option of the corporation at prices ranging from 104% before March 31, 1950, down to 100¼% after April 1, 1963, together with accrued interest in each case. The bonds also shall be redeemable through the sinking fund at prices from 101½% to 100%.

The Colorado Fuel and Iron Corp. and subsidiaries are engaged in the manufacture and sale of iron, steel and certain steel products, including wire and wire products, rails and rail fastenings, structural and merchant steel, wire rope, pig iron, ingots, blooms billets, and rods, together with coke and by-products; and the mining or quarrying of iron ore, limestone, dolomite and fluorspar and the mining of coal.

Consolidated net income of the corporation and its subsidiaries for the six months ended Dec. 31, 1948, was $5,696,257, which compares with $6,181,777 for the full year ended June 30, 1948.

Gross Rogers Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Charles T. Abeles, Jr., is now associated with Gross, Rogers & Co., 458 South Spring Street, members of the Los Angeles Stock Exchange.

Fund Salesman the Aristocrat of American Industry, Says Bridges

As Reported by DOUGLAS K. PORTEOUS

Held to be ambassador to the public, responsible for producing business sustaining economic order. Maintains the Management Fund constitutes today's investment blue chip.

All the experience and investment sophistication of "old Boston" accompanied James W. Bridges on his visit Tuesday to the New York Institute of Finance. In talking about how to sell Mutual Investment Funds he pointed out the need for a deep appreciation of the Concept of trusteeship—responsibility for future results; for the retirement incomes of clients.

James W. Bridges

Mr. Bridges is the partner in charge of sales of The Keystone Company of Boston. The Keystone organization supervises assets of $165,000,000 for more than 50,000 investors, including 25,000 women and 1,700 trustees. His lucid explanation of "formula investing" was followed by straight from the shoulder selling advice on the retail level.

* * *

In taking a look in the mirror the salesman might realize he is looking at the aristocrat of American industry. And why? Well, he's the one responsible for producing the volume of business that sustains our economic order. He must make his own decisions "in action" which requires a high grade self-sufficient man.

Selling Hints

The salesman is the ambassador to the public. It is his own actions, particularly in the presence of prospects, that builds a permanent career like the medical practitioner. Consequently, the first rule in selling is "BE LIKED! BE RESPECTED!" Be courteous, not servile! Be cheerful, not smart aleck. Be persistent, not presumptuous. Be well groomed, not overdressed.

"No customer is stupid," said Mr. Bridges. Instead, you're "it" if you don't sell a "good" deal when the prospect gives you adequate time. Sell the idea you can be trusted—you are a DOCTOR OF DOLLARS—you will prescribe the investment program to be accomplished in future years.

"How would you like a future monthly income of $300?" is suggested as a comment setting the theme of a sales presentation. First find out what the prospect should have. Always talk in terms of what your investment plan will do for him, achievement for him—continuity of adequate income in future years through able continuous full-time management.

The presentation of the estate building plan is 90% completed before mention of any fund. In this way you are a Doctor of Dollars, building confidence, and making bigger sales.

Keep it simple — no technical terms, please—slow down—easy does it.

* * *

Diversification Creates Problems

Diversification does not solve problems — it creates problems. This can be dramatized for the large investor who sometimes relies upon diversification to attain strength and "future favorable results."

Twenty years ago we settled for General Motors or General Electric, as a "blue chip." The investor's standards are now higher in view of the many new dynamic exterior forces upon the earning power of individual corporations. It is felt by many the real "blue chip" of today is the Mutual Fund—the management ability here gives many times the strength we were willing to settle for years ago.

Mr. Bridges, in urging salesmen to sell the big investor, facetiously stated, "If you try for a Bunt you will never make a Home Run."

Central Okla. Oil Stock Placed on Market By Henry P. Rosenfeld

An issue of 299,500 shares of common stock (par value 10c) of the Central Oklahoma Oil Corp. is being placed on the market by Henry P. Rosenfeld Co., New York. The stock, offered as a speculation, is priced at $1 per share.

Central Oklahoma Oil Corp. was formed for the purpose of engaging in all phases of the oil business and, more particularly, to drill wells on certain properties in Creek County Lease Block, Oklahoma.

The officers of the company are R. Stewart Ross, President and director, Oklahoma City, Okla.; George D. McKenzie, Vice-President and director, McKenzie, Tenn.; Dennis H. Petty, Secretary-Treasurer and director, Oklahoma City, Okla., and H. Mainard Stanfill, Assistant Secretary and director, Chander, Okla.

Jack Alexander Joins Walston, Hoffman Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Jack H Alexander has become associated with Walston, Hoffman & Goodwin, 550 South Spring Street. Mr. Alexander was formerly in the trading department of Bourbeau & Douglass and prior thereto was trading manager for Pledger & Co.

Jack H. Alexander

With Herrick, Waddell Co.

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, NEB.—Edwin A. Krohn has become affiliated with Herrick, Waddell & Reed, Inc., 55 Liberty Street, New York City.

With Paine, Webber Firm

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Allan J. Stampa has become associated with Paine, Webber, Jackson & Curtis, 626 South Spring Street. He was formerly with Walston, Hoffman & Goodwin.

NSTA Member Urges Abolishing NASD

In letter to Edward H. Welsh, President of NSTA, writer, who is active member of this Association and of Bond Traders Club of Chicago, but who withholds name because of fear of persecution, contends securities industry is ethical enough without a policeman to make them toe-to-the-line.

A copy of the following letter was furnished the "Chronicle" by the writer, a member of the National Security Traders Association, who withholds his identity because of fear of being persecuted:

Mr. Edward H. Welsh, President,
National Security Traders Assn.,
231 South LaSalle Street,
Chicago, Ill.

Re: Abolishing the NASD.

Dear Ed:

I am in favor of abolishing the National Association of Securities Dealers and I know that I am voicing the opinion of 99 44/100% of my fellow members of the National Security Traders Association.

I have not signed this letter and have even borrowed a typewriter so that it cannot be traced, because I AM IN FEAR OF BEING PERSECUTED or that the FIRM I AM ASSOCIATED WITH WILL BE PERSECUTED! If the NASD is not a junior Gestapo for the SEC and a retarding influence on the securities business, what is it and what has it accomplished?

I firmly believe that my fellow traders and salesmen in the securities business are ethical enough not to have a policeman make them toe-to-the-line. Don't we have enough expense heaped on our high cost of doing the little business we have left, without paying so-called "dues" to the NASD? WHY SHOULD WE PAY THE NASD TO DO THE SAME WORK THAT THE SEC CAN DO VERY EFFICIENTLY.

ARE WE MICE OR MEN? Let's stop this "pussy-footing." If the NASD is not restraint of trade and a Government agency subsidized by ourselves, and a DUPLICATION OF EFFORT AND EXPENSE, what is it? Come Ed, deep down inside, don't you personally feel that the NSTA should start the ball rolling towards abolishing the NASD and amend the Maloney Act by deletion of Section 15-A (i) (1) in this year of 1949? Congress should abolish the NASD; it can, and will, if all of us in the securities business howl loud enough.

Yours for a year of action,
(Signed) A MEMBER OF THE NATIONAL SECURITY TRADERS ASSOCIATION.

Chicago, Ill.,
March 28, 1949.

P. S. — Getting right down to brass tacks—there is a question in my mind—what is the NSTA and my local traders' organization going to do for me when I can no longer make a living in the only business I know?

cc. to: "The Commercial and Financial Chronicle."

With Irving Lundborg Co.

(Special to THE FINANCIAL CHRONICLE)

SAN JOSE, CAL.—Andrew J. Malovos has become associated with Irving Lundborg & Co., Bank of America Building. He was previously with First California Co.

Colvin & Co. Adds Two

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CAL.—Keyes Lloyd and Joseph F. Robinson have been added to the staff of Colvin & Co., Russ Building.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

Richard L. Maloney, Jr., President of **The New York Savings Bank** at 8th Avenue and 14th Street, New York, announced on March 25 that the Life Insurance Department of the bank on Dec. 31, 1948, had issued 13,613 policies and had total insurance in force of $14,452,514. During the year 1948 the bank wrote $1,522,350 of insurance, which represented a gain of 26% over the amount of insurance written in 1947. The New York Savings Bank was the first bank in Manhattan to offer Savings Bank Life Insurance and recently celebrated its 10th anniversary as an issuing bank.

* * *

Victor Alexander Lersner, retired Vice-Chairman of the Executive Committee, and former President and Chairman of the board of the **Bowery Savings Bank of New York**, died on March 25 at his home in New York City. Mr. Lersner, who was born in Brooklyn, was 84 years of age. He retired from the Bowery Bank on Feb. 1. Mr. Lersner began his banking career with the **Williamsburgh Savings Bank of Brooklyn**, and after serving in several minor posts, he became successively Teller, Assistant Cashier, Comptroller and Executive Officer. In 1923 he was named Executive Vice-President of the Bowery Savings Bank, of which he was elected President in 1927. In that post he was succeeded in 1931 by Henry Bruere, Mr. Lersner at that time becoming Chairman of the board, continuing in that post until 1937, when he was made Vice-Chairman of the Executive Committee. In 1917 Mr. Lersner was accorded the honor of being the only non-bank President ever elected President of the Savings Bank Section of the American Bankers Association. This was noted in the New York "Herald Tribune," which added that in the same year he was Chairman of the Association's Centenary of Banking Celebration Committee, and organized a nationwide thrift campaign. Among his other banking activities, Mr. Lersner had been President of the New York Chapter of the American Institute of Banking and the New York State Association of Savings Banks.

* * *

Daniel J. Mahoney, President of the **Bronx County Trust Company**, at 3rd Avenue and 149th Street, New York, died on March 23. Mr. Mahoney was born in this city. While serving as Manager of the Bronx branch of the National City Bank in 1933, he was named as Manager of the Loan Agency of the Reconstruction Finance Corp. in New York. Later, in 1936, he became First Vice-President of the Bronx County Trust Co., of which he was made President in 1944. He was also a Vice-President of the Bronx County Chamber of Commerce.

The 23rd anniversary of the opening on March 29, 1926, of the **Lafayette National Bank of Brooklyn, N. Y.**, was celebrated at the Towers Hotel, Brooklyn, by the Lafayette Club, which is composed of officers and employees who have been with the bank ten or more years. Principal speakers at the dinner were Henry S. Conover, one of the original directors of the bank, and William E. Yates, Vice-President. The new club officers elected were Carlton J. Kudzma, President and Edna L. Zeller, Secretary. New members of the club's Executive Committee are Edward J. Slattery, Kenneth O. Soberg, Herman C. Kipp, Charles Suesens, and Charles L. Bast. Charles Suesens of the Bay Parkway office is the retiring President.

* * *

Shareholders of **Tioga National Bank & Trust Co., of Philadelphia**, at a special meeting on March 29, formally approved the proposal under which **Second National Bank of Philadelphia** will purchase the assets and assume the deposit liabilities of Tioga National, according to an announcement by Wesley S. Smith, President of Tioga. Formal consolidation of the businesses of Tioga National and Second National will become effective at the close of business April 30. Upon completion of the purchase, Second National will have deposits of $25,000,000 and total resources of $27,000,000. William G. Semisch, President of Second National, stated that "the increased resources soon to be available through the Tioga office should enable our bank to render a broader, more valuable service to the community." References to the proposed consolidation appeared in our issue of February 17, page 770 and March 10, page 1074.

* * *

Arthur V. Morton, Vice-President of the **Pennsylvania Company for Banking and Trusts of Philadelphia**, died on March 27. He was 75 years of age. Mr. Morton had been associated with the Pennsylvania Company since 1894, said the Philadelphia "Inquirer" of March 29, which added that he was appointed Assistant Treasurer in 1900, Treasurer in 1905 and Vice-President in 1912. The same advices added:

"Since 1942 he also served as a Director. Mr. Morton was a Director of the Philadelphia Bourse, the Mutual Assurance Co. and the American Dredging Co. and formerly was a director of the Philadelphia National Bank." Mr. Morton was also a former President of the Pennsylvania Bankers' Association, and the Trust Company Division of the American Bankers' Association.

* * *

To prevent extended week-end closings from occurring on Saturdays which precede or follow legal holidays, Baltimore banks have arranged to be open for business on certain Saturdays from 9 a.m. until noon, the **Baltimore Clearing House** announced on March 21, it indicated in the Baltimore "Sun" of that city, which went on to say:

"Accordingly, the banks in this city will be open next Saturday, March 26, as this follows Maryland Day which is a legal holiday in this State. Other Saturdays during the year on which the banks will be open are: April 16, May 28, Sept. 10 and Nov. 12.

"Long week-end closings will thus be avoided except over important national holidays, such as Independence Day, Labor Day, Christmas and New Year's Day. It is believed this practice will cause the public a minimum of inconvenience," the Clearing House stated.

* * *

On March 16, the stockholders of the **National Bank of Washington, of Washington, D. C.**, reversed a decision of its directors, who in February approved an offer to consolidate its assets and facilities with the **National Metropolitan Bank of Washington**. In indicating the action of the stockholders, S. Oliver Goodman, reporting in the Washington, D. C., "Post" of March 17, said in part:

"About 100 shareholders attended the special session, representing 7,071 of the outstanding 10,500 shares. The vote to continue the bank as an entity was 4,821 while 2,250 shares favored acceptance of National Metropolitan's offer. The vote implied that stockholders would accept an offer of $280 a share from an undisclosed source. This bid, announced Friday, was made by the brokerage firm of Johnston, Lemon & Co. for an unidentified client, identity of the mystery bidder will be disclosed later, according to James M. Johnston of the brokerage firm. Meanwhile, $2,940,000 has been deposited with the Liberty National Bank to purchase all of Bank of Washington stock at $280 a share. If 5,355 shares (51%) are deposited under the offer, control of Bank of Washington will pass into the mystery bidder's hands. Shareholders have until April 8 to take advantage of the offer. . . . J. Frank White, Bank of Washington President who presided, reported that he had received a supplemental letter from C. F. Jacobsen, President of National Metropolitan. The letter in substance, stated that Metropolitan's offer had been 'made in utmost good faith,' that he estimated liquidating value of $270 a share for Bank of Washington stock was the minimum liquidating value, and that unless the directors of the Bank of Washington could agree that the assets would liquidate at least $285 a share, the National Metropolitan would withdraw its original offer. Mr. White pointed out that due to uncertainties of liquidation, no such guarantee of a minimum value per share of stock could be made. The vote rejecting National Metropolitan's offer followed."

Reference to the proposal approved by the directors was made in these columns March 10, page 1074.

* * *

In reporting the promotions among the personnel of the **Mercantile-Commerce National Bank in St. Louis** in our issue of February 3, on page 582, it was stated that John B. Mitchell was elected Vice-President and that he had been associated with the bank since 1936. The item should have read "John B. Mitchell was elected Vice-President. Mr. Mitchell had been associated with the **Mercantile-Commerce Bank & Trust Co.** since 1936."

At the end of the same item other promotions were indicated as having occurred in the bank's staff whereas they actually were made in the personnel of the **Mercantile-Commerce Bank & Trust Co.** and that part of the item should have read as follows:

Following the annual meeting of the Board of Directors of the **Mercantile-Commerce Bank & Trust Co., St. Louis, Mo.**, Gale F. Johnston, President, announced the following promotions: Howard E. LaBarr; Manager of the Credit Department was made Assistant Vice-President and Henry E. Jenkins, Jr., Assistant Cashier, was promoted to Assistant Vice-President, in the Central Service Division of the Bank.

"Bust, Deflation or Disinflation?"

By FELIX BELAIR*

Member, Washington Bureau, New York "Times"

Financial writer contends there is no device in our system providing automatic adjustment of present tremendous disequilibrium in our economy, says inflationary forces are still operating despite deflationary trends. Holds first class depression cannot be expected in view of heavy Federal government and Marshall Plan expenditures, and scores pressure groups influencing Congress. Warns against "getting panicky" while awaiting adjustments.

When I was asked to talk to you about the subject of inflation and what Congress proposed to do about it, I had very little enthusiasm for the assignment. It was already apparent that Congress would do nothing at all. And it occurred to me that since no amount of talking would alter this prospect I had very little to say. Furthermore it is never very pleasant to remind the victims of a holdup how much of their hard-earned cash the thieves got away with. And I am now addressing one of the most impressive aggregations of holdup victims ever gathered under one roof.

Since receiving this assignment, however, some very interesting things have been taking place in the nation's economy. For one thing, the cost of living index after climbing to 75% over the prewar level, has dropped to a point only 69% over 1940. That, incidentally, is one way of measuring how much the holdup men got away with. To find out where they stand, the fixed income victims of inflation need only adjust for the amount of their salary increases since 1940.

There are other indications that inflation has about run its course and that the forces of deflation now have gotten the upper hand. In Washington economists are no longer worrying about prices going through the roof. The farm bloc in Congress is talking about building a higher floor under agricultural prices so that after eating the cake they can have it, too. The five foot shelf of public works left behind by Harry Hopkins from the days of WPA is being dusted off in case government intervention on a grand scale is needed to halt a general liquidation.

"What Are We In For?"

What we are in for is anybody's guess. Opinions differ even among the authorities who are supposed to know what they are talking about and who make Federal Government policy. Governor Marriner Eccles of the Federal Reserve Board, in hearings before the Senate Committee on Banking and Currency, put it this way:

"We certainly are going to have a bust, but as to just when it will be I can't predict. It is already too late to stop it. You have to stop that sort of thing before it happens. We all want an easy way out. It is too late to find one."

Edwin G. Nourse, Chairman of the President's Council of Economic Advisers, puts it a little differently. He uses a lot more words to suggest that a transition from extreme monetary and price inflation can be accomplished without a paralyzing deflation and that in any case there will be no depression this year. In a recent address on what he termed "The Gentle Art of Disinflation," Dr. Nourse had this to say:

"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 levely somewhat but not seriously below the peaks of 1948."

Happily for us, it is entirely possible that both men may be only a little wide of the mark in their forecast. When Mr. Eccles speaks of a "bust" he does not have in mind anything like the general shakedown that began in 1929. What he does mean is that a substantial amount of deflation must take place, however gradually, in order to correct the excessive disequilibrium in the economy that must take place before we can approach stability.

After all, it is difficult to see how we can have a first class depression with the Federal Government spending $20,000,000,000 a year for defense and European recovery even though the $5,000,000,000 of Marshall plan expenditures does not entirely represent goods taken directly out of the American economy. The mere prospect of these heavy expenditures is entirely inflationary and more than enough to offset the degree of deflation now in prospect. The real danger in the situation is that there is no terminal point to the defense program.

Deflationary vs. Inflationary Forces

Thus, while deflationary forces seem for the moment to have gotten the upper hand and to dictate the inevitable adjustments that must precede returning economic stability, we have injected into the picture an inflationary pressure in the opposite direction. If that force is strong enough to postpone the adjustments needed for stability we are in for trouble. There is general agreement that the longer we postpone the shakedown the more unpleasant for all concerned.

Moreover, the inflationary pressure generated by projected expenditures for defense and European recovery is not confined to the $20 billion budgeted for these purposes. Without new taxes, a continuing expenditure of this magnitude means a return to unbalanced budgets and deficit financing which is itself highly inflationary. And since there is little prospect of new taxes being voted by the present Congress, most Washington officials are resigned to budget deficits and government borrowing.

The necessary ingredients of economic stability in the United States are no longer any great mystery. What is needed most of all is enough current income in the hands of people able and willing to spend it for the products of industry and agriculture. And since there are more people with low incomes than high it is that group that must be kept in purchasing power if production and employment is to be sustained.

In other words, the total national income, now around $225 billion, must be currently spent either for consumption by consumers or for investment by industry in new plant and equipment. To the extent that the total income is neither spent or collected by the government in taxes, the government must borrow to pay its operating expenses and compensate for the failure of pri-

(Continued on page 47)

*A talk by Mr. Belair at the Annual Teachers In-Service Course on "Evaluating the News," sponsored by the New York "Times" and the Board of Education of the City of New York, New York City, March 29, 1949.

"Neither an Inflationary Or Deflationary Cycle"

By JOHN G. FORREST*

Financial Editor, New York "Times"

Asserting we are entering period of slow decline to normal and healthy peacetime basis, prominent financial editor refutes view we are in deflationary cycle. Says controls will not prevent wide price fluctuations in leveling off process, but good management will bring readjustment without serious consequences. Scores "welfare state" as greatest internal menace.

There is probably no need to tell you what inflation is—we've all experienced its effects and understand where it hurts the most—our pocektbooks! What I would like to discuss is the continuing question of whether we are now in a period of inflation or deflation, and whether government controls are still needed.

John G. Forrest

This morning's news on margin requirements would indicate that, in some Washington quarters at least, the economic facts of life are receiving acknowledgement.

A study of history snows that wars always breed inflation. And the longer the war, the worse the inflation. Whether the inflationary cycle in this country has reached its crest is still a large question mark in Washington. But evidences here and there indicate that living costs have about passed their peak and we are entering a period of slow but steady decline to a more normal peacetime basis. This is not necessarily deflation, as the fundamentals of our economy are not affected.

From a broad point of view of various indices of business activity—and contrary to the statements of President Truman's economic advisers—we are neither in an inflationary nor a deflationary cycle. And any controls, either in force or contemplated, will not prevent wide price fluctuations. There are more reasons to believe that our economy is going through a readjustment — a leveling-off process, if you will—rather than that any seriousness is occurring in fundamentals.

Where inflation has been most pronounced—in commodities and textiles—the downward adjustment in prices has been sharpest. In other fields, the adjustments are more moderate or of a minor consequence. In the course of this downward adjustment some manufacturers and merchants have been, and will be, hurt. On the other hand, the easing in prices is encouraging but will, of course, diminish the earnings of many companies. In the main, fortunately, the trend will be gradual and may be absorbed by an alert and careful management without serious consequences.

The principal benefit will be in easing the plight of the consumer —you and me—whose purchasing power is the ultimate prime mover of the wheels of business. Politically and economically, a good measure of the recent inflation is frozen in. What in 1932 may have seemed a political swing to the left has become a permanent part of our economy and national policy.

You may ask: Have these changes resulted from price controls or in spite of them? I would say, in spite of them! Grain prices during their recent plunge fell below the support levels set by the government. In my opinion, the old economic law of supply and demand, plus consumer resistance to inferior quality and high prices, is behind the present change. It is a healthy situation —and long overdue!

Decline in Farm Prices

The decline which has taken place in farm prices is a natural change in conditions . . . and has been a major factor in bringing about a better balanced price structure. It has undoubtedly reduced the high income of the farmer—and also of people selling to the farmer. But, on the other hand, it has stimulated the real buying power of a greater number of people whose income will *not* be affected by this move. This includes the large group of fixed income recipients and white collar workers who have been the real victims of inflation. . . . Even as you and I.

Most important of all, through its effects in turning the cost-of-living trend downward, this tremendous aid lifts the basic pressure which has so long been the driving force of the wage-price spiral. Luckily for us, the vastly inflated balloon did not explode, but is slowly oozing down . . and we are beginning to breathe a little easier again.

Whatever their opinions on the outlook, businessmen are almost unanimous in rejecting the views which have been prevalent in Washington political circles. The spectacle of filled-up pipelines, increasing food supplies, declining prices, receding plant and equipment expenditures and demand falling below productive capacity in one line after another seems to be an obvious answer to government officialdom. This predicament in which the Washington high command finds itself would be amusing to anyone with a detached point of view and a good sense of humor were it not for the grim fact that a couple of million people have lost their jobs with all the attendant misery and hardships. And the end is not yet clearly in sight.

Danger of Wrong Policies

Meanwhile, government economists make prophecies which may or may not be wrong . . . the real danger is that the wrong policies may be founded upon them!

As recently as last Friday, an official of the Federal Reserve Board was quoted in the newspapers as saying that immediate action to change margin requirements was unlikely. He also indicated that no action was planned in the near future to reduce reserve requirements. Two business days later came the announcement from the Board that control of margins had been relaxed. What does this prove? Possibly nothing —but one gets the impression, at least under present conditions, that these guardians of the public credit are no more certain of the day-to-day outlook than are the rest of us.

Incidentally, I see by this morning's paper that Mr. Eccles, a

(Continued on page 51)

*A talk by Mr. Forrest at the Annual Teachers In-Service Course on "Evaluating the News," sponsored by the New York "Times" and the Board of Education of the City of New York, New York City, March 29, 1949.

Steiner, Rouse & Co. Celebrates 25 Years

Steiner, Rouse & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, celebrated the firm's 25th anniversary yesterday (March 30) with a cocktail party for employees only, at the firm's main office in New York.

The firm also maintains two branch offices in New York as well as branches in Birmingham and Mobile, Ala., and New Orleans, La.

Partners in the firm are: Harold A. Rouse, a member of the New York Curb Exchange; Herbert E. Steiner, Milton S. Steiner, a member of the New York Stock Exchange and the Chicago Board of Trade; Anthony Mirabella; Howard E. Myers; Henry M. Bach; Jerome I. Metzger, and Harry Goldberg.

Courts & Co. Move New York Office

Courts & Co., members of the New York Stock Exchange and other leading Exchanges, announce the removal of their New York office to 30 Broad Street to supplement clearing operations, expand facilities of Southern offices, and to service Eastern connections. Telephone number is BOwling Green 9-9228.

The firm's main office is in Atlanta.

FIC Banks Place Debs.

A successful offering of two issues of debentures of the Federal Intermediate Credit Banks was made March 17 by M. C. Newcomb, New York, fiscal agent for the banks. The financing consisted of $23,370,000 1½% consolidated debentures dated April 1, 1949, due Nov. 1, 1949, and $57,810,000 1.55% consolidated debentures dated April 1, 1949, and due Jan. 3, 1950. Both issues were placed at par. Of the proceeds $55,155,000 will be used to retire like amount of debentures maturing April 1 and $26,025,000 is "new money." As of the close of business April 1, 1949, the total amount of debentures to be outstanding will be $514,580,000.

NSTA Notes

BOND TRADERS CLUB OF KANSAS CITY

At their recent election, the Bond Traders Club of Kansas City elected the following officers for the new term:




John Latshaw Earl L. Combest Laurence B. Carroll Jack Charmley

President: John Latshaw, Uhlmann & Latshaw.
Vice-President: Earl Combest, Prugh, Combest & Land.
Secretary: Laurence B. Carroll, Prescott, Wright, Snider Co.
Treasurer: Jack Charmley, B. C. Christopher & Co.
Mr. Latshaw is serving his second term as President.

The first annual outing of the Bond Traders Club of Kansas City will be the last part of April.

SECURITY TRADERS ASSOCIATION OF NEW YORK

The Security Traders Association of New York, Inc., will hold its annual dinner at the Waldorf-Astoria on Friday, April 22, 1949, it was announced. D. Raymond Kenny, of Kenny & Powell, is Chairman of the Arrangements Committee and Arnold J. Wechsler, of Ogden, Wechsler & Co., is in charge of ticket reservations.

Harry L. Arnold

HARRY ARNOLD GETS WINGS

Perhaps you have seen in the ad of Northeast Airlines "Yankee Fleet" handsome Harry Arnold, of Paine, Webber, Jackson & Curtis, 25 Broad Street, New York City. Call Harry and ask him all about how it feels to be a "leading Wall Street trader" up in the clouds.

CLEVELAND SECURITY TRADERS ASSOCIATION

Pictures taken at the Cleveland Security Traders Association Dinner March 15 at the Allerton Hotel in Cleveland appear in a special section in today's issue of the "Chronicle." Pictures were taken by Corwin L. Liston, Prescott and Company.

Canadian Securities

By WILLIAM J. McKAY

The Belgian monetary authorities have at least provided food for thought in the world's financial centers. In Ottawa for example it is reported that the Canadian Government is examining carefully the Belgian action in making bank-notes convertible into commodity exports. In an effort to correct the impression that the Ministry of Finance has a rigid attitude toward exchange questions it would appear that the Canadian monetary authorities are now prepared to make a bid for greater exchange flexibility.

It is natural that the first thought is directed towards Canada's neglected stepchild, the New York unofficial Canadian dollar market. Its erratic behaviour has been a constant thorn in the side of the Dominion's currency directors. The case presented by the Bank of Canada and the Ministry of Finance in justification of the official level of the dollar has been weakened by the contradictory evidence provided by the persistent large discounts registered in the "free market." Consequently the success of the Belgian experiment in cutting down the heavy discounts at which Belgian currency was previously traded in the world's free financial centers, is giving rise to the drawing of parallels between the Belgian and Canadian cases.

As a result it appears that the Canadian Ministry of Finance is flirting with the idea of absorbing into the export trade a part of the supply of dollars flowing into the free market in New York. If such is the case Canada, like Belgium, like Great Britain, is merely avoiding the real issue. The adoption of devious expedients in futile efforts to mitigate the effects of the present economic trend, only serve to aggravate the situation caused by the maintenance of overvalued currencies.

The end of the seller's market and the commencement of normal competition in foreign trade should therefore give rise to a greater degree of fundamental thought on the subject of the present state of the world's currencies. Unfortunately as recent events have demonstrated, there is reluctance for political reasons, notably in the case of Great Britain, to dispense with the elaborate control systems which are essential for the maintenance of the soft currencies at artificially pegged levels.

As far as Canada is concerned however, the basically strong economic position, and the status of the Canadian dollar as one of the world's relatively hard currencies, should encourage the Canadian authorities to eschew any action comparable to the Belgian experiment. Why give consideration to further complication of the already little understood Canadian free dollar market? What purpose would be served in bolstering the unofficial dollar at the expense of loss of U. S. dollars in the official market?

On the contrary not only Canada, but all countries burdened with onerous wartime exchange restrictions, should now act to remove or simplify existing regulations. Every effort should be made to lift the restrictions which impede the free flow of international commerce. In some instances this would involve currency adjustments to realistic levels. In all cases, at this preliminary stage capital transactions should be divorced from current trade operations. These steps would permit the attainment of multilateral exchange convertibility.

In the case of Canada multilateral convertibility would ensure the maintenance of the 100 cent commercial dollar. Instead however of making any attempt to channel commercial transactions through the market now designed for non-resident capital operations, attention should be devoted to the simplification of the present regulations governing capital transactions in the New York "free" market. In brief, permit the "free" dollar to serve as the immediately convertible exchange medium for all capital and financial operations. In this way the involved multiple system which gives rise to the "free" Canadian dollar rate, the corporate-arbitrage rate, and the registered and unregistered bond rates would be replaced by one rate covering all such transactions. This system would also simplify the work of Foreign Exchange Control Board in addition to facilitating repatriation of capital by non-resident investors.

During the week external bonds especially the shorter-term issues were in readier supply. The internal section on the other hand was a shade firmer in sympathy with the strength of free funds which rallied sharply, partly on the announcement of the very creditable Dominion budget, and partly on Ottawa reports of possible official action to bolster the unofficial market. The corporate-arbitrage rate continued firm at 12% bid. Stocks in earlier sessions were generally dull and inactive but subsequently moved into higher ground in sympathy with the rally in New York inspired by the reduction in margin requirements, and also as a result of the proposed 10% Canadian tax credit on common tax dividends. Industrials and the base-metal group led the upward move with Canadian Vickers, Hudson Bay Mining and Quemont among the most actively traded issues. Western Oils were little affected by the news that the new Imperial Oil Golden Spike well has now penetrated over 400 feet of oil zone, by far the thickest pay zone of any well in Canada.

Clarence G. Troup to Admit

CHICAGO, ILL.—Clarence G. Troup & Co., 231 South La Salle Street, members of the New York Stock Exchange, will admit Richard L. Lamborn, New York Exchange member, to partnership on April 1. Mr. Lamborn has been active as an individual floor broker. Charles F. Brennan will retire from the firm on March 31.

Gold—Safest Store of Value

By PHILIP M. McKENNA

President, Kennametal, Inc., Latrobe, Pa.

Answering objections return to gold standard would lead to excessive gold hoarding, Mr. McKenna points out if gold hoarding is not permitted as store of value, other commodities having less durability, stability, and expense of maintenance will be resorted to. Cites illustration of cattle currency in East Africa and recalls George Washington's views on paper money.

I met an important lawyer—he was addressed as "judge." In introducing to him the subject of a return to the gold standard I drew forth the following expressions.

"I was opposed to going off the gold standard in 1933, but now I would not be in favor of returning to it. People might hoard gold. I am for freedom, but the right to dislocate our economy by selfish hoarding cannot be tolerated. I realize we have a very high price level, but as a farmer I don't intend to sell my hogs at the recent low prices even though they seem high historically. No sir, I had 'em butchered and put in the quick-freeze. I'll give the pork away to my friends rather than sell it at present prices. I figure the best security I have is my little farm. Now, Mr. McKenna, we are on the gold standard, in a way. You can send $35 by check to a man in England, for example, and our Treasury has to make good on it by paying him an ounce of gold. Anyhow, I'm on a vacation and I don't want to talk about it now. But I will say this, that if they restore the right of Americans to hold gold we ought to slap a heavy tax on gold hoarders. See you later!"

Philip M. McKenna

These comments are self-contradictory and ill-founded as everyone stopping to think may see.

Evidently the judge regarded his farm and hogs as a proper store of value. When I remarked that hoarding hogs and running a gentleman's farm for security reasons was probably worse for our economy than holding gold as a store of value, especially as pork has to be refrigerated to keep it, he responded that he wasn't hoarding, because he'd give the pork away rather than sell it at present prices. I asked if he had ever heard of people giving away gold coins, as at Christmas, or by employers in recognition of good-will and services.

But in the "Commercial & Financial Chronicle" of Feb. 17, 1949 there happened to be an article by Paul Einzig in which he describes the archaic state of economy in East Africa where the use of cattle as money is a detriment. Under title "United States Aid in Colonial Development," Dr. Einzig discusses the proposal by planners to use U. S. taxpayers money to turn East Africa into a second Argentina, by developing cattle raising. He says, "Recent official statements foreshadowing the conversion of East Africa into a second Argentina from the viewpoint of cattle breeding are looked upon with skepticism among experts. The idea of extending the zones on which cattle breeding is possible, through the extermination of the tsetse fly is causing some uneasiness in quarters which regard soil erosion as the most important problem of Africa. It is feared that, while at present the fly-infested regions are protected against over-stocking of livestock leading to soil erosion, there would be no such restraining factor in operation if the extermination of the tsetse fly were proceeded with before the native population can be induced to change its present attitude towards livestock.

"The root of the evil is the widespread practice in East and South Africa **to regard cattle, sheep, or goats as a form of currency.** It is because of this that natives are inclined to keep much larger herds and flocks than is justified by grazing facilities and water supplies. It is because cattle are employed as the main store of wealth that the natives are reluctant to sell them for export. Unless this deeply rooted custom is changed the extension of grazing land would merely enable the natives to increase further the size of their uneconomic herds and flocks. And the fact that it is the number of the animals that counts and not their quality would prevent the breeding of good quality cattle for the requirement of meat export.

"How is this problem to be tackled? There is a simple practical device which would go a long ways towards the reduction of the monetary use of domestic animals. One of the reasons why they are so used is that **their owners derive satisfaction** by the **visible evidence** of their wealth The solution to the problem would have to take into account this attitude. Banks in backward areas in Africa and elsewhere where livestock is used as currency should attract deposits by the use of ornamental badges indicating the size of the deposits. It seems reasonable to assume that a great many natives would acquire the banking habit if some such device were to be adopted. At present they derive no satisfaction from possessing large deposits with banks, as there is nothing to show for such deposits."

From the Judge's remarks, and my observation of the recent tendency of successful American businessmen since we have been denied the right to own gold and gold coins, to conduct gentlemen's stock farms, raising horses, cattle, hogs or other livestock as a store of value and visible evidence of wealth I wonder whether American civilization having adopted African music, or jazz, is about to revert also to African monetary customs! Surely the use of gold as a monetary standard is less wasteful than the uneconomic growing of cattle and other forms of wealth which deteriorate unless kept up or preserved. Gold money was a worthwhile invention of man.

Yesterday being George Washington's birthday I bought a book entitled "Basic Writings of George Washington" by Saxe Cunnins on page 396 of which I quote from a letter of June 6, 1789 by Washington to his half brother Lawrence as follows:

"I am glad to find you did not dispose of your land; the paper currency of this Continent has, for sometime past, been upon too fluctuating a scale to receive in return for real property, unless it was to be bartered off immediately for something else of real value. To say when that hour of appreciation will arrive, is (if not beyond the reach of human kin) very difficult; it depends upon a variety of causes; more virtue; more exertion; more economy and a better knowledge of our true situation. While the interested man, who makes everything yield to his lust for gain, the Speculator, which is only another name for the same thing, and the disaffected, though acting upon different principles to effect the same end, are practicing every art that human craft and cunning can devise to counteract the struggles of the virtuous part of the community I think our money is upon too unstable a footing and fluctuating to part with land for, when the latter we are certain will become more valuable every day. It ever was my opinion, though candor obliges me to confess it is not consistent with national policy, to have my property as much as possible in lands."

Thus, even George Washington sought a stable "store of value" rather than irredeemable paper money!

Griffin & Kuipers Join Louis H. Whitehead Co.

O. D. Griffin, manager of the trading department of Lord, Abbett & Co. since 1936, has become associated with Louis H. Whitehead Co., 44 Wall Street, New York City, as manager of the latter firm's trading department. Mr. Griffin has been with Lord, Abbett since 1930.

O. D. Griffin Henry G. Kuipers

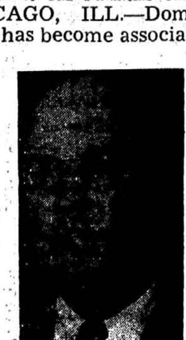
Henry G. Kuipers will join the Whitehead organization as assistant manager of the trading department. Mr. Kuipers has been with Lord, Abbett & Co. since 1933.

The expanded trading department of Louis H. Whitehead Co. will make firm markets in North American Trust Shares, all series, Corporate Trust Shares, all series, and in other issues representing special situations with which the Whitehead organization and the Lord, Abbett trading department have been identified in the past.

Dominic Cronin With Cruttenden & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Dominic C. Cronin has become associated with Cruttenden & Co., 209 South La Salle Street, members of the New York and Chicago Stock Exchanges. Mr. Cronin was formerly manager of the syndicate department for A. C. Allyn and Co., Inc.



Dominic C. Cronin

With Campbell McCarty

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — Richard Durant is now with Campbell, McCarty & Co., Inc., Buhl Building, members of the Detroit Stock Exchange.

Public Utility Securities

By OWEN ELY

Public Service Co. of New Hampshire

Public Service of New Hampshire, one of the major subsidiaries of New England Public Service, serves about 73% of the population of New Hampshire and also small areas in Vermont, Maine and Canada. More important cities served are Manchester, Nashua, Berlin, Dover, Keene, Laconia, etc. About 91% of the company's revenues are from electricity, 7% bus and 2% steam (there is no gas business now). Of the electric revenues about 38% is residential and rural, 18% commercial and 30% industrial.

New Hampshire may be regarded in some quarters as a rural state, but this is incorrect—it is really highly industrialized, with a slightly larger proportion of manufactures than New England as a whole. The company's industrial electric revenues are fairly well diversified, textiles (wool, cotton, silk and rayon) comprising over one-third, while lumber contributes 13%, paper 15% and shoes 10%. Because of the fact that New Hampshire industrial products are principally consumer goods, business conditions in the state are relatively stable. Thus in the period 1929-40 New Hampshire was the least sensitive of all states to fluctuations in the national income.

Public Service of New Hampshire is known as a hydro property, and since it has relatively small water storage, it was badly affected by the severe droughts of 1947-48. Following are the percentages of power generated and purchased in recent years:

	1945	1946	1947	1948
Generated by water power	72%	63%	49%	44%
Generated by fuel	23	30	37	49
Purchased from other utilities	5	7	14	7
	100%	100%	100%	100%

To add to the company's drought troubles the Federal Government seized the company's 20,000 kw. floating power plant Jacona in 1945. Complete abandonment of a 10,000 kw. addition to steam generating facilities during the war period was also caused by cancellation of necessary priorities. However, in November, 1946, the company finally purchased from the government a 30,000 kw. floating power plant suitably dubbed "Resistance," which after substantial repairs was finally placed in service in December, 1947. In May, 1948, a new 15,000 kw. hydro unit at Berlin was put into service. This additional capacity helped to alleviate the bad hydro conditions in 1948, but it was still necessary to generate nearly half the power from fuel plants, some of which were expensive to operate on other than a peak-load basis.

In 1949 to date, however, the hydro situation has improved sharply, precipitation being somewhat above normal. Hydro output in 1949 has been running nearly triple last year's output, part of the gain, however, being due to the new Berlin station. If rainfall is only two-thirds of normal between now and June, reservoirs should still be full in June. While the depth of snow around stream sources is now less than usual, this is not of importance, as any larger run-off of water could probably not be stored for use.

After giving effect to a stock split-up in 1946, earnings on the presently outstanding shares have been as follows in recent years:

	Revenues (Millions)	Oper. Ratio	Net Income (Millions)	Common Stock Record Earned	Paid	Range High	Low
1948	$13.4	82%	$1.8	$1.69	$1.80	29	20
1947	11.9	81	1.8	2.12	1.75	37	27
1946	10.9	74	2.2	2.53	1.56	39	28
1945	10.4	64	1.8	2.04	0.49	--	--
1944	9.7	74	1.7	1.19	0.49	--	--
1943	9.7	75	1.5	1.23	0.42	--	--
1942	8.3	74	1.4	1.27	0.73	--	--
1941	7.6	70	1.4	1.38	0.55	--	--
1940	6.8	70	1.2	1.03	0.55	--	--
1939	6.5	68	1.2	1.05	0.43	--	--

While last year's share earnings were less than the $1.80 dividend on the full number of shares now outstanding they were just about equal to $1.80 on average shares. This year's improved hydro output, plus the benefit of a rate increase effective April 1 may, it is estimated, bring a recovery in earnings to perhaps the $2.45 level—even if water is slightly below normal for the balance of the year. The rate increase (consisting of a broader fuel adjustment clause) is expected to contribute about 22 cents to the improved earnings, against which a wage increase will cost the company about 5 cents a share. While industrial activity in New Hampshire textile and shoe lines has declined somewhat, the company's primary industrial power revenues are down less than 5% in 1949 thus far, so that industrial conditions apparently are not much of a factor in current earnings.

The company plans to spend roughly about $10,700,000 in 1949 and $7,000,000 in 1950 for improvements. New generating capacity includes a 40,000 kw. mercury-steam plant at Portsmouth, expected to be completed by November, this year. Last year's construction was partially financed through sale of 139,739 common shares to stockholders on a 1-for-5 basis at $23.75 a share in April, and a $7,000,000 bond issue in October. This year it is planned to sell about $4,000,000 bonds and perhaps 100,000 shares of common stock, possibly in June. The holding company, New England Public Service, may also sell 200,000 of the 493,856 shares which it holds (about 59% of the present outstanding amount). NEPSCO will apply proceeds to the reduction of its bank loan, in connection with its dissolution program. Public Service of New Hampshire has no definite schedule for financing in 1950-51, though some additional stock might be sold in those years.

The proposed stock issue this year might reduce estimated 1949 share earnings to around $2.20 (or $2.32 on average shares) but this should still afford substantial protection for the $1.80 dividend rate. Capitalization, giving effect to proposed 1949 financing, is estimated to be about 59% debt, 14% preferred stock, and 27% common stock equity. The common stock is currently traded over-counter around 23-4 to yield about 7.7%.

Leadership in Big Business

By HENRY FORD II*

President, Ford Motor Company

Defending big business organizations as means of getting a job done and as search for stability and security, leading industrial executive warns of its danger in "having too large a body with two small a head." Points out, despite four million separate private enterprises, we are becoming increasingly "a nation of employees." Stresses need of more personality and an improved human relations in big concerns.

Since you are preparing yourselves for leadership, it might be interesting to ask: "What kind of business leadership will be needed tomorrow?" I imagine you have asked yourself this question more than once. I can't claim that I know the answer, but, for whatever my personal observations may be worth, let me point out some of the forces I think will influence the answer.

Henry Ford, 2nd

We can assume that the kind of leadership we will need tomorrow will depend on the kind of problems we must deal with tomorrow. Business and industry, like government, and all other institutions, have required different types of men at different periods in their history.

Benefits of Bigness

Clearly one of the conditions of the future which will influence the selection of our business and industrial leadership is: THE DEVELOPMENT OF BIG ORGANIZATIONS.

You are all familiar with this subject, I am sure. "Bigness," you will agree is, in part, a method of getting a job done. The moment you head in the direction of mass production or mass distribution, you head toward bigness. It is easy enough (though expensive) to manufacture a car in a small machine shop. That's the way all automobiles were made between 1897 and 1905. But when you start manufacturing a hundred thousand or a million automobiles, you need bigness in terms of space, materials, supplies, men, money and organization. We recently finished a new assembly line at Ford which will turn out a little better than a car a minute. It's 1,100 feet long. Obviously, such an operation needs big organization—not only along the 1,100 feet of the assembly line, but supporting it in thousands of different ways all over the country.

Bigness is often, in part, a search for stability and security. It is, in part, an attempt to distribute risk, to get lower costs and better management, to spread the cost of expanded research.

The American road to high standards of living is essentially simple. If you produce or distribute a great many things instead of only a few, you can organize to get the unit cost down—and if you get the unit cost low, there will be a large potential market for the volume output you need. One result is that millions of people today own radios, refrigerators, automobiles and countless other things.

Bigness is typically American. We begin with the very big political idea that sovereignty belongs to millions of people. Our social goals are always the good of the *many*. As our country has grown, our problems have become larger and the tools and techniques we have dreamed up for solving the problems have tended to become bigger also.

In every kind of development work—engineering, design, manufacturing, research—you usually get something you don't want along with the results you go after. This is true, I think, with regard to the large-scale cooperative undertakings which people sometimes call Big Business.

Some of the difficulties that have come along with Bigness—difficulties with which you and I and others must deal today and tomorrow—are these:

A big institution is always in danger of developing in the direction of the dinosaur—with a very big body and a very small head. I understand the dinosaur lived a long time on this earth, but I don't think any of us would be inclined to use him as a model.

As a matter of principle, I am strongly in favor of turning our attention more and more to the problem of the head—the problem of developing human intelligence and understanding. The development of the individual has always been the source of strength in our country and I believe it is the road to great achievements in any enterprise. It is one of the management problems of our times, it seems to me, to get more and better management at all levels and in all of the parts of big organizations.

To me this is a fascinating subject well worth the attention of all of us. It raises many interesting questions. For example—one of the reasons our country is strong is the fact that we have a tremendous free press—by which I mean all of the avenues of communication. The people of this country can know at all times about the major issues on which they will need to make up their minds. I wonder whether our big enterprises are doing as good a job as they need to do to keep the thousands, tens of thousands or even hundreds of thousands of their employees aware of all the things which affect the health and security of the enterprise of which they are a part. I wonder, for example, whether a majority of the members of big organizations are aware of the fierce competitive struggles in which their own companies are continually engaged. Management is stirred by these things—but are the men in the shops and the offices?

It is true that there are nearly four million separate private enterprises in this country today, not counting farms, and the number is growing. The man who is trying to live by running his own business is continually stimulated by the excitement of the contest. He is fully conscious of the risks and uncertainties which surround his operations and constantly threaten his investment. He knows very well why he must make profits and how small a percentage of his profits he can keep in his pocket. He is immersed in the economics of business and industry.

But it is also true that in the last ten years the proportion of

(Continued on page 33)

*An address by Mr. Ford before the students of the Harvard Graduate School of Business Administration, Boston, Mass., March 28, 1949.

Business Readjustment and Real Estate Market

By RAYMOND RODGERS*

Professor of Banking, New York University

Dr. Rodgers stresses weight of government's expanding activities and resulting high taxes on real estate, and points out present economic adjustments may adversely affect high real estate values. Warns nation is rapidly becoming debt burdened, and advises caution in mortgage lending. Concludes recent developments mean lower price structure in housing.

How will real estate fare in the business readjustment which is becoming more pronounced every day? The answer to this question is of vital interest to every tenant, to every landlord, to every homeowner, and to every mortgage lender in the country. Forecasting future developments is the most hazardous of human occupations, as the pollsters have vied in testifying since last November; yet we must try to see where we are going, especially in the economic field. This is particularly difficult to do these days because the movement of prices and the rate of business activity depend to such a large extent on what the government does or does not do.

Raymond Rodgers

After the national election of last November, it should be clear to the most confirmed die-hard that we now live in a welfare state. To the great opportunities for public spending under the welfare philosophy of government, we must also now aid the huge spending for military preparedness necessitated by the worldwide clash of capitalistic and communistic ideologies. For these purposes, Federal, state, and local taxing agencies in the current year will take $55 billion, or more, in hard cash from the American people. In addition to spending this vast amount, the various government agencies will borrow several billions more which also will be spent. Control of the expenditures of such enormous sums enables the government to wield an almost controlling influence on the economy.

We also have a managed money and a managed public debt.

It is against this background of enormous government influence on our economy that we must project probable future developments in real estate. And in doing so we must lay politics aside and use a non-partisan approach to the economic phenomena involved, whether we approve of what is being done or not is beside the point in economic analysis. In the economic field, above all, we must not deceive ourselves; the results are too tragic.

The need for housing in the United States is unquestionably great. Our population increased more than 2,000,000 in 1948 alone; in addition, most of us would like to upgrade our housing accommodations, whether we live in a cold-water flat or in the best house on the avenue. And, fortunately, too, many of our people still live in housing that does not meet modern standards of comfort, sanitation and decency, and thus breeds crime and disease.

There can be no question of the social desirability of more and better housing; but it does not follow that in today's world we can have everything we want—or need, for that matter. We necessarily must balance social desirability against economic feasibility. In this connection, many people are being misled by loose talk about big increases in the incomes of individuals. In particular, a great point has been made of the large percentage of increase in the number of people in the $5,000-a-year income class.

*An address by Dr. Rodgers at the Annual Meeting of Stockholders, Federal Home Loan Bank of Cincinnati, Cincinnati, Ohio, March 23, 1949.

Postwar Income Standards

A revealing light is thrown on postwar income standards by a recent factual series reported by the Census Bureau. These figures, which cover family rather than individual income in 1947, will be so surprising to most people that the entire series is quoted for information and guidance:

Annual Income	Number of Families
Under $1,000	4,000,000
$1,000 — 2,000	6,000,000
2,000 — 3,000	8,000,000
3,000 — 4,000	8,000,000
4,000 — 5,000	4,000,000
5,000 — 6,000	3,000,000
6,000 — 10,000	3,000,000
10,000 and more	1,000,000

While there has been substantial improvement in family income since before the war, the fact remains that in 1947 there were still 30,000,000 families earning less than $5,000 per year, and there were only 7,000,000 families earning $5,000 or more. These figures show better than an entire sermon why there are so many people who cannot afford proper housing at the price levels prevailing today. They also show the narrow base upon which today's inflated real estate prices rest.

Another significant statistic on real estate prices was released by the Federal Reserve Board last September. Their survey covering the whole country indicated that the median rent paid at the beginning of 1948 was only $30 per month.

Or, approach the problem from another angle—that of the landlord's share of the national income. Out of a total national income of $87.4 billion in 1929, the owners of rental real estate received $5.8 billion or 6.6%, whereas out of a total national income of some $220 billion in 1948, they received only $7.6 billion or 3.4%, a drop of nearly half in percent of national income.

Price of Housing

The very heart of the real estate problem is price, particularly the price of housing. This is not a new problem; in fact, I suspect it is as old as the first house which was not built by the one who was to occupy it. It is the one great problem on which the American genius of mass production has had but little effect. The nature of the business, the inefficiency of labor, the whims and idiosyncrasies of the customers, and the multifarious legal requirements, all combine to make costs high. High costs force prices up until a buyers' market materializes. Then, in a senseless and heedless rush to "get out from under," property is dumped with little regard for basic values. Markdowns, distressed sales, forced sales, and bankruptcies follow in quick order.

The tax burden is one of the fundamental causes of our present high price structure. Tax collections in the United States were $10.1 billion in 1929; $15.3 billion in 1938; and $53.9 billion in 1948. Last year the cost of government per family was about $1,400 of the family annual income. We actually paid more to be governed than to eat. According to the Census Bureau, Federal, state, and local payrolls alone in October, 1948, totaled $1,331,000,000 or more than double the $649,400,000 spent for the same purpose in October, 1941.

Despite the present crushing burden of government costs, the area of government activity is continually being widened. Where the line will be drawn, no man can say. The long-range implications of the "welfare" state philosophy, which we have embraced, are staggering, to say the least. For example, take just one segment of the broad field of social security—the problem of old age costs. In 1900, some 3,000,000, or 4% of our population, was 65 years of age or older; by 1940 this had grown to 9,000,000 people, or 6.8% of the total; and it is estimated that by 1960 approximately 14,000,000 Americans, or 9% of our people, will have passed their 65th milestone and thus qualified for government pensions or other old age assistance.

Burden of Taxes

The heavy burden of taxes not only increases the price of housing, it reduces the disposable income of individuals and thus leaves potential purchasers with less income to devote to down payments, carrying charges and amortization. So far as real estate is concerned, taxes are a veritable two-edged sword!

It is therefore not surprising from an economic standpoint to find that the specter of rows of unsold new houses has again risen to plague builders from coast to coast. The New York "Times," at the Convention of the National Association of Home Builders in Chicago, in February, announced that a recent survey showed the following unsold houses: in Washington, 1,200; in Cleveland, 800; in Portland, Oregon, 1,300; and in Detroit, 2,500. These blocks of houses which cannot be sold despite the continuing housing shortage, graphically indicate the strained character of the housing price structure.

From another angle, the American Appraisal Company Construction Cost Index reports that their index of industrial construction costs (labor and materials) which reached a peak of 504 (1913=100) last October, dropped to 502 in November, and 501 in December. This was the first definite sign of a drop in costs of industrial construction in 15 years of almost continuous upward trend.

And now, one final word about prices from an overall standpoint. Frederick C. Mills, our most distinguished price economist, pointed out in a penerating price study last fall that the World War I expansion was mostly in prices, with physical volume increasing only slightly. (The expansion in production was in the 1920s.) In contrast, in World War II, he pointed out, we had an advance in prices resembling that of World War I and a gain in physical production similar to that of the peaceful 1920s. The economic implications of this increased productive capacity, especially for prices, are obvious.

Growth of Debt

In the larger sense, mortgage bankers are merchants of long-term debt. Production in the field of debt has been phenomenal since the end of the war. Since V-J Day, the American people have gone into debt faster than ever before in their history. It is estimated that 40 million American families now owe more than $50 billion on home mortgages and consumer goods. It is possible to have excess "inventories" in this field just as in manufacturing. Now is the time to check carefully to see that your "inventories" are not "stale, obsolete or shopworn!" Now is the time to see that they are supported by real demand!

Real estate mortgages are of great importance in the economy. They constitute the largest block of non-government debt in the entire country. By any historical standard, the volume of new mortgages financed in the last three years has indeed been extraordinary. In view of these facts, and also the current high price structure, it would seem imperative to set up substantial reserves against what we know is going to happen.

In the savings and loan field, the ratio of capital and surplus accounts to mortgage portfolios is much higher than before the difficulties of the early '30s. These increased capital assets will constitute a valuable cushion of solvency in case of real estate difficulties; but the prudent lender, who values his own peace of mind and the peace of mind and goodwill of his customers, will supplement them with special reserves to cover the emergencies which will develop. With such reserves, "you can have your cake and eat it." No man, especially the custodian of other people's savings, could ask for more!

In closing, it may be trite to advise caution in mortgage lending. But I would be less than frank if I did not point out the increase in the risks involved. Lending money is always risky, but it is particularly so in periods of change in economic tempo. While the general economy will not suffer a drastic decline during the next few months, there are special factors of weakness in real estate.

Prices are high—that there are economic reasons for these prices is beside the point. In addition, there are many unwilling owners—people who were forced to buy to protect their families. Also, there are many veterans who embraced government-sponsored ownership as the easiest alternative. These "unsold" owners and the unsold houses throughout the country, together with the return of competition and the increased difficulty in obtaining mortgage loans, inevitably mean a lower price structure in housing.

The high price of housing and the increased interest of the National Administration in social welfare add up to just one thing: public housing for the low-income groups. Increased public housing will adversely affect the low-income sector of the private housing market. The continuation of heavy taxation, particularly high income taxes, will depress the high-income sector of the market. This means that mortgage lending will have to steer a conservative, middle course. There is no other sound choice.

Warns Federal Control of Our Dollars Threatens Our Political and Economic System

Dr. Theodore A. Distler, President of Franklin and Marshall College, tells Philadelphia Chapter of AIB ideology socialism is threatening our way of life, and best recourse against it is better understanding of our form of government.

Addressing the Philadelphia Chapter of the American Institute of Banking on March 19, Dr. Theodore A. Distler, President of Franklin and Marshall College, warned the idea of democratic socialism is growing in the United States because of the definite trend toward placing control of our tax dollars under the Federal Government. The educator declared that unless this country was able to maintain its economic and political system, it would not be able to provide the leadership for the Western world. America, he said, must do its own thinking.

Dr. T. A. Distler

"The ultimate strength of our country," Dr. Distler stated, "will rest on the ability of the average man or woman to understand and comprehend the genius of our life, our political system, our economic system. It would be perfectly nice if we could get the so-called best minds to do our thinking for us, but then we wouldn't have our form of government. We have the harder task of making sure that we have an intelligent electorate." Continuing, Dr. Distler said:

"In addition to spreading knowledge, we need a return to faith in God. The bulk of our people have got to realize that this is a God-centered system and that there is a Supreme Authority over and above all authority that we may delegate to Washington or Harrisburg or any other place.

"We need knowledge and we need a revival of faith, and then we need action . . . we have to act as though we believed in democracy. We have to make democracy work in terms of our personal responsibility. . . . We have a formula, we have a plan which can bring to mankind the peace and justice and tranquillity which it desires, but what salesmen are we! We can sell material goods anywhere, but when it comes to selling democracy we are the weakest salesmen in the world.

"We have in our form, our political and economic structure, the answer for which the world has been waiting. . . . We've got it, but we've got to live it and we've got to sell it. . . . We have the answer, God give us the grace and courage to sell our product decently and intelligently."

Dean Witter & Co. Celebrates 25 Years

The investment firm of Dean Witter & Co. is observing the 25th anniversary of its founding. Established in San Francisco on March 25, 1924, by Dean Witter, the firm now has 25 offices in 21 cities. Mr. Witter continues to maintain his office in San Francisco, 45 Montgomery Street, and Austin Brown is the senior partner in the firm's New York office, 14 Wall Street. The firm is a member of the New York, San Francisco and Los Angeles Stock Exchanges and leading commodity exchanges.

Jennings & Co. in Tampa

(Special to THE FINANCIAL CHRONICLE)

TAMPA, FLA.—David E. Jennings is engaging in the securities business from offices in the First National Bank Building under the firm name of Jennings & Co.

Henry Johnson Opens

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO. — Henry A. Johnson has opened offices at 565 South Clay Street to engage in a securities business.

Money Inflation and Price Inflation

By THOMAS I. PARKINSON*

President, Equitable Life Assurance Society of U. S.

Mr. Parkinson complains of failure of government officials and bankers to realize that we have "money inflation" and not "price inflation." Says monetary authorities, by maintaining present policies, continue to inflate money and scare people into making inflationary use of increased number of dollars. Urges a nonpartisan National Monetary Commission.

It is almost with a sense of despair that we see current governmental proposals to check inflation continue to by-pass inflation itself and confine their attention to the results of inflation. They talk of prices, but inflation is strictly and clearly a monetary matter, being no more or less than a sharp increase in the volume of that which we use for money, namely bank deposits and currency.

T. I. Parkinson

Moreover, an inflation of the money supply in any country is wholly the fault of government; it cannot occur unless the government prints greenbacks or encourages the expansion of bank credit and resulting bank deposits.

When such inflation exists, talk of prices is confusing, and at the moment it is intended to confuse and divert attention from the continued increase in our money supply.

In this country the government drifted into inflation by the use of bank loans to finance the war, and since the end of the war has continued to inflate our supply of money and at the same time tried to ignore the real inflation while it worries about prices.

The agencies of the government directly responsible for the continued inflation of the money supply are the Treasury and the Federal Reserve Board. The Treasury has sought low rates of interest on the money which it borrows and large dollar revenue from income taxes, which rise as individual incomes increase in terms of the current "50 cent dollar."

The Federal Reserve Board, supporting the Treasury's policy, has used some of its powers and refused to use other of its powers with the deliberate purpose of increasing the money supply or of maintaining an increased supply in order to facilitate the government's fund raising needs.

Both the Treasury and the Federal Reserve Board, however, derive their powers from Congress, and daily the time is coming closer when Congress will have the whole monetary problem squarely in its lap. Congress has been and is responsible for the monetary policies which brought on inflation and which now maintain it only to the extent that it has not changed the laws prescribing the powers and duties of the Reserve Board and Treasury with regard to money.

The reason that the people have not demanded action from their Congress to keep their money sound is the skillful propaganda which misrepresents inflation. Unfortunately it suits the purposes of government officials and those business men who have the greatest responsibility for money to talk of inflation as if it were a matter of business activity, prices, and wages. This is the "inflation" which is presented to both Congress and the people; the inflation of money is ignored or minimized.

Current reports of banks to their stockholders say "the peak of the inflation is passed" or "inflation has run its course" or "the inflationary trend has subsided." It is unbelievable, but it is true that even these bank reports treat of inflation as if it had nothing to do with money. When they document the assertion that the inflation is subsiding, they illustrate with commodity prices; they do not refer to the continued increase of the money supply by the Treasury and the Federal Reserve Board policies of purchase of gold and support of the government bond market in ways which increase bank deposits by from four to five times the price of the gold or of the bonds.

Current Administration proposals to fight inflation are in like manner confined to inflation of prices and wages; they say nothing of the increased money supply or current increases in that money supply.

The economic representatives of the Administration insist that the inflation trend has not passed, but they say it can be controlled. They admit prices for agricultural products are lower and food prices are slightly lower; but they warn of expected stock piling demands for defense purposes. They talk only of prices; they do not touch upon money. If they did, they would have to admit that the money supply, which went up from $150 billion at the end of the war to above $170 billion last year, is still hovering around that $170 billion mark.

No, they are talking not of "monetary inflation" but of "price inflation," and they say to Congress—give us power to control prices and allotments of some commodities, and we will stifle inflation. They do not even mention the "monetary inflation" which is the real source of the "price inflation."

Concurrently the fiscal and monetary officials of the Administration say they will maintain present monetary policies, which in effect is saying that they will continue to inflate money, then fight inflation by urging or scaring the people so that they will not make inflationary use of the increased number of dollars which our monetary policies provide.

On the other hand, the representatives of business, likewise avoiding all reference to monetary inflation, take up the battle with respect to price inflation. They point to the "break" in commodity prices, to lower retail sales, and some unemployment as evidence that a deflation has set in. Therefore they say to the Congress—don't fix prices, don't allocate materials, or you will simply decrease production, and by all means don't increase taxes, or you will decrease the buying power of individuals and the production power of corporations.

In such chaotic form is the inflation problem thrown at Congress, with government shirking its responsibility and business afraid to face the monetary issue. The confusion could be avoided if we simply recognized the fundamental facts that it is inflation of money which is dangerous; that inflation of prices and wages flows from inflated money; that the government, and particularly the fiscal and monetary parts of the executive branch of the government, are responsible for the inflation of money and can end that inflation; that bankers, business men, and the economists who represent them contribute to the confusion in the public's mind by confining their discussions of inflation to the price and wage problem.

The inflationary problem is a monetary problem, and if it is to be solved without disaster our Congress will have to act. We cannot expect Congress to act intelligently when the fiscal and monetary officers of the government and business leaders do not present the issues definitely or accurately. Therefore we continue to believe that Congress should promptly create a nonpartisan Monetary Commission.

*Statement of Mr. Parkinson distributed by Continental Press, Brightwaters, N. Y.

Toppers to Hold Annual Outing in May

The Toppers will hold their annual outing on Friday, May 27, at the Rock Springs Country Club, West Orange, New Jersey.

Sixteen full hours of fun and relaxation are planned. Golf, tennis, bridge, softball and horseshoes for prizes, plus lunch and dinner are to the order of the day.

The following Committee has been appointed:

William G. Carrington, Jr., of Ira Haupt & Co., Chairman; DeWitt Hornor, of the National City Bank of N. Y., Secretary; Charles J. Walmann, Jr., of Kean, Taylor & Co., Treasurer; William Dore, of Halsey, Stuart & Co. Inc., Golf; Edwin A. Bueltman, of Blair & Co., Inc., Horseshoes; Henry G. Hull, of Harry Downs & Co., Tennis; James M. Ransom, of Harris Trust & Savings Bank, Bridge; Alfred T. Harris, of "The Bond Buyer," Softball & Photography; John A. Hoff, of Kidder, Peabody & Co., Special Event; Robert V. McCarthy, of the First Boston Corp., Softball & Special Event.

Out-of-Town guests are cordially invited.

Unwieldy Government Power Dangerous, Says Preston Delano

Comptroller of Currency tells bankers they are a vital part of our economic system, and their responsibilities should be determined by discussion and persuasion among free men and not by government compulsion.

Speaking at the National Consumer Instalment Credit Conference of the American Bankers Association at St. Louis, Mo., on March 29, Preston Delano, Comptroller of the Currency, after noting changes in American banking during the last half century, contended bankers' responsibilities today are greater and have a wider horizon than ever before and, as such, they constitute a vital part of our economic system. He expressed opposition to unwieldy power of government in control of banking and favored accomplishment of banking welfare not by compulsion but "by discussion and persuasion of free men." Comptroller Delano's remarks on this topic follow:

Preston Delano

"Today the very life of our banking system depends upon its wider horizon and the assumption of national responsibilities. We are in the midst of a struggle of two ideologies. We defend economic ramparts which must hold. If these ramparts are to endure, if we are to retain a competitive economy, the vision of those who run our banks must be an entirely different vision from that which guided the bankers in the year 1900. This is the heart and core of today's great banking problem. I ask you to take it home with you and think it through.

"The banker today is a vital part of our economic system. He controls the nerve centers of that system and the manner in which he adjusts his policies to the economic need of a delicately balanced society is just as vital as the judgment which he uses as between a good and a bad loan. If men are to stay free, they must reach up and grasp the significance of this larger view. That is why the American Bankers Association is so important. It is why meetings such as this are so important. Both the Association itself and these meetings, which are its instruments, bring our minds together and tend to generate policies which comprehend not only the welfare of the individual bank viewed alone, but the welfare of that bank which grows out of the welfare of the whole banking system. The important point is that this should not be accomplished by compulsion but by discussion and persuasion among free men. Government can do much toward keeping this intricate and involved economic machine of ours running without too great dislocation, but by far the greater part must be done by business leaders themselves.

"To leave all such policy to government means that government will have unwieldy power. Gradually, management will be relinquished to political authority. The economy will lose its drive and vitality and the individual his initiative and dignity. Men will become merely directed servants. They will walk in darkness. This must not happen, and this is the cause I leave with you."

J. R. Durrance & Co. Opens

ATLANTA, GA.—J. R. Durrance is engaging in the securities business from offices in the Chandler Building, under the firm name of J. R. Durrance & Co. Mr. Durrance formerly did business under the same firm name from Coral Gables and Miami.

The Outlook in Congress

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

GOP's Senate Floor Leader insists no agreement exists between Republicans and Southern Democrats to block legislation, but independent Senators will consistently defend free enterprise against Administration onslaughts. Declares all segments of population are justified in jitteriness over Truman program, which he labels "The Fair Haired Deal."

Real Issues vs. Crises and Emergencies

You men are businessmen, economists, bankers. You have been taught by tradition not to interest yourselves in government because it is an old business axiom that the businessman stays out of politics. But the message I bring you tonight is if we are to continue our republican government you men have got to interest yourselves in political, as well as economic and social problems.


Sen. K. S. Wherry

We have had so many crises and emergencies in recent years — some real; others manufactured for ulterior purposes, that we have become calloused to them, and many of us have become completely indifferent to their consequences.

Communism and socialism will thrive only where a people's spirit and their will for personal freedom is broken.

We do not know what lies ahead in the 81st Congress, but the decisions we will have to make, as a people, and in the Congress during the next few weeks will be, in my opinion, the most fateful for our country's future that we have ever been required to make—short of actual declaration of war.

Nevertheless, we do not shrink from them. Rather, we face the future with confidence and optimism. We have faith in the wisdom of the American people — faith that in the end—after free and open debate—their decisions will be right, and will lead us to a brighter day, when haunting fear of what the morrow may bring, will give way to peace of mind and contentment in the pursuit of happiness.

But, fellow Americans, if there ever was a time for hard thinking, that time is now. The stakes are high. Our very way of life—our heritage of republican government—are threatened by undermining at home, and by the spread of a ruthless, tyrannical ideology abroad. Together, they are a challenge to our most prayerful consideration.

Definition of the Question

Our target tonight is, "The Economic and Social Significance of Bigness."

It is impossible to limit a discussion of "bigness" to economic and social patterns without seeing the growth of bigness in relation to its true cause—national and international *political* "bigness."

The economic law of supply and demand has become jammed, and wobbles in the face of political commitments, not only for this country, but for the whole world.

How can you separate the political from the social and economic when social and economic needs have been laid down in the past 16 years through political maneuvers?

Let us survey our domestic and international affairs. They are like the Siamese twins—bound together. In fact, our commitments in foreign affairs now largely dominate and fashion our domestic affairs.

Domestic Affairs

It is fundamental that America must be strong — strong financially, strong economically, and strong spiritually, if we are to preserve our own well-being and be of any help to a tottering free world.

America cannot be the hope and inspiration of freedom - loving peoples around the earth if America is rendered economically weak and spiritually demoralized. These have caused the downfall of many nations.

And yet President Truman has presented to the 81st Congress a spendthrift, socialistic program that would, if enacted into law, strangle our free enterprise system and subjugate management and labor to a completely planned economy.

He has frankly told the American people he wants power to fix floors under prices that are falling and ceilings over prices that are rising. This *is* the planned economy under which our daily affairs would be directed by bureaucrats in Washington.

Senator Murray of Montana introduced the Administration's bill, S. 291, which would provide a $15 billion fund for the construction of government plants to produce steel and other products.

With such examples of working state socialism, is it any wonder that the American people are disturbed and frightened? We see the tragic result of their loss of confidence among the people in the lengthening lines of unemployed.

The President received no mandate from the people to increase their tax burdens and squander their substance in socialistic enterprises — socialistic enterprises diametrically opposed to our free economy, through which America has become the greatest nation on earth.

Program by Pressure Groups

The Administration's program has been dubbed the "fair deal." The truth is it is a deal for the fair-haired. It is a program of pressure groups—special interests—each having a pet scheme to benefit themselves at the public's expense.

We have already seen rapid abandonment of traditional principles and the development of the most complex and dangerous centralization of political power in our history. At home and abroad, our form of government has been exploited, our free enterprise system uprooted, and our social and personal liberties sacrificed.

It is only natural that those who reach for power should seek to spread their favors and their patronage, and extend their hold over ever-widening areas of our economic and social life.

This was accomplished in the last Presidential election by swapping political promises and special favors in the economic and social realm, in return for political support. This wanton disregard of the interests of the whole people is destroying the foundation of our Constitutional and representative form of government.

Is it any wonder that the workers, the businessmen, the farmers—all segments of our poulation—are jittery and beginning to retrench?

The Fair Deal Budget

In the President's budget message for the next fiscal year, he has asked for $42 billion.

But under close analysis this figure rises to nearly $47 billion, when there is added approximately $5 billion for socialized medicine and other activities through trust funds outside of the general budget.

Add about $16 billion of state and local taxes and the grand total is $63 billion. That is about one fourth of the national income—27 cents out of every dollar, which every American spends.

And let me remind you, these appropriations for socialized medicine and other activities in 1950 are just down payments.

They will grow and grow and grow.

Competent authorities estimate that the health, old age, and unemployment programs laid before the present Congress would cost $13 billion in 1960, and reach $35 billion in the year 2000.

It is anybody's guess as to how many additional Federal employees would be needed to administer these programs. The new budget provides for 18,000 new permanent positions. We now have the largest number of civilian Federal employees in all peacetime—2,200,000. Under the President's proposals, the Federal payroll for next year would cost $6 billion, 250 million.

Big Government

So, we have Big Government, getting bigger and bigger, spending five times as much as it did in 1939, though our national income has gone up only two and a half times.

This course inevitably leads down the road which every dictatorship has traveled, to rob a people of its economic independence, by confiscating both the earnings and the savings upon which economic freedom depends.

A continued policy of increasing federal spending will compel the government either to increase the burden of taxation, or to return to the highly inflationary policy of deficit spending, or both.

You businessmen know, what it means to have "fixed charges." Well, we have government-fixed charges and, what is just as alarming, the source of revenue threatens to diminish.

If we are in the first stage of a Truman depression, as some economists think we are, then it behooves all of us to do something about it, for, depressions, like the rain, fall upon all of us.

What Is Congress Going to Do About It?

And, by the same token, you have the right to ask me: "What are you going to do about it?"

That is a fair question, and here's my answer.

I am opposed to all the starry-eyed proposals that can lead only to national socialism or statism, or whatever you want to call it.

But the responsibility for saving America rests upon all of us.

Our President is a Democrat. The Democratic Party is in the majority in both branches of the Congress. The Democratic Party controls the legislative machinery and will be held responsible for its record. But it isn't enough for us to sit idly by, twiddle our thumbs, and say the other fellow is responsible.

We Republicans are showing, in this session of the Congress, that we do not intend to be merely a loyal opposition. Whenever Republicans and Democrats, who think alike, can take advantage of the opportunity to block bad legislation, or pass constructive measures, we will seize that opportunity.

No doubt, during the last few days, you have noticed some developments in that direction. People are asking: Does the action taken by the Senate on the filibuster question mean that a coalition of Southern Democrats and some Republicans is in effective control of the Senate?

They are asking: Will this coalition continue to outvote the Administration Democrats? No such agreement exists.

But there is a new alignment in the Senate. We Republicans and some Democrats think alike in our opposition to socialism and an all-powerful central government. On such issues our common philosophy naturally brings us together.

Because we succeeded in causing the Senate to adopt the Wherry cloture rule—to limit debate—does not mean, however, that all the members of that coalition will vote the same way on every piece of legislation.

Individual Senators will be governed by their different viewpoints. Regional interests will have an influence. But I do believe that when basic issues of New Dealism against free enterprise arise, you will find us joined in battling Administration forces.

The Taft-Hartley Act

As an example take the demand of President Truman for outright repeal of the Taft-Hartley Labor-management act.

The Democrat majority on the Senate Labor Committee refused to permit even the slightest amendment to be offered to the Administration-backed Thomas bill. The committee, in reality, was by-passed and its wealth of evidence ignored. It was the most outrageous railroading in the Senate that I have ever seen.

It becomes necessary now to write the new Labor Act on the floor of the United States Senate.

In my judgment, when the Senate gets through with the Thomas Bill most of the good provisions of the Taft-Hartley Act will be restored and they will be approved by the American people, and the rank and file of labor as distinguished from some of the labor bosses.

An honest evaluation of the forces of economic concentration which are now threatening free enterprise would not be possible without including the development of the power of organized labor.

Labor unions have now become "big business."

Since the Taft-Hartley Act became effective, more than a half-million members have been added. Total union membership has now reached 16 million. Total income of the combined labor organizations has reached the tremendous total of nearly $500 million a year. Assets of all unions, local, national and international, may total more than a billion dollars.

The major provisions of the Taft-Hartley Act have worked well. Under its operation wages have risen and strikes have decreased. Changes in the light of experience should be made but there must be no surrender to the minority of labor leaders, who seek to use their unions for their own personal and political advantage.

The rank and file of labor does not want a totalitarian government any more than does the rank and file of businessmen. Wage earners do not want to strike. Strikes are a hardship upon laboring men and their families. All that the great mass of working men and women in America desire is fair, just, and equitable procedures for protecting their rights and opportunities as American citizens.

It is our job as American citizens to preserve a true balance between the rights of employers and the rights of labor. We must not let the pendulum swing too far in either direction. The rights of both should be kept on an even keel. It is up to management, as well as labor, to see that this is done. When labor and management get out of balance, then it becomes the duty of the government to intervene. The nearer we can keep their relationship in balance, the less government intervention is necessary.

The millions of men and women who belong to labor unions are solid, patriotic Americans. They put their country above personal consideration. Their rights to organize, to bargain collectively, to strike, and to control their unions, their funds, and their officials, are fair and just, and those rights must be preserved to them.

Rent Control

Another example of legislative coalition is rent control. The President has been rebuffed on that measure. Here we are—four years after the war. It is high time that we move toward freeing property owners from their island of government control. The rent control bill is in process of final passage.

It provides that rent control, or decontrol, be placed where it belongs—in the states and local communities—and it provides for an early end of rent control.

This bill was passed by the votes of legislators who want governmental controls taken off the backs of the American people. It is a wholesome breath of Spring. It is one step away from the centralized government cherished by the New Dealers.

Socialized Medicine

Fellow Americans, we can solve most of these problems in that fashion. For example, socialized medicine.

Our America has the best health record of any major nation on earth. Much progress has been made by the medical profession. But much more must be accomplished. The responsibility rests squarely upon the shoulders of the medical profession and should be done the free enterprise way.

Our present great medical institutions could not have been developed under socialized medicine.

The government is helping, in the good work of the U. S. Public Health Service. That service should be expanded. The Congress should be liberal in appropriations for research to find remedies for heart disease, cancer, and diseases of the teeth, and other ailments.

That is the right direction for government to go. But I am opposed to a system of compulsory health insurance under which government agents would not only direct medical treatment, but go much further and snoop into the personal affairs and relationships of the American people with their family doctors.

Big Business

Please let me make my position indelibly clear. While I contend for retention of our system of free, competitive enterprise, and oppose entrance of the government into any field that can be best filled by the initiative and genius of our people yet, I am *not* in favor of jungle warfare in business.

And that brings me to the third "big" in the United States— "Big Business."

"Big Business" has brought "Big Labor" into being. And "Big Government" now threatens to swamp both of them—all of us.

The business cycle in which we are now moving has been accel-

*An address by Senator Wherry before National Industrial Conference Board, New York City, March 24, 1949.

erated by accumulations of large wartime working capital, by the unbalanced activities of many companies, and by the desire to achieve a strong, strategic position before the return to a buyers' market.

The war years, which provided $200 billion in prime contracts through government financing special amortization rates, and tax-relief measures, also provided large government appropriations for research and virtual elimination of any threat of antitrust prosecution. As a result the merger movement has made its greatest strides.

In spite of the investigations, studies and analyses; in spite of all of the preventative law enforcement, punitive and remedial measures, the forces toward economic concentration are stronger, more complex and more persistent than ever.

Large-scale companies are necessary if we are to continue to have mass production, and we need mass production in peace as well as in war. Where would America have been if it weren't for the assembly lines in the last war?

But it is of equal importance that we have a wholesome economic climate for small business. Small, independent business establishments are the backbone of American commerce and industry. Theirs is the great field of opportunity for our people, especially the youth.

Would we have had a Ford if it had not been for the opportunities and incentives open to a small businessman? How about Firestone, Edison? You would not get a Ford, a Firestone, nor an Edison under any system of socialization in which the government takes care of the people from the cradle to the grave—robbing them of their individual initiative, genius, and enterprise.

Foreign Affairs

There can be no doubt about it—our America has grown big. Big in Government. Big in Labor. Big in Business. Yet, all our domestic problems sink into insignificance under the weight of our international involvements.

There can be no peace of mind—no genuine progress—as long as the gnawing fear of war haunts our people.

It is very difficult for you businessmen to plan for the future, because you do not know what tomorrow may bring in the way of allocations, restrictions, quotas, and controls. This impact upon our domestic affairs is caused, to a large degree, by the commitments we have made in foreign affairs.

The cost of the cold war with Russia in dollars, and goods furnished to freedom-loving nations, is tremendous. It continues to grow. We have a right to ask: Where is it leading us?

Fellow Americans, the root cause of the dismal train of events since the end of the war, goes back to coddling and appeasing of Soviet Russia before and during the war, and their ratification and confirmation at Potsdam after the war.

During all the period since, we have followed a makeshift policy toward Russia—alternately "soft" and "tough"—but always digging deeper into the substance of the American people.

We are having to pay dearly for signing away eastern Europe to the Kremlin clique. Our representatives should have known by the record that those power-hungry men would never keep their promises.

We are paying dearly for our attempt to impose the revengeful Morgenthau plan upon Germany—the plan to reduce Germany, the industrial heart of Europe, to the status of an agricultural nation.

Some day we may pay even more dearly for signing away the rights of China to Soviet Russia. China, in indescribable misery, lies prostrate under the heel of Communists, whom the present Administration sought to put into a coalition government.

Is it any wonder that we are now reaping the whirlwind of this incompetent management of our international affairs?

It was during the many months of futile effort to impose the Morgenthau Plan upon Germany that recovery of all of Europe was frustrated and Europe became fertile for the rise of communism under direction of Soviet Russia.

It was during this agonizing period that the so-called bi-partisan foreign policy was developed.

But the seeds of communism by this time had been broadcast over western Europe—in fact, across the free world, and the men of Moscow became bold.

When the European Recovery Plan was presented to the Congress, we were told it would do the job; that it would feed and clothe the people of devastated, freedom-loving countries, and help them reestablish their industries; in brief, reduce their misery and make them strong so that they would not be prey to communism.

We are going further than feed, and clothe, and treat the wounds of Western Europe. We are providing them factories and materials for manufacture into goods to be shipped back to us under a reciprocal trade agreements program in which America today is well-nigh on a free trade basis.

We are told that though the Marshall Plan has been a great success, it must be continued until 1952, at a total cost of $17 billion—$17 billion on top of the $25 billion that had been previously poured into Europe since hostilities ended.

Now, we do not begrudge the economic aid and the relief that we have given to Europe and other parts of the world. But those who sponsored the Marshall Plan now apparently believe it has not served its major purpose of insulating Western Europe against communism; for, we have before us the North Atlantic Pact.

The alliance calls for implementation in the form of arms and ammunition. We—the American people—are to defend and maintain the security of the signatory powers for 20 years. It is a revolutionary departure in our foreign policy. It places our country squarely in the realm of world power politics.

This pact should be weighed very carefully by the American people. We all should know the facts—all of its implications—all of the understandings, legal, moral, and otherwise that may exist. We should know all the commitments and all of the implications that involve us in the political affairs of the signatory powers.

Can we make good on our pledges to arm Western Europe and other countries in addition to all of the commitments that have been made through the Economic Cooperation Administration?

Do we have the resources, even though we have the will to assume such obligations?

Would the taking of such an obligation force our own country to adopt rigid controls over its national economy, resorting to all-out regimentation?

It would be a most tragic blunder, if we spend our substance to save republican governments abroad and lose our republican form of government at home.

To these serious questions all Americans should give their most careful consideration.

I would like to ask—is there another approach? Is this the only way? Perhaps it is too late, now. Perhaps events have raced past other ways.

But, I am thinking about the historic American way, the long span during which the United States had a forthright foreign policy—when we said what we meant and did what we meant—and the freedom-loving peoples everywhere accepted our pronouncements, because they knew our foreign policy was just and fair.

America has joined in two world wars. We have never asked a penny in reparations; not an inch of territory.

What has become of the voice of America?

Why has this Administration failed to get our story to the peoples of the world?

Will we lose face all over the world and will the situation in Western Europe and the remainder of the free world become more desperate, if the United States rejects the North Atlantic military pact?

Fellow Americans — there are many, many questions. Each one of us must resolve them for himself. That is the American way, for here the people have sovereign power.

Yes, the next few weeks are fateful in the history of America—socially, economically, and politically.

May we invoke Divine Providence to guide us aright that we might make our decisions for the good of all our people and for the good of all humanity.

America is the last bulwark of freedom.

Let's keep it that way!

Sammon & O'Connell With Andrews, Posner

The partnership of J. S. Sammon & Co., will be dissolved as of March 31, 1949.

J. F. Sammon

The partners, John F. Sammon and N. J. O'Connell, will be associated with Andrews, Posner & Rothschild, 60 Wall Street, New York, member of the New York Stock Exchange.

F. G. Steiner Director

F. G. Steiner was elected a Director and Chairman of the Financial Advisory Committee of Shoe Corporation of America at the annual meeting of the company in Columbus, Ohio, according to an announcement by Robert W. Schiff, President. Mr. Steiner, who is associated with Wertheim & Co., members of the New York Stock Exchange, is also Chairman of the Finance Committee of A. S. Beck Shoe Corp., a subsidiary of Shoe Corp. of America.

Mr. Schiff also announced the election of four new Vice-Presidents, Joseph Blatt, Earl Coplon, Joe Zox and David Gray. Robert W. Schiff, Albert Schiff, Edward E. Schiff, Jack Schiff, Herman R. Tingley, and Dr. L. A. Lurie were re-elected to the Board of Directors.

Soucy & Co. in Boston

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Ernest W. Soucy has formed Soucy & Co. with offices at 80 Federal Street to engage in the securities business. Mr. Soucy formerly conducted an investment business in Boston under the same firm name.

Purchasing Agents Report Year-End Business Level Maintained

Business Survey Committee, headed by Robert C. Swanton, finds more than half of firms questioned say they are maintaining or increasing production and have improved their order book positions.

A composite opinion of purchasing agents in the National Association of Purchasing Agents as reported by the Business Survey Committee, whose Chairman is Robert C. Swanton, Director of Purchases of the Winchester Repeating Arms Corporation, New Haven, Conn., indicates that the year-end decline in industrial activity has definitely lost momentum, for production is now generally at levels that are being maintained and, in some instances, improved. 16% of the reports for March show increased production, while 48% hold a steady program of operations, many on curtailed schedules established after four months' decline. Confirming that trend, 16% report some increase in order backlogs, while 46% have maintained the February position and, by that gauge, show no further shrinkage of demand.

Robert C. Swanton

Support of that indicated trend—for industrial business to level off and improve—is found in a comparison of opinion of members who reported production and back-order in declines in November and December, with their March position. That double-check shows 59% are now maintaining or increasing production; 54% have improved order-book positions. Unless that situation reflects only a seasonal adjustment, it could be assumed that industries which recorded declines in January, February and March, may show a corresponding improvement in April, May and June, as production schedules, inventories and commitments are worked into balance at new levels.

With the trend to a lower volume of business this year, purchasing agents find the timing of price adjustments are a major consideration. "Will prices be reduced to maintain production and employment, or will prices be held up and the reduction be made in production and employment?" The predominant opinion is that prices will be reduced by efficient management, to maintain volume. There is a strong counter opinion that many will attempt to hold prices for some time before reducing. Competition in most industries will determine the answer.

Commodity Prices

Price declines have been more general this month and have occurred in many more lines, but are usually of limited importance. Many sellers continue to test markets, endeavoring to find order-attracting price levels. The sharpest decline in a basic commodity occurred in lead, which was critically short in December but plentiful in February. Buyers point to weakness in scrap of other metals as an indication that supply is catching up with and passing demand.

Broader quantity discounts are appearing. Normal cash discounts are coming back. Better quality and service are being offered. One-way escalator clauses are out. Price-decline protection on contracts is becoming more general. Except in the case of distress merchandise, no general sharp prise reductions are looked for—rather a continuing downward drift.

Inventories

Purchasing agents report no new developments in inventory position. General policy continues to be: reduce and hold to minimum operating requirements. Higher turnover rate targets are being set, with an easing of supply requiring shorter procurement lead time. A few exceptions are reported where sharp cutbacks in production have caused a temporary build-up of supplies. Overall, industrial purchased inventories continue to hold a conservative position.

Buying Policy

In line with the effort to reduce inventories, buying continues on short range and will remain on that basis until prices show a tendency to stabilize or supplies tighten. Requisitions are being carefully screened, for lead time has become a major controlling factor. Some buyers are risking shortages in order to hold a minimum inventory position. Definite forward requirements are being reduced to immediate needs, and orders placed for short-term delivery. Suppliers offering price decline protection encourage forward commitments.

Specific Commodity Changes

Lead took the lead in important commodity price reductions this month. Scrap (copper, iron, steel and paper) went off to new postwar lows.

Others reported down were: Fatty acids, alcohol, asphalt, autos, trucks, used cars, burlap, brass and bronze ingots, building materials, cable, canvas, casein, castings, cellulose acetate, clothing, textiles, pipe conduit and fittings, batteries, deluxe electrical appliances, food, formaldehyde, coal, coke, fuel oil, glycerin, glue, jute, leather, lumber, nails, vegetable oils, paint, pulp paper, pitch, platinum, printed matter, rosin, rubber, shipping containers, soap, stampings, starch, outside market steel, tires, turpentine, valves, copper wire.

But few items were up in price: Sulphuric acid, cork products, ferro-manganese, silica soda, salt.

No commodity is reported as being in critically short supply.

Employment

The trend of employment continues down in March, with a slight indication of leveling off. 51% reported lower payrolls, compared with 59% reporting this condition in February. Overtime and extra shifts are fast disappearing. Many plants laying off inefficient help are able to replace them with more desirable workers. Economy drives are reported to be reducing overhead personnel. Productivity is showing some increase.

Canada

General business in Canada for March compares more nearly with business activity in the United States this month. Production is down a little—back orders are off about the same. Prices have not dropped as much, though the trend is down. Inventories the same as the United States. Employment slightly better. Buying policy "hand-to-mouth to 90 days."

Robinson-Humphrey Adds

(Special to THE FINANCIAL CHRONICLE)

ATLANTA, GA.—Edward S. Croft, Jr., has joined the staff of The Robinson Humphrey Co., Rhoades-Haverty Building. He was formerly with The First Boston Corp.

Railroad Securities

One of the most important factors bearing on the ability of a railroad to report satisfactory earnings results year in and year out is the measure of the company's control over transportation costs. Transportation costs represent the actual expenses involved in moving and handling the traffic. They include wages for trainmen, engineers, station employees, yard employees, etc.; the cost of fuel and power; expenses for damages and clearing wrecks; and all other items directly involved in the freight and passenger movement.

Transportation costs normally account for 50%, or more, of total operating expenses. Last year, for instance, they absorbed 39.5 cents out of every revenue dollar for Class I carriers while total operating expenses absorbed 77.3 cents of the revenue dollar. Another reason why the transportation costs are so important is that they are not, as are maintenance expenses, subject to year-by-year management whim. If conditions are bad it is possible to skimp on the upkeep of the property. At times maintenance outlays may be inflated as the management works to put some fat on the properties or to make up for work deferred in earlier years. This is not possible with transportation expenses. Another reason why transportation costs are highly important is that any sustained skimping of maintenance on the properties will almost invariably show up sooner or later in an upward trend of the cost of transportation.

Transportation costs will, of course, be influenced by factors other than the physical condition of the individual property. The proportion of passenger or l. c. l. freight business is important—heavy dependence on these items tends to inflate costs. Nature of the territory (grades, curves, etc.) is important. Relative costs will be influenced by the type of traffic handled and by the length of haul. Extensive terminal operations, particularly when coupled with a short haul, are expensive. Much depends on type and efficiency of motive power. As all of these influences vary with the individual road it is hardly surprising that transportation ratios also vary widely throughout the industry.

In the accompanying table we have listed 45 Class I railroads showing transportation ratios for last year and for 1947, along with the change between the two years. The roads listed represent more than 90% of the aggregate gross revenues of all Class I carriers. This transportation ratio is the percent of gross absorbed by transportation expenses. For the Class I carriers as a whole the ratio last year was 39.5%, a modest decline from the 40.0% ratio of 1947.

For the most part transportation ratios last year were somewhat lower than in 1947. For about a third of the roads the change, either up or down, amounted to 0.5 points, or less. There were five roads that were able to cut their ratios by more than 2.5 points, a really significant betterment. On the other side, the largest increase (2.3 points) was that of St. Louis Southwestern. Nevertheless, this road still had one of the lowest ratios in the industry.

These figures are presented as affording an interesting background in comparing the status and prospects for individual railroads.

TRANSPORTATION RATIOS

Road—	Calendar Years 1948	1947	Increase or Decline (in Points)
Atchison, Topeka & Santa Fe	34.9%	34.1%	+0.8
Atlantic Coast Line	42.9	42.4	+0.5
Baltimore & Ohio	41.9	43.3	—1.4
Boston & Maine	41.4	41.8	—0.4
Central of Georgia	46.9	49.9	—3.0
Central R. R. of New Jersey	a43.4	a45.7	—2.3
Chesapeake & Ohio	35.9	b35.7	+0.2
Chicago, Burlington & Quincy	34.5	34.3	+0.2
Chicago & Eastern Illinois	42.0	44.4	—2.4
Chicago Great Western	40.3	44.6	—4.3
Chicago, Milwaukee, St. Paul & Pac.	43.1	41.7	+1.4
Chicago & North Western	44.6	44.0	+0.6
Chicago, Rock Island & Pacific	38.2	38.0	+0.2
Delaware & Hudson	38.2	38.4	—0.2
Delaware, Lackawanna & Western	43.4	45.5	—2.1
Denver & Rio Grande Western	35.5	c37.1	—1.6
Erie	40.6	44.3	—3.7
Great Northern	36.9	35.9	+1.0
Gulf, Mobile & Ohio	32.1	d32.7	—0.6
Illinois Central	36.1	36.3	—0.2
Kansas City Southern	27.6	29.5	—1.9
Lehigh Valley	44.0	46.9	—2.9
Louisville & Nashville	42.0	41.8	+0.2
Minneapolis, St. Paul & S. S. Marie	40.4	41.9	—1.9
Missouri-Kansas-Texas	39.2	40.0	—0.8
Missouri Pacific	39.2	39.4	—0.2
New Orleans, Texas & Mexico	32.8	33.3	—0.5
New York Central	44.8	45.4	—0.6
New York, Chicago & St. Louis	35.2	37.1	—1.9
New York, New Haven & Hartford	41.8	43.1	—1.3
Norfolk & Western	31.3	30.1	+1.2
Northern Pacific	36.1	35.7	+0.4
Pennsylvania	45.2	47.9	—2.7
Reading	38.8	39.2	—0.4
St. Louis-San Francisco	41.6	41.7	—0.1
St. Louis Southwestern	32.5	30.2	+2.3
Seaboard Air Line	38.0	39.7	—1.7
Southern Pacific	41.0	39.6	+1.4
Southern Railway	38.6	38.8	—0.2
Texas & Pacific	39.5	38.2	+1.3
Union Pacific	35.3	35.8	—0.5
Virginian	25.7	24.5	+1.2
Wabash	39.3	39.1	+0.2
Western Maryland	31.8	33.0	—2.2
Western Pacific	35.2	36.2	—1.0

a Combined Central R. R. of New Jersey and Central R. R. of Pennsylvania.
b Combined Chesapeake & Ohio and Pere Marquette.
c Combined Denver & Rio Grande Western and Denver & Salt Lake.
d Combined Gulf, Mobile & Ohio and Alton.

Britain's Balance of Payments

By PAUL EINZIG

Dr. Einzig contends too much importance is attached to Britain's attainment of an overall balance of payments. Deplores lack of information regarding Britain's trade balance with individual countries, and points out British export surpluses to certain countries are useless either because they cannot aid in meeting dollar deficit or they merely go toward repayment of old debts.

LONDON, ENGLAND — The British Government's "Economic Survey for 1949" has now been published, together with detailed figures of the balance of payments for 1948. It is beyond doubt that these two publications show a remarkable picture of improvement during 1948 in most economic spheres. Production has increased, the adverse trade balance has been materially reduced. The government has good reason for looking back with pride and satisfaction upon the progress made during last year. And it is only human that, in their overbuoyant enthusiasm over the progress achieved. Ministers should be inclined to overstate the achievements, and to present an unduly optimistic picture of the position and prospects.

Dr. Paul Einzig

In particular, too much stress was laid in recent official pronouncement on the "overall" balancing of Britain's overseas trade by the end of 1948. It was all a matter of emphasis. Both Sir Stafford Cripps and other official spokesmen did point out that, even though Britain's total trade is balanced, there is still a large deficit in relation to the Dollar Area and the Western Hemisphere, balanced by a more or less corresponding surplus in relation to the rest of the world. They did not seek to minimize the gravity of the problem of dealing with the dollar deficit. Nevertheless, relatively speaking, much more stress was laid on the overall equilibrium than on the dollar disequilibrium. The general impression gained from the official statements was, consequently, an unduly favorable picture.

It must be admitted that the "Economic Survey" goes out of its way to correct this incorrect impression, as far as the dollar position is concerned. Its text repeatedly states with much emphasis that the overall equilibrium does not solve the dollar problem, the solution of which remains a difficult task. Nobody who has read the texts relating to the balance of payments could avoid realizing that Britain's balance of payments difficulties remain grave, even though considerably less so than they were a year ago.

This does not mean that the picture presented by the Economic Survey can now be accepted as representing the true situation and prospects. Even now, the impression that is liable to be gained from the official document tends to err on the over-optimistic side. For, while the Economic Survey admits the continued existence of dollar difficulties, it conveys the impression that, apart from the dollar problem, the balance of payments is sound. The over-simplified picture it presents is that, while we imported too much from the hard currency countries, this import surplus is balanced by our export surplus to the soft currency countries. Statistically this is undoubtedly true. But if we examine the nature of our export surplus in relation to non-dollar countries we discover that even that part of the British balance of payments leaves much to be desired.

Unfortunately neither the Economic Survey nor the balance of payment statistics contain figures relating to Britain's trade balance with individual countries. In the statistical tables the world is divided into four areas — the Western Hemisphere, the Sterling Area, the O.E.E.C. Countries, and the rest of the world. Only the global figures for the entire groups are given. If the actual figures for each individual country were published they would show that these global figures represent the net balance between a number of surpluses and a number of deficits.

The impression is conveyed that the export surpluses in relation to a number of non-dollar countries wipe out the deficits in relation to other non-dollar countries, leaving a net export surplus on Britain's total trade with non-dollar countries. The trouble is that many of the export surpluses are useless, not only for meeting the dollar deficit but even for meeting the deficits in relation to non-dollar countries. They are useless, partly because they represent repayment of old debt, partly because they represent new overseas investment, and partly because their proceeds are frozen owing to exchange restrictions in the importing countries. To give an instance to illustrate the latter point, net invisible exports to O.E.E.C. countries during 1948 are estimated at £23,000,000. This figure includes, however, German royalties on British films, to the amount of £3,000,000, which are frozen. There are a great many similar items.

This means that, while Britain has to pay for the import surpluses from non-dollar countries, she is unable to receive payment for much of her export surpluses to non-dollar countries. The amount involved is not indicated in the official documents. That it must be considerable is shown by the fact that, even though Britain's total trade in 1948 in relation to non-dollar countries shows an export surplus of £220,000,000 British gold and dollar payments to non-dollar countries amounted to £86,000,000. Nor is this the whole story by a long way. For while some non-dollar countries, such as Belgium and Switzerland, insisted on payment in gold or dollars for their export surpluses on their trade with Britain, other non-dollar countries accepted payment in sterling, or offset their claims through the repayment of their sterling loans or the repurchase of their equities held in Britain. Thus the total of import surpluses from non-dollar countries which could not be paid for out of the proceeds of export surpluses to other non-dollar countries must be considerably over £100,000,000 and conceivably even over £200,000,000. It is one of the grave defects of the British official statistics that no estimate is given of this amount—a fact which shows that the government either underrates the significance of the problem or that it prefers to gloss over this difficulty with the least possible publicity.

Even in the absence of reliable estimates there can be no doubt that the problem, though not so grave as that of the dollar deficit, is one of first-rate importance. Being additional to the problem of dollar deficit, its realization materially alters the picture of the balance of payments. Apart from the deficit of £340,000,000 on trade with the Western Hemisphere, probably more than half of the export surplus in relation to the rest of the world consisted of useless items—that is, useless at least from the point of view of the current balance of payments. This means that even if by some miracle the dollar deficit were wiped out tomorrow Britain would still be unable to claim that her entire overseas trade is really and truly balanced, in the sense that would enable her to pay with the proceeds of her current exports for the whole of her current imports.

Pittsburgh Bond Club Receives 1949 Slate

PITTSBURGH, PA. — The annual meeting of the Bond Club of Pittsburgh will be held on Thursday, March 31, 1949 at the Roosevelt Hotel. This meeting will mark the 25th anniversary of the Club which was founded in 1924. The business session at which officers for the ensuing term will be elected, will convene at 5 o'clock. The Nominating Committee has presented the following slate of candidates:

Bernard C. Kelley W. Stanley Dodworth

Duane G. Barbour

For President, Bernard C. Kelley, Halsey Stuart & Co.

For Vice-President, W. Stanley Dodworth, Buckley Bros.

For Treasurer, Ivan S. Dobson, the First Boston Corp.

For Secretary, Duane G. Barbour, Merrill, Lynch, Pierce, Fenner & Beane.

For Governors, 2-year term: Silas J. Titus, R. C. Schmertz & Co.; Elmer E. Powell, Elmer E. Powell & Co.

For Governor, 1-year term, Ernest O. Dorbitz, Moore, Leonard & Lynch.

Mr. Dorbritz is the retiring President of the organization.

Following the business session there will be a reception and a dinner.

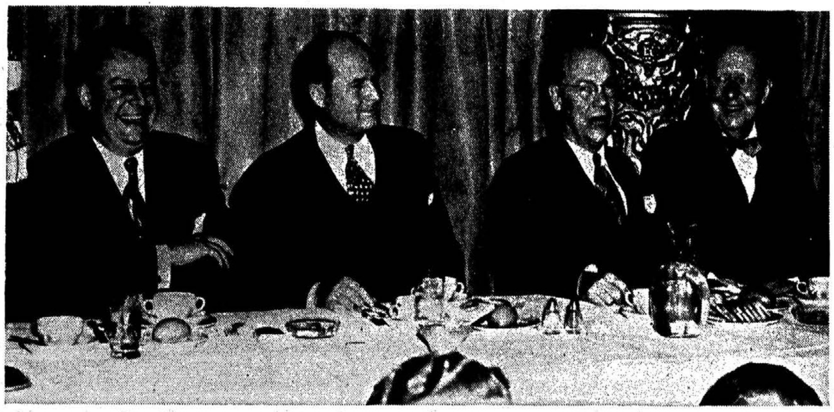
The speaker will be Rev. G. Mason Cochran, Minister of the Highland Presbyterian Church. Billy Merle and the Tune Toppers will furnish some novel entertainment and Steve Miller will officiate at the piano.

H. S. Schwarz Admits

BALTIMORE, MD. — Allen Schwarz has been admitted to partnership by Howard S. Schwarz, 210 East Redwood Street, member of the Baltimore Stock Exchange.

Investment Bankers Association of America

Julien H. Collins, *Julien Collins & Co.*, Chicago; H. H. Scaff, *Ebasco Services*, New York; James F. Oates, *Peoples Gas Light & Coke Co.;* Andrew M. Baird, *A. G. Becker & Co.*, Chicago



George S. Channer, Jr., *Channer Securities Co.*; Richard W. Simmons, *Blunt Ellis & Simmons;* F. M. Knight, *Continental National Bank & Trust Co.;* Alden H. Little, Secretary Emeritus of the IBA, all of Chicago

Ralph Owen, *Equitable Securities Corp.*, Nashville, Tenn.; Lee Ostrander, *Wm. Blair & Co.*, Chicago; Wm. D. Kerr, *Bacon, Whipple & Co.*, Chicago; David J. Harris, *Sills, Fairman & Harris,* Chicago

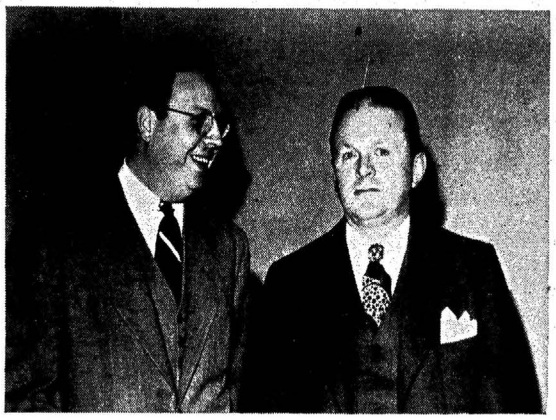
Robert L. Creek, *B. J. Van Ingen & Co.*; Dewitt Davis, *Welsh, Davis & Co.;* Chester W. Laing, *John Nuveen & Co.;* Ray Olson, *Stranahan, Harris & Co.*, all of Chicago

A. J. Baschen, *Northern Trust Co.*, Chicago; L. J. Paidar, *Goodbody & Co.*, Chicago; J. W. Hibben, *Kidder, Peabody & Co.*, Chicago; J. F. Kares, Jr., *Goodbody & Co.*, Chicago; Daniel O'Day, *Northern Trust Company,* New York City

Julien Collins, *Julien Collins & Co.*, Chicago; Albert T. Armitage, *Coffin & Burr, Inc.*, Boston; Pat G. Morris, *Northern Trust Co.*, Chicago

Charles A. Schoeneberger, *Otis & Co.;* Russell Gartley, *Blair & Co.*, both of Chicago

John H. Gleissner, *Shields & Co.*, Chicago; H. H. Dewar, *Dewar, Robertson & Pancoast,* San Antonio, President of the IBA



Robert S. Clark, Jr., *Coffin & Burr, Inc.*, and Paul L. Mullaney, *Mullaney, Wells & Co.*, both of Chicago

Central States Group

Richard Leonard, *Harriman Ripley & Co.;* Robert Kelly, *Harriman Ripley & Co.;* Edward Beaumont, *Braun, Bosworth & Co.;* Clarence Myers, *First of Michigan Corp.;* Gerald F. Barron, *Braun, Bosworth & Co.,* all of Chicago

James P. Jamieson, *Glore, Forgan & Co.;* Sidney V. Duncan, *R. S. Dickson & Co.;* Ray Olson, *Stranahan, Harris & Co.;* George L. Barronclough, *First of Michigan Corp.,* all of Chicago

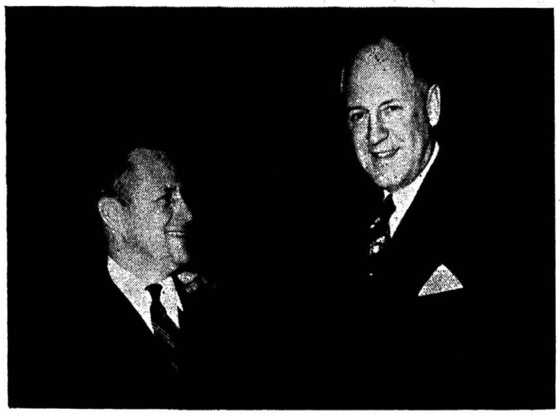
David J. Harris, William H. Sills, Fred W. Fairman, Jr., all of *Sills, Fairman & Harris,* Chicago

Ernest Bell, *Barcus, Kindred & Co.,* Chicago; Floyd W. Sanders, *Smith, Barney & Co.,* Chicago

Robert B. Whittaker, *F. S. Moseley & Co.,* Chicago; Gerald W. Brewster, *F. S. Moseley & Co.,* New York City; Robert B. Pelton, *F. S. Moseley & Co.,* Chicago

Richard J. Leonard, *Harriman Ripley & Co.;* John H. Bowen, *Lehman Bros.;* Sidney V. Duncan, *R. S. Dickson & Co.;* Tim Grace, *R. S. Dickson & Co.,* all of Chicago

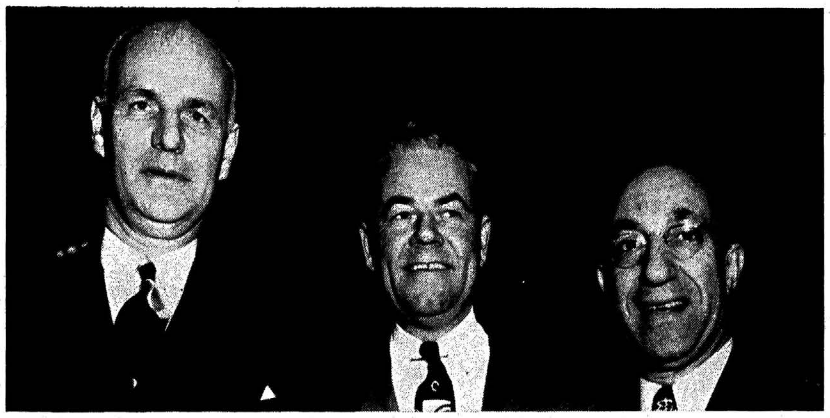
Herman B. Joseph, *T. H. Jones & Co.,* Cleveland; Joseph Ludin, *Dillon, Read & Co.,* New York



John J. O'Brien III, *John J. O'Brien & Co.,* and Andrew M. Baird, *A. G. Becker & Co.,* both of Chicago

Robert A. Podesta, and Lowell F. Martin, both of *Cruttenden & Co.,* Chicago

Hold Thirteenth Annual Conference



Kenneth Stephenson, Elmore Song; Henry P. Myers, all of *Goldman, Sachs & Co.*, Chicago

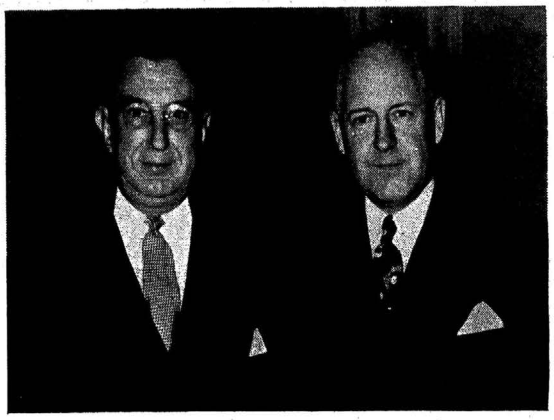
L. M. Rieckhoff, *Northern Trust Co.*; George S. Channer, Jr., *Channer Securities Co.*; H. A. Talbert, *Blyth & Co., Inc.*, all of Chicago

Julien H. Collins, *Julien Collins & Co.*, Chicago, and James E. Day, President of *Chicago Stock Exchange*. Mr. Day is Chairman and Mr. Collins Vice-Chairman of the Chicago Red Cross Committee

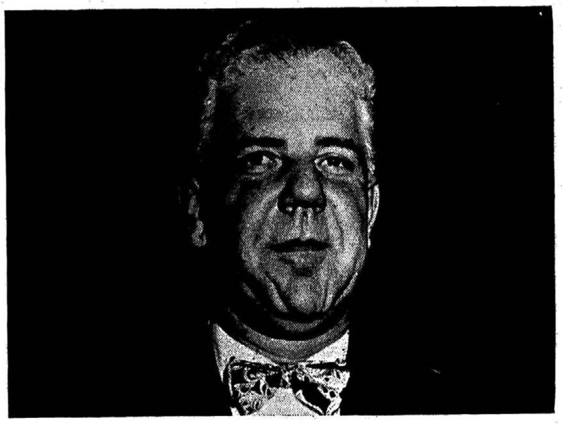
Donald E. Nichols, *Ames, Emerich & Co.*, Chicago; Miller H. Pontius, *F. Eberstadt & Co.*, New York; Clyde H. Evans, *Ames, Emerich & Co.*, Chicago; E. Burns, *F. Eberstadt & Co.*, New York

William H. Clark, *Merrill, Turben & Co.*; W. H. Watterson, *Fahey, Clark & Co.*; R. C. Chapman, *Maynard H. Murch & Co.*, all of Cleveland

Elmer G. Hassman, *A. G. Becker & Co.*; Fred B. Carpenter, *John Nuveen & Co.*, Thomas W. Evans, *Continental Illinois National Bank*, all of Chicago



Hempstead Washburne, *Harris, Hall & Co.* and Andrew M. Baird, *A. G. Becker & Co.*, both of Chicago



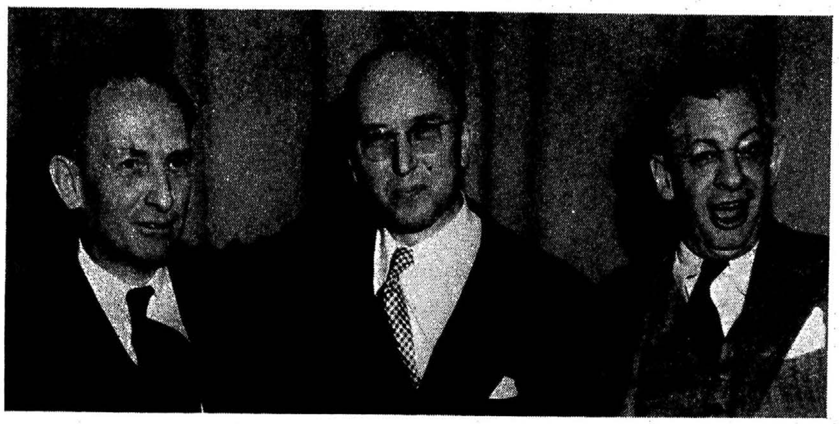
Franklin B. Schmick, *Straus & Blosser*, Chicago

R. J. Olderman, *McDonald & Co.*, Cleveland, Ohio; George L. Martin, *Martin, Burns & Corbett*, Chicago

At Drake Hotel in Chicago

Ewing T. Boles, *The Ohio Company*, Columbus; E. Jansen Hunt, *White, Weld & Co.*, New York City; Dennis E. Murphy, *The Ohio Company*, Columbus

G. William Raffensperger and W. Shannon Hughes, of *Raffensperger, Hughes & Co.*, Indianapolis, Ind.; George G. Harrison, *Harrison & Austin*, South Bend, Ind.



Paul A. Sellers, *The Illinois Co.*; Charles A. Capek, *Lee Higginson Corp.*; William A. Fuller, *William A. Fuller & Co.*, all of Chicago

Edgar A. Peck, *William C. Gibson & Co.*; Nathan S. Sharp, *Central Republic Co.*; W. B. Goldie, *Lee Higginson Corp.*, all of Chicago

H. D. MacFarlane, *Alfred O'Gara & Co.*, Chicago; J. Cliff Rahel, *Wachob-Bender Corp.*, Omaha, Neb.; E. M. Hunt, *First Trust Co.* of Lincoln, Neb.

Dan J. Ritter, *William Blair & Co.*, Chicago; Harry L. Nelson, *Blyth & Co., Inc.*, Chicago; P. K. Watson, *Campbell, McCarthy & Co.*, Detroit; George S. Haskell, *Smith, Barney & Co.*, Chicago

Andrew M. Baird, *A. G. Becker & Co.*, Chicago; C. Harold Thompson, *Cruttenden & Co.*, Chicago

Edward J. Chase and Paul Schroeder, *Merrill Lynch, Pierce, Fenner & Beane*, Chicago

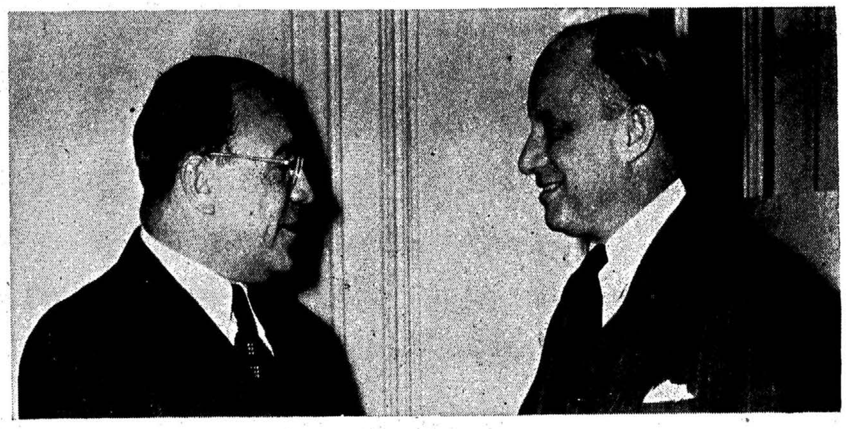
Robert L. Osgood, *Boston Fund, Inc.*, Boston; William H. Marshall, *The Marshall Co.*, Milwaukee

March 16th & 17th, 1949

Elmer G. Hassman, *A. G. Becker & Co.;* Andrew M. Baird, *A. G. Becker & Co.;* Lee H. Ostrander, *Wm. Blair & Co.*, all of Chicago

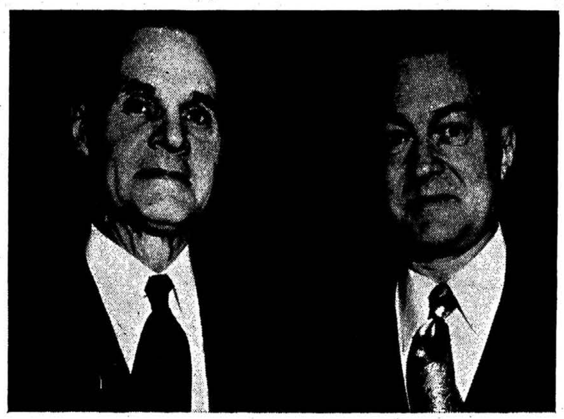
W. P. Youngclaus, *Rogers & Tracy;* J. C. Sturtevant, *Hemphill, Noyes & Co.;* James W. Marshall, *Bacon, Whipple & Co.*, of all Chicago

John M. Maxwell, *Northern Trust Co.;* Henry P. Myers, *Goldman, Sachs & Co.;* Willard T. Grimm, *Kidder, Peabody & Co.*, all of Chicago



Newton P. Frye, *Central Republic Co.*, Chicago; William L. Ayers, *International Bank for Reconstruction and Development*, Washington D. C.

James F. Oates, *Peoples Gas Light & Coke Co.*, addressing IBA meeting



William C. Gibson and Byron E. Boswell, *W. C. Gibson & Co.*, Chicago

Don M. Craft, *Collin, Norton & Co.*, Toledo

Byron Hastings, *Parker Corporation*, Chicago; H. H. Dewar, *Dewar, Robertson & Pancoast*, San Antonio, President of the IBA; William A. Parker, *Parker Corporation*, Boston; Ralph Chapman, *Farwell, Chapman & Co.*, Chicago; Holden K. Farrar, *Smith, Barney & Co.*, Chicago

Walter C. Cleave, *Blyth & Co.;* J. Franklin Bickmore, *Boettcher & Co.;* L. Raymond Billett, *Kebbon, McCormick & Co.;* Donald Nichols, *Ames, Emerich & Co.;* W. K. Morris, *Kebbon, McCormick & Co.;* C. E. Torrey, *Kebbon, McCormick & Co.*, all of Chicago

Cleveland Security Traders Association

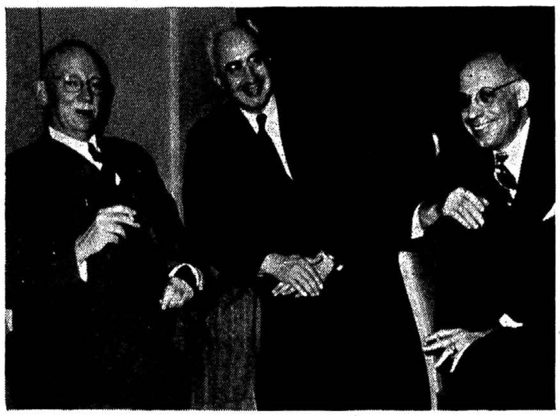
Nick Smit, *Central National Bank of Cleveland;* Everett A. King, *Maynard H. Murch & Co.;* Mort Cayne, *Cunningham & Co.*, Secretary of the *National Security Traders Association;* George Opdyke, *Ledogar-Horner & Co.*

Ed Ehrhardt, *First Cleveland Corp.;* Bernie Gier *Merrill Lynch, Pierce, Fenner & Bean;* Wm. Perry, Secretary of the *Cleveland Stock Exchange;* Daniel Baugh III, *Gordon Macklin & Co.;* Milton Lewis, *G. E. Jaffe & Co.*, Cleveland

Bob Weaver, *Hornblower & Weeks;* Stan Eilers, *Hornblower & Weeks;* Irving Manney, *Manney & Co.*, New York City; Carl H. Doerge, *Wm. J. Mericka & Co., Inc.*, President of the *Cleveland Security Traders Association*

Walter Carey, *Gunn, Carey & Co.;* James N. Russell, *Gottron, Russell & Co.;* E. E. Parsons, Jr., *Wm. J. Mericka & Co., Inc.*

Bernie Gier, *Merrill Lynch, Pierce, Fenner & Beane;* E. E. Parsons, Jr., *Wm. J. Mericka & Co.*



H. C. Hopkins, *H. C. Hopkins & Co.*, Cleveland; P. R. Smith, *P. R. Smith & Co.*, Elyria, Ohio; R. M. Ullman, *Ullman & Co., Inc.*, Cleveland

Oliver Goshia, *Goshia & Co.*, Toledo; E. E. Parsons, Jr., *Wm. J. Mericka & Co., Inc.*, Cleveland

Star Koerner, *Mitchell, Hutchins & Co.*, Chicago; George Huberty, *Goodbody & Co.*, Cleveland

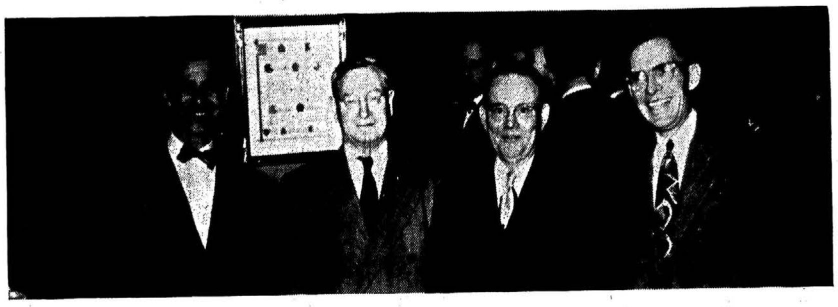
Al Lafferty and Don Plasterer of *Hornblower & Weeks*, with entertainer

Orin E. Koeser, *Blyth & Co.;* Howard J. Eble, *Wm. J. Mericka & Co.*

Spring Dinner March 15th, 1949

Howard J. Eble, *Wm. J. Mericka & Co., Inc.;* Clemens E. Gunn, *Gunn, Carey & Co.;* Elton Barber, *Hayden, Miller & Co.*

Fred A. Shorsher, *Ball, Burge & Kraus;* Richard A. Gottron, *Gottron, Russell & Co.;* Stanley Eilers, *Hornblower & Weeks;* Ed. White, *Cleveland Trust Co.*



Mike Hardony, *Gordon Macklin & Co.;* Arthur Metzenbaum, *W. S. Halle & Co.;* Johnnie Gleason, *Curtiss, House & Co.;* Russell K. Rowley, *Geyer & Co., Inc.*

John Gleason, *Curtiss, House & Co.;* Bill Frederick, *Wm. J. Mericka & Co.;* Bob Weaver, *Hornblower & Weeks;* Russ Wardley, *Maynard H. Murch & Co.*

Irving Summergrade, *F. I. du Pont & Co.*, Cleveland; Roy Boch, *Dodge Securities Corp.;* John P. Witt, *John P. Witt & Co.*

A. W. DeGarmo, *Merrill Lynch, Pierce, Fenner & Beane;* Howard J. Eble, *Wm. J. Mericka & Co.;* Robert L. Erb, *Green, Erb & Co.;* Michael C. Hardony, *Gordon Macklin & Co.*

Joe Fogg, *McDonald & Co.;* Bill Gray *Wm. J. Mericka & Co.;* Warren Foster, *Otis & Co.;* Bob Jones, *Saunders, Stiver & Co.;* Jack Doerge, *Saunders, Stiver & Co.;* Jim Drnek, *C. J. Devine & Co.*

Robert L. Erb, *Green, Erb & Co.;* Charles S. Nadeau, *Gottron, Russell & Co.;* Ernest Lienhard, *Troster, Currie & Summers*, New York City; Irving Manney, *Manney & Co.*, New York City

L. W. Cook, *Lawrence Cook & Co.;* Frank J. Schulte, *Ledogar-Horner & Co.*

Herbert H. Covington, *Harriman Ripley & Co.;* Clarence F. Davis, *First Cleveland Corp.;* Nelson D. Ginther, *Ginther & Co.*

Ed J. Rung, *C. J. Devine & Co.;* Thomas A. Melody, Jr., *The First Boston Corp.*

Electric Utilities Shares on Bargain Shelf

(Continued from page 8)

the industry's fuel bill based on fuel prices existing at that time.

It is interesting to note the progress that has already been made in bringing the average fuel consumption rate down through the installation of the new and highly efficient production equipment. The Edison Electric Institute bulletin, "Data of Interest," dated Feb. 1, 1949, shows a constant decline in the fuel consumption rate since last summer and for the month of November, 1948, it averaged 1.258 pounds per kilowatt-hour. I checked with Edison Electric Institute and found that the figure for December is 1.247. This improvement in efficiency during these few months amounts to .064 pounds per kilowatt-hour generated and means a saving at present rates of production of about $3.9 million per month in the industry's fuel bill.

Estimated payrolls for operating these modern plants are less than half of the payrolls, per kilowatt of capacity, required for operating the existing plants. These payroll savings should amount to $35 million, as compared with present costs, which together with the savings on fuel will amount to $200 million. Applying a 38% Federal income tax rate to this saving leaves a net of $124 million which should flow through to common equity. On a ten times earnings basis this amount is capable of supporting $1.24 billion of common stock.

Another highly important factor in appraising the benefits from the industry's expansion program arises from one of the fundamental and distinctive characteristics of this industry, that incremental costs of supplying additional output are much less than preceding average costs. This means that as output grows unit costs tend to drop substantially. Insofar as I know, there is no other major line of industry as to which this characteristic is so pronounced.

This inherent dropping of unit costs as output grows arises from a number of causes, such as:

(1) As to distribution and transmission capital and operating costs, with the increasing load density in the service territory greatly increased loads can be supplied with, usually, only relatively minor reinforcement of existing distribution and transmission facilities and with little or no increase in payroll applicable thereto. This means that the existing huge investments in facilities of this character are becoming more productive.

(2) As to generation costs, growing loads make possible the use of larger sizes of units and larger sizes of stations, with lower unit costs, and growth also results in more rapid availability of the economies accruing from installation of the modern highly efficient types of equipment.

(3) The industry has in its costs a considerable proportion of overhead costs and other expenses which are relatively constant. This is fairly obvious as to administrative, general and accounting expenses, but it is true also as to certain types of physical operating expenses. These costs are spread over an increasing number of units of output.

(4) Larger scale of operations permits increased specialized operation of labor and of equipment and in particular facilitates introduction of labor-saving devices and methods.

To give a concrete illustration of this point, operating expenses for the privately owned electric utilities from 1926 to 1930 rose from $609 million to $723 million, or an increase of 19%. Kilowatt-hours generated by these companies rose from 65.48 billion to 86.11 billion, an increase of 32%. Unit costs per kilowatt-hour generated were 0.93 cents in 1926 and 0.84 cents in 1930, a decrease of 9.7%. Since general cost levels in 1930 were not markedly different from those of 1926, this decline in unit costs was due to decreasing unit costs brought about by the increased scale of operations.

To further illustrate this point, I want to refer to a chart published a few months ago by The Economic Reference Inc. which shows the advantages of large-scale operations on production expenses. Considering all class A and B electric utilities generating more than 75% of their energy requirements in steam stations, in 1946 companies with system input of 30 to 99.9 million kilowatt-hour had a median production expense of 7.14 mills per kilowatt-hour; whereas companies having 3 billion and over had a median expense of 3.60 mills.

These decreasing unit costs with growth explains in large part how rates for electric service have been decreasing decade after decade during which time prices for most other types of goods and services have been rising. During recent years, this factor has permitted a good many electric utility companies to offset inflationary trends without recourse to higher rates, such as have been required by other public service industries, and it is this economic characteristic of decreasing unit costs that gives the electric utilities their resilience and economic stability.

Reduction in Fuel and Materials Costs

The fourth category that I want to discuss is that associated with the tapering off of the inflationary pressure which has been under way for some time. Since August of 1948 the wholesale commodity price index has dropped 10.7 points, or 6.3% by Jan. 25, 1949. Similarly, the Bureau of Labor Statistics consumer price index declined some 2.2% during that period. Equally important is the fact that the construction cost indices have declined steadily since October, 1948, and are now about 1% less than in the earlier month. As to prices of material and supplies which are charged to electric operating expenses, here again the rise has levelled off and recently there appears to be a turn downward. While these changes are relatively small when compared with the tremendous price rises of the last 10 years, nevertheless, they are highly significant because they indicate a reversal of the trend itself.

The "Electrical World" issue of Feb. 5, 1949, has an article entitled "Trend of Coal Prices Is Downward." This article states that developments in the coal mining industry suggest strongly that the downward readjustment in coal prices that took place in the last half of 1948 marks the beginning of a period at least of stabilization, if not further moderate decline.

The reasons for this are:

(1) A rise in the coal industry's capacity to produce with the result that there is a present excess sufficient to have a definite effect on price levels.

(2) Expected reductions in labor costs as a result of the development and installation of new mining equipment.

The price of oil has experienced a considerable decrease during the past few months and based upon present conditions in the industry it is reasonable to assume that the high prices that existed previously are past and the foreseeable future will see a stabilizing of prices more nearly in line with equivalents of other fuels.

Since the electric industry is one of the largest users of coal and oil, the cost is one of the important

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CHART I

CHANGES IN CAPITALIZATION
OF THE ELECTRIC UTILITIES

DEC. 1938 COMPARED WITH DEC. 1947

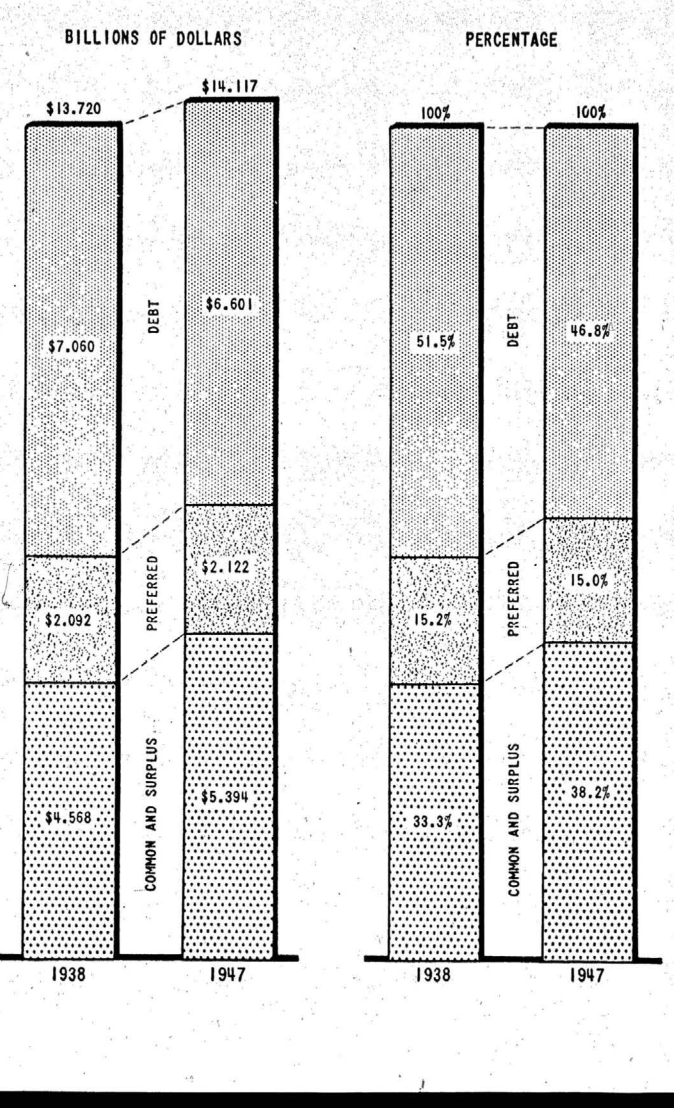


CHART II

RESERVE FOR DEPRECIATION-PERCENT OF UTILITY PLANT
1938 - 1947

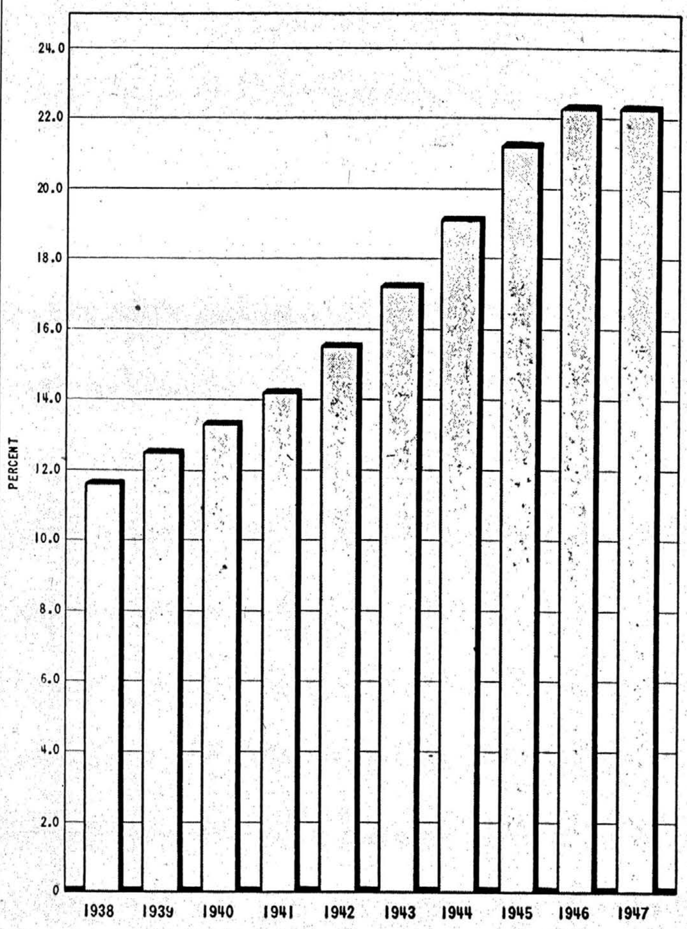
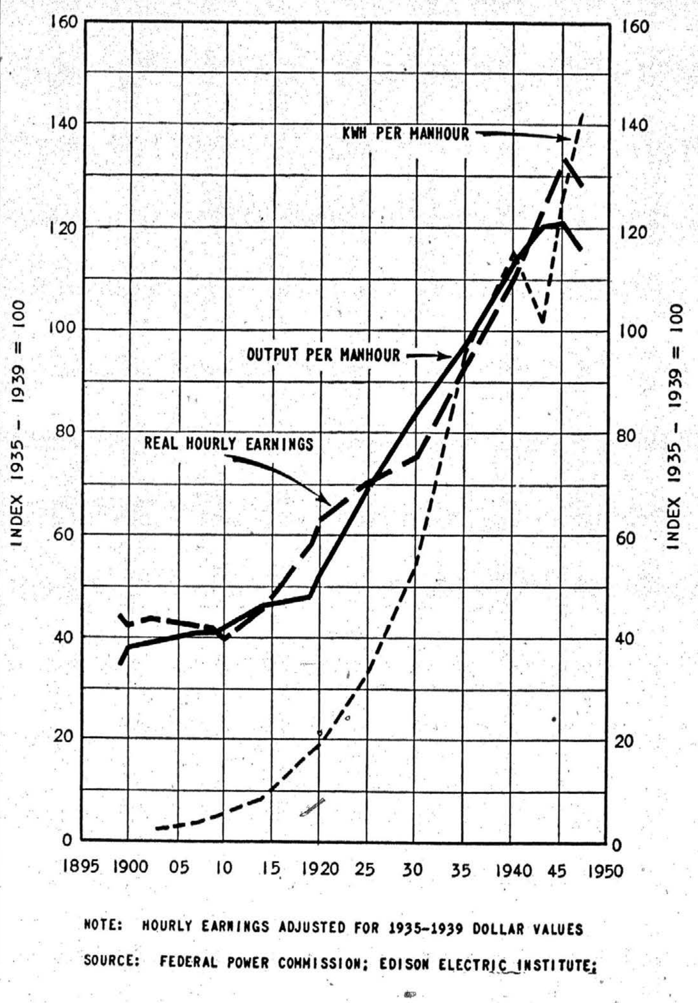


CHART III

RELATIONSHIP OF KWH PER MANHOUR IN MANUFACTURING, "REAL" HOURLY EARNINGS AND OUTPUT PER MANHOUR

1899 - 1947



NOTE: HOURLY EARNINGS ADJUSTED FOR 1935-1939 DOLLAR VALUES
SOURCE: FEDERAL POWER COMMISSION; EDISON ELECTRIC INSTITUTE;

Electric Utilities Shares on Bargain Shelf

(Continued from page 30)

factors in operating expenses although inconsiderable part fluctuations in fuel costs are automatically offset by fuel price adjustment provisions in electric rate schedules.

As to payroll expense, it would seem reasonable to assume that wage rates are at or very near their top in the electric utility industry and that the future should not see a repetition of the increases that the companies have had to bear over the past few years. Such increases in the past have been a real burden to many of the utilities at a time when other costs were skyrocketing. While 1948 operations reflected an increase in payroll expense of $78 million, it is important to note that this figure compares with an increase of $191 million in 1947, which indicates that a leveling off in this type of expense is in progress.

The fifth and last point that I want to talk about is the regulatory Commissions' recognized obligations to the utility and its customers, investors and employees.

Generally speaking, state utility laws not only provide that utility service be rendered at rates which are fair, reasonable and non-discriminatory, but also provide that the utilities shall render service which is safe and adequate. When economic conditions jeopardize the ability of utilities to render safe and adequate service, regulatory Commissions have come to their aid.

Electric utilities had the experience after the first World War of being up against a serious economic problem of rising fuel, payroll and other costs somewhat similar to the problem that has confronted these companies in the recent period. At that time Commissions generally recognized their plight and granted rate changes that were required to meet the situation.

Regulatory Commissions today are taking cognizance of the impact of the high fuel, payroll and other costs on the earnings of the utilities and in a great many instances increases in rates have been granted.

Higher Rates Expected

It was not until 1948 that the increasing pressure of mounting costs made a number of electric utilities seek rate increases, and in that year 70 companies were granted 79 rate increases in 30 states and the District of Columbia. Information is not available as to dollar amounts for all of these cases, but for 37 of the companies the total rate increases amounted to $33 million. In addition to those rate increases that were granted, 18 companies in 14 states had rate increase applications pending. Information available on 10 of these companies shows that their applications exceed $22 million.

The attitude of the state regulatory Commission may be expressed by the statement of the Michigan Commission which said in part:

"Nor can this Commission overlook the stockholders of this utility, they literally being the general public, comprising thousands of people of all ages and conditions and from all walks of life, whose investments have made this utility possible, and who are entitled to realize a fair return on such investments. Similarly, we cannot be insensible to the need of this utility for a good, sound credit rating and standing, so that it may continue to and be able to attract and obtain funds, from borrowings or other financing, for a large part of its construction program, as well as for that permanent financing so necessary to a public utility of the magnitude and acknowledged public utility status of Petitioner."

The attitude of the Federal Power Commission toward this matter may be obtained from a statement made in a staff report dated Dec. 2, 1948, on the Financial Condition of Natural Gas Companies subject to Rate Regulation by that Commission. The report said in part:

"The rate of return allowed natural-gas companies by the FPC represents the Commission's best judgment of what is fair under the circumstances, based upon the evidence and guided by the basic facts required by law to be considered. The rate of return must be sufficient to attract all classes of investment capital. The returns earned by equity capital committed to public utility and other enterprises must, to a large extent, meet the judgment of buyers and sellers in the security markets. . . ."

The report elaborates on this explanation of Commission's position by stating:

"The rate of return fixed by the FPC for natural gas companies is applicable to a rate base which usually approximates the total capitalization of the company if such capitalization is free from write-ups. A rate of return of 6% to a natural gas company having a balanced capital structure will permit common equity to earn considerably more than 6%. For example, with a capital structure consisting of 50% debt at 3½% interest and 25% preferred stock bearing a dividend rate of 5%, the 25% common equity will earn 12%. . . ."

I am sure that the Commission's position on natural gas companies would apply with equal force to electric companies and in view of that it seems to me that a 12% earnings-price ratio, which on a 70% payout basis would produce a yield of 8.4%, should offer an attractive buy to almost any class of investors.

Conclusion

I want to conclude my remarks by summarizing these five categories that are largely responsible for the optimistic view that is being held currently by a good many people toward electric utility equity securities.

First: The improvement that has taken place over the past 10 years in the financial position of electric utility companies generally will undoubtedly redound to the benefit of both present and future security holders.

Second: The future market potential of the electric utility business is almost beyond imagination. Plans for the expansion of facilities made as recently as a few months ago are practically obsolete today in a great many instances due to increasing demands for capacity.

Third: The benefits in the way of lower unit costs that will result from the large expansion program that is well underway will undoubtedly provide increased net earnings for equity securities. We already have tangible evidence of this from fuel statistics released recently by the Edison Electric Institute.

Fourth: The easing of the inflationary pressure that has been plaguing electric utilities for the last few years will likewise provide the means of more earnings for equity securities. Again, we have tangible evidence of this in the change that is occurring both in the price of fuel and of materials and supplies which go into the operation of electric utilities.

Fifth: There is every indication that the regulatory authorities realize the importance and necessity of electric utilities having adequate earning power to attract the capital needed to carry out the expansion programs to meet the energy demands on these companies.

It seems to me that you as investment bankers have a mutual interest with the electric utility industry in informing the public why electric utility equity securities are such a good buy today. Your interest lies in providing or locating the market for these securities, while the industry's interest is in obtaining such capital in sufficient quantities and at reasonable cost.

Reserve Board Cuts Stock Margin

Lowers minimum requirement to 50% effective March 30. Move believed to mark recognition of deflation trend.

The Board of Governors of the Federal Reserve System late on March 28, in a brief statement, announced that effective March 30, the minimum cash margin requirement on stock exchange transactions are reduced from 75% to 50%. The action was taken, according to the Board, under its "statutory responsibilities and in the light of the general credit situation."

This is the first action of the Federal Reserve Board in relation to margin requirements since Feb. 1, 1947, when the 100% margin which had been in effect for 11 months, was cut to 75%. It marks the second of the steps of the Board to ease credit controls, the first being taken on March 7, when, by amending its Regulation W, the terms of instalment payments on customers' goods was extended to a maximum of 21 months and down payments were reduced to a minimum of 15% of purchase price.

The text of the Federal Reserve statement follows:

"The Board of Governors of the Federal Reserve System, effective Wednesday, March 30, 1949, amended its Regulation T, 'extension and maintenance of credit by brokers, dealers and members of national securities exchanges,' and its Regulation U, 'loans by banks for the purpose of purchasing or carrying stocks registered on a national securities exchange,' so as to reduce the margin requirements for purchasing registered securities from 75% to 50%. These requirements are applicable both to purchases of securities and to short sales. The board's action was taken under its statutory responsibilities and in the light of the general credit situation."

Eccles and Schram Comment on Action

Marriner S. Eccles, former Chairman, and now a member of the Federal Reserve Board, in a television appearance shortly after the above order was released, said the action indicated "recognition that deflation is certainly more imminent." He said this was "a healthy thing for the country," adding "I am sure the American public in its good sense did not expect the boom of the last three or four years to go on indefinitely."

Emil Schram, President of the New York Stock Exchange, who had been urging easing of margin requirements for several months past, commented that the action of the Federal Reserve Board "was a most constructive step" and should effect a great improvement in the liquidity of the market.

Securities Salesman's Corner

By JOHN DUTTON

In the excellent article on security salesmanship which appeared on page 4 of the "Chronicle" of March 24, H. J. McCrossin, who is Director of Sales of the New England division of the Electrolux Corporation, told of a discussion with one of his friends about creative selling. This friend was an executive of a large insurance company and he related how many men who had impressive family backgrounds, or a big name in a scholastic and athletic way, had failed as salesmen. After they wore out their friends and relatives they were through. Then he went on to discuss the fact that he had had only two calls by security salesmen in his whole lifetime that were by men whom he did not know. All the others were friends who solicited his business.

Quite frankly, I can't understand such a situation. Maybe, after all this time that I have been writing about this business of ours I've been completely in the dark. I thought that most of us in the retail securities business did the greater percentage of our business with people whom WE DID MEET COLD. If that is not so then I am sure we do have the key to one of the main problems confronting our business. If we are not selling right—that is something we CAN CORRECT. If we are calling on friends and relatives and neglecting that great mass market that we don't know—then it is a simple matter to correct the situation.

But I do believe that most of the firms and the salesmen that are doing a good job today (and many of them are, despite current reports to the contrary) do sell creatively. I am going to relate one case to you with which I am familiar, and it will indicate I hope, what can be done today by a man who uses his head, and has the perseverance to carry out his plans.

This salesman went back into the securities business, selling at retail just a month ago. He believes there is a future in our business. I asked him why he thought so. He answered, "There is very little competition today, there are some excellent opportunities for investment, and I think there are many people who have idle cash. It is different than it was even in the twenties—there is money and a new market. In those days, people were dunned to death by salesmen of speculative stocks—today, if you have something good THE MARKET IS THERE AND WILLING." Point number 1. This man believes it. There are many men in the securities business today that should believe as strongly in these things as he does. If not, they should get out of the business. If you believe it—that is the first step toward success. He does!

The next thing he did after selling himself on the business was that he picked out a **single situation** and he is sold on it up to the neck. He went to the management, the company's public relations counsel, their customers and the people who work for them. He is sold on their industry (and it is a growing one). He obtained booklets, statements, catalogues and literature. He wrote an analysis, had it approved by his firm and the officers of the company. He convinced himself. So point number two that makes for success—he is sold on a **situation** as well as the investment business.

Next he made three lists of prospects: The first consists of every friend and acquaintance that he believes might buy some of this stock if they were properly advised about its possibilities for making a profitable investment. The second, he bought magazines that carried the names of radio personalities, people in the entertainment world, writers, advertising men, people in the movie industry, and trade magazines that would give him the names of companies that manufactured allied equipment needed by, or sold by, this company. He made a list of the top people connected with such firms. He did this systematically and continuously and he is still building up this list. Incidentally, this is a TELEVISION stock, so you can see why he has been prospecting in these allied fields. The third list is a radiation list. After he calls on anyone, friend or new contact, he asks if they know if ANYONE else might be interested in receiving some information about this outstanding INVESTMENT SITUATION.

He has devised a double return card that he sends out, which offers this analysis. He has a follow-up letter, an order form and a return envelope, which he sends to those who reply. He calls on those who reply by telephone and in person. He calls on those who do not reply as well as those who do. He works at night at his office, following up replies, calling on the telephone those whom he cannot reach during the day. When I asked him how he thought it would work out—he gave me a confident grin and said, "Selling is like diphtheria, Dutton; if you circulate around among enough people who have it you've just got to pick up a lot of germs—I mean orders—and you can quote me on that in your column if you want to do so."

Will this man make a success in the investment business? He has made a good start already and I believe he can't miss.

[Two more in the series of lectures on Investment Salesmanship, sponsored by Boston University and the Boston Investment Club, appear on page 4 in today's issue.—Editor.]

Coast Exchange Men Visit Westinghouse

SAN FRANCISCO, CALIF. — Westinghouse Electric Corp. at its Sunnyvale, Calif., plant, was host to over 100 representatives of the San Francisco Stock Exchange, Member Firms, Bay Area Banks and the Press on March 17, 1949.

Ronald E. Kaehler, President of the San Francisco Stock Exchange, headed the group. This visit was a continuation of the policy inaugurated over two years ago, of keeping abreast of industry in this area, and was the first trip made this year.

The manufacture of transformers, switch controls, motors and steam turbines in all stages was viewed at the plant which is spread out over 57 acres of land. Output of the plant approximates $30 million per year. Probably the most significant point brought out was the interdependence of all industry evidenced by the labels on work in progress; power companies and manufacturers as well as public agencies and foreign countries were represented among the plant's customers.

Westinghouse is also a large purchaser from local suppliers (averaging over $1,000,000 a month)—for example, a huge iron casting viewed by the same group on a tour of Columbia Steel Co.'s Pittsburgh, Calif., plant was observed at Sunnyvale in a later stage of manufacture.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The market action of Treasury obligations continues favorable, despite the retarding influence of tight money (due to income taxes) because this limiting factor is being relieved at this time. . . . Reports that certain tap issues would be made available for purchase by member banks has not lessened the demand for eligible obligations. . . . Although prices have reached levels that might be conducive to profit-taking, there are no sellers outside of Federal. . . . Sentiment is bullish because conditions in the money markets are on the constructive side (decrease in stock margins is an example) and this should mean a continued demand for all governments, especially the longs. . . .

Rumors that reserve requirements of member banks would be lowered immediately were rampant in the financial district last week, so much so that the Reserve Board took time out to deny them. . . . Many, however, feel it is only a question of time before required reserves of the System's deposit institutions are decreased, and they believe that apparently wild rumors could have considerable substance to them and are not as wild as they may seem. . . . It could be that these reports which sweep the financial district from time to time are part of a well-planned campaign, and are a revival of "open mouth operations" which were used rather effectively by the monetary authorities in the past. . . . Uncertainty of a temporary nature, in the money markets, might be just what the powers that be want to create at this time. . . .

JUNE MATURITIES WIDELY DISCUSSED

The money markets are again engaged in the old pastime of masterminding the near-term action of the monetary authorities. . . . The cause of all the discussion is the June financing and what is likely to be done at that time by the Treasury in taking care of more than $5 billion of maturities. . . . Ideas as to how the authorities will handle $1,014 million of 2s and $4,301 million of 1⅛s on June 1 seem to be rather varied although it is evident that nearly all agree that the condition of business will be a most important force in determining the policy that will be followed by the Treasury in the mid-year operation. . . .

If economic conditions should continue to deteriorate there seems to be very little question about the authorities taking measures that would attempt to reverse this trend. . . . On the other hand, if there should be signs of stabilization appearing on the business horizon, a somewhat different type of action would most likely be adopted. . . . If the forces of inflation are to be put back in the driver's seat again because of government spending then an altogether changed course of action would have to be used. . . .

DEFLATION ADHERENTS IN MAJORITY

At the present time it seems as though the largest following in the money markets is with those who believe there will be a continued down-trend in economic conditions and this will call for a certain amount of reflationary action by the monetary authorities in the mid-year refunding operation. . . . The bulk of the maturing obligations are held by commercial banks and in order not to have these securities turned in for redemption, obligations with an income attractive to these institutions would have to be offered them in the June financing. . . .

It is believed in some quarters this means notes and bonds would be available to the deposit banks, in order for them to maintain their earnings. . . . The more attractive the offer to the commercial banks, the more of the maturing securities will be exchanged, and the smaller will be the decline in deposits, which is also very desirable in deflationary periods. . . .

"TAPS" AND COMMERCIAL BANKS

With economic conditions on the defensive, counteracting measures by the authorities would be in order and this would most likely call for changes in reserve requirements of the member banks. . . . An easing in the credit structure, through lower required reserves for commercial banks, would be a counter-measure to the deflationary trend. . . . This would also create a greater demand for Treasury obligations, especially the eligible issues. . . . The floating supply of the longer maturities of the bank bonds is limited and the authorities do not seem to have enough of these securities in their own portfolio to keep prices of these obligations under control. . . .

Accordingly, it has been rumored that the tap 2¼s due 1959/62 and the 2½s due 1962/67 and 1963/68 (all of which become eligible in 1952) would be made available for purchase by commercial banks. . . . This would be one way in which the larger demand for bank bonds, created by easier money market conditions, could be taken care of. . . .

ALL RESTRICTEDS MAY BE AFFECTED

Should there be a change in money market conditions, brought about by lower reserve requirements for member banks, it is believed in some quarters such action would coincide with the June financing operation of the Treasury. . . . Also the opinion is held by many that any changes that might be made in the eligibility of tap bonds would also come at the same time. . . . Because the monetary authorities are definitely committed to a stable government bond market, the opinion that the restricted bonds may be made available to the commercial banks seems to be gaining more followers. . . . Whether the change in eligibility would be confined to a few of the tap issues or would apply to the entire restricted list is the subject of considerable debate. . . .

Some of the shrewdest followers of the money markets, however, hold that any changes in the eligibility of restricted bonds, which might be made, would apply to all of these obligations and not just to those which become eligible in 1952. . . . They point out that the excess reserves of the out-of-town banks would be increased with lower reserve requirements and, since these institutions already have excess reserves, they would most likely be the largest buyers of Treasury obligations. . . . Likewise these banks have substantial amounts of savings deposits and these deposits are an expense item to them. . . .

Accordingly, it is contended that these institutions should be allowed to buy the restricted bonds as well as savings banks. . . . Therefore, it is believed by many that if purchases of restricted bonds are to be allowed by the deposit banks, all issues would be available to them. . . . It might be, however, that purchases would be confined to those institutions with savings deposits and limits would be set as to the amounts that could be bought, not dissimilar to what took place in May 1946. . . .

FAVORED ISSUE

Savings banks continue to dominate the action in the restricted obligations, with all of the bonds coming in for buying although the 2¼s due 1959/62 is the most favored issue. . . . It is likely that the talk about the 2¼s becoming eligible in the not distant future is responsible for part of the buying of this bond by savings banks and other non-bank investors.

Sees Local Independent Banking Threatened

Orval W. Adams warns concentration of banking resources in branch systems and absorption of local banks by holding companies will lead to destruction of independent local and correspondent banking.

In a circular letter to independent local banks in the State of Utah, Orval W. Adams, Executive Vice-President of the Utah First National Bank of Salt Lake City, and a former president of the American Bankers Association, warns that concentration of banking resources in branch banking systems, together with the absorption of local banks by holding companies is a monopolistic tendency which threatens the existence of local independent banks. *In his letter, Mr. Adams wrote:*

Orval W. Adams

The independent banking system has been an integral part of our system of free enterprise upon which our economy has been built, and to it, in no small degree, must be credited the sound and rapid growth of our industries. It is founded upon the basic American concept of local control and local responsibility, with all that means of knowledge of local conditions, ability to render prompt and efficient service to the community and maintain those personal man-to-man relations between officers and clients which are inevitably lost when remote or holding company control is substituted for local management.

It has afforded us all the benefits of adequate banking service on a national scale, without the objections incident to centralization of control in one or a few big systems. I said in an address at Houston, Texas, on Nov. 15, 1938, as President of the American Bankers Association, and I repeat that statement now: "A great majority of the 15,000 American banks are independent banks, and opposed to concentration of banking resources in branch sytems, which, unless curtailed will create a money and credit monopoly more dangerous to and destructive of the American system of State Rights than any other form of capital concentration."

The future of the independent banking system depends upon whether from here on we continue the monopolistic path we have endured for the past few years, or whether we turn back to the American ideals which made it possible for this country, even hamstrung as it was through inept government policies, to produce the goods, the ships, the armaments, planes and food that made the decisive turning point in the last war.

The battle must be fought on the State level as well as on the national level. I ask the question, what will it profit us to fight the battle on the national level and win, if, while the battle is in progress, great combinations of banking resources spring up within the States, absorbing as they grow a large portion of our independent banks, as has been the case in California. The answer is evident. We must preserve that system and we must all see that any departure from the preservation of that system is a threat to our future welfare. As large holding company and chain banking systems develop they tend to expand into other fields; we see them active in insurance, mortgage loans, building and loan companies, real estate, and even public utilities. Such expanded interests will inevitably bring criticism of banking; there will be an implication of political activity, and the unthinking and unwarranted urge for the nationalization of banks will be intensified.

The absorption of local independent banks into holding companies would lead finally to the destruction of the correspondent banking system. These banks, home owned and home managed, carry out the great concept of decentralization, the enemy of monopoly. Fight to preserve and protect them! Our independent banking system, 15,000 strong, is the last bulwark to prevent the most dangerous of monopolies—the monopoly of money and credit.

The nationalization of banking, which could come more easily through holding company operations, would foreshadow the destruction of the correspondent banking system. We are safe just so long as we maintain the 15,000 independent banks inviolate. In OPA days, when the Government was prevailed upon to seize the cattle ranges and the packing houses, the idea was rejected because seizure would be wholly impracticable for the reason the cattle were spread through all parts of the country. Let us maintain that spread and in the banking field preserve for ourselves that factor of security which seemingly alone saved the cattlemen of this country from confiscation by the Government. Ponder well what happened in England when Socialism came into power. There were only five banks to take over. Let us keep our 15,000 banks strong and virile, and spread over the great expanse of free America. Their independence is the surest guarantee of our national independence. Every ounce of our energy and determination should be marshaled to triumph in this great undertaking to prevent monopoly of money and credit, the most dangerous of all monopolies.

With L. B. Gage

(Special to THE FINANCIAL CHRONICLE)

SPRINGFIELD, MASS.—Gordon A. Baines is with L. B. Gage, 1387 Main Street.

Lear, Incorporated, Elects

Frederick D. Gearhart, Jr., President of Gerhart, Kinnard & Otis, Inc., New York, and William P. Lear have been re-elected to the board of Lear, Incorporated at the annual meeting of stockholders. Harold R. Boyer, Col. Thomas M. Belshe and O. C. Hall were elected directors.

F. D. Gearhart, Jr.

U. S. and Dutch Funds to Be Paid on Potash Syndicate Of Germany Gold Bonds

An agreement calling for the distribution of American and Dutch funds to holders of Potash Syndicate of Germany 25-year sinking fund gold bonds has been signed by representatives of the British and Dutch governments, according to cable advices received in New York by J. Henry Schroder Banking Corp. It is stated that the agreement, which will require approval by the High Court of Justice in England, provides for the release of $1,100,000 in U. S. currency, and 24,400,000 Dutch Florins. The cable, it is added, quoted this announcement as coming jointly from Royal Exchange Assurance, trustee, and J. Henry Schroder & Co., receiving bank and principal paying agents, for the Potash Syndicate of Germany 7% and 6½% bonds. Subject to court approval, the announcement said, "the trustee will seek the directions of the High Court as to the manner of application of these and any other monies which may become available." Negotiations also are being carried on with American authorities, the cable added, for the release of an additional $5,700,000 to the bondholders. There is, in addition, a sum of 3,300 of Swiss Francs for which negotiations have not yet been undertaken with the appropriate Swiss authorities.

Elected Directors

Austin K. Smithwick, Vice-President of A. W. Smith & Co., Boston, has been elected to the board of directors of High Vacuum Processes, Inc. Reelected to the board were Francis J. Dougherty, Jr., President of F. J. Stokes Machine Co.; Donald C. Rubel, Parrish & Co.; David Remer; John T. Nightingale, Cromwell & Co.; Fred M. Roberts, and Dawson Spurrier, President of High Vacuum.

Wall Street Riders To Hold Gymkhana

Miss Ruth Bab, Chairman of the Ride Committee of the Wall Street Riding Club, has announced that plans are now completed for the mammoth Gymkhana to be held at the Club's ride headquarters, Split Rock Riding Academy, Pelham Manor on Friday, April 1. Members of the Stirrup Club and the Circle Club, who also ride at Split Rock, have been invited to participate with the Wall Street members and prizes will be awarded the winners of such mounted events as the Gretna Green Race, Balloon Popping Contest, Saddling Race, etc. Following the Gymkhana the Wall Street Riding Club will be host to the other two Clubs at a cocktail party in the lounge at Split Rock. Mrs. Regina Hankinson of F. Eberstadt & Co. is in charge of party arrangements and is assisted by Miss Adele C. Lotz of J. & W. Seligman & Co.

As We See It

(Continued from first page)

fortuitous circumstance growing out of the tide of arms in World War II.

World Revolution

Communism, or at least the Russian version of it, has always had "world revolution" as its goal. Its theoretical structure rests upon this rock as a foundation. "Communism in One Country" was an innovation which some of the "founding fathers" of the Russian regime would have found startling and perhaps traitorous. It is, however, becoming clearer day by day that it was but an opportunistic "deviationism" designed to enable the Soviet Union to carry on in the international milieu in which it then found itself. Whatever may be the opinion of the Politbureau as to whether it is actually possible for Communism and what is termed (sometimes mistermed) capitalism to exist permanently side by side in the same world, there can be little doubt that one of the basic aims of that regime is to see to it in one way or another that they do not permanently thus co-exist.

But there is nothing new in this phase of the subject. In this respect, the current attitude of the Moscow clique is less "deviationist" than were some of the earlier pronouncements and tactics. But the alliance of these notions, with aggressive military force directed at the outside world, is something else again. In the elder days of this art of world revolution, objectives were to be reached by a sort of subversive, "underground," "Workmen of the World, Arise" campaign conducted within each of the countries with the blessing if without very much material aid or even detailed direction from Moscow. Later, under Stalin, the Soviet Union laid great emphasis upon military preparedness, but probably largely by reason of a well-founded belief that a war between Russia and Germany was inevitable at one time or another—certainly an idea not alien to the Czars which had preceded Mr. Stalin.

Use of Military Force a Later Idea

It may be doubted whether the Kremlin, under the Communists, ever entertained very serious ideas of using their military might to extend and to expand the territory over which the Politbureau rules until the fortunes of war (largely by grace of the United States of America) placed those ruthless dictators in a position to do about as they pleased in large and vital areas of the earth. Such ideas, however, did evidently come to them when these circumstances arose. Their intrigues within various countries then definitely took on the nature of "fifth columns," and the possibility of direct or indirect employment of Russian forces to hasten the "world revolution" added a second and serious element to this situation.

It would be difficult to determine in what degree the Russian rulers really regard their military activities and programs essentially defensive in nature. It is particularly difficult, apparently, for the average American to place himself in the place of the Politbureau and view the world through its spectacles. Every Russian communist has ingrained into his system a deep suspicion of the remainder of the world. For this, it must be admitted, he has some excuse. It must be realized, too, that he is densely ignorant of what goes on in the remainder of the world and has no realistic concept at all of what goes on in the minds of peoples not yet enslaved to his particular dogma. There may be, indeed there almost surely is, some measure of fear in the hearts of the men who rule Russia of a combined world capitalism aligned against them and determined to destroy them.

Fears Are Fanned

Nor can there be any reasonable doubt that the policies of the United States in the past few years have—rightly or wrongly—fanned these fears. The people of this country are not well steeped in world history. They have not been much involved in world or power politics through the ages. They do not readily understand why our professions—sincere or not—of complete disinterestedness in imperialistic advances are viewed with suspicion in Russia. Indeed, most citizens of this country probably doubt whether they are really so viewed.

Yet to the citizens of any country which has through the centuries either been engaged in or the victim of such imperialism, there can be little mystery in the doubts of our full sincerity. Too many other countries have denied such ambitions while they laid plans for conquest and exploitation. And let it never be forgotten that—rightly or wrongly—we are insisting upon bases virtually up to the shore of Asia and, in effect, are arranging to establish such bases if we can, not only half way to Europe, but in Europe, even on the Continent of Europe. To us all this is defensive in nature. Perhaps it is that and nothing more—but it would be difficult for us so to consider efforts of any such power as Russia to establish and maintain vital bases a few miles off our shores or in Mexico or any other part of the Americas.

Slaves to the Kremlin

But whether merely "defensive" in concept or not, or in whatever degree regarded as merely "defensive," the foreign plans of Russia today involve not only instigation to insurrection within other countries, but in some instances at the very least, and quite possibly on a scale much broader than might appear on the surface, the employment of the armed forces of Russia itself. The use of such forces would, of course, terminate in the imposition of communism in countries subjugated, but equally important, it would place them under the foreign domination of Moscow as the ultimate source of power and authority. Realization of this fact may prove helpful, though, in defending a nation against this aggression, since it should stiffen resistance to Russian "ideology."

And it is to Russian "ideology"—God save the mark—that we appear to be losing here at home. Some of these notions are becoming a part of our folkways and our mores—and many of us are not even aware of it!

Leadership in Big Business

(Continued from page 17)

employees in our adult population has risen from 39% to 46%. We have become increasingly a nation of employees. And we have not yet done a very good job in large organizations toward keeping employees fully informed about the business they are in. I think we can do much better.

Bigness creates another difficulty. A big company often seems to have a strange personality or no personality at all. The man in the street is not a statistician or an economist. He is accustomed to making up his mind about people on a very simple basis—whether they are honest or dishonest—friendly or unfriendly—public spirited or anti-social—generous or selfish. But a big company is too often like the side of an elephant—you can't make head or tail of it very easily. People can be made to fear or dislike it—or even want to destroy it—by political opportunists.

While it is true that big companies are greatly admired for their ability to produce better products at lower costs, this is not the same thing as having personality and character in the eyes of millions of people. Institutions are not usually criticized on the basis of their skill but as to their motives.

Impersonality can be a very grave handicap to large undertakings—especially in times like these.

The subject of bigness is especially interesting today because the whole world is faced with problems of organization on an expanding scale. If we are to unite ourselves for peace and security, and high material and spiritual standards, it will take cooperative operations on a very large scale in many fields.

Importance of Public Opinion

A second factor which I think will help determine the kind of leadership business and industry will require in the years ahead I would call: THE GROWING IMPORTANCE OF PUBLIC OPINION.

There is no question that public opinion is a very powerful force in our country. The beliefs of the American people form a constantly changing "climate of ideas" in which business and industry—like all other institutions—must live. The legislation of today and tomorrow, in Washington and in our State capitols, reflects public opinion. So-called pressure groups and special interests can never ignore it.

Whether or not labor unions are regulated—and how much—depends upon what people think about them. Whether or not business and industry are regulated—and how much—depends upon how much confidence people have in our integrity, in our objectives and in our leadership.

It isn't only legislation that is affected. Our courts are continually interpreting existings laws in terms of changing customs and attitudes of the American people. Administrative agencies have to be influenced by the trends of public opinion.

All of us soon learn that it takes a tremendous investment of time, energy and money to interest large numbers of people in new products and services. No salesman thinks public opinion is a pushover. But every producer of goods is also well aware that public opinion does not stay put and cannot be ignored by anyone who wants to stay in business.

Public opinion is an increasingly important force in this country. But that is true all over the world. I don't see how the business and industrial leadership of tomorrow can escape a responsibility to understand public opinion and contribute to its sound, long-term development. Business and industry will be in a bad way if they leave the field of public opinion to others.

Human Relations Factor

A third factor which seems to me likely to shape the leadership which business and industry will seek in the future is: THE UNDEVELOPED TECHNOLOGY OF HUMAN RELATIONS.

A great amount of time has been spent by the scientists of the world gathering data on the physical properties of the universe. Think how little time we have spent by comparison in a scientific investigation of the techniques of human relations! It may be that the work which has been done in the fields of psychology, psychiatry and other social sciences can qualify. But if this is true, I very much doubt whether we have begun to make adequate and profitable use of this work. I doubt very much whether we have done anywhere near enough of the hard, practical work in testing applications of such theories. In order to get results in the field of human relations we have got to do a vast amount of testing and experimental work.

Perhaps we can take comfort from the fact that science has done an amazing amount in a relatively short time in other fields. The laws of thermo-dynamics, which led to the development of the internal combustion engine, were developed largely during the 19th century. It was only about 60 years ago that the foundation of the radio art began to be laid by pure research into electric discharges in high vacuums. It was only a little more than a half century ago that X-rays were discovered so that the whole structure of 19th century physics had to be rebuilt on new lines. The discovery of radio activity, the development work in electron theory and the research which led to atomic fission have all come since then.

I have used the expression "human engineering" in discussing this field of a better technology of human relations. To me it is a convenient label, meaning something like this—

Under favorable conditions (whatever they may be) men can do substantially more, and get a far greater kick out of doing it, than under unfavorable conditions. The result is not only increased production by the individual, increased earnings by the individual and increased satisfaction for the individual, but a higher standard of living for everybody.

A great deal of attention has been given over the past 50 or 100 years to the advantages which the individual, and all the rest of us, get from the use of machines and horse power. A coolie can haul a heavy load slowly up a Chinese river and earn less than enough to keep himself alive. Give him an engine, and the training to use it, and he can haul far more freight in far less time and earn far more for himself and society.

To me human engineering is a painstaking approach to the problem of creating conditions under which the average man will not only increase his capacity to produce and earn, but do so with far less wear and tear on his physical and psychological equipment.

Don't ask me what all those conditions are. That's what you've got to help find out. The individual must want to achieve—he must enjoy doing it—he must feel socially important and responsible—he must understand what he is about. How to test such generalities and make them part of a working plan is the job which seems to me to call for some very much needed human engineering.

May I leave with you the thought that leadership of this kind puts a very high premium on the understanding of human beings and their personal problems.

Millard Appointed to New School Faculty

Mark J. Millard, Ph.D., partner in the brokerage firm of Carl M. Loeb, Rhoades & Co., has been appointed visiting lecturer on the Graduate Faculty of the New School for Social Research for the academic year 1949-50, President Bryn J. Hovde of the New School announced. Dr. Millard, whose field is economics, will give a graduate course, "Public and Private Investment," running through both the Fall and Spring terms. He is the author of articles on wages, trade and banking.

Winslow, Douglas to Admit

John M. Lummis, member of the New York Stock Exchange, will be admitted to partnership in the Exchange firm of Winslow, Douglas & McEvoy, 120 Broadway, New York City, as of Apr. 1. Mr. Lummis has been active as an individual floor broker. Barclay K. Douglas, limited partner in the firm, will become a general partner effective the same date.

Techniques and Ideas for Investment Salesmen

(Continued from page 4)

and television are built around people doing things.

So Northwestern Mutual, as an illustration of the Thompson technique, rather than talk about life insurance and all the romantic sentiment and human interest sides that life insurance has—and they are terrific; the tempation is always to play on the heart, and that is what life insurance, of course, has in abundance, the material that will enable them to use sentiment, to present all the time sentimental reasons for using that type of thing—but, instead, the Northwestern Company happens to want to talk about the peculiar difference that it enjoys over the competition, and, believe me, the difference is there, but in this highly ethical industry they can't come out with the difference and say what it is. So what do they do? They go out and get the most successful men in the country and those fellows don't say, "Buy Northwestern Mutual life insurance." Oh, no, Thompson's technique of selling the merchandise is far smarter than that. They go out and get people like Mr. Henry Ford II, for example, to sign a little statement three paragraphs long, to wit:

"The older I get, the more I realize the value of planning a life insurance program early, of taking out life insurance when I am a young man and adding to it as I grow older until I have created a life insurance estate."

Not a word about Northwestern Mutual. But down at the bottom it gets in its plug when it gives its own story about the Northwestern Mutual salesmen being competent, thoroughly - trained men, able to advise you in your life insurance problems and the reasons for selecting Northwestern Mutual.

But the whole sense of the thing is this, and it is something to remember, because I think one of the things that financial advertising could use would be something like this—and when I say that, I am not trying to dodge the issue, not at all, but you couldn't expect anybody to think up the answer to advertising this business in a few minutes, when people have been spending years on it—but, nevertheless, if you can liven up a story which is principally statistical, which is basically analytical and not of wide appeal, by inserting into that story a human being, and in Northwestern's case a successful human being—or as we know success in this country—*you have created news.*

Now, the Number 2 advertising agency is Young & Rubicam, with a billing up toward $100,000,000. This agency is only about half as old as Thompson, yet in the 26 years of its existence it has achieved greatness through practically straight human interest copy of one kind or another. Young & Rubicam uses almost always the indirect approach. And they ran a financial ad on investment throughout the middle west, and this is the outline. It was a reversal of the phrase, "Pennies From Heaven"; it was "Heaven From Pennies."

It showed a man and his wife, retired, living comfortably on money they had accumulated through wise investment, and it told that nice story—we call it the narrative human interest technique. It is good where you have long copy to play, with plenty of space.

Now, Young & Rubicam uses this indirect approach, and they use it sometimes with a heart throb, and sometimes with a laugh, sometimes through sheer cleverness. I mean by that the usual wise-cracking type of thing that makes people laugh, sometimes simply with facts, well presented, of course. But one thing it always depends on, and that is well-written, readable copy, far away from cliches, not a one in it, and all the other good, old threadbare "Save time and money" stuff that most people that have little minds use.

N. W. Ayer & Son, the oldest advertising agency in America today, has achieved its distinction through its ability consistently to do a good job, year in and year out. It sounds kind of drab, but Ayer was the oldest, and for all the years of its life—which go back 75 or 80 years—it has led the league, so to speak, in all departments of play. It was the first to employ what we call a copywriter in the business. It was the first to employ a lay-out man full time. It was also the first to use "reason-why" copy. It was the first to tap the great resources that lie in emotional writing. It was the first to initiate packaged goods advertising. It was the first, almost, to use the packaged goods business itself.

And in that direction, you might be interested in the Uneeda Biscuit campaign, which was the first package in the grocery trade. Yet today you can go up Commonwealth Avenue here, or over into Cambridge to one of the newest and greatest super-markets, and see thousands of packaged goods, and they all spring from a man's idea back in the board of directors' room of the National Biscuit Company.

The Chairman of the board said one day to the board of directors: "You know, the thing I think we ought to do is take the crackers out of the barrel and put them into a neat little package and sell the package for a nickel, and we will make a lot of money."

"Pooh," said the rest of the directors, "we haven't ever done that. We have been selling crackers in barrels for 50 or 60 years, and it is good enough for us." Of course, I am caricaturing this, but these are basic facts and don't think I am making them up, because the story was told to me by the man who was there, a man now dead. But remember, I have been in this business 30 years, and when I came into N. W. Ayer & Son, the representative who worked on the National Biscuit account and who was appointed to handle that account by the Chairman of the board, and who wrote all the packaged biscuit ads, told me the story.

Well, fortunately, the Chairman of the board was one who had something to say, and he said: "No, we will try it; we have got to get a good name for this package," and that was Ayer's job, and they came up with *Uneeda,* one of the best-known trademarks, one of the best-known names, and one of the most fantastic successes in its field.

But when you realize the importance of that idea, it also has a significance for you fellows when you start to think of selling securities to people with the written word, pictures, letters, or anything else, if you are trying to transfer an idea from your mind into the mind of a possible investor. Mr. Green, I believe his name was, had an idea and he told it to a good advertising man—who fortunately was a good advertising man—and together they produced a packaged product in a world of bulk goods, in a world when if your mother wanted a quart of milk, she didn't call the milkman, she sent you with a tin pail down to the corner store to get tipped out of a five- or ten-gallon container. And maybe you think that wasn't unsanitary in the summertime.

Molasses, sugar, flour, crackers, everything came out of barrels in those days. It was just a little before my time, although I can remember going down after milk. But they took those two combinations, the man with the idea in the company, and the agency with the idea for making the packaged goods human, by putting it in newspapers and magazines, and making people want to go in the store and put down a nickel and say: "I want Uneeda biscuits." It was the beginning of the packaged business, and if you walk three blocks over in Cambridge and look at that array of merchandise which represents the best stocks, I suppose, in the world today, General Foods and others, and you go in and pick out that stuff and think that it all started in some guy's mind, plus an advertising agency with ideas enough to translate the big thing they had hold of, the idea, to the newspapers and the billboards and magazines—and the people.

Now I am going to give you one specific example of what is a great piece of selling copy, one of the greatest ever. You know, one of the things that you are all familiar with, and you possibly may have used some of it tonight if you had a highball, is ginger ale, But probably one thing you don't know about it is that, in 1923, Clicquot Club, made out here a little ways from Boston, was the leading ginger ale in the world. There was more Clicquot Club sold than any other ginger ale. It had the first great radio program, the Clicquot Club Eskimos. If you wanted gingerale, you you asked for Clicquot Club.

Then one morning, what happened? An advertisement appeared, full-page in size. It started first in New York, and later went into every city in the country. And this is what it said. The headline was: "Down from Canada came tales of a wonderful beverage," and this is the copy:

"For years and years visitors to Canada have come back with tales of a wonderful ginger ale. They described its exquisite flavor, they told of drinking it in the House of Parliament in Ottawa, in the residence of the Governor General, and in the Royal Canadian Yacht Club. A truly wonderful flavor. The minute you break the golden seal of the beautiful bottle and pour the bottle of Canada Dry slowly down the side of the thin-edged glass, as a connoisseur would pour a glass of fine old wine, you will know that here at last is real ginger ale.

"Hold it to the light. See how clear it is, how it gleams and sparkles, the life and vitality of it, the pale dry champagne color, and the taste of it. Here is a revelation in ginger ale. Consider the delicate, alluring, dry flavor that intrigues your taste, a flavor unlike that of any other ginger ale you have ever tasted.

"For Canada Dry is made from a formula known to only three men. This formula took 15 years to perfect. It is handed down from father to son. It is one of the most carefully guarded commercial secrets in the world. Truly, it has been said that until you try Canada Dry, you have no idea how good a ginger ale ought to be. It is so different from the ordinary ginger ale that it might almost be called by another name."

Now, why in the world would I read to you an advertisement on ginger ale? I will tell you why. The morning after the advertisement appeared, three New York jobbers telephoned and ordered 500 cases. In 30 days the plant was working overtime. In 90 days the plant was 300% oversold. And during almost all of that year the orders were from five to ten times the capacity of the New York plant. So a new plant was built in Hudson, New York, and at the time the plans were drawn, it was thought that this plant would be large enough for their particular needs. It was necessary to order a new one, for orders brought during the first month of the year following that campaign, of which I have read one advertisement. Those orders the first month of that year were twice what were received during the whole preceding year.

Canada Dry was one of the most phenomenal sales successes in history. And how I wish, as long as I am talking to a bunch of investment men—I sat like a stupid little fool in the copy department of N. W. Ayer & Son, when a fellow named Jim Mathes, now a director of Canada Dry but then with the agency, came along and said: "Do you know, I think this Canada Dry thing is going to click. Now is the time to buy the stock." Well, of course, it was speculation, pure and simple. But a fellow sitting next to me named Frank Zink had saved $9,000, and he bought $9,000 worth of Canada Dry stock. This was about three months before ever a line of it cracked in the newspapers or magazines. Five years later Mr. Zink sold his $9000 worth of stock for $150,000. I am still working, and at night, too!

Now, there is another thing, fellows, in all sincerity; that is one type of copy, and it ought to say this to you, or people who are interested in the sale of anything —and we are all selling something —"Make it human. Say something to people in words they can understand." Talk to them like I am trying to talk to you, naturally and sincerely. In all this copy there isn't a ten-cent word in the whole six or seven paragraphs. It is just how those words were put together.

Now, the greatest piece of sales literature in the world, probably, is the Sears Roebuck catalogue, something so entirely different from the type of thing I have just read that they bear no resemblance to each other, except in one cardinal point, that both get over selling factors; one chooses one way of doing it, and the other chooses another way.

There is one paragraph I would like to read from the introductory page of the current issue of the Sears Roebuck catalogue. It is a lesson in smart selling. This is quoted:

"We now have more customers than at any other time in our history. When you buy from this catalogue, you get facts. You buy with confidence because you buy with knowledge. Our merchandise is photographed just as it will look. Our descriptions are simple, honest, straight-forward statements of fact. We don't misrepresent. We don't oversell. There is no pressure exerted on you, so you can select either our highest-priced item or our lowest-priced without anybody influencing your decision."

And you know how many millions of dollars worth of merchandise Sears Roebuck sells in a year. If you could look at this Sears Roebuck copy once in a while and read two or three of the items offered for sale there, it will be a revelation to you, because in it are facts, presented not stirringly, so to speak, like Canada Dry facts, but they are all there. And if you should analyze the Canada Dry copy, you would find an awful lot of facts in that.

Sears Roebuck merely presents them with little phrases that make them seem important to you. All of their copy tries to sell. And remember this, they don't try to sell you something because it has 40 reams in it, or is made of imported hardwood; they sell it for what it will do for you. The customer is only interested in himself, primarily, that is. Talk to him in his language. Talk to him in terms of benefits, not what you think you have got, but in terms of benefits to him. I think it was Victor Hugo who said that emotion was always new. And certainly, in writing a successful piece of sales literature, that old piece of philosophy from an old philosopher is true.

I wonder how many of you fellows realize one thing about something in the Bible. It might be pretty significant. I will let you draw your own conclusions. But take the Lord's Prayer, or the Twenty-Third Psalm. You know what it is. The Twenty-Third Psalm is undiluted emotion. Yet as Henry Ward Beecher, one of the greatest preachers of all time, has said, it has lulled more griefs to rest than all of the philosophy of the world. And that is pretty true, because most of the consolations of the human heart do not particularize. Let us remember always that man does not live by the bread of reason alone; he lives partly by the inspirational word.

We speak of pictures as a power, yet they are not nearly as potent as those few words of consolation, which have gone down the ages. "Surely, goodness and mercy shall follow me all the days of my life." This mere affirmation contains no language of faith, without a shred of explanation. It has all the needs of the average heart and mind, and right there is the secret of great emotional writing. There is reason back of it, all right, but the machinery is not revealed.

It is not always necessary to print the formula on the glass of wine, nor to count the molecules in a pearl. Someone has said that in selling tea, for example, we are not to sell these little shriveled leaves which color hot water to an appetizing brown. We are more concerned with a cozy fire, a beautiful tea set, with candle light and the memory of a lovely woman, or with the haunting pictures of sunny hillsides on the way, the islands of the East where tea comes from.

Some of the best writers of advertising that I have known believe that a good copy man or woman can write almost any kind of copy, mail-order, human interest, industrial, whatever. I don't think so. I doubt it, because all too often I know that copy writers who can do a superb job on one kind of copy, like Four Roses, or Packard, in one agency, fail miserably in another.

I want to show you a little piece of copy that produced 15,000 dimes up to 5:00 o'clock tonight, in an obscure magazine. Here is the ad. You can't see it, but I am going to tell you what it is about. This is all signed up, the coupon is filled out, the contract was completed and the fellow wrote in his name. That is all it is, a little bit of an ad that was so successful—I am sory, I made one mistake; it didn't bring in dimes. This coupon, this advertisement, offered literature free, and they were so swamped with requests for it, 15,000 up to 5:00 o'clock tonight, that we have to change it and charge a dime for the information, in order to cut off the flood of inquiries, or we would be busted. All it says here is, "Do your own upholstering, right in your own home," and then it shows a man and a woman reupholstering a chair, "It's easy with Boltaflex," which is a new kind of all-plastic materials, and it reads:

"It's easy with Boltaflex, the perfected all-plastic material, same as used by big furniture manufacturers. You can quickly, easily, recover chairs, sofas, card tables, outdoor furniture, like new, make beautiful Hollywood beds at home. Sew it, nail it, tack it. Boltaflex can't chip, crack or peel. It drapes and folds beautifully, fits snugly around corners, outwears the finest grade leather. Durable Boltaflex is washable, waterproof, weatherproof, stain, fade, fire resistant. In all popular shades.

Choose the colors you like best. $3.85 a yard. 54 inches wide. Free Samples. Write today for free samples, free color card and free easy-to-follow illustrated booklet on how to upholster at home. Guaranteed by 'Good Housekeeping'," and so forth. And the replies flooded in. All that is merely Sears Roebuck's type of stuff, a few facts put in a small space, but they tell what the customer is going to get out of that product. It doesn't take any genius to write this kind of copy, believe me, except in one respect, it takes a man who can think that way.

You know, fellows, there is a recent campaign that has been interesting me a great deal. I don't know what you think of it, Merrill Lynch, but I think they are magnificent. If I had a couple of extra dollars, and my son wasn't in the investment business, I think I would call them up.

Merrill Lynch wrote an advertisement, a full page, and it said, "Some of the facts you should know about investments, what everybody ought to know about this stock and bond business, some plain talk about a simple business that often sounds complicated."

Do you know something about that ad? It was the longest advertisement ever written on one page, 6,000 words, 1,000 words longer than most short stories. And there isn't a line in it that says anything about love, liquor or license, or whatever you want to call it; it is straight facts about the business.

You know something else funny about that? Maybe you fellows know this. I had a letter from Mr. Engel, the advertising manager of the Merrill Lynch Company, to whom I wrote about this ad. I was curious. He said it was by far the most successful advertisement Merrill Lynch had ever run. He said, "Probably part of the reason for that is that we have been advertising consistently for a number of years. Part of it also is the fact that we have a service organization ready to really render good investment service."

But the curious thing about it, the human side, and the significant thing to you fellows, is simply this. I know a fellow that went home one night, an artist-type fellow who you would think would be as little attracted to an advertisement of that kind as anyone in the world, and you would think certainly that his teen-age daughter would be even less, and he found her sitting on the davenport reading this Merrill Lynch ad. And he looked at her and said, "What the devil are you reading that for?"

And the daughter said, "Well, I have always wanted to know something about the stock and bond business, and no one has ever told me before, and this has the whole story in it." Imagine, if a kid will read an ad like that, and all to whom stocks and bonds are something mysterious. I wish when I get through here, some of you fellows would pull a few stocks and bonds out of your pockets; I would like to see some. In 1929, I had a few, and they disappeared, somehow. I have never been able to find them since, nor even the place where they were.

But don't you see, people are hungry for information about your business. How about the little investor, the guy who makes a pretty good salary? How about the little fellow who makes a good salary of $5,000 a year and up, and who has no investments at all, none whatever? He doesn't know anything about your business. All he has ever heard about it has been bad—not everything, but you know what I mean, he is somebody that got trimmed in the market on sheer marginal buying, or some other kind. He has invested in an oil well, or some other kind of stock, and he overlooks completely the real, solid, substantial businesses that you fellows represent and the wonderful buys there are in securities, because no one has ever told him. Merrill Lynch has tried to tell him, using the best of their advertising techniques, that in presenting facts you can make it any length you want to and they will read it as long as you can hold their interest, and they won't read it a minute beyond the point where you can't hold their interest.

Four or five years ago, there were two best sellers. One was 125 words long and the other was 125,000 words long. Yet both were on the best selling lists for more than 13 months. The name of one, the short one, was "Goodby Mr. Chips," and the name of the long one was "Anthony Adverse." All of which is a simple illustration that people will read anything as long as you make it interesting to them. Here is a Merrill Lynch ad 6,000 words long, certainly one of the longest ever written. It was successful and pulled thousands of letters. Mr. Engel says it is too early to tabulate justly the effectiveness of that ad.

Here is a little bit of an ad, what we call one column by maybe seven inches or six inches. Of course, he offered something free, but just the same, you put a dime in there and you will still get inquiries from it. If you have made your story up here strong enough, then I am going to put a dime in it. And I will be able to tell you in four or five months exactly how it does with a dime, but I have a pretty good idea because I have been through all this before. It will pull, and it will pull like the devil; it won't pull 15,000 inquiries in three weeks, but it will pull. And this one, too (indicating), although on a different scale; we gave people the information they wanted.

Now, here is a list of securities, and they ask if you own some. When we offered similar studies before, we were gratified by the response, except that, well, there was a little too much enthusiasm. In some cases, some people asked for the whole set. "We would appreciate it if you held requests down to maybe half a dozen or so in which you are seriously interested." You're damn right; they got swamped by people who wanted information.

I sometimes wish like the devil that I had the opportunity to take hold of a modern—not a modern, I hate the word, because I always think of too much chromium and things, but I would like to have a chance of again soliciting accounts to put into securities advertising the things that ought to be there. You have the greatest opportunity in the world, an opportunity the like of which I don't believe honestly exists in any other field.

Your old friend, the New York Stock Exchange, is trying to do a pretty good job in this respect. Here is the first ad, and it is about people, Pop and Mama, and the two boys, doing various things around the house, the kind of home life that means security for all of us. And this lays it right on the line for building a four-part plan. This is the Northwestern Mutual technique, the security and income point. "Security and income are the goals of Louis B. Echelcamp of Valley Ridge, Missouri," and they tell you why; they suggest four steps, own your own home, adequate life insurance, savings, and a far-sighted investment plan. Take a good look at that advertising campaign as it unfolds. It will help you sell a lot of securities, I am sure.

I want to close with one more thing. I am a little bit hipped on the subject of trying to talk in the other fellow's language, because the other fellow can't see the things as well as you can, sometimes, but he feels them. I have had an amazing experience which I want to share with you. In the last six months I have been asked to go around to a good many schools and colleges in this part of the world and talk about advertising and why it offers wonderful futures and successful careers for youngsters, because our business, like your business and every other one, depends on getting the right people coming into it all the time.

And one of the examples I have read or used as trying to excite their imagination is about an advertisement that has astonished me, the response that I have gotten to it. In only one case have some of the students failed to mention it. Almost every one, before I got to it and we opened some sort of discussion period, someone would say, "Mr. Watkins, what about the Hamilton Watch advertisement that appeared last Christmas, and the Christmas before?" Well, it has appeared for eight consecutive Christmases and will probably continue for 28 consecutive Christmases to come.

It is a good lesson in what to think about when you think about writing a piece of copy. I would like to give it to you, because for simple, unadorned writing, it is a whiz-bang. It was called, "To Peggy, for marrying me in the first place," and it showed a man and woman around a Christmas tree and the man had just given the girl a watch, and here is the copy:

"To Peggy, for marrying me in the first place, for bringing up my children while I mostly sat back and gave advice, for the 2,008 pairs of socks you have darned, for finding my umbrella and rubbers Heaven knows how often, for tying innumerable dress ties, for being the family chauffeur years on end, for never getting sore at my always getting sore at your bridge-playing, for planning a thousand meals a year and having them taken for granted, for a constant tenderness I rarely notice but I am sure I could not live without, for wanting a good watch for ever so long and letting your slow-moving husband think he had hit upon it all by himself, for just being you, darling, here is your Hamilton, with all my love. Jim."

What did the advertiser get out of it? The most astonishing, spontaneous letters and applause that they had ever gotten from any advertisement they had ever published, and they have been in business nearly 75 years.

Carl Spier, a writer for B. B. D. & O., wrote the ad, and this is what he says about it: "If I were writing a letter to my wife, giving her a present, what would I say?" That was the thought that went through his mind. And he finally, after a good many false starts all of us make—and he was an experienced copy writer—he finally got the slant. He said he worked on it three weeks, and it all sounded like a bunch of tripe—which it would be most likely, because most of us either go overboard and get too sentimental, or go to the other extreme—and finally, when he got the slant, he said: "I began to think of all the things Peggy had done for me in the 25 years we had been married, so I just set them down."

And Hamilton collected letters from all over the world, thanking them for saying so beautifully what so few people have the ability to say. And, of course, there is absolutely no way to check actual watch sales resulting from copy like that, because its force is not for today but for all the years people can read that advertisement—and it will be many—and feel in their hearts some sort of an understanding for what the gift of a Hamilton—which, of course, translated could be the gift of anything—means.

Reports February Unemployment at 3.2 Million

According to Ewan Clague, Commissioner of Labor Statistics, 370,000 were added to idle nonagricultural workers in month, ascribed in part to curtailed demand for some producers' and consumers' durable goods.

Employment in nonagricultural establishments dropped about 370,000 during the month to approximately 44 million in mid-February, Ewan Clague, Commissioner of Labor Statistics of the U. S. Department of Labor, reported. Both seasonal factors and a continuation of non-seasonal declines in a number of industries contributed to the over-all drop. A similar decrease in numbers employed during the same period last year was primarily attributable to severe winter weather and fuel shortages in several important industrial areas.

Ewan Clague

While nonfarm employment as a whole was 300,000 below the year-ago level, it remained substantially above any other February on record. Over-the-year employment changes have varied significantly, however, among the various industry divisions. Government agencies have added 260,000 workers during the year, about equally divided between the Federal and the State and local levels. The construction, finance, public utilities, and mining industries also employed slightly more workers than in February, 1948. Manufacturing, transportation and service have dropped significantly during the year, while wholesale and retail trade are at about their year-ago levels.

Construction contractors further reduced their employment during the month in response to the usual seasonal decline in building activity. The winter decrease in employment has been somewhat sharper this year than last, with a drop of about 450,000 from the August, 1948, peak compared with 375,000 during the same period a year ago. Most of the building materials industries, including lumber, hardware, plumbing and heating supplies, brick, cement, gypsum, and wallboard, continued to decline in February.

A decrease of 130,000 during the month brought manufacturing employment to 15,750,000 in mid-February, about one million below the postwar peak in September, 1948. While much of this reduction has been in such seasonal activities as lumbering and food processing, recent declines have reflected curtailed demand for a number of producers' and consumers' durable goods. Automotive employment was reduced by 27,000 during the month as a result of model changeover and production cutbacks in some higher-priced models and among parts suppliers. Most of the metal fabricating and machinery industries laid off workers in February, but increased employment was reported in basic steel, and by manufacturers of agricultural machinery, typewriters, and sewing machines.

Among the nondurable goods industries, seasonal declines in the food group were offset by gains in the apparel and shoe industries in preparation for the spring season. All major textile industries, however, reported further contra-seasonal decreases, reflecting accumulated inventories and cautious forward buying.

Developments in labor turnover during January confirmed the February changes in manufacturing employment. Layoffs rose to 25 per 1,000 employees, the highest rate of the postwar period except for the two months immediately following V-J Day. Despite a seasonal increase in hiring, the rate of 33 per 1,000 was below the same month of 1939. Preliminary data for February indicate a continuation of recent trends, with some leveling off in lay-offs and another sharp decline in the hiring rate.

Unemployment continued to rise during the month, reaching a total of 3.2 million in the second week of February, according to the Bureau of the Census. Initial claims for unemployment benefits declined somewhat during the month. Although the claims load was substantially above year-ago levels, the rate of increase in recent weeks has shown some tendency to slacken.

International Bank Appoints Tucker

John J. McCloy, President of the International Bank for Reconstruction and Development, announced today that Norman M. Tucker has been appointed Director of Marketing for the International Bank, Mr. Tucker will assume his duties at the Bank's Marketing Office, 33 Liberty Street, New York City, as of April 1, 1949.

In announcing Mr. Tucker's appointment, Mr. McCloy pointed out that the position of Director of Marketing has been vacant since the resignation of E. Fleetwood Dunstan at the end of 1948. Mr. Tucker will continue the Bank's policy of keeping institutional investors and securities dealers informed of the Bank's operations and will have charge of the developmnt of future borrowing and marketing operations both in the United States and abroad.

Mr. Tucker has been West Coast representative for the Chase National Bank of New York City, in connection with which he has been dealing with institutional investors, securities dealers and financial institutions in the states of Washington, Oregon, California, Nevada, Arizona, Utah, Idaho, Wyoming, Montana, Colorado, and New Mexico. He has held this position since January, 1938. From 1931 to January, 1938, he owned his own firm, the California Municipal Statistics, Inc. From 1926 to 1931, he was with the National City Co. in the New York office and later in charge of the San Francisco office trading department.

New York Stock Exchange Weekly Firm Changes

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

Edwin E. Frost retires from partnership in Arrowsmith, Post & Welch, March 31.

Ferdinand A. Straus, member of the Exchange, will withdraw from partnership in Richard E. Kohn & Co.

John J. Conway retired from partnership in J. R. Timmins & Co. March 17.

Sat. Closing for S. F. Exch.

SAN FRANCISCO, CALIF.—From May 28 through Sept. 24, the San Francisco Stock Exchange will be closed on Saturdays.

M. J. Bradley Opens

STEAMBOAT SPRINGS, COLO.—M. J. Bradley is engaging in a securities business.

Techniques and Ideas for Investment Salesmen

(Continued from page 4)

do something to get in to people that your salesmen can't see? In other words, "Why don't you do some advertising and, thus, pave the way for you salesman?" You see, I am trying to make this thing simple now.

Well, many a firm has grown rich on this type of approach. It's one way of doing the selling job. The advertising tells one message, the salesman tells another or somewhat the same, and they take the product to market.

However, we like to approach the problem this way which we think is better; but, of course, it is open to argument. (Exhibit II.) Now, in this chart we recognize distribution as all important. In other words, we say that no matter what goods are sold, we don't care whether it is agency service, insurance, a pump, whether it is a product that goes through sales engineers or salesmen, or through retail stores or chain stores, no matter what the thing comes down to, distribution is going to make the sales and carry the product or service to market.

Now, *if* that is so, let's put advertising in its proper place in order to make distribution do its most effective job. I would like to be a salesman, or I would like to be a chain store manager, who had a product *plus an idea* to sell. In other words, not just another can of beans, not just another cake of soap, not just another cigaret, but a product with an idea, already built right into that product.

Now, if I want to build and furnish my sales force with a product *plus an idea*, then I have got to use advertising as the most economical means of selling that idea to the people who may be in the market for that product. I have to get that idea into their brains, and that is how I build that idea into my product. Lever Brothers built the idea of B.O. into their Lifebuoy Soap through their advertising to get into people's minds that it is a cake of soap that will help remove B.O. It takes advertising to do that. Then the salesman can do a better job.

So, it all comes down to whether you gentlemen want just to go out and peddle a product or a service that everybody else duplicates, or whether you wish to sell a product or a service into which your house has built an idea that makes that prospect feel—you notice I said "feel"—that yours is more desirable than somebody else's.

Now, let's be specific. Let's see how we did it for our own advertising agency, because I think you can capitalize on that maybe a little more. Take our own agency, because we are selling a service. Our product is advertising agency service. Our means of getting that product out to market is through account management men in the firm who act as salesmen, the same as any other advertising agency. Our market, after careful analysis, consists of larger firms in the New England and the New York territory. And then it consists of certain people.

Now, we had to determine in our minds, or we did determine in our minds, what people needed to be sold, those whom we felt were the most important. Well, we felt that the sales managers and presidents and treasurers were our most important prospects. Now, we could be wrong. Most of the agencies here in town feel that the advertising manager is the most important. Well, sometimes he is. But we are playing what we called the law of averages.

Naturally, we are going to lose some advertising managers—no if's, and's or but's about it, because we go upstairs. But that is what I mean by analyzing your market.

A Basic Sales Idea

Now, if we are going upstairs, we don't want to go upstairs with the story that we just have another advertising agency to sell. So we go up with the story that we are an advertising agency that is not selling advertising alone, but also selling what we call a Basic Sales Idea. So if you are a man working with our firm you are not just selling an advertising agency service; you are selling an advertising agency service *plus* ability to deliver a Basic Sales Idea.

Now, I hope you gentlemen see what I am getting at. I am going to have a question period afterwards, but *there* is the nub of the question. There is in existence an agency service plus a Basic Sales Idea. What do we mean by a Basic Sales Idea which is what we said other firms should use? We believe a basic sales idea is an idea that makes your customer or prospect believe that your product or your service is more desirable that your competitor's.

Well, you men might be interested in learning how to develop such an idea. After all, it is easy enough to talk about getting a Basic Sales Idea, but, to be helpful to you, I should tell you the steps you should take in order to come up with such an idea. And it is very simple.

First, you have to make a very careful study of your product or your service. You should really build what I call a warehouse of information. It is hard work, but it is worthwhile. You put down everything you know about your particular product or your service. And then you put down everything you know about your competitor's. In other words, if he equals you there, fine; admit it to yourself, although you may not admit it to him. And the things that he has, that you don't have—get them all down. That is a warehouse of information.

Then what do you do? Well, what you should do is make a study of the people who can buy your particular product. In other words, that is your market. And again, you should take a sheet of paper and write down who are the people who make up your market—not by names, I don't mean that—but are they presidents, vice-presidents, treasurers; are they in a certain age group; are they in a certain area of Boston. What is your best market? And again, you should keep an eye on what your competition is doing in that field. Then you want to make an analysis of your distribution channels. This goes a little further if you are the head of the company. In other words, what are the methods of carrying that message to market?

Well, after you have got all those things down, then it is just, in my opinion, exactly like fighting a battle; it isn't a bit different. You determine what your strong points are and you determine what your competitor's weak points are. You determine who are the people that you want to sell—don't try to sell them all—who are the most important to you. Take what I call a calculated risk, a calculated risk based on the fact that you can't get something that is going to please everybody. So, get something that will please the people that are important to you. Then you are going to come out with what I call a Basic Sales Idea, or you should. If you don't, you will still come out as a better salesman than before, because you will know a whole lot more about your product than you ever knew before. But you should be able to come out with a central idea that you can use.

In our firm, we came out with the words "Basic Sales Idea." So we don't talk advertising. On our card it is "Basic Sales Idea." In our advertising it is "Basic Sales Idea."

In our selling it is "Basic Sales Idea." The other agencies go in and they are advertising agencies; but, we go in and we are a Basic Sales Idea agency. We are an advertising agency, too, granted—but we are the *only* Basic Sales Idea agency. The idea is as old as the hills. Every firm in town knows how to do it. Most of them don't do it, but they all know how. There is nothing patented in my business—not a thing, not one thing. We want to get in to see the President. He has 25 advertising agencies that all want to see him about advertising. But only one wants to see him about a Basic Sales Idea. We have a better chance of getting in, haven't we? Well, I think you men as salesmen can see that.

Some Examples

Now, let me give you some examples of our clients because we try to do the same thing for them. Let's take some very competitive fields. A very competitive field is the business machine field. We were called in over a year ago to work with the Thomas A. Edison Industries on the Ediphone. A local organization had been their distributor for years here in New England. We were called in to work with Edison nationally, but we had to fight this New England picture first. The local organization had broken away from them and taken on a new dictating machine.

We were in a very fortunate position in that particular case. We had been offered both accounts, so we were able to take a choice as to which battleground we wanted to enter. We decided we would enter on the side of Edison. We have a great respect for capital when combined with engineering brains. We also had a great respect for the local distributor organization, because they had been here for goodness knows how many years, and they had built up a great sales force.

Now, our client didn't have a new machine. They didn't believe they needed a new machine. Whether that is right or wrong I am not here to go into; our job was merely to take that old cylinder machine, which they believed was the best, and to compete against a disc machine. Today, they have a disc machine, as well, but not then.

Well, now, we knew we were up against a tough selling job right at the start. The engineers may say one is better than the other, but the public knows the old phonograph had the cylinder, and radio has the turntable disc, so you are up against what is in people's minds immediately, and that is a hard thing to overcome.

Well, our analysis showed (remember—study the product, study the distribution, study the competition) that the two disc machines in this territory at that time gave somewhat true voice fidelity. Well, we know that people are enamoured of their own voice; you talk into the machine and you listen to it and it sounds like you—and that's swell. Even a monkey likes to look in the mirror and he says, "That's swell."

We are dealing with human nature, we knew that, and we also knew that voice fidelity shouldn't be important to the man who dictates or the person who has to transcribe. All he is interested in is getting his letters back accurately and quickly with a minimum of mistakes. But we knew if that test was going to occur on the general manager's desk or on the sales manager's desk we would be licked, because Edison's instrument does not give true voice fidelity—it doesn't, without question. In other words, you talk into the Edison instrument and when you hear it it doesn't sound like you.

The engineering reason for that, from our study of the product, was that Edison had deliberately created a machine to correct the human voice for better understandability. If you were a person who talked huskily, it raised your voice, and if you were a person who talked high, it lowered your voice. In other words, they had a patented electronic circuit that modulated your voice in order to make it easier to transcribe. So, we wanted to get the test out on the secretary's desk.

Now, could you get a man who wasn't an engineer to sit through that long spiel I have just talked to you about. No. But we came up with and suggested to them that they talk Ear-Tuned Jewel-Action.

Well, what is Ear-Tuned Jewel-Action? We had established curiosity. Don't snicker about that idea. Maybe you don't think it worked. You're wrong, brother—it worked—it really worked. It sounds funny to the outsider, but now watch. First, you are a salesman just out peddling a cylinder machine. Now, you can go in and you have a machine that has Ear-Tuned Jewel-Action. Well, you have a plus, you have attention value, something new, something more to talk about. It was the same machine they had before, but there was a plus built in. It was put on the machine itself, "Ear-Tuned Jewel-Action" with two gold dots. It appeared in their direct mail and, of course, it appeared in their advertising, because their advertising is to build the idea into people's minds that if you haven't got Ear-Tuned Jewel-Action, you haven't got the instrument that will permit you to get your papers back on your desk with minimum mistakes and in the least amount of time.

Now, by going on that basis, our competitors gradually have had to come over to our side to fight. I don't have to go over and fight on their basis. "Why, Ear-Tuned Jewel-Action is unimportant; we have something just as good," they say. Well, all I say is, let a guy come over on my basis and if I can't club his ears off I deserve to lose the sale. But I am not going over on his basis, where he beats my brains out. I refuse to go over. So, part of the idea of this Basic Sales Idea strategy is to establish your own battleground and make your competition come over to you. Make your competition come over to you and try to claim, "Why ours is just as good," and then I won't say you are going to make the sale, but if you don't make it that way you will never make it going over into the other fellow's backyard.

Of course, there are people who sell on the old routine of wine, women and song, and golf clubs and all that. That is another method of selling which I am not discussing. I don't know how to sell that way. I am talking about the hard-boiled method of selling, where you don't have to belong to any golf club and you don't have to be known by anybody. You're a stranger, but if you have the goods and you hit the pocketbook nerve, they will do business with you.

The Yale Lock Idea

I will give you a few other ideas, if I may, a few other case studies in this connection that will probably illustrate it best. Let's take Yale locks. It is a well-known product. After going through the same analysis which I told you gentlemen to go through, we came up with the following. After studying the product, the lock and the competition, the distribution, we came up with the idea that most people in this country felt that a locksmith knew the most about locks. Now, that seems obvious once I mention it to you; I think pretty near everybody in this room would accept the fact that a locksmith should know the most about a lock. If you are in trouble you go to a locksmith.

Now, I wouldn't have to beat my brains out as a salesman to get that into your heads, because you already accept it. I don't have to spend a lot of money advertising, because you already accept it. Well, then we have got something, because if we get the locksmiths of the country to say that Yale locks were the best locks you could buy—well, we might not make all the sales, but we would make it awful tough for our competitors. Well, that is how simple it is.

So Yale became "The Lock Recommended by the World's Leading Lock Experts." And they have hammered it in everything they have ever used, in advertising, in selling, and so on, and their sales started to go up. Now, you see, it forces our competitors to come over into our territory and forces them to fight on our battleground. It is not now just a lock; it is a lock *plus an idea.* It is "The Lock Recommended by the World's Leading Lock Experts." You can buy any lock, but you can't buy a lock recommended by the world's leading lock experts unless it is a Yale. And I as a salesman had rather be out selling a product plus an idea than be out selling a product with no idea or a cut price. That is a Basic Sales Idea.

I will give you another example and, of course, I am only giving you the good ones; I am not going to give you the ones that we missed. But the principle is there and I am trying to get across a principle that I hope you men can make use of.

Here is a little wire rope clip (illustrating on blackboard). And I hope you will notice that in all this I haven't really talked about advertising. I have talked about these Basic Sales Ideas. I have talked about "The Lock Recommended by the World's Leading Lock Experts," or "Ear-Tuned Jewel-Action." Any one of 50 agencies knows how to prepare advertising. We may think we do it better, and they may think they do it better, but it is a wrap-up from there in. Even if they didn't do any advertising at all, the salesman can use the Basic Sales Idea.

Here are two wire rope clips. This is a "Brand A" clip; it has been on the market for about 40 years. This is the Laughlin wire rope clip; it has been on the market around five years. Your wire rope goes in here, these are your threads and your nuts, and you screw down that way. Laughlin's clip is patented; "Brand A" is not.

"Brand A" has a lot of habit on its side, and one of the hardest things to overcome in selling is habit. When a person has done it a certain way it is the hardest thing to break down. And sometimes when you are up against habit, you have to empty what I call the bucket of satisfaction. You can't be just what we call, well, nice about it. You have just got to get in there and get the fellow dissatisfied. After 45 years he has made up his mind this is a darn good clip. I am not going to live 45 years to get him to change his mind.

Now, Laughlin's clip was taken over to the Massachusetts Institure of Technology, and there were 17 decided engineering advantages on this clip. Who is the salesman who can remember all

17; and, if he is that good, is he a salesman? And whom can he get to listen to 17 different advantages, except an engineer? Well, I am an engineer, but a queer type of engineer, and we want the fellows that will buy enough of that product who are far from being engineers. Let's get just one idea—let's consider that the men we talk to are busy, or unintelligent, and they aren't interested in our product. And if we get one idea purring in their heads, we will be pretty good salesmen. So after looking this over with Laughlin we said, "Sure, you have 17 good ideas, but let's forget it."

Now, this old "Brand A" clip comes down in a finger pinch, and this new one comes around with a fist grip. Now, we know engineeringly that is correct, and it is a lot simpler than talking 17 advantages. "Which way would you like to grip a wire rope, with a fist, or with a sissy finger pinch? Think it over. We are going to leave these things with you. Just mull them over."

Well, which way would a fellow want it? Would he want to get a real grip, or the other. Then we did some pictures and advertising showing Algernon, you know, the sissy type, the fellow with the sissy finger pinch, and a regular he-man guy with a fist grip. And pretty soon, the "Brand A" salesmen were being greeted by purchasing agents throughout the country, "Hi, Algie, how are you?" And they got sore and called on the Federal Trade Commission to order our client to cease and desist. Well, we didn't cease and desist, because it is true; it is honest; it is not dishonest. It may not be the country club school of advertising, but it sells goods. And you don't need any advertising to sell it; advertising is going to make it sell faster, that's all. And every one of you in this room as a salesman can see that is something you can demonstrate to yourself. And then, if you can advertise, use envelope stuffers and direct mail and space advertising, you can just build it up.

Well, I have taken my allotted time, and I am only going to sum up in this one thing. If I can leave this idea with you, if you can make use of it, I think I will have paid my way to your meeting. Have a great respect for your competitor. Never battle him on his own ground. Always make him meet you on your strong points. And you should be able to win the majority of times you go against him. If you can't get your prospect to come over to your side of the fence, well, then consider that you haven't made the sale, and drop it.

But we insist that the prospect come over to our side to want to buy Basic Sales Ideas. If he wants to buy Basic Sales Ideas, and you are the opposing agency man, well, I may not have you licked, but you will know you have been in an awful tough "rassle" before you are through. And I am going to win more times if I am selling Ear-Tuned Jewel-Action, and I get you to accept that Ear-Tuned Jewel-Action as a benefit. You still may not buy from me, but I have forced the competitor to come over. But if I can't get this into his skull, if he won't accept it, I just consider the sale lost and don't worry about it.

Richard Van Atter With Titus-Miller & Co.

DETROIT, MICH.—Richard T. Van Atter has become associated with Titus-Miller & Company, Penobscot Building, members of the Detroit Stock Exchange, as Manager of the investment department. Mr. Van Atter was previously with Andrew C. Reid & Co.

The State of Trade and Industry

(Continued from page 5)

breathing on hot-rolled bar makers. One large company which had higher hot-rolled bar prices than the majority of the industry has dropped its quotations to a competitive level this week. All other steel firms which have higher prices will drop them to a competitive level soon unless they are uninterested in selling that particular product, states "The Iron Age," national metalworking weekly in its current review of the steel trade.

The quota system used to distribute steel on a historical basis is beginning to crack. Some steel companies have quietly booked more tonnage for the summer months than they will be able to produce. The reason for this is that those firms feel that many consumers have ordered more than they will take when the shipping time comes. In order to be sure that operations will not drop sharply steel firms have booked additional tonnage to take up any slack that shows up, the magazine observes.

Steel people are going to be squeezed hard on the cost angle. Higher freight rates have been a factor in steelmaking costs. Even though the price of scrap has declined sharply most companies are still operating with high cost inventories. The captive coal mines are in for a tussle with the United Mine Workers which will probably cost the steel firms more money. The steelworkers are bound to get some kind of a social security package even though no cents-per-hour raise is granted. This will swell labor costs. In the face of all this steel firms must take account of a downward trend in steel business, this trade authority adds.

"The Iron Age" composite price of heavy melting scrap declined to $3.75 a gross ton the present week, representing one of the sharpest drops in the present downward movement. It now stands at $31.17 a gross ton, lowest since June, 1947. Since the first of this year the composite price of prime scrap has plummeted $11.83 a gross ton, according to "The Iron Age."

This weakness can no longer be discounted. It means that despite the high level of steel output no important consumer of scrap has been willing to step in and buy a substantial tonnage of heavy melting steel. Nor is any such support in view this week. Regardless of what the long term outlook for scrap is, the tendency is to stay out of the market, the trade authority declares.

Lower scrap prices have been attributed to an open winter; imports from abroad; heavy inventories at steel plants and lethargy of scrap consumers to load up at even new low prices. The real reasons may be that the new low scrap prices are also due to the probability of a drop of significant proportions in steel buying; unloading of industrial scrap on the open market instead of this scrap going back to the steelmaker from the steel consumer; folding up of the conversion market which supported higher prices, and finally, concludes "The Iron Age," the free nature of scrap in a general business situation which shows the bloom to be off inflation.

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 99.8% of capacity for the week beginning March 28, 1949, as against 101.1% in the preceding week.

This week's operating rate is equivalent to 1,839,800 tons of steel ingots and castings compared with 1,863,800 tons a week ago, 1,852,700 tons, or 100.5% a month ago, and 1,611,400 tons, or 89.4% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, highest prewar year.

CARLOADINGS DECLINE 14.3% BELOW PRECEDING WEEK DUE TO MEMORIAL HOLIDAY IN EASTERN COAL MINES

Loadings of revenue freight for the week ended March 19, 1949, totaled 607,767 cars, according to the Association of American Railroads. This was a decrease of 101,559 cars, or 14.3% below the preceding week, due principally to the current holiday in the coal mining fields. It also represented a decrease of 91,826 cars, or 13.1% under the corresponding week in 1948 and a decrease of 236,274 cars, or 28.0%, below the similar period in 1947.

ELECTRIC OUTPUT MOVES LOWER FOR EIGHTH CONSECUTIVE WEEK

The amount of electrical energy distributed by the electric light and power industry for the week ended March 26, was estimated at 5,403,806,000 kwh., according to the Edison Electric Institute. This represented a decrease of 91,963,000 kwh. below output in the preceding week, 339,251,000 kwh. or 6.7% higher than the figure reported for the week ended March 27, 1948 and 674,921,000 kwh. in excess of the output reported for the corresponding period two years ago.

AUTO OUTPUT IN LATEST WEEK AT ABOUT 1% BELOW CURRENT YEAR'S HIGH MARK

Production of cars and trucks in the United States and Canada for the past week declined slightly to an estimated 119,339 units, compared to 120,741 (revised) units in the week preceding, the highest mark of the year, according to "Ward's Automotive Reports."

Only the Plymouth division largely escaped the effects of the strikes, walkouts, and slowdowns that plagued Chrysler Corp. every day last week. The other three divisions—Dodge, DeSoto, and Chrysler—lost about half their week's production, either from labor difficulties in their own plants or in those of their suppliers; the agency said.

Output in the similar period a year ago was 107,284 units.

Last week's output consisted of 88,570 cars and 25,540 trucks built in the United States and 5,229 cars and trucks in Canada.

BUSINESS FAILURES OFF SHARPLY FROM POSTWAR PEAK OF PRECEDING WEEK

Commercial and industrial failures fell to 166 in the week ended March 24 from the peak of 210 in the preceding week, Dun & Bradstreet, Inc., reports. Casualties were considerably more numerous than in the comparable weeks of 1948 and 1947 when 101 and 47 occurred respectively; they were, however, well below the prewar total of 350 reported in the corresponding week of 1939.

Failures involving liabilities of $5,000 or more declined to 129 from 173 last week, but exceeded the 87 of a year ago.

Retail failures decreased sharply and accounted for most of the week's decline, but along with commercial services they reflected the most marked increases from the 1948 levels in that they were twice as numerous.

FOOD PRICE INDEX SHOWS NO CHANGE IN LATEST WEEK

Irregular and narrow price fluctuations in individual commodities during the past week left the Dun & Bradstreet wholesale food price index for March 22 unchanged from the previous figure at $5.79. This contrasted with $6.72 on the corresponding date a year ago, or a drop of 13.8%.

COMMODITY PRICE INDEX SHOWS STEADY TONE IN LATEST WEEK

The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., continued its minor day-to-day swings during the past week. The index closed at 256.23 on March 22 as against 256.34 a week earlier. It compared with 278.47 a year ago, or a drop of 8.0%.

Grain markets were uncertain as prices continued to fluctuate over a fairly wide range at times. Prices moved lower in the early part of the week as the result of liquidation induced by the favorable outlook for the new crop and the prospects of a reduced export demand.

Most of the early losses were recovered in late dealings, aided by a resumption of fairly active buying of cash wheat and corn by the government. Oats showed independent strength, aided by good demand from elevator interests and commission houses.

Following the sharp pick-up noted later in the previous week, activity in the domestic flour market resumed its former hand-to-mouth character. There was a material expansion in shipping directions, however, against recent lower-priced flour purchases. The cocoa market was somewhat steadier last week, reflecting the absence of pressure from primary markets.

Lard prices moved in a narrow range around recent low levels with vegetable oils continuing to show weakness. Cattle prices remained steady with supply about equal to demand. Hig prices were mixed, the heavier weights showing greater relative strength. A continued light run of lambs forced prices on choice fed grades to new all-time high levels.

Spot cotton prices finished slightly higher although daily fluctuations continued in a narrow range without any definite trend.

Market activity fell off in most sections and volume of sales in the ten spot markets was smaller than in recent weeks. Mills continued to purchase in small lots for prompt or nearby shipment. Domestic mill consumption of the staple during February, as reported by the Bureau of Census, amounted to 640,000 bales. This was a slight drop from 674,000 bales in January. On a daily average basis, however, February consumption of 32,500 bales slightly exceeded the January rate of 32,000 bales. Consumption for the season August through February totaled 4,844,000 bales, or 11% less than the 5,431,000 bales consumed in the same seven months last season. Loan repossessions of cotton continued to expand while entries remained at a low level.

Withdrawals in the week ended March 10 were placed at 93,134 bales, against 56,353 the preceding week and 41,988 two weeks previous. Entries for the week ended March 10 totaled 56,531 bales, compared with 54,091 in the previous week and 75,072 two weeks ago.

RETAIL AND WHOLESALE TRADE FRACTIONALLY HIGHER LAST WEEK

Gaining impetus from the approach of Easter and from many promotional sales, retail dollar volume rose slightly in the week. Shoppers purchased slightly less than a year ago. The corresponding week in 1948 was the final pre-Easter shopping week and volume rose considerably at that time, states Dun & Bradstreet, Inc., in its current review of trade.

Interest in apparel continued to rise last week. Women's suits of navy garbardine, sharkskin and worsted were sought by many shoppers. There was a slight rise in the demand for two-piece dresses and cotton print dresses increased in popularity.

While there was no marked change in the retail volume of men's suits and coats, shoppers bought slightly more hats, shirts, and ties than in the previous week. Children's wear attracted increased attention.

Retail food volume was approximately even with that of the preceding week and in many sections unit volume exceeded that of a year ago. Lenten specialties continued to be popular with low-priced meat cuts frequently requested. The supplies of fresh fruits and vegetables were plentiful in many areas. The demand for frozen and canned citrus fruits rose slightly and canned fish was sought by many housewives. The consumer interest in candy and fancy bakery products remained moderate.

The sales volume of furniture and household goods increased slightly in many localities with demand generally centered on occasional pieces, lamps and low to medium-priced living room suites.

Interest in garden supplies, hardware and paints continued to rise and retail volume of electrical appliances increased slightly. There was a small seasonal rise in the demand for used cars.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from 2 to 6% below that of a year ago.

There was a fractional rise in the dollar volume of wholesale orders last week, being very slightly below that of the comparable week a year ago. While the number of buyers attending many wholesale markets dropped noticeably during the week, it was more than twice the number in the similar week last year.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended March 19, 1949, decreased by 16% from the like period of last year. This compared with a decrease of 8% in the preceding week. For the four weeks ended March 19, 1949, sales decreased by 10% and for the year to date by 4%.

Retail trade volume here in New York last week continued to recede from the levels prevailing one year ago. A comparison with early Easter estimates of 1948 reflect a decline of close to 19%.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to March 19, 1949, declined by 18% from the same period last year. In the preceding week a decrease of 11% was registered under the similar week of 1948. For the four weeks ended March 19, 1949, a decrease of 11% was recorded below that of last year and for the year to date volume decreased by 6%.

Stock Market Trends—Past and Future—Under "Welfare State"

(Continued from page 6)

dividuals of means can be foreseen.

These conclusions are not mere theory. Both the ability (because of heavy taxation) and the desire to assume capitalistic risks are being sapped away. The stock market and the investment banking fraternity see all too well the reduction in available risk capital. This means more and more of the so-called riskless debt financing—which at some future date (not in 1949) will spell trouble.

Carrying further this supply-demand analysis with regard to the equity market—if business is to become cautious and if individuals of wealth will assume less risk — what of the billions that have been saved by the masses? The answer seems apparent. Savings have been great. In 1948 they were well above 1947, and above any except the war years when shortages of goods prevented normal purchasing. (In 1948 savings were high in the face of purchases at a greater than normal relationship to disposable income.) The farmer and the union workers and others have been conditioned by the depressions of former cycles to a degree where their savings do not represent risk capital. They do not provide equity capital which creates jobs. Rather have these billions gone into risk-free channels — savings bonds (outstanding savings bonds increased by about $3 billion in 1948), and into insurance, etc. Since our sources of capital are becoming institutionalized, it is pertinent to note most life insurance companies by law are rigidly limited with regard to stock investments. In brief, the former sources of risk capital are available in diminishing degree and the new sources of funds emphasize security, not risk-taking.

No Immediate Change Envisioned

In the writer's opinion, these are the most important fundamental elements which explain why "the market" has been adrift, and unrelated to trends in other aspects of our economy. No immediate change in this basic situation is envisioned. Our nation thus faces the prospect that the current prevailing political philosophy (aided and abetted by the pressure groups who want to get something paid for by the other person) so reduces confidence that equities are likely to continue to sell at low levels in relation to earnings and dividends. Barring a renaissance in economic thought (which appears unlikely before we get into real economic trouble at a later date), this low state of confidence is likely to continue—to a degree where a real and substantial bull market appears improbable.

Conversely, it would appear that prevailing stock levels reflect the problems ahead. It always is necessary to evaluate the degree to which the market, at any given time, discounts the anticipated good news or bad news. Our previous studies pointed out that for most of the past decade (and especially since the end of the war) the market has moved contra to business activity and earnings. Based on previous relationships to business and earnings, the Dow Jones Industrials now would be selling in the 300 zone. At current levels around 172 they are only moderately above the 163 low of the past two and one-half years, and are well within the price zone of years such as 1936 when corporate earnings were about one-fifth of present levels.

Unfortunately, the financial community and the public still think in terms of big bull markets and major bear markets, instead of individual values. The divergencies in the price action of different industry groups is startling. Further, most stocks are considerably lower than the Dow Jones Industrial Averages (which includes stable type issues such as AT&T, Proctor & Gamble, etc.) would imply. Thus the "average stock" has discounted considerably more than the Dow Jones Industrials would indicate.

No attempt is made herein to sound a note of false optimism. As to shorter moves, the views of the technicians carry considerable weight, because of their extensive following. Since the rails have had a downside penetration of the November 1948 lows, a slight further decline by the industrials would be considered as a bear market reaffirmation. There would be further pressure (as traders operate with the trend) which likely would carry the industrials to the 163-166 zone. However, the growth of formula planning (scale buying and selling by educational and other large funds) would lessen the impact of the subsequent decline. Similarly, the increase in cash resources of the investment trusts also likely would find some employment in stocks — provided their managements hold the view that economic catastrophe is not in the offing . . . which appears to be the case.

However, basically the financial community and investing public appear unduly pessimistic.

Factors Against a Decline

Important factors militating against major market decline include:

(1) At current levels the market already appears to have discounted a greater decline in economic activity, earnings and dividends than is likely to materialize in 1949. It is to be recognized that aside from this factor, current levels also reflect apprehension relative to the foreign situation. We are in a position where a sudden betterment of the situation might cause some pessimism with regard to our over-all economy on the theory that there might be a sharp cutback in government expenditures; and, at the same time, any severe deterioration in our relations with Russia would (with greater warrant) provide grounds for fear because of the basic threat that it conveys to our entire economy and the virtual certainty that we would become a completely controlled state—at least for the duration. Actually, neither prospect appears probable. The "cold war" is likely to continue.

(2) The next three or four months should prove that a period of major economic decline is not in store for 1949.

(3) Increasing recognition that some deflation is salutary. The market rightly did not go up on inflationary developments of the past few years. Lower commodity prices reduce inventory requirements. The peak of business expansion programs already has been witnessed. The high cash outflow (which limited dividends to only about one-third of earnings) is reversing itself. It is most probable that dividend payments will be well maintained in the face of moderately lower earnings (or perhaps the directors of U. S. Steel, General Motors, Bigelow Sanford and other important companies, were deluding themselves when they recently increased payments).

(4) Business has been operating above the optimum point in many cases. Some reduction in output will take out of operation the least efficient plants.

(5) Business only now is beginning to reap the benefits of the plant and equipment programs of recent years. The public does not yet realize what this means in terms of greater operating efficiency.

(6) Concomitant with recognition of the declining business trend, the labor unions will bring less pressure to bear for wage increases. It is recognized they likely will request wage increases in steel and certain other basic lines which still face big demand. However, in textiles, various recent hearings have resulted in no wage increases. The union leaders still want "their boys" to work. Related to this, the recent declining trend of employment (partly seasonal) may well increase worker efficiency, thus aiding the cost structure.

(7) Taxes — Both Chairman Doughton of the House Ways and Means Committee and the influential Senator George (Senate Finance Committee) have been coming out with cautionary views with regard to tax increases. It is believed that many members of Congress realize that higher taxes will (a) increase unemployment and (b) after some time lag, result in lower aggregate tax take by the government. It would appear the market is discounting a greater tax increase than is likely to occur.

(8) The Administration likely will bend every effort to prevent a "Truman Depression." It is believed that in the even the decline begins to assume sizable proportions, a stepped up program of government spending will take place. This may be in the form of a more rapid expenditure of funds for any one of several budgeted purposes; or perhaps may be in the form of a public works program. The government has too great a vested interest in high tax realization and in votes to sit back in the face of depression and lower business activity. (Again, it must be emphasized that this a short-term factor of a sustaining character; rather than considering that the government can lift our economy by its boot-straps for a sustained period.) It is probable that aside from farm supports, heavy stockpiling of strategic materials, unemployment and social security payments, etc, the Administration might well do any one or all of the following:

(a) Eliminate or modify "Regulation W" governing consumer installment purchases.

(b) Rescind the latest increase in bank reserve requirements, thus increasing bank excess reserves, and making credit easier.

(c) Reduce the 75% margin requirement on stocks.

(d) Of related importance with regard to the credit structure—no contraction via important retirements of government debt (as occurred particularly the first half of 1948) is likely to take place.

Applying these factors it is believed that 1949 may well follow the pattern of 1947 and 1948, i.e. be characterized by a fairly stable investment market, fluctuating within a broad trading zone. As we know, fluctuations for more than the past 2½ years have been narrow, around a median zone of about 175-178 on the industrials, i.e. a low of around 163 and a high of about 194.

Specifically, it appears likely that nothing more than rallying tendencies can be anticipated over the near term. One cannot ignore the possibility that slight near term decline would induce sufficient pessimism to cause the market to test the bear market lows of 163. We do not think such lows will be penetrated.

On the other hand, the current dullness appears to indicate a definite lessening of selling pressure. (In part the recent selling was technical, stemming from the downside penetration of the 178 level on the industrials, a so-called "resistance point.") If this dullness continues for some days without a penetration of the November low point of around 171, it is likely the base will have been laid for some rally.

After the lapse of perhaps three months, the market then should begin to give increasing weight to the reduced chances of important tax increases and to begin to discount the realization that 1949 will not see an economic debacle. This could induce a better market lasting for a period of some months. We would not be inclined to consider this development (if and when it occurs) as signalling a major bull market.

Those who have fared best over the difficult period of recent years have emphasized selectivity and sound intrinsic values. Emphasis should be on sound quality stocks, those of companies able to withstand the severely competitive period which lies ahead. Purely cyclical issues appear less attractive than (a) stable type issues for income, such as the public utilities which appear definitely undervalued; (b) workout and special situations for income and/or appreciation; (c) growth issues, and (d) convertible bonds, which entail a minimum of downside risk and which at the same time provide moderate income, and comfortable price appreciation prospects in the event of general improvement in stock prices.

The answer in light of present day and prospective conditions is to utilize a balanced portfolio approach, with issues properly diversified as between senior or defensive securities, and sound quality securities selected on an intrinsic value basis.

Wants Regulation W Abolished Entirely

George M. Clark, President of Consumer Bankers Association, says government control over consumer credit could lead to pressures for easing as well as tightening credit terms.

In a statement concerning Regulation W of the Federal Reserve Board, which covers consumers' credits, George M. Clark, President of the Consumer Bankers Association and President of Pioneer Bank, Chattanooga, Tenn., calls for an end of all Federal control in the field of private credit. According to Mr. Clark:

George M. Clark

"No member of our Association has any reason for advocating elimination of Regulation W, in order merely to be able to grant credit generally on more relaxed terms. As a matter of fact, we are no more greatly concerned by the restrictions imposed than we are by the fact that maximum terms laid down by the Federal Reserve Board have a tendency to become minimum terms and thus break down any efforts to impose stricter terms where sound credit judgment suggests that such terms should be less than those permitted by the regulation.

"Actually, other than the cost and inconvenience of maintaining some additional records and the red tape which seems to be a part of governmental regulation, our business has not been noticeably handicapped by the existence of this regulation. In fact, as we have repeatedly cited, the over-all trends of total consumer credit outstanding have shown little reaction to either the imposition, relaxation, or elimination of Regulation W.

"Other, more fundamental factors in our economy have been almost entirely responsible for the fluctuations in all phases of consumer credit, including installment credit. Statistics published by the Federal Reserve Board clearly indicate this fact. For instance, total consumer credit of all kinds either declined or leveled off almost immediately after credit controls were eliminated on Nov. 1, 1947. Thereafter the increase proceeded at a much slower rate than before and this rate has not been materially affected by the reimposition of Regulation W on Sept. 20, last. It is not strange, therefore, that a few institutions engaged in consumer credit welcome Federal policing of their competition.

"The Consumer Bankers Association, however, takes the opposite view. In convention last fall that Association adopted a resolution which reads in part as follows: 'The reimposition of Regulation W, promulgated by the Board of Governors of the Federal Reserve System, is condemned as a futile, unnecessary, discriminatory, un-American regimentation of the people of this country which was prompted by political expediency rather than economic or social motives.' With this statement I agree wholeheartedly.

"Since the above resolution was adopted, many other groups have joined in expressing opposition to what they also believe to be an arbitrary regimentation of a free people. By its very nature, the regulation applies to all men alike without regard to the effects in individual cases. While the net general influence on the over-all economy is negligible, those individuals and business firms whose circumstances and conditions do not fit into the average pattern, as defined by the powers that be, just have to take the consequences . . . regardless of the merits of their case or the actual market conditions under which they must operate.

"As conditions change, and they are changing at this very moment, an increasing number of individuals and business firms find themselves outside the general pattern recognized by the Board. Consequently they are sorely tempted to evade the rules rather than wait until the Board may recognize the changed condition and relax the regulations accordingly. In the meanwhile, many individuals suffer and many small businesses who cannot 'ride it out' become casualties.

"Witness the small but growing group of business firms whose protests appear in the press regularly. Unfortunately, the individual cannot be heard quite so quickly or audibly. In effect, one segment or another in our population will be at all times the victims of bureaucratic inflexibility or dependent for their financial well-being upon the intelligence of a small group, and their awareness of true current conditions . . . all for no practical *benefit* to anyone.

"The greatest fear I have at the present is that those who oppose Regulation W may be lulled into, or coerced into a compromise with the Federal Reserve Board on some sort of relaxation (such as that announced earlier this month) and by this compromise virtually or actually acquiesce in the theory of control in a period which is neither inflationary nor one of scarcity, thus accepting the theory of permanent control.

"The acceptance of such a theory of permanent control, or, to put it another way, the acceptance of the principle of reduced terms during periods of good business, plus the acceptance, as all-wise, of the counsel of the Federal Reserve Board in controlling an industry or a business which should know how to control itself has serious implications. It could mean that terms would be greatly relaxed and pressure put on lenders to extend terms drastically when relaxed credit requirements would appear to serve political purposes or ends. If we accept the theory of permanent control, I believe we accept the certainty that in depressed times the terms of regulations will be modified and pressure will be put on lender and borrower alike to accept the easier terms to a degree which will result in unwarranted credit hazards.

"In the event Regulation W is entirely removed, doubtless some lenders will relax their credit requirements—perhaps so much so that we as banking institutions, would not follow. As a result we might find ourselves in an undesirable competitive situation. My opposition to government control as a matter of principle and the frequent injustices it perpetrates on individuals causes me to be willing to accept the hazards of a rough and tumble competitive free-for-all as an alternative to bureaucratic regulation.

"But by and large those in the banking business are more concerned and better qualified to act in curbing any abuses which may be traceable to consumer credit without destroying the lasting benefits from it to our economy.

"We are unalterably opposed to the principle of bureaucratic control—including the control of a function that must be gauged and provided at the local and individual level for maximum utility. We repeat, any effort to prolong or perpetuate this affront to the intelligence of millions of individuals, business men and the entire banking profession should be condemned as an unnecessary, discriminatory, un-American regimentation of the people of this country."

Financial Aspects of World Trade Problems

(Continued from first page)

it to disappear gradually as the effects of the war wear off. To some extent we probably have a right to expect this. But we were already well acquainted with various trade controls before the war began. Under the stress of war conditions, these restrictions grew in scope and rigor. I know we all hoped that with the end of the war there would be a gradual relaxation of such controls, but so far our experience has been otherwise. The destruction of human life and property in the countries that actively participated, together with the distortion and undermining of economic structures of nations the world over, has not only been the basis for continuing existing controls but has actually brought many additional countries into the game, including countries that were not devastated by the war and that experienced large increases in their holdings of foreign exchange. What we are witnessing is a world-wide tendency toward political planning in the economic field. The effects of this tendency on normal international trade are deadly.

Cause of Dollar Shortage

We hear on every side that there is a great shortage of dollars. This is a somewhat misleading expression. Quite aside from loans and grants under our foreign-aid programs the United States is importing more goods, and thus is pouring more dollars into the world's exchange markets, than ever before. Actually the trouble is that those who possess dollars are unwilling to sell them for the kinds and amounts of foreign currencies that are offered in return. Exchange rates today do not reflect economic realities. Most countries have surrounded themselves with economic fences designed to regulate the terms of trade to their own advantage and to isolate their economies from the impact of outside forces.

These exchange controls do nothing to correct the conditions that actually or supposedly made them necessary. They are aimed solely at suppressing the symptoms. Even in this endeavor they are in many cases self-nullifying, because they invite retaliation and evasion. But they have a direct influence on the course of foreign trade. They make it impossible for many countries to obtain adequate amounts of foreign exchange. In their efforts to escape from this difficulty, nations enter into bilateral agreements discriminating against outside parties. In many cases the discrimination is against the United States. Because of the so-called "dollar shortage" there is a growing cross-current of bilateral agreements that seriously affect our trade.

Thus one form of control creates difficulties that lead to another, in a vicious spiral. So far no solution has been found that gives promise of any great improvement within the near future. Numerous palliatives, of varying effectiveness, have been tried. The World Bank and the World Fund, the Export-Import Bank and other agencies have made contributions and have given assistance, but such devices cannot by themselves solve this world-wide problem. The International Trade Organization charter as it now stands does not, in my opinion, offer any help; on the contrary, it may be detrimental to the objectives for which it was originally planned. In order to obtain agreement it was necessary to insert so many complicated provisions, exceptions and escape clauses that the charter may well be construed as a license to continue and extend preferential agreements, quantitative trade restrictions, discriminatory bilateral agreements and other trade barriers.

Our own country has taken a leading part in the movement to sweep away this maze of restrictions. In cooperation with other countries, the United States sponsored such international efforts as the Bretton Woods program and the ITO. For many years our government has pursued a reciprocal trade policy based on the principles of freedom of multilateralism in international trade relations. Through the Export-Import Bank, through direct Treasury loans, and now through the European Recovery Program, we have spent billions of dollars in the effort to stimulate trade and promote economic recovery and development abroad.

Will Financial Aid Suffice?

The financial aid that we are extending to the Marshall Plan countries certainly yields immediate results in stimulating our export business, if giving goods away instead of selling them can be called business. Whether this very costly program will achieve its broad objective of setting Europe on its economic feet in four years is a question that only time can answer. Obviously it is impossible to continue such aid indefinitely. The plan was undertaken by our people in the face of an international crisis with the feeling that it represented not only a humanitarian action but also a measure of enlightened self-interest with political as well as economic aspects. It was believed that the ends were well worth the costs involved. But the program was not intended as a subsidy to exporters, and it seems unlikely that the American taxpayer will be willing to continue the outlay beyond the four-year period for which the plans were drawn.

Nevertheless, we now have a suggestion by our President that we embark upon a bold new program to make the benefits of our scientific and industrial progress available for the improvement and growth of underdeveloped areas. This sounds very much like the beginning of a world-wide Marshall Plan, and we shall no doubt hear much more about it.

I should like to know by what yardstick we are to determine when an area is under-developed. That is a broad term that can easily be applied in some degree to every country, including our own. It seems to me that when a certain country is under consideration our first approach should be to form a joint commission made up of business men from the United States and business men of the interested country, to analyze their needs and potentialities. What I have in mind is a body somewhat similar to the Abbink Commission, which recently spent several months in Brazil and has made a report setting forth in comprehensive detail the results that could be achieved and the background that must be afforded to make such results possible.

It would be a mistake to suppose that we have an exhaustible supply of technical advisers and industrial know-how that can be shared with others for the asking. Applied technology is a scarce commodity that requires much time, effort and expense to create and is therefore generally obtainable only for a consideration, financial or otherwise. Sooner or later the American people must seriously ask themselves how much foreign recovery and development they are prepared to underwrite, for how long, and on what terms. But as far as the President's new proposal is concerned, let me repeat that the first and most important requisite is that there be a meeting of minds and a full measure of confidence in one another's intentions as a foundation on which to build and as a means of attracting the necessary capital and technical cooperation. We should not try to impose our assistance on any nation.

There are other measures that the United States can and should take in its campaign for the liberation and stimulation of world trade. One of these is to oppose all foreign bilateral trade agreements that discriminate against American exporters. It has been the fervently expressed desire of our government to foster multilateral trade and to combat any discrimination against the United States. This is one of the fundamental principles underlying our reciprocal trade program. I believe that this organization and other foreign trade organizations should be on the alert for any and all discriminatory agreements and through our State Department should protest against every such agreement. We are spending billions to help our former competitors rebuild their economies, increase their exports, and again be our competitors. Surely it is not too much to ask that such competition be on a basis that gives us a fair and equal opportunity to compete. This requirement becomes more important with the transition to a buyers' market here and abroad, and it will become more important still, as we approach the end of the Marshall Plan, and face the prospect of exporting on a strictly business basis.

The Price of Gold

There are frequent suggestions by some countries and also by some individuals in this country that our government again increase the purchase price for gold. While I recognize the problems faced by these countries and the assistance it would afford them if such action were taken by our government, it is my view that this would not benefit the United States and in the long run would not be beneficial to anyone. We are witnessing an era of exchange rate adjustments, which process we hope will some day lead to real convertibility and stability so necessary for our foreign trade. It seems to me that in order to maintain this procedure on a reasonably orderly basis we must have at least one important currency to serve as a yardstick to which other currencies can gradually adjust themselves. Therefore, another devaluation on our part would have a serious unsettling influence on all currencies and cause another round of exchange rate adjustments, and further postpone a final solution. If the dollar price of gold should be changed again I fear that for many, many years to come the world would be without a single important currency commanding a reasonable degree of confidence and faith for long-term commitments.

I have tried to outline some of the effects of trade barriers and some of the steps that have been and can be taken to combat these effects. But in the final analysis it is necessary to recognize that the trade barriers themselves are to a large extent the effects of unsound internal conditions in the various countries. These conditions are due partly to the war and partly to the grave social unrest that brings demands for higher standards of living everywhere, regardless of whether productivity and income are sufficient to support such higher standards. Whereas in the past we often heard the criticism of "too little and too late," I believe many of our present problems grow out of the mistake of "too much and too fast." Many countries have undertaken extensive plans for industrialization and other national improvements, all to be accomplished within, say, five years. No one can quarrel with the objectives except that they are often the expression of an extreme nationalistic tendency that is uneconomical for the country involved and disturbing to the economies of other countries as well. Also I am afraid that in many instances the goal is set without sufficient consideration of the cost, the ability to pay, and the ability to provide the labor and the materials required. I believe that in many cases these haphazard plans have resulted in a diversion of foreign exchange which later was found to be sorely needed for immediate and vital requirements.

There is a deplorable lack of confidence on the part of peoples in their own currencies, and often in their own governments. Weak governments are unable or unwilling to pursue economic and financial policies which they know to be sound but which they fear may be politically unpopular. So they follow unsound fiscal practices, with heavy borrowing and reckless use of the printing press, which result first in currency inflation, with a rise in domestic prices, and ultimately in a flight of capital, with a collapse of exchange rates. To bolster the exchange markets, controls are instituted. Thus begins the effort to maintain, through the artificial device of exchange controls, an exchange rate no long justified by the internal purchasing power of the currency or the action of supply and demand in the exchange market. We have already witnessed a number of important revisions of exchange rates, and no doubt there will be more. Whenever a country changes its rates to gain some temporary advantage, it creates new stresses and strains on other currencies. Not until we have a free market, where the law of supply and demand can again play its proper role, will it be possible to determine what the true rates of exchange may ultimately be.

Situation Not Encouraging

It would be pleasant to report that we are moving toward that goal, but I am afraid it would be difficult to support such a statement with facts. The situation is not encouraging nor can one find grounds to believe that there will be an early change for the better. The effects of the war on the economies of all important countries cannot be remedied in a few years, and the trend toward governmental intervention in the economic field has not yet shown any convincing sign of reversing itself. We may have faith in the ultimate correction of these conditions, but for the time being we must face the situation as it is and do what we can to limit artificial trade restrictions and minimize their effects.

As far as the position of American exporters is concerned, it is axiomatic that in the long run we cannot export and get paid for more goods than we import, after making due allowances for the invisible transfer of funds. The invisibles that create dollars include our capital expenditures abroad, our personal remittances, our travel expenses, and outlays for other services such as shipping and insurances. On the visible side, we have first our own imports. For several reasons, these were exceptionally large last year, and I have some doubt that we shall be able to maintain our imports at such a high level.

Historically our imports have risen or fallen with our internal prosperity and consequent purchasing power. The other visible source of funds to pay for our exports is our foreign-aid program, especially the European Recovery Program, which is a very powerful trade stimulus while it lasts but which is essentially temporary and abnormal. On almost all counts, therefore, we seem to be approaching a situation in which every possible effort must be made to maintain our export level by protecting ourselves against encroachments upon our right to do business abroad. In this endeavor we must use every available government agency in exercising the influence and prestige of our country to defend our trade against discrimination. Our government has never been in a better position to afford protection than it is today, but the initiative for such action must come from you.

I am sure that, given equal treatment and equal opportunity in the markets of the world, our exporters will get their full share of the available business. I say this not only because I have full confidence in their initiative and ingenuity but also because I believe that, as a result of the war, American products have found their way into many new trade channels throughout the world, and their high quality has made a lasting impression. Another result of the war is that we have a vastly expanded productive plant and therefore a new and urgent reason for maintaining our exports at the highest possible level. I am confident that the Export Managers Club can play an important part in helping to achieve that aim.

ABA Head Sees No Ominous Business Outlook

Evans Woollen, Jr., in reviewing situation before Consumer Credit Conference in St. Louis, concludes a depression of sizable proportions is not necessarily in the offing.

Addressing the National Consumer and Instalment Credit Conference of the American Bankers Association in St. Louis on March 29, Evans Woollen, Jr., President of the Association, and Chairman of the board, Fletcher Trust Co., Indianapolis, expressed the view that no serious business depression is in the offing. Speaking of the outlook in relation to consumer credit, Mr. Woollen stated "I am aware, as you are, that threats of some degree of economic stress have appeared on the horizon. We have heard the ominous predictions of those who view the future with pessimism. We have also heard the more optimistic expressions of some who do not envision the possibility of a serious recession. I do not wish to, nor do I, assume the role of an economic prophet. I do believe, however, that we all must face the economic realities that are evident at the present time.

Evans Woollen, Jr.

"These are the facts as of now: There has been a modest decrease in employment during the past four months. There has been a comparatively slight lessening of the total of industrial production. The volume of all retail sales, but particularly in soft-goods lines, has declined from its high of more than a year ago. The public has increased the portion of its expendable income that it puts into thrift accounts and other forms of saving, and thus it is spending less. Businessmen also have been increasing their cash reserves. Their buying and inventory policies have become somewhat more cautious, at least for the present. Most durable goods, particularly household items such as refrigerators and washing machines, are available without delay. The majority of automobiles, particularly those in the higher price groups, are available for immediate delivery. Capital investments of business and industry so far this year are slightly below those of a year ago.

"All of these facts do not add up to a conclusion that further recession or a depression of sizable proportions is necessarily in the offing. They by no means warrant misinterpretation into a foreboding picture of the business picture.

"There are offsetting factors which may ultimately dominate in shaping a more optimistic trend for business. During the first quarter of this year, the Federal Government withdrew many billions of dollars in taxes from the channels of business and consumer spending. During the remaining three-quarters of the year, this will be reversed. The government's expenditures will exceed its revenues by several billions, and they may serve to stimulate business again. Moreover, the government's outlays during the coming year for European relief, and rearmament in particular, may possibly give rise to future capital outlays by business for plan and equipment. This would, of course, be reflected in the total volume of business and employment. The American people have liquid assets, a large part of which are readily available for spending, that are greater than those of any previous period in history. The immediately available assets of consumers exceed $100 billion.

"The salient point of all these facts, irrespective of whether each of them individually contributes to economic expansion or recession, is that business is dynamic. It is not static. Business conditions of yesterday, today and tomorrow justify neither optimism, nor rigid complacency, nor pessimism. Instead, they call for a high degree of alertness, flexibility and adaptability of both policies and practices in instalment credit lending as well as in every other phase of banking, business and industry.

"From this fact, two conclusions can be drawn. First, your institutions, as instalment credit lenders, are obliged to come to the fullest realization that instalment loan operations must be keyed to satisfy the legitimate needs of borrowers and the general public alike. The American people want and need credit in satisfactory amounts on reasonable terms. At the same time, instalment credit loans must be made in the light of a realistic appraisal of business conditions as they exist, the effect of the loans on business in general, and the soundness of each and every individual loan from the viewpoint of the traditional rules of credit."

Early End of the Bear Market

(Continued from page 2)

United States. Moreover, in such a long period the living standards of her vast populations might continue to be lower than those of industrial Europe, where the per capita production has been much higher. With every acquisition Russia makes outside Europe the more covetous she is likely to become of the industrial facilities of the countries to her west. What risks will she take to acquire this prize? Will she allow the United States to build up the industrial and military might of Europe? Will she permit the balance of power to shift so much that her rank among world powers or groups will decline to third from second? Will the United States, will its people continue for long to bear so many of the world's burdens in the hope of establishing a balance of power that will insure peace? We cannot know the answers to these vital questions. But it does appear that we face a critical period of unknowable duration. Only a decision by the Soviet Union or the United States to change its ambitions or aims can clarify the crisis.

Europe is not only a board on which a chess game for high stakes is being played. It is at once a drain and a sustaining force on the world economy, particularly our own. In so far as Europe is the recipient of gifts from others, it is a drain on taxpayers. But, as a result of some $5 billion spent annually under the Marshall Plan and the billions spent on our defense, our domestic business activity has been affected favorably. If we were to abandon the Marshall Plan and the military expenditures on Europe, it would have much the same effect as a sharp decline in exports. What we are really doing through the Marshall Plan is substantially underwriting Europe's deficit in its balance of payments to the rest of the world. Otherwise, the standards of living in the European countries would drop to such a low level as to make them easy preys for Communistic domination. That is the awkward position in which we find ourselves.

Concentration of Government

That group of proud and ancient states, Europe, has been terribly and pitifully weakened by the ravages of two world wars and their aftermaths, inflation and socialism. Those disasters have largely wiped out the stalwart middle classes. As the world turns from sellers' to buyers' markets, the weakness of Europe will be more evident. These erstwhile great nations are caught in the relentless grip of a world evolution. That is, I think the world is slowly evolving into a status of fewer governments. Eventually, in the distant future one government may dominate the world.

The important states of Europe became powerful and rich through foreign trade and by developing colonial empires with cheap labor. Their factories served vast areas. Their colonies have been breaking away from their imperialistic ties, particularly since the Second World War. Nearly one hundred million people in Eastern Europe have fallen into the lap of the Soviet Union since the last war. All of China and more may be pulled behind the Iron Curtain. Europe's channels of trade have been eliminated or narrowed to a serious degree. Before the war, Europe could pay for its excess of imports over exports by the income from its foreign investments and other invisible transactions. That income has been drastically reduced. At this juncture it is difficult to see how Europe can avoid relying on us for financial aid for many years, unless her standards of living are substantially lowered. Each conquest of the Soviet Union will not only weaken Europe's economic position but ours, too. As long as we persist in aiding Europe and other countries the weaker those countries become, the more we will be called on for help. Moreover, as the Russian Empire expands, our foreign trade will be curtailed. Imagine what a blow it would be to our current and potential exports if the Soviet Union should obtain control of both Europe and Asia, from the Atlantic to the Pacific.

Economic "Cocktails"

Domestically, we no longer have to use conjectures about when business activity and commodity prices will decline. We now know these developments are here. In some luxury trades and services business began to fall off about two years ago. Since then one industry after another has caught up with current and deferred demands or been priced out of markets with a resultant decline in business. But it is only within the past few months that the over-all production and trade figures have begun to be affected. No doubt this would have occurred much sooner if it had not been for a number of sustaining factors, such as the European drought and our short corn crop in 1947, the cashing of terminal leave bonds by the veterans of World War II, the Marshall Plan, the reduction in taxes, rearmament, the annual round of wage increases, etc. However, these were not fundamental happenings. They were cocktails. They had the effect of keeping the sick economy going a while longer. The malady was a continuous and rapid rise in the price level which was constantly pricing segments of our people out of markets, as a result of the reduced purchasing power of current income. This loss of current purchasing power was offset for a time by the sustaining factors above mentioned plus an expansion of consumer credit and the use of war savings. But, sooner or later in a balanced budget economy we just had to face the reality that large numbers of our spending units would be unwilling or unable to pay the high prices. This process of pricing people out of markets reached the stage a few months ago where it was affecting a large number of industries. At about this time, as usual, the capital formation program was topping out.

If one didn't believe on the basis of his own experience and history that a high level of business in an economy with a balanced budget couldn't last against a background of rapidly rising prices, there were a few facts available to raise his doubts. Surveys conducted under the auspices of the Federal Reserve Board have shown that of the total 48.4 million consumer spending units in this country, almost 50% had higher incomes in 1947 than in 1946, 30% had substantially the same money income in 1947 as in 1946 and about 20% experienced income declines. But the cost of living increased by nearly 15% between 1946 and 1947. So we see that even between 1946 and 1947, substantially over 24.2 million of our spending units, or over half, took a cut in the real purchasing power of their current money incomes. Another survey last July under the same auspices showed that as compared with July, 1947, only 40% of the spending units had higher money incomes, 40% experienced no change and 20% had lower incomes. Since the cost of living increased about 10% between July, 1947 and July, 1948, it is evident that the deterioration in the real purchasing power of consumers' money incomes was even broader and deeper in this later period, as compared with the change between 1946 and 1947.

Decline in Liquid Assets

Not only has the real purchasing power of most consumers' incomes declined in the last three years, but likewise the liquid assets of a large percentage of our spending units have been reduced either actually or in terms of purchasing power. During 1947 alone, about one-third, or 16 million, of our spending units withdrew $15 billion from their liquid assets. Incidentally, of the roughly $2 billion of terminal leave bonds distributed to veterans during 1946 and 1947, about two-thirds were cashed in the last four months of 1947. In early 1948, about 55% of our 48.4 million spending units, or about $26.6 million, had liquid assets of less than $500 per unit. It is true the median liquid holdings of all units in early 1948 was $820, as against $750 in early 1946. Although the median spending unit had more dollars of liquid assets in early 1948 than at the beginning of 1946, the purchasing power of those dollars was about 16% less because the cost of living had increased nearly 30% in the interim.

I do not like to hash over these details. However, to me they represent some substantiation of the theory I have held for nearly three years. That is, a rapidly rising price level with a balanced budget economy is not the proper soil for raising a bull market. Such a condition ultimately creates a large gap in purchasing power. The boom is then undermined if the gap cannot be filled by Government spending or policies. There is another reason for using these details. Conclusions based on aggregate figures, such as total personal income, total savings, total liquid assets, etc., may be misleading. You have to break those totals down to get the proper perspective. For instance, in 1947 our total personal money incomes were nearly $20 billion above 1946. But, as we have seen, only about 50% of our spending units participated in that increase. About 80% of those participating in the increase had incomes of $3 000 and above, and they received 71% of all the personal income for 1947. In other words, 40% of our spending units in 1947 received 71% of the total personal income. A dollar placed in the upper income brackets on the average is not likely to be so effective on the demand for consumers' goods as it would be among those with lower incomes. Those with higher incomes have most of the necessities and many of the luxuries of life. A loss of 10% to 20% in the purchasing power of current income will not affect the spending of the well-to-do as much as those who are constantly having to pinch their dollars to live modestly. A loss of $200 or $300 a year in the purchasing power of some 25 to 30 million spending units in the median and lower income brackets has a quick and effective impact on demand for consumer goods, if it is not offset by the use of consumer credit, liquid assets, or deficit spending by Governments.

There is another important aspect of our economy which is rarely emphasized. I refer to the large increase in our manufacturing capacity. Our manufacturing plant and equipment in existence in 1939 cost about $40 billion. During the period from 1939 to June, 1945 we added about $26 billion, of which it has been estimated $20 billion is usable for peacetime production. Since June 30, 1945 and up to December, 1948, we have spent $23.6 billion more on manufacturing plant facilities. Thus, the cost of our usable manufacturing plant and equipment installed since 1939 has exceeded the cost of our total manufacturing facilities existing in 1939. After making allowance for obsolescence, depreciation, for growth of population, rising costs and the greater efficiency of the new plant and equipment, I would suppose that never in our history has the production potential of our manufacturing capacity ever increased so much per capita in such a limited time as it has since 1939. This huge capacity bodes ill for profits in many industries. The greater efficiency, the increased output per man-hour from new and additional equipment will aggravate our unemployment problem.

At times, I have been able to say that the top of a business boom has been reached or the bottom of a depression has been seen. But I have never been able to foretell at all accurately how rapid a business decline will be or how far it will go. There are generally important psychological factors involved in phases of declining business activity which are difficult to evaluate, particularly in the early stages of a slide from unusually high levels for general business and commodity prices. I know of no way to estimate the net effect springing from the attitudes and necessities of officials representing some 3.8 million operating businesses in this country and of some 48 million spending units once psychology has turned from hope and/or confidence to doubt, discouragement and fear. I do know that in every instance in our history at all comparable with the present situation the decline in business has been drastic. However, Government expenditures are much more important in our economy now than ever before in peacetime. Moreover, the power, willingness and almost eagerness to spend money to prevent unemployment was never so characteristic of our Government in the past a it is today. Giving this important fact due weight, it seems to me that the percentage drop in this impending business depression will not be as great as it generally has been after past postwar booms. But I am persuaded to think this decline will be rapid and will substantially exceed any 5 or 10%.

End of Bear Market

I have spent most of my time on international and domestic conditions, problems, weaknesses and plights. This was for a purpose. The more distressing the international and domestic outlook becomes, the nearer we are to an end of this bear market, assuming peace. The more war scares we have, the more rapidly domestic business deteriorates, the sooner and the wider our Government will open the flood gates to spending and deficit financing. If this spring or summer there should be a conjuncture of bad business news and an international crisis short of war, that should be considered as an alert signal for those waiting to buy common stocks. Such a background would give our Government an overbalancing weight of argument for deficit spending that the demands of our domestic economy alone could not supply, at least not for a considerable time. The dangerous international situation and our deteriorating business trend constitute, in my opinion, the basic and controlling background forces which, separately or together, will end this bear market. If these two factors worsen in unison, then deficit financing will be resorted to sooner and on a much larger scale than otherwise. Just how large a deficit financing program would be necessary to stop the downward drift in stock prices? That is an important but largely unanswerable question. It would depend in part on the circumstances at the time, especially the international status. But I should think if we suddenly decided to spend $10 billion more than our tax receipts, that might turn the tide. Such a sum would go far toward filling the widening gaps in our current purchasing power. Moreover, once we start the deficit financing process again, there will be a presumption that it is only a beginning. That attitude would almost surely be adopted by many people and would be an important factor in the stock market.

Any conclusions I have drawn so far are grounded to a continuity of peace. All I have said or implied is that our progressively worsening international and domestic business situations argue for a fairly near-term ending of this bear market because it will probably initiate again a period of large deficit financing. As long as the international tension remains in this acute stage, a vigorous bull market would hardly seem likely. For such a bull market to develop, this acute phase (at least) of strained international relationships would have to be removed and a substantial decline in business activity and commodity prices negotiated. In short and at best, all I can envision now is first, lower levels for the Dow-Jones Averages; secondly, a bottom to the decline this year and then some lift from those lower levels.

Come war, the market pattern should be different. In that event, the market averages would likely go much lower in the initial stages. Such a catastrophe would produce so much uncertainty, such a desire and necessity for liquidity that it is hard to conceive how the stock market could withstand the selling pressure without a severe break.

Is It Inflation, Deflation, Disinflation or Stability?

(Continued from page 11)

long to place orders and get work started.

There is one other point, however, that may be even more important. Businessmen and the consuming public have been contributing to the gross national product at a rate of about $220 billion a year.

Whatever the Government does will influence the psychology of businessmen and consumers. This may affect their own spending. And even a small change in their spending would be much bigger than a big change in Government spending.

Importance of Psychology

That brings us to a question that every purchasing agent must consider. **How can you make allowance for those more or less unpredictable changes in psychology?**

I would be the last to tell you that there is a foolproof answer to this question. I do believe, however, that there is a commonsense approach.

First, let's admit that there is always bad news as well as good news becoming available, more or less in a steady stream. It is very rare indeed for a piece of news to be so powerfully good or so powerfully bad that it changes the entire economic outlook at a moment's notice.

Secondly, let's admit that business and markets listen to what they want to hear. If they are in a strong position, they will listen to "good news," as they did last year when the war scare in March stimulated new orders, particularly for metals and capital goods. If they are in a weak position, however, you can be reasonably certain that it is the bad news they will listen to.

As pointed out above, any prospective increase in Government spending or Federal deficit will not be a large magnitude as compared with even a moderate decline in private activity. As a straight economic factor, the Government's power to prime the pump at present inflated levels is strictly limited. Whether or not it will succeed in preventing deflation, therefore, depends on how business reacts to whatever the Government does do.

If business steps up its own buying, and agrees to substantial wage increases so that consumer buying also rises, then the situation may stabilize again, at least temporarily.

Will business do that? It did last year at about this time, but will it do it again?

Business to Remain Cautious

From my fairly general and intimate contact with the current business picture, I doubt very much that businessmen will depart from a policy of caution.

I don't mean to imply by this that I detect a feeling of fear or panic. On the contrary, there is a sober realization that prices of most items hit a resistance point in the last advance, and there is an earnest desire to get prices down to where they will stimulate demand. There is an aggressiveness in sales planning that is all to the good.

I think the determination to hold inventories and commitments at reasonable levels is also all to the good. Obviously it will minimize inventory losses and financial strain if prices decline further. But more important, it means that business as a whole will have less inventory and commitment liquidation to do than it has had during some previous period of readjustment. And that means, in turn, that even if sales decline somewhat, it will not be too long before replacement demand will have to come in again.

For this viewpoint I believe very strongly that businessmen as a whole are to be congratulated rather than condemned. Certainly a curtailment in their buying has had an effect on many markets and I don't doubt in the least that these policies are bringing some pressure on production and employment. But if businessmen had ignored the obvious economic reasons for this cautiousness, and had gone on building up stocks and commitments, conditions might still be booming now but we would be headed for a very serious situation within the near future.

Just How Weak or Strong Is the Present Situation?

Many of you gentlemen operate chiefly in one industry. You don't have the time to spread your energies all over the lot and you naturally have a closer picture of what is happening in your particular industry than you may in some others. Let me review very briefly some of the highlights of the last two years.

The first industries to find that their supplies were catching up with demand were women's apparel and the luxury trades. These groups had a high level of output during the war and there was no marked accumulation of unsatisfied demand that had to be met when the war ended. Some of these groups ran into difficulties as much as two years ago and have made substantial strides toward a readjustment to present more competitive conditions.

A second important development was the sharp decline in farm prices that occurred a year ago. In these markets many items got down to support levels. The farm price decline, however, is not yet over. Some important items, like hogs, are still selling well above support levels and for others the support levels themselves will show a downward trend over the next year or two. Here, too, however, an important part of the decline, under existing support laws, has already occurred for some of the important cash crops.

There were two other important developments last year. The first of these was a further spread of the textile readjustment, particularly affecting cotton and rayon fabrics. The second one was the sales slump in consumers' durable goods, including used cars and some makes of new cars, that came last Fall.

All of these developments represent a progressive catching up of supply with demand. This balance came more quickly for non-essential items, or for those that were relatively well supplied during the war. It came more slowly, but just as inevitably, for durable goods items like refrigerators, ranges, radios, washing machines, furniture, floor coverings, automobiles and even new homes. It does not mean that the public will not buy more of these items, but it does mean that a part of the public, which would pay any price, has satisfied its needs. The problem now is one of getting costs and prices down.

Right at the moment we know that most businessmen are being more careful in their purchases of supplies and production materials. I don't believe there is any doubt that they will also be cautious about building new plants and buying new machinery. Consequently, another important section of the economy—the capital goods industries, making steel machinery and equipment—are in a weaker position than they were a year ago.

Many of these groups have order backlogs that will keep them operating at a high level for some months. But unless there is a sharp pickup in new orders, a reduced rate of activity in these industries may develop later in the year.

Consumers' Position Less Favorable

Income last year moved up into new high ground, following a sharp advance in wage rates last spring. I wonder if you realize, however, how little improvement there has been in the position of the urban wage earner, who after all accounts for a major part of the nation's consumption.

We went through a little calculation the other day that showed some surprising results. Comparing December, 1947 with December, 1948 we tried to see just what had happened to a wage earner having an income of about $2,800 a year. We made allowance for the increase in wage rates and for the reduction in taxes. We also made allowance, however, for the increase in living costs. Moreover, we recognized the fact that most of these families have expanded their debts, either in regular charge accounts or instalment outstandings or in new mortgages, and we made some allowance for that.

What we found out may surprise you. First of all, the net improvement in the position of such a family added up in the 12-month period to about $93.00.

But for the first time, between December and January, there was an important drop in wage and salary payments. Spread over about 20 million families, this represented a net loss, in a single month, of about $85.00.

Gains of a full 12 months, in short, were practically wiped out within 30 days. I remind you that the consumer's position is one of the most important factors in the economy. Expenditures have been running at an annual rate of $180 billion or a little more. What will be the position of these individual families and consumers 12 months from now?

Remember, soft line industries generally have caught up with their demand and the same is now true of consumers' durable goods.

In the capital goods industries we have had announced within the past 10 days the first cutback in steel operations due to a decline in demand. True, only a few furnaces were shut down, and they were shut down because they had been making ingots that were no longer wanted on high-premium conversion contracts. The fact remains, however, that all of the metal markets, in one way or another, have been showing signs of weakness.

I cannot deny that capital goods industries may receive a major influx of new orders within the next three or four months. But unless they do, there is little doubt in my mind that industrial production and urban employment will be at lower levels later in the year.

Vigorous seasonal increases in the next two or three months, particularly in construction and agricultural employment, may give a semblance of stability and leveling off. But the real test will come after that, late in the third quarter and in the fourth quarter, and I remind you also that nearly every readjustment the country has ever had has contained within it a 3-to-5 month period when declines became quite sharp.

Whether such a period will come later this year or early next year is not a question of too much importance. In fact, from the viewpoint of current operating policy, it is not too important whether such a period comes at all. The businessman, who in most cases now sees that supplies are ample, and who has widespread and telling evidence that inflation has been halted, has no alternative but to operate on a careful and conservative basis in his inventory, commitment and credit policy.

If we still manage to avoid a sharper decline, fine. The businessman who is in a strong financial position will have lost nothing and will be ready for the following upturn.

If, on the other hand, we do have a period of sharper decline, the businessman who has been afraid of it, and who has strengthened himself against it, will have capital resources with which he can exploit new opportunities that always develop in competitive markets. He will help to cut it short.

Conclusions

We started this discussion with a fine array of words. Frankly, I do not believe inflation is worth discussing at this late date. I would be willing to stake my reputation that it is dead, not only in the U. S. but in most of the world.

Disinflation, I suggest, should be discarded as a meaningless and deceptive term. It sounds like painless deflation, but no deflation has ever been painless, particularly for those who did not see it coming.

Deflation has already occurred to some extent, but it has been minor when measured against the inflation of the war and postwar periods.

I hope as fervently as any politician that declines in production, employment and income will not be too extensive.

My commonsense tells me, however, that there will be a downward pressure on production until costs are reduced; that this reduction in costs must come partially from an increase in output per man-hour; and most plants will find it easier to increase efficiency **after** there have been layoffs than will do **before.**

When that happens, however, I will then begin to take more seriously this talk about stabilization. For I am not pessimistic about the outlook. Even fairly sharp declines for a few months would leave activity far above prewar levels; there is no doubt whatsoever in my mind that there is still a large demand both for consumers' goods and for capital goods. And I have no doubt that this demand will make itself effective when businessmen and consumers can again look forward with confidence to the outlook for sales and price stability.

In the political atmosphere in which we operate today, both forecasters and businessmen have been bombarded with criticism. Any expression of doubt about continued expansion has been regarded in some circles as being downright unpatriotic. Any commonsense policy of financial conservatism on the part of the businessman has been regarded in the same circles as creating a threat of deflation.

To me such comments are nonsense. I don't believe any of us in this room would regard ourselves as being either pessimistic or optimistic. We are being realistic in a practical and commonsense way. I don't regard you people as being unpatriotic for being careful with your companies' money when you see plain signs of weakness.

Certainly your group, which has seen most raw material prices slide, is going to be careful in its buying. But I am sure your companies are just as anxious to put on new business as I am. I am sure that they will miss no opportunities to do so and I am sure that such measures, undertaken by individual concerns at the right time, will be much more effective in producing a lasting and healthy stabilization than anything the government may be able to do in the near future toward producing a premature and unsound stabilization.

I have great respect for the ultimate mass intelligence of individual enterprise. Purchasing agents, particularly, know how rare it is for all prices to move in the same direction at the same time. And I know that fear and panic, which sometimes paralyzes action, are more likely if businessmen are surprised than if they have been warned. So I come to this conclusion:

That good buying, based on an accurate understanding of supply and demand, will never lead us into a deflation that could have been avoided. But it is one of the powerful influences that will help lead us out of one before it has gone too far or done too much damage.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Margin cut gives market fillip. Look for dull irregular April followed by new move to about 195.

The slicing of margin requirements to 50% from the previous 75%, started Tuesday's market on a note of optimism. And as this is written, stocks, though off from earlier prices, are still doing alright.

* * *

The cheerful interpretation of the margin cuts is a natural outcome though I doubt if it's sufficient reason to go out and buy more stocks. As a matter of fact, the explanation that we are in a period of recession, is equally important; perhaps even more than the margin change.

* * *

Actually, an admission that business is off, isn't new. The market has been saying it for some time and even the smallest businessman has been aware of it for months. It is one of the reasons why the reporting of big earnings left the market cold. It demonstrated again that markets reflect future not past performances. It also indicated that near term earnings will probably be off. The market seldom discounts the same thing twice, so smaller future earnings are now being reflected in current prices.

* * *

Last week this column wrote that the indications were that the familiar averages would go above the generally acknowledged 180 level. But despite this belief I don't think many people will make any money out of it. One reason is the public is already long of stocks, bought some time ago, and now held at a loss. It has long been recognized that the public seldom takes losses except in a period of panic. Right now the majority of stocks held by the public is equivalent to 160 in the Dow averages. In other words these stocks have acted worse than the market. For these stocks to get back to their original purchase price, the averages would have to go to about 195, which is about the level this column thinks the market is heading for.

Before that happens you can expect a month of backing and filling close to the 180 figure, a period which will not endear the market to many watchers. It is during that period that new purchases would be advisable. But they'll have to be stopped if for no other reason than to avoid being hung up in them if they start to act badly. The idea is to have liquid resources to take advantage of opportunities rather than be stuck with stocks than can only go back to an original purchase price.

Last week you bought Bristol Myers at 31. Stop is still 29. I now suggest Cooper Bessemer 27½ to 28½, stop 26; Dresser 20½-21½, stop 18. Monsanto Chemical is another stock that acts well though I haven't worked out its buying point.

C. C., Muskegon, Mich.:

Sorry, I can't help you. I do not have the time to study stocks other than the ones I recommend and neither can I engage in personal correspondence with readers.

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.]

Business Man's Bookshelf

Enterprise Island—Hans Christian Sonne—The story of an imaginary primitive island on which the author traces the origin and growth of an economic system closely paralleling our own—Business Bourse, 80 W. 40th St., New York, N. Y.—boxed—$3.50.

Qualitative Analysis of Radio Listening in Two Central Illinois Counties—Charles H. Sandage—Bureau of Economic and Business Research, University of Illinois, Urbana, Ill.—paper.

Wartime Production Controls—David Novick, Melvin Anshen and W. C. Truppner—Columbia University Press, Morningside Heights, New York City, New York City, New York—cloth—$6.

Walter S. Grubbs With J. W. Goldsbury Co.

(Special to THE FINANCIAL CHRONICLE)

ST. PAUL, MINN.—Walter S. Grubbs has become associated with J. W. Goldsbury Co., First National Bank Building. Mr. Grubbs was formerly St. Paul representative for Loewi & Co. Prior thereto he was an officer of Frank & Belden, Inc., and conducted his own investment firm in St. Paul.

Super-Liquidity

(Continued from first page)

not belong to big corporations or millionaires either. (Nor, for that matter, do all the life insurance policies.)

To appreciate the significance of liquid holdings, they have to be **compared with private debts.** As a nation, we constitute a going concern that has almost $300 billions of working capital immediately available, but we owe each other scarcely $200 billions. This is the estimated "gross" total of private and municipal debts. For every 65c or less that we owe someone, we have $1.00 on hand with which to pay.[1] In 1929, individual (non-corporate) debts were equal to 100% of individual savings.

Today, **individual debts** amount to very little more than 25% of individual savings. This in spite of the fact that the sum of private debts, corporate and individual combined — other than those of financial institutions — has been rising by leaps and bounds since 1939, and especially since 1945: they grew by a record $23.4 billion in 1947. But they had been cut in the depression's aftermath by some 20%, and have now reached just about where they were in 1929.

What matters, however, is not the ratio of liquid holdings to total private debts, but to current liabilities. True, even compared to 1929, the outstanding consumer credit volume has almost doubled; but the income of the consumer has about trebled, and his savings have risen even more. Or glance at the financial statements of **corporations.** On Sept. 30 of last year, all non-financial corporations had enough cash and cashable U. S. bonds on hand to pay out 60% of their total current liabilities, including their tax liabilities and forthcoming maturities on long-term debts, leaving untouched all their inventories and receivables, including receivables due from the U. S. government. Ten years ago, the ratio was $30 billion current liabilities to $13.1 billion liquid means.

The picture is even rosier on the balance sheets of the leading corporations. A compilation of the National City Bank shows that at the end of last year, 150 manufacturing companies with a combined total of $1,665 million current liabilities, had $1,389 million cash and government securities in the till—the current ratio being as good as in the previous two years, after two years of record investment in new plant and equipment largely financed out of the corporations' own means.

Whichever way one considers the situation, it is as liquid as never before. Normally, liquid assets are only about two-thirds or one-half of total consumer expenditures; the consumer spends annually $1.50 to $2.00 for every dollar he holds. Currently, he spends during a year about $1.00 only for each dollar held. His liquid assets are practically equal to his annual expenditures—and the latter run much higher than ever before.

II

That is one reason to explain the apparent paradox that the annual rate of paid-out national income declined by ½ of 1% in January of this year only, while wholesale prices were down some 7%. Equally significant is the fact that commercial bank loans to business at the end of last year amounted to about $18 billion, and total business inventories to some $54 billion. The commercial **banking system as a whole**—which is what matters from the cyclical point of view—need not get in trouble on its loan portfolio until wholesale prices decline by 60% on the average, back to the level of 10 years ago!

Too bad that we have no comparable figures for bank loans or inventories in 1929. But there is little doubt that the latter could not amount to much more than one-half of their present dollar volume, possibly to less, and that more than one-half of the then outstanding $42 billion total loans of all banks must have been business loans (as distinct from those on securities and mortgages).

In other words, in 1929 the banks loaned on the ultimate strength of inventories in the proportion approximately one to one; it took only a few points' decline of inventory values to impair the equity of the entire banking system. A similar or even worse situation prevailed at the beginning of 1937—on the eve of the recession—when the $20 billion bank loan volume, of which well over one-half must have been business loans, stood out against an estimated $9 billion worth of business inventories. Obviously, in both 1929 and 1937 a serious break was indicated and the possibility of panic on this score alone (leaving aside the respective security loan situations). The exact opposite is indicated at present, when the ratio of loans to inventories is closer to 1:3.

Note that the world "inflation" has not occurred yet. Evidently, we have been inflating the national debt for 20 years, and for 16 years the money volume; wholesale prices doubled since 1939 and trebled since the depression low. But the common man on the street, including the common investor on Wall Street, refuses to consider his money as being in the process of shrinkage. The economist, who tends to simplify things into purely quantitive terms, calls everything an inflation that goes up. However, presently, he hastens to add that this one is not of the vulgar type; he qualifies it as a delayed inflation, or by other adjectives. Obviously ours is not an "orthodox" paper money system any longer, since we do not labor now under a budgetary deficit, not since 1945. There is common sense in the common man's refusal to use the same term for this sort of situation as he uses for run-away or near-run-away fiat money.

III

Whatever its name, the rose of excessive, fantastic liquidity smells the same. It is spread over the entire economy, from the marginal farm to the biggest corporation. It has tremendous implication to our long-run future as well as to the very immediate outlook.

Every boom, whether "inflationary" or otherwise, is based on excessive liquidity. What matters are the underlying mental assumptions. Liquidity is not a physical fact, to be sure; it is a state of mind. The question is in each boom: why we think we swim in the financial ether, and how long will the presumption last?

Every boom ought to be analyzed in terms of the liquidity assumptions which make people think they can "go ahead"—with or without substantially rising prices. The most spectacular peace-time case, previous to the present, was of course, the period of 1924-29. There were "inflationary" elements present, such as gold influx and deposit expansion (the latter by $18 billions only in six years). But prices were declining actually, if only moderately, from 1926 onward.

Plainly, it would lead one astray trying to explain the Eternal Prosperity of the Twenties in terms of monetary quantity, or of price level changes, as a "dance of the dollar." The growth of deposits was a consequence rather than a cause of the boom (which it helped to sustain, of course). What made the sky seem the limit, what permitted reckless expansion — was not the actual growth of the money volume so much, as the expectation that credit was available for all "legitimate" purposes. And legitimate was everything for what credit was available.

The secret of the boom was then, and it always is, the possession of a **key to the** doors which opens the **credit flow** whenever needed. Corporate stocks and bonds, and mortgage bonds, constituted the key. They were supposed to be always worth about as much as their market quotations (minus a small margin) because one always could borrow on them at that price, and one expected to be able to do so indefinitely. The banks in turn always could and would lend on those securities, because they knew that they always could sell them at or about the current market. The public relied on the banks, and the banks relied on the public. Both relied on the "market." Virtually any paper issued by a respectable corporation was worth the price at which it had been issued. It was, within its price range perfectly liquid.

The assumption of the perfect liquidity of corporate securities, stocks in particular, was tested and found wanting. The boom collapsed accordingly. Since, high margin requirements stymied the so-called speculator. They mean that the banks cannot lend on stocks anywhere near their current quotations — which finishes the possibility of reviving their liquidity (shiftability). It is further impaired by SEC regulations, restrictive interventions with institutional portfolios, and other policies which tend to deter the flow of private savings from risk-ventures.

IV

The Coolidge-Hoover prosperity wave was founded on the availability, in virtually unlimited volume, of liquid instruments consisting of **claims on the earning power** of businesses, which could not possibly earn enough to satisfy all the claims at their face or market values.

The Roosevelt-Truman prosperity wave rests (in peacetime) on the assumption that direct and indirect **claims on the taxing**—and money-printing—**power** are available in a volume that is for practical, "legitimate" purposes, unlimited. The assumption has been tested: the Treasury and the Reserve System have stood the test—so far. Few people doubt that they can stand it further. But how far?

The liquidity base of prosperity is just as fictitious at present as it was—or maybe even more so than—in the Twenties.

Bank deposits and government bonds are convertible—into what? Into sight liabilities of the Federal government, which in turn are reconvertible into bank deposits and bonds. The circle would become "vicious" as soon as the attempt would be made to "convert" on a large scale. It would result in wholesale money printing and run-away inflation. The magic circle would be broken pretty soon, and prosperity would fade into collapse.

The essential thing is the availability of "legitimate" credit. Presently, the key to the credit flow consists of government bonds, of which the banks and other institutions, and even the public, possess such quantities as to guarantee the continuation of

[1] Note that the national debt is left out in the above consideration of total indebtedness. A debt implies the necessity of repayment, of course, which does not apply to our national debt. We owe it to ourselves, as F.D.R. put it with unconscious irony. It would be more precise to say that no one owes it to anyone. We just "roll over" the maturities as they fall. What the late President meant by saying that the dollar sign should be eliminated from lend-lease transactions — that no one will ever pay them—could be applied to the bulk of the domestic national debt as well.

the boom—as long as they are convertible into legal tender, or its equivalent, at or near their par value; and as long as the money of the government is considered to be "good."

Our liquidity-thinking having shifted from business securities to government obligations, the rug would be pulled out from under this Prosperity's feet if the bonds should slip substantially; or if a new deficit would carry the country into an inflation psychology. But these are remote contingencies. A minor deficit will not make people run out of the dollar; and the last thing politicians are likely to do is to create deliberately a depression by stopping the credit flow.

V

Given these underlying conditions—given the urge of business to substitute machines for labor —given a vastly growing population that wants to live and to raise its living standards—given also a system of government that is anxious to reach into the nation's pockets to draw out the accumulated liquidity, or even to produce it fresh — the consequences should be obvious.

Barring the possibility of governmental intervention to break the Prosperity (deliberately or otherwise), **no panic** or acute crisis can occur under such circumstances, **nor a depression, not even** an orthodox **"recession."** But let-downs do occur "seasonally," reinforced currently by a number of coinciding factors. One is the aftermath of last year's deflationary and credit-restrictive measures, minor as they were. Another one is the cumulative effect on investments of the anti-capitalistic threats emanating from the politicos, since the election.

But the significant element in the current picture is the process of **temporary adjustment** to be faced after a period of unprecedented up-swing. High prices, out of line with the general level, especially in agriculture, have stimulated an expansion that boomerangs in unmanageable surpluses. Two and a half years' record outlay in plants and equipment, fostered by corporate profits on record levels, had to lower production costs and increase supplies, while simultaneously the postponed demand for consumers' semi-durables has been substantially satisfied.

And one more factor is to be considered—perhaps the most important one—to understand the inhibitions hampering this super-liquid set-up.

Liquidity is habit-forming. Once a level of liquidity has been reached and maintained over a period of years: the individual household, the industrial management, the financial institution, they all are inclined to keep up that level, or at any rate, to resist its "deterioration." Liquid savings are mobilized whenever needed, but the need must be the expectation of an inflation which induces inventory buying, an expectation absent so far most of the time for most people. Or consumers and producers must be driven by urgent replacement demands.

Otherwise, the **mobilization of liquid reserves is a slow process.** As the economic status of the individual (and of the corporation) improves, the rights are raised not only in terms of higher living standards and increased productive capacities, but also in terms of improved rainy-day provisions and cash reserves. All of which adds up to a slow rate of spending out of pent-up reserves, and explains, together with the prevalence of high standards of credit control in responsible financial circles, the slow and fluctuating process of disbursing savings.

The statistical mirror of this propensity to keep liquid is the low velocity of money, expressed in such symptoms as the disproportionately high holdings of currency—8% of the total liquid reserves of the country are maintained in cash form as against scarcely 5% in the '20s—and in the comparatively low velocity of demand deposits which have not quite reached yet the rate at which they used to turn over in the middle '30s, to say nothing of their pre-depression rate.

VI

The crucial point is that under the rule of excessive liquidity, the **downward adjustment must give way** very soon **to upward readjustment.**

The less consumers and businesses spend, the more unused funds pile up in banks, associations, insurance companies—the less pressure is exerted on debtors to liquidate, and the more urgent is the demand for eligible securities. He who defaults on an instalment of his automobile loan or his mortgage, will not be "executed"; more likely, the contract will be rewritten and prolonged (at an extra charge). And the market for government and municipal bonds is booming accordingly.

The more private construction falls off—the more labor and material are available for Federal, military, and municipal construction. And the "pent-up" demand of the authorities for durables so far has scarcely been scratched on the surface. Nor is the housing demand anywhere near "saturation." The more prices fall, the faster a resurgence of building activity may be expected.

Super-Liquidity stops automatically, so to speak, the vicious snow-balling effects of the let-down. Nay, it reverses them automatically.

Price declines bring about production cuts all along the industrial line. Even farmers start to cut acreages. Un-employment rises (very moderately); but wages do not fall: the worker is liquid enough to hold out; and the government commands enough liquidity to keep him unemployed.

What is more: **declining output results in** reduced inventories and in actual **"scarcities"**, maybe as soon as six months hence. Over-supply today may mean a shortage-scare in due course.

The forthcoming process of upward readjustment is being graphically illustrated in the case of coal. Thanks to a record-breaking output, coal was piling up, short-weeks spreading, threatening, the industry's inflated price and wage structure. John L. Lewis, the "industrial statesman", does not wait for the slowly grinding automatism of falling prices, declining production, and subsequent coal shortage—maybe a year to two hence. He speeds up the price-making "automat," and sets the pace for other industries. (Slow-downs in Detroit offer an example.)

But how can he and his miners afford to go hungry for weeks? Of course, they do not go hungry. They just mobilize their own and the country's liquidity. There is plenty of money in the union's till; its officials receive their full pay, work or no work. As to the miners, they may have savings; if not, they buy "on the cuff". The retailers, in turn, have liquid savings, or borrow from the wholesalers, who in turn fall back on their reserves or on their credit lines. Needless to say where the banker draws his liquidity.

In ultimate resort, it is the central bank that carries the financial burden—of John L. Lewis' strike. In all likelihood, neither it nor he knows it. But that does not alter the fact of life: that the **support of the bond market** by the "printing press" **makes it possible to manipulate the coal market.**

That is how Super-Liquidity operates. It creates a new kind of cyclical pulsation. Prices and volumes are first driven by the vast spending it permits. They reach a point of reversal (annually) and the upward trend seemingly is halted, to be resumed again, pretty soon, because the liquid status of the economic machine permits its temporary slowing down that creates new shortages without affecting appreciably either the wage level, or the government's ability to pour out subsidies, or the liquidity of industrial and financial corporations, the availability of credit, or the aggregate volume of mass purchasing power—anything that could or would (short of deflationary interference from above) accomplish as much as to keep the boom from soon being resumed. In short, liquidity cushions the impact of depressive forces, and reverses them by keeping the spending power from declining with the decline of output.

Our Mixed Economy—No Socialism

(Continued from page 7)

sired ends are determined by the agencies of a central government. . . . The planning authorities determine what productive enterprises shall be undertaken, what goods shall be produced by each producing unit, and in what volume; when, how, and to whom they shall be distributed; and at what price. . . .

"A planned economy is thus markedly different in kind, and not merely in degree, from the free competitive economy which the Congress stipulates as a continuing objective of the Employment Act. In the free economy, most of the decisions about economic activity are made by individual enterprisers. The competitive price mechanism is relied upon to cause enterprisers to respond to the wishes of the people about the goods and services that shall be produced."

What the Employment Act does do is frankly to introduce a machinery for dealing rationally —indeed, so far as possible, scientifically—with the broad issues of national economic policy. It thus raises planfulness to a higher level within that scheme of government. It does not introduce any control or carry us one inch toward authoritarianism. Our scheme of government continues to be one of "checks and balances," and the implementation of the Employment Act is of a dual character, based on a professionally trained Council of Economic Advisers in the Executive Office of the President and, in the Congress, on an advisory Joint Committee on the Economic Report of the President.

I am fully aware that many good Americans are alarmed today over the fear that we are perhaps unconsciously stepping over into socialism and that that means the end of the traditional American system. But, on the other hand, I was a little startled to hear that stalwart Republican, Senator Taft, on a recent radio forum program refer to the pending housing bills as socialism and continue, even while so doing, to speak vigorously in its support. In that sense, in fact even in a stricter sense, the United States has had socialism ever since it had publicly supported and governmentally managed schools, to saying nothing of the Panama Canal, the Maritime Commission, and many other activities. But to say this does not mean that we should blot out or blur any and all distinctions among different kinds of governmental activities. I believe that we should clearly recognize significant differences between kinds of economic functions and should continue to debate whether we will be benefited by engaging in some and harmed or endangered by entering in others, and also whether there are times or circumstances when some of these functions are appropriate and others when they are not.

Of course, we all concede that the government alone can provide adequate protection against common dangers such as war, domestic violence, floods and epidemics. We seem gradually to be accepting another insurance function as something which can most effectively and economically be underwritten only on a state or Federal basis. That is so-called "social security," old-age, accident, illness, some part of unemployment, and perhaps even minima of housing and nutrition. Here I think our question is the very practical one of finding the degree and measure of such aids that will best conserve and increase production and not subsidize idleness or waste.

Trying for Economic Golden Mean

We are still trying to find the economic golden mean between the "do gooders" whose soft heads lead them to charitable plans that would enervate the great mass of humanity who aren't above taking an "easy buck" and, at the other extreme, the flinty-hearted childless deacon who would let his neighbor die for lack of medical care or his own nephew's genius run to waste for lack of schooling. But if I read my fellow Americans aright we shall, with plenty of experimental blunders, work through to a system where the individual may count on some reasonable amount and kind of aid from a pooled fund not unduly burdensome on so rich a country as ours and through which he is protected against loss from risks too large for his individual resources. As an economic mechanism for getting maximum human satisfactions from national resources, this is not basically different from the great insurance company business pioneered by private enterprise and destined to continue in private hands whatever we do in the parallel field of public insurance.

But it is, of course, when we come to the field of industry that the debate waxes hottest and the fear grows most intense that government may be encroaching on the preserves of private business. Here I think we want to recognize that two distinct issues are involved—though they are muddled up in most popular discussion. The first is whether there are great opportunities for individual profit that will disappear if the government does the enterprising. Personally I believe that most thinking on this point is colored by the glamorous pictures of the business Napoleon of the nineteenth century rather than the realities of today or the probable conditions of tomorrow. The quick and gigantic amassing of fortunes through lucky pioneering or ruthless exploitation fades into the background under modern conditions of institutionalized technology. So the real question is whether greater efficiency of development and operations of our productive system, in any particular instance, comes from having private corporations, big and little, as our organizing agency or through having public corporations, bureaus or departments do the job.

Here I think the issue is not one of "either/or," black **versus** white, but of complimentary relations, relative proportions, and the pragmatic answer. I stand by the basic principle that the presumption for any economic activity is in favor of private enterprise. But as I said at the opening, there are cases where private resources are not enough, private vision too narrow, or faith or daring too feeble, where only the Federal machinery can do the job. I have just returned from the great Northwest, where controversy wages hot between several brands of private enterprise and a Columbia Valley Authority. After listening to vigorous denunciation of the Federal Government's intrusion, I asked: "Would you be willing to try to do business in these States without Grand Coulee and Bonneville? And can you conceive that private enterprise would have had those facilities ready to make possible your present growth?" "Absolutely no," was the answer.

Government to Play "Facilitating Role"

Of course, no proposition is proved by a single instance. Every case should be settled on the relative merits of private enterprise or public enterprise — each of which has its strong and its weak points—to stimulate the most efficient, adequate and orderly development and use of resources. Two propositions I do wish to make, however, in closing. From my years of economic analysis, I derive a firm belief that the general function for which public enterprise shows distinctive usefulness is what I call the facilitating role—mapping out large and long-range developments for the generalized benefit of great numbers of people providing financing and administration to carry those developments to the operative or the distributive stage. In so doing, opportunities are furnished for many private enterprises, big and little, to find profitable investment and remunerative employment, using public facilities as a base or a source of financing, power, or whatever.

But it seems to me equally true that for the operative role private enterprise has great superiority. Conditions of actual operation are so varied and they change so fast that the intimate knowledge of the individual concern and the right as well as ability to make swift, responsible decisions, alter rules, and make exceptions is the essence of safety and efficiency. Complex industrial and commercial operations cannot be conducted successfully by remote control.

And now my closing comment. If we go on under this mixed, opportunistic American way, with varied and often imperfect combinations of private and public enterprise, is this socialism? Or are the developments now going on under our noses soon to push us into socialism? To both those questions my answer—and I assure you it is the purely personal answer of one professional economist, not an inspired bureaucrat—is No. Though we have socialized some of our economic functions in considerable degree and though we have gone beyond the facilitating role of government and into operative activities to some extent, we have not taken the one fateful step which, as I read the literature and observe the facts, seems to me the hallmark of socialism as a system. That is the nationalization of industries.

I am quite aware that there are people in Washington as well as Detroit who yearn and labor to that end. There are no doubt people of that persuasion in government as well as in other callings. But in my belief they are very much in the minority. And I do not think that present steps carry us down that road.

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)	Apr. 3	99.8	101.1	100.5	89.4
Equivalent to—					
Steel ingots and castings (net tons)	Apr. 3	1,839,800	1,863,800	1,852,700	1,611,400
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Mar. 19	5,145,400	5,123,250	5,361,100	5,240,250
Crude runs to stills—daily average (bbls.)	Mar. 19	¶§5,335,000	§5,432,000	5,322,000	5,344,000
Gasoline output (bbls.)	Mar. 19	§17,470,000	*§17,267,000	16,984,000	15,600,000
Kerosene output (bbls.)	Mar. 19	§2,169,000	§2,093,000	2,189,000	2,531,000
Gas oil and distillate fuel oil output (bbls.	Mar. 19	§6,775,000	§7,325,000	7,000,000	7,472,000
Residual fuel oil output (bbls.)	Mar. 19	§8,411,000	§8,125,000	8,117,000	9,006,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines —					
Finished and unfinished gasoline (bbls.) at	Mar. 19	§127,310,000	*§126,188,000	122,533,000	113,247,000
Kerosene (bbls.) at	Mar. 19	§18,226,000	§18,517,000	20,066,000	9,948,000
Gas oil and distillate fuel oil (bbls.) at	Mar. 19	§50,099,000	§51,804,000	58,574,000	30,723,000
Residual fuel oil (bbls.) at	Mar. 19	§60,274,000	§59,297,000	80,591,000	47,603,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Mar. 19	607,767	709,326	697,335	699,593
Revenue freight received from connections (number of cars)	Mar. 19	576,236	623,037	625,844	691,586
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Mar. 24	$180,930,000	$127,282,000	$75,622,000	$137,910,000
Private construction	Mar. 24	65,307,000	59,828,000	27,485,000	69,598,000
Public construction	Mar. 24	115,623,000	67,454,000	48,137,000	68,312,000
State and municipal	Mar. 24	57,621,000	38,090,000	46,585,000	63,630,000
Federal	Mar. 24	58,002,000	29,364,000	1,552,000	4,682,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Mar. 19	2,870,000	10,350,000	10,855,000	4,413,000
Pennsylvania anthracite (tons)	Mar. 19	189,000	700,000	698,000	1,182,000
Beehive coke (tons)	Mar. 19	43,100	*149,500	157,200	57,000
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Mar. 19	261	*256	227	313
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Mar. 26	5,403,806	5,495,769	5,559,207	5,064,555
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Mar. 24	166	210	180	101
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Mar. 22	3.75454c	*3.75454c	*3.75454c	3.27585c
Pig iron (per gross ton)	Mar. 22	$46.74	$46.74	$46.74	$40.29
Scrap steel (per gross ton)	Mar. 22	$34.92	$35.58	$37.25	$40.25
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Mar. 23	23.200c	23.200c	23.200c	21.200c
Export refinery at	Mar. 23	23.425c	23.425c	23.425c	21.525c
Straits tin (New York) at	Mar. 23	103.000c	103.000c	103.000c	94.000c
Lead (New York) at	Mar. 23	18.000c	18.000c	21.500c	15.000c
Lead (St. Louis) at	Mar. 23	17.800c	17.800c	21.300c	14.800c
Zinc (East St. Louis) at	Mar. 23	16.000c	17.500c	17.500c	12.000c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Mar. 29	101.71	101.68	101.61	100.95
Average corporate	Mar. 29	113.12	113.12	112.93	111.44
Aaa	Mar. 29	119.00	119.00	118.80	116.61
Aa	Mar. 29	117.20	117.20	117.00	115.24
A	Mar. 29	112.19	112.19	112.00	110.70
Baa	Mar. 29	104.83	104.83	104.66	103.64
Railroad Group	Mar. 29	108.16	108.16	108.34	106.04
Public Utilities Group	Mar. 29	113.89	113.89	113.50	113.12
Industrials Group	Mar. 29	117.60	117.40	117.00	115.43
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Mar. 29	2.38	2.38	2.38	2.43
Average corporate	Mar. 29	3.00	3.00	3.01	3.09
Aaa	Mar. 29	2.70	2.70	2.71	2.82
Aa	Mar. 29	2.79	2.79	2.80	2.89
A	Mar. 29	3.05	3.05	3.06	3.13
Baa	Mar. 29	3.46	3.46	3.47	3.53
Railroad Group	Mar. 29	3.27	3.27	3.26	3.39
Public Utilities Group	Mar. 29	2.96	2.96	2.98	3.00
Industrials Group	Mar. 29	2.77	2.78	2.80	2.88
MOODY'S COMMODITY INDEX	Mar. 29	366.4	368.1	376.1	413.0
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	Mar. 26	209.1	216.6	220.2	232.7
Fats and oils	Mar. 26	144.3	151.5	162.3	248.8
Farm products	Mar. 26	225.5	235.3	234.8	251.1
Cotton	Mar. 26	310.2	310.1	308.8	329.7
Grains	Mar. 26	200.7	200.1	202.5	275.7
Livestock	Mar. 26	235.3	235.1	234.1	236.1
Fuels	Mar. 26	231.8	233.5	237.0	228.6
Miscellaneous commodities	Mar. 26	166.5	165.8	167.2	175.0
Textiles	Mar. 26	190.3	190.3	191.6	211.7
Metals	Mar. 26	187.8	187.8	190.1	163.5
Building materials	Mar. 26	216.7	215.8	217.4	233.3
Chemicals and drugs	Mar. 26	137.9	142.5	142.7	156.8
Fertilizer materials	Mar. 26	142.8	142.9	142.9	137.6
Fertilizers	Mar. 26	150.5	150.5	150.5	143.7
Farm machinery	Mar. 26	155.6	155.6	155.6	138.5
All groups combined	Mar. 26	207.2	209.5	211.3	218.3
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Mar. 19	151,534	158,333	152,291	157,299
Production (tons)	Mar. 19	166,999	162,692	175,628	192,531
Percentage of activity	Mar. 19	81	80	86	104
Unfilled orders (tons) at	Mar. 19	267,528	278,632	295,474	439,166
OIL, PAINT AND DRUG REPORTER PRICE INDEX — 1926-36 AVERAGE=100	Mar. 25	135.9	137.3	140.1	145.4
WHOLESALE PRICES NEW SERIES — U. S. DEPT. OF LABOR — 1926=100:					
All commodities	Mar. 22	158.2	158.5	158.5	162.4
Farm products	Mar. 22	170.1	169.9	169.6	185.4
Foods	Mar. 22	160.8	161.0	160.8	176.9
All commodities other than farm and foods	Mar. 22	151.6	152.0	152.2	147.8
Textile products	Mar. 22	139.5	141.7	142.2	149.6
Fuel and lighting materials	Mar. 22	135.5	135.6	135.9	130.9
Metals and metal products	Mar. 22	177.6	177.6	178.1	156.0
Building materials	Mar. 22	199.3	200.1	201.3	193.1
All other	Mar. 22	131.8	131.5	131.2	135.3
Special indexes—					
Grains	Mar. 22	160.7	161.5	160.3	212.9
Livestock	Mar. 22	211.4	207.1	203.7	229.4
Meats	Mar. 22	223.6	222.2	219.1	253.0
Hides and skins	Mar. 22	181.8	179.9	181.1	190.7

*Revised figure. ¶Includes 349,000 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
FACTORY EARNINGS AND HOURS—WEEKLY AVERAGE ESTIMATE — U. S. DEPT. OF LABOR—Month of February:			
Earnings—			
All manufacturing	$54.25	*$54.41	$51.83
Durable goods	58.03	*58.51	54.97
Nondurable goods	50.31	*50.08	48.53
Hours—			
All manufacturing	39.4	*39.4	40.2
Durable goods	39.8	*40.1	40.5
Nondurable goods	39.0	*38.7	39.8
Hourly earnings—			
All manufacturing	$1.377	*$1.381	$1.290
Durable goods	1.458	*1.459	1.357
Nondurable goods	1.290	*1.294	1.220
FAIRCHILD PUBLICATIONS RETAIL PRICE INDEX 1935-39 = 100 (COPYRIGHTED) AS OF MARCH 1:			
Composite index	140.5	141.0	140.3
Piece goods	138.6	139.7	142.9
Men's apparel	140.2	140.5	139.2
Women's apparel	133.7	134.2	135.9
Infants' and children's wear	130.7	130.7	129.6
Home furnishings	149.5	149.8	146.8
Piece goods—			
Rayons and silks	127.3	129.5	128.7
Woolens	140.3	140.7	137.6
Cotton wash goods	152.3	158.3	166.9
Domestics—			
Sheets	178.7	180.6	179.6
Blankets and comfortables	140.9	141.4	140.1
Women's apparel—			
Hosiery	106.0	107.2	107.3
Aprons and housedresses	144.1	144.8	147.3
Corsets and brassieres	132.4	132.4	133.1
Furs	145.9	146.9	155.1
Underwear	138.4	138.7	136.6
Shoes	141.2	141.3	139.8
Men's apparel—			
Hosiery	140.2	140.2	139.7
Underwear	155.4	155.8	152.2
Shirts and neckwear	131.3	132.1	132.4
Hats and caps	128.1	128.1	126.8
Clothing, including overalls	132.2	132.2	130.9
Shoes	169.0	169.3	167.6
Infants' and children's wear—			
Socks	131.5	131.5	131.6
Underwear	120.7	120.7	120.6
Shoes	144.9	144.9	144.3
Furniture	150.1	150.4	150.1
Floor coverings	158.3	158.4	153.5
Radios	123.2	123.2	123.6
Luggage	131.1	131.1	130.5
Electrical household appliances	143.8	143.8	138.0
China	136.2	136.2	132.5
MALLEABLE IRON CASTINGS (DEPT. OF COMMERCE)—Month of January:			
Shipments (short tons)	71,876	*79,882	77,927
For sale (short tons)	38,040	*43,397	45,788
For producers' own use (short tons)	33,836	36,485	32,139
Orders booked, less cancellation, for sale (short tons)	26,948	*34,360	49,239
Unfilled orders, end of month, for sale (short tons)	126,393	*137,385	205,859
MOTOR VEHICLE FACTORY SALES FROM PLANTS IN U. S. (AUTOMOBILE MANUFACTURERS' ASSOC.)—Month of Feb.:			
Total number of vehicles	426,665	*431,276	383,002
Number of passenger cars	324,547	326,019	274,847
Number of motor trucks	101,700	*104,599	107,054
Number of motor coaches	418	658	1,101
NON-FERROUS CASTINGS (DEPT. OF COMMERCE)—Shipments, month of January:			
Aluminum (thousands of pounds)	29,142	31,836	37,889
Copper (thousands of pounds)	76,348	88,182	85,432
Magnesium (thousands of pounds)	822	754	659
Zinc (thousands of pounds)	33,205	36,891	36,149
Lead die (thousands of pounds)	1,019	1,432	1,303
PRICES RECEIVED BY FARMERS — INDEX NUMBER — U. S. DEPT. OF AGRICULTURE August, 1909-July, 1914=100—As of March 15:			
Unadjusted—			
All farm products	261	258	283
Crops	233	233	262
Food grain	229	221	260
Feed grain and hay	178	173	284
Feed grain	181	174	319
Tobacco	411	412	372
Cotton	232	235	256
Fruit	189	181	140
Truck crops	263	285	295
Oil-bearing crops	242	244	339
Livestock and products	287	280	302
Meat animals	335	315	342
Dairy products	254	264	298
Poultry and eggs	217	218	212
Seasonally adjusted—			
Fruit	194	189	144
Truck crops	220	245	232
Dairy products	255	258	300
Poultry and eggs	234	231	232
PROSPECTIVE PLANTING FOR 1949 — U.S. CROP REPORTING BOARD—ACREAGES IN THOUSANDS—As of March 1:			
Corn, all	84,809	------	86,196
All spring wheat	20,300	------	19,588
Durum	3,392	------	3,245
Other spring wheat	16,908	------	16,343
Oats	44,506	------	44,529
Barley	11,885	------	13,295
Flaxseed	4,713	------	4,889
Rice	1,753	------	1,757
Sorghums for all purposes	12,144	------	13,813
Potatoes	1,980	------	2,127
Sweet potatoes	489	------	519
Tobacco	1,596	------	1,538
Beans, dry edible	1,834	------	1,971
Peas, dry field	409	------	309
Soybeans	11,278	------	11,733
Cowpeas	1,011	------	1,115
Peanuts	3,175	------	3,879
Hay	73,718	------	73,616
Sugar beets	766	------	800
STEEL CASTINGS (DEPT. OF COMMERCE)—Month of January:			
Shipments (short tons)	140,577	157,395	141,068
For sale (short tons)	103,503	116,285	108,285
For producers' own use (short tons)	37,074	41,110	32,786
Unfilled orders for sale at end of month (short tons)	338,889	354,458	491,745

*Revised figure.

Are Stocks as Cheap as They Seem?

(Continued from page 3)

obligations today), it does seem pertinent, now that commodities and living costs have rather conclusively passed their post World War II peak and are skidding unmistakably, to examine with more than casual interest the low price-earnings ratios and high yields which prevailed in 1920 and the subsequent repercussions on stock prices as commodity prices collapsed.

Listed below are 18 issues which were included in the Dow-Jones industrial average in 1920 and are traded actively today, with tabulation of prices on June 30, 1920, at subsequent 1920-1921 lows, and on Dec. 31, 1948; earnings in 1920* and in 1948, the latter estimated in a few instances; dividend payments in 1920 and 1948; price-earnings ratios in 1920 and 1948 and dividend yields in 1920 and 1948.

	Prices			Earnings		Price-Earnings Ratio		Dividends		Yield	
	June 30, 1920	1920-21 Low	Dec. 31, 1948	*1920	1948	1920	1948	1920	1948	1920	1943
American Can	40	21¾	81⅝	$4.70	$8.09	8.5	10.1	---	$4.00	--	4.9
American Car & Foundry	138¾	111	30	27.67	†6.25	5.0	4.8	$12.00	3.00	8.7	10.0
American Locomotive	97¾	73½	16¾	21.40	2.30	4.6	7.3	6.00	1.40	6.1	8.4
American Smelting & Ref.	58	29¼	54	3.99	†13.47	14.5	4.0	4.00	5.50	6.9	10.2
American Sugar Refining	122½	47⅝	39¼	‡14.50	10.07	--	3.9	9.25	4.00	7.5	10.2
American Tel. & Tel.	92¾	92⅛	150¼	11.70	8.89	7.9	16.9	8.00	9.00	8.6	3.0
Anaconda Copper	55½	31¾	33¾	1.58	†6.00	35.1	5.6	4.00	3.50	7.2	10.4
Baldwin Locomotive	118⅞	62¼	11¼	15.10	1.26	7.9	8.9	7.00	1.00	6.0	8.9
Corn Products	94¼	59	58¼	21.44	†4.41	4.4	13.2	6.00	3.60	6.4	6.2
General Electric	142	109½	38⅞	15.90	4.29	8.9	9.1	8.00	1.70	5.7	4.4
Goodrich, B. F.	61	26⅝	58¾	5.00	16.57	12.2	3.5	6.00	5.50	9.8	9.4
Republic Steel	92	41⅛	25¾	21.55	7.61	4.3	3.4	6.00	§2.25	6.5	12.1
Studebaker	70¾	37¾	20⅝	15.20	8.11	4.6	2.5	7.00	1.75	9.9	8.5
Texas Corp.	45½	29	53⅜	5.44	12.03	8.4	4.4	3.00	¶3.00	6.6	8.1
U. S. Rubber	94¾	40½	39¼	15.40	8.48	6.1	4.6	8.75	5.00	9.2	12.7
U. S. Steel	92⅝	70¼	69⅞	16.63	11.99	5.6	5.8	5.00	5.00	5.4	7.2
Westinghouse Electric	49¼	38⅞	25⅛	8.68	3.88	5.7	6.5	4.00	1.25	8.0	5.0
Western Union	81	76	15¼	12.81	‡0.14	6.3	--	7.00	1.00	8.6	6.6

†Estimated. ‡Deficit. §Plus 4% stock, to stock of record Nov. 22; price that day 21⅞, dividend value $0.875. ¶Plus 2½% stock, to stock of record Sept. 27; price that day 53¼, dividend value $1.33.

*In calculating 1920 price-earnings ratios and yields, June 30 prices have been related to calendar year earnings and dividends, whereas in 1948, Dec. 31 prices have been related to earnings and dividends of the preceding 12 months. In comparing the present period to the post World War I period, it would have been statistically more precise to have related the June 30, 1920 prices to earnings and dividends in the last half of 1919 and the first half of 1920. Unfortunately it was not possible to obtain interim quarterly or semi-annual earnings data for any appreciable number of the 18 issues studied; therefore the comparison could only be made as indicated above.

From the above table it can be seen that under certain circumstances high earnings and low price-earnings ratios are no assurance that stocks are immune from serious declines. A contemporary market analyst who has done quite a bit of work in trying to reconcile the variations and disparities in the prevailing price-earnings ratios between one period and the next has arrived at a conclusion that there is a fair degree of inverse correlation between the commodity price level and the price-earnings ratio which may be expected. His theory is that when prices in general are high, the price-earnings ratios tend to be low, on the altogether sound market-place evaluation that earnings in such a period are partly due to inventory gains and also partly due to the abnormal demand which has pushed prices up. Such earnings, therefore, can evaporate rather rapidly as prices readjust. Applying his theory, when a representative market average sells for less than the time-honored rule-of-thumb price-earnings ratio of 10, stocks are probably safe to buy and own if the price level is not unduly inflated, but not necessarily safe when prices are sky-high and trending downward—the Federal Reserve Board's lowering of margin requirements notwithstanding.

The Job of Consumer Credit

(Continued from page 11)

average has all the more significance. Peresonal Loan salary costs for these reporting banks were 55% of all operating expense.

Ratios of Salary Cost

Stated differently, salary costs of the 126 banks for 1947 were 2.63% of average outstandings, and in 1941 were 2.67%. This relative similarity came about through an increase in the size of individual loans in 1947. This logically follows the trend of personal income and kept pace with the growth in bank employee salaries. On the other hand, salary costs **per loan made** increased from $3.75 each in 1941 to $5.21 in 1947.

The figures for the 126 banks show, for 1947, a net profit of 3.95% on average loans outstanding. This was before allowance for costs of funds employed and taxes on net income. The same figure in 1941 was 5.15%. However, the State Banking Department gives some breakdown of the 3.95% net return in 1947 by making the following statement:

"Twenty-two departments in New York City, collectively, had a net profit ratio of 2.90% in 1947. The comparable return for eight departments in Buffalo and Rochester was 4.66%, and for 96 departments located elsewhere, 5.44%.

Figures on Potential Loss

It is noteworthy that the allowance for potential loss in these figures is approximately 1/5 of 1%. According to the Report this is a factual statistic of losses of these 126 banks on all loans originated prior to 1946. It is carried as an indicator, I presume, rather than as any suggestion of what should be the proper provision for contingency reserve. If, for instance, such provision had been ½ of 1%, it would have reduced the net profit ratio of the New York City banks to about 2⅓% and of 96 departments in the smallest banks to about 4¾%.

Even the lowest figure is doubtless substantially above the net income of any other department, particularly commercial loans, in the banks of each group. And it throws the spotlight on the kind of service at moderate return being provided by banks in contrast with other lenders operating in a segment of our field. Whereas all reporting State Banks in New York State show a "statistical" net profit of 3.95% for 1947, licensed lenders, better known as "Small Loan Companies" or the "30-Percenters" (or "36-Percenters" or "42-Percenters" depending upon where you live) showed 11.21% net profit. The high-raters showed a rate of **net** profit approximating the allowable maximum bank charge and in excess of the **gross** charge of most of the banks. The high-raters were eating well up on the hog even in New York State where they have a split rate of 30% on the first $100 and 24% on the balance up to $300.

"Happy Crew" Required

Running a Personal Loan business is nearly as much a daily exercise in personnel management as it is in credit management. To have an efficient organization and to provide low-cost service to the public you require excellent work. That requires a "happy crew"—personnel satisfied by the modern standards. This may mean good salaries, comfortable hours of work, adequate vacations, excellent working conditions, reasonable recreation and rest facilities, sick benefits, group life insurance, retirement pensions, and the like. (Parenthetically, the National City Personal Credit Department many years ago provided the first bank installation of continuously-broadcast music both to employees and customers.)

On the management side, it happens that the same tactics that bring out the best in personnel likewise logically are suitable in dealing with customers. It boils down to the elemental factor of an understanding of human nature, both in operating the business and in serving the public.

And because human nature plays such a major part in our industry, it constantly interposes obstacles for those who, by the use of slide rule and graphs, would try to control the "people"—to save them from themselves, so to speak. In our Bank where we have several hundred thousand Personal Credit customers, with outstanding balances averaging $314, it would test the skill of the hardiest planner either to forecast or influence what these human beings will do.

Borrowing Habits Static

And what were these thousands of men and women doing with this $314 apiece? Actually the average outstanding on what we call our Regular Personal Loan business is $248, because the overall figure includes FHA, Motor Car, VA, and similar large items.

Have borrowing habits changed in the last decade or two? We used to run analyses of our borrowing purposes from year to year and prewar came up with pretty much the same answers each time. After two decades the differences in the percentages shown for the purposes for which credit is requested are not really material. Loans for medical and dental purposes continue to lead all the others.

Probably the greatest change in the use of instalment credit in recent years comes primarily in paper originating with appliance dealers. Formerly, refrigerators and radios led that field by a wide margin. Now, in New York City, based upon the **number** of items, percentages are currently as follows:

Television	54%
Radios	16%
Refrigerators	12%
Washing Machines	11%
Miscellaneous	7%

There has been no diminution in the volume of so-called "white goods", but television has added another layer of business. This is a very practical forecast as to what is ahead for those of you from cities which sooner or later will have television reception. Also it is an indication of the unforeseen developments in our business. These, of course, are going to continue in the future as they always have in the past.

Business Loans for GI's

Then, also the expansion of loans for business purposes under the "G.I. Bill of Rights" is a postwar phenomenon of considerable import. In fact, banks which may not have exerted full effort to extend this latter service in the specialized manner in which it has to be done, overlook a very desirable form of Consumer Credit. Since the inauguration of our Veterans' Loan service under this insured Plan, (we do not make real estate or home loans—only business loans), the number of borrowers for capital use has been 5,800 for $13,000,000. A multitude of new enterprises has been started. Small businesses have been expanded. The veteran-capitalists have paid promptly. A large body of G.I. customers has become firmly attached to the Bank. The figures do not include the tens of thousands of veterans who use our other instalment loan services.

There has been at least one book published on the subject of legislative restriction of Consumer Credit in so-called good times and expanding of Consumer Credit at other times. The theory is that thereby the business cycle can be affected and the curves flattened out. Those of us who have been in the business a generation or so are unconvinced — by what we have seen plainly before our eyes —that Consumer Credit has any material effect on the business cycle. On the other hand, we are very much convinced that our volume of business is the product of general business volume and employment, whether up or down. Conceivably some restriction on volume of Consumer Credit can be exercised by regulation. In fact, like every other business, we can be destroyed with regulations tight enough. But there it ends. What is going to be done when and if there is a further recession both in business and in credit volume? Are terms to be lengthened? Are borrowers going to want to borrow more just because of such relaxation? Are lenders going to be willing to lend more under such conditions? Unless human nature is going to be changed by fiat, it can reasonably be forecast that both the lender and the borrower are going to be influenced in bad times as in good times entirely by their ideas of collectibility and payability. There is no known means of forcing credit on reluctant borrowers. On the other hand, the consumer's natural reaction to softening terms, when that is implemented by one central authority, may be: "Looks like business is slackening and prices will fall — guess I'll wait before buying, or borrowing."

Credit Expansion Restrained

You have seen figures quoted from time to time showing that various types of Consumer Credit have "reached new highs." How high is high? What was to be expected? With salaries more than doubled since 1939, with national personal income nearly trebled, with prices nearly doubled, with long dormant wants to be satisfied, could it rationally be supposed that Personal Loans, or other types of instalment credit could be, or reasonably should be, kept abnormally confined? They are so much a part of the lives of the people that it is rather astonishing that they have not reflected, as fully as have the other indices, the blown-up characteristics of our present-day economy. They show the common sense and restraint of the "people." Detailed studies have been published showing what a small part Consumer Credit plays in the stream of income payments that may bear on the price level. Let us take three dates: Dec. 31, 1939, Dec. 31, 1941 and Dec. 31, 1948. We find that total Consumer Credit in 1939 was 11% of personal income. (The credit figures are from the Federal Reserve System, and the income figures from the Dpartment of Commerce.) In 1941 the ratio was 10.4%, but in December, 1948 it was down to 7.2%, or only about two-thirds the 1939 figure. This overall Consumer Credit figure includes charge accounts and single-payment loans. If we use the totals for Instalment Credit only, which comprises both sales and loan instalment accounts, we find that in 1939 the ratio was 6.1% of personal income; in 1941 it was 6.2%, but by 1948 had fallen to 3.7%. Today, the ratio is 60% of the 1939 figure. How can anyone be disturbed by these figures?

I have a feeling also that sights have been set too sharply on "term" rather than on the actual repayment schedule which develops in our business. There is a schedule the "people" themselves make in spite of what the notes indicate. If these strange human beings want to pay off faster than they are required to, you just can't stop them. In our bank we extend no personal credit for less than 12 months. Many loans, of course, run 15, 18 and 24 months. Nevertheless, each month in the form of monthly cash payments or cash prepayments in full (not renewals) we take in on our regular personal loans an amount equal to about 10% of our total outstanding balances. The average for the last four months is 9.98%. It is evident that only to maintain present volume under those conditions new credit equivalent to 1/10th of existing outstandings needs to be extended each month. This factor of rapid turnover and high liquidity has never been adequately allowed for, or in fact, understood by some who have not gone to school within our industry.

The Collection Outlook

This rapid turnover, and considering the modest amount of consumer credit outstanding in relation to the various relevant figures, probably has a favorable bearing on your collection outlook, even in the face of possible further reduction in employment. While the control of operating expense is the basic factor in the success of a personal loan business, a corollary should be that collections should be thoroughly coordinated with credit policy. One thing can be stated with certainty. Consumer credit cannot be handled on "panic" basis. If, in 1949, you are going to assume that just ahead will be depression, and you decline applications right and left you will kill your business and you will kill your prospects for future expansion. The "people" have long memories. That doesn't mean that you have to go all-out as if peak conditions of employment were going to be permanent. It does call for an orderly plan based upon an experienced and skillful estimate of what lies ahead.

The two prewar boom peaks in the memory of bank consumer credit officers were in 1929 and 1937. Some of us spent busy hours

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The Job of Consumer Credit

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during 1930 and then in 1938 and the subsequent years accomplishing the pay-out of the credits extended under boom conditions. As a specific example, on National City's 1929 business the peak of uncollected delinquent items occurred in the middle of 1930. This was 2.07% of the loans made in 1929. Those delinquent outstandings amounted to $595,133. The experienced collector knows that every day there must be a constant whittling down of the outstanding delinquencies. Subsequently, our uncollected percentage of the 1929 business showed 46/100 of 1%. Even now, 20 years later, we get payments on those accounts. The corresponding figures for the 1937 business show that the peak delinquent outstandings in the middle of 1938 were 64/100 of 1%. Now they are 19/100 of 1%.

18-Year Losses 1/5 of 1%

You are all familiar with the boon that wartime full employment provided for those handling uncollected accounts, some of which were many years old. Bad debt reserves were restored and enlarged enormously. Up to Dec. 31, 1945 our bank had made, over 18 years, $708,266,000 in personal loans. There is uncollected of that amount today a total of 1/5 of 1%. This figure is identical with that of the 126 State banks for a shorter period. These figures do not include other types of instalment credit such as FHA Title I and Appliance Contracts. But if your direct personal instalment loans work out properly, the other segments of your business likely will show a similar result. The Federal Reserve figures show about 25% of all commercial bank consumer instalment credit is in the form of personal cash loans.

Naturally, this doesn't mean that we can expect time and change—or a new war—to make our collections for us. A good policy is gradually to modify credits as to amount, term, or added security perhaps in the form of additional signers, with the prospect of an approaching condition which may not be as favorable to employment as the recent past. At the same time by increasing collection efforts 30-day delinquencies and accounts matured for more drastic action should remain rather constant, no matter what the conditions are. Once collections get out of hand, it becomes increasingly difficult to get them under control again. Flexibility should be the watchword both on credits and collections.

Law of Averages Helps

We cannot depend on automatic working out of our business although the law of averages gives us a lever that supplies a mighty force toward relieving our burdens. As a famous and successful forecaster used to say: "No tree ever grows to the sky." There are some signs that the tree is now awaiting new stimulation. So as an example of the kind of forward-thinking that appears to be in order I will quote briefly a policy Bulletin which became the basis of our operations in March, 1947, although there was nothing in the atmosphere in the spring of 1947 that gave tangible evidence of any unfavorable barometric readings. This is the Bulletin to which I refer:

"The year 1946 was marked by full employment and a high level of production. In fact, the employment was so full it is difficult to see how it could be improved pending an increase in the working population. We developed various policies in connection with our 1946 business in order to extend our service most widely in the New York area. All indications are the experiment will have proven a success when we have proceeded further with the collections. We have to consider, however, it is a reasonable expectation that before our 1947 business is fully collected there will be a period of greater or less duration during which employment will be less full than at present. Consequently, some moderate modification of certain credit policies is being undertaken to produce a maximum of reduction in future matured items with a minimum of effect on volume." Then followed the moderate but coordinated steps we were taking. Really, not until November of 1948 was there any slackening in employment and now, some four months later, there has been a continued tendency in that direction.

Reasonable Loss Is Goal

We are all under compulsion to pay our way and we can't destroy volume in order to reduce losses to a negligible degree. Of course, none of us started out 20 years ago to have exactly 1/5 of 1% loss. In this business there is nothing sacred about such a low loss ratio. Knowing what we do now we should have made more loans than we did. In our postwar dealings doubtless most of us are doing so. In 1928, it was a startling statement to say if your losses were too small you were turning down too many loan applicants. That, of course, is an accepted truism in our business today.

A deduction from this is that collection effort should be intensified and expanded in the area where it will produce most results. Experience shows that most deliquencies cure themselves. Any number of persons are late one to ten days or more and require no prodding except perhaps a printed notice to get them to make their payments. On the other hand, we do not temporize very long with those who do not pay within a reasonable time thereafter. Ordinarily, an account which is 60 days in arrears—in other words, two payments not having been made when due—is subject to special action, usually having the account matured and demand made for payment in full with the resulting legal or other procedure, with which you are familiar. It is within the area between "30 and 60 days past due". that 90% of our pre-legal collection effort and money is expended because that is where we get maximum results. You can't skimp on work if you want Grade A collection results. For instance, one of our innovations is a collection group making night calls when borrowers are more likely to be at home. Footwork and headwork are needed aplenty as volume grows.

20th Anniversary Celebrated

On the fourth of May, 1948, the National City organization commemorated the founding 20 years earlier of the first specialized Personal Loan Department by a major bank. Up to our anniversary date we had extended $1,137,789,000 in credit through 3,786,000 accounts. Prior to 1928 this type of credit had been provided almost exclusively by industrial banks—which had done a good job. In fact, they had performed so well that they furnished a favorable recommendation for those thousands of other banks which have gone into the business in the past two decades. There were elements of rather shrewd forecast in an editorial on May 5, 1928 in a newspaper in Fairmount, W. Va., as follows:

"It is among the possibilities that the most important item in last night's paper set forth the simple fact that The National City Bank, one of the great financial institutions of the world, has decided to make loans to people on salary.

"The Bank may be relied upon to apply an abundance of the scientific spirit to the problem and the likely outcome is new principles and new methods which when followed by other banks will open up an entirely new field for bankers as well as provide funds cheaply for people in need."

The Trend in the Field

The trend, as many of you remember, was for a number of banks to enter this field from 1928 to 1930. Then in the early 30's quite a few banks went out of the business as fast as they had gone into it. With the inauguration of Title I of FHA in August 1934 a great many more banks reentered the field, encouraged by the insured return offered by modernization paper. Up until the beginning of the war there was a rapid growth in the business which of course thereafter was severely restricted until 1945. There now are some 12,000 banks operating in this field. The Federal Reserve System's report of Commercial Bank Instalment Credit Outstandings of $3½ billion discloses that this has become an important segment, and in some individual banks even a major segment, of bank lending. You have made the Fairmount, W. Va., editor a good prophet. It seems like yesterday that we read an editorial in the "Globe-Democrat," here in St. Louis, in May 1928 when the National City Bank's Personal Loan Department opening was announced, as follows:

"To be sure, the experiment is not without hazards. The clerical and other burdens imposed by a $50 loan may not be less than those of a $50 000,000 loan. But banks as **common carriers** of credit it is a rather appealing idea and many representative bankers who have had misgivings may gladly adopt the plan, assuming it is warranted by results in New York."

It Happened in Two Decades

Does it seem strange to realize that comment was made only 20 years ago? That two decades measure our stature as an industry within an industry? They have been 20 years that have spelled good business and built good-will. There has always been the friendliest attitude on the part of the public—our customers—the "people" who make or break us.

Ours is a sound business. We can be proud of it. It is writing a constructive record in the happier and better lives of the people of the country. We always will be conducting ourselves in accordance with best public policy, and we always will know that things are going well while we continue to hear, as we all do, from customers who write letters like this one from a middle-aged school teacher:

"Please let me tell you again the depth of my gratitude for the ever-present help and kindness I have found in your bank! I shall always remember the extreme human sympathy I found which made possible my trying task of carrying through a long and difficult ambition. These are the closing miles of my lengthy journey—and by God's grace; and the help of such friends as the bank, the struggle is finally brought to successful realization."

With Cohu Corp.

Gerald Graham, formerly of Bishops Service, Inc., has become associated with The Cohu Corp., 1 Wall Street, New York City, in the retail distribution of mutual funds.

Regulation W—Its Role In Economic Stability

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run as one of instability because of its relationship to durable goods sales and because that is what the record shows. Instalment credit has reflected wide swings accompanying business fluctuations ever since we have had a fairly good record of its volume. This is not to argue that instalment credit has been the sole or even the major cause of those swings, but merely to assert that it has been an important factor. The use of instalment financing has increased aggregate consumer demand during upswings and decreased aggregate consumer demand during downswings. These immediate effects, largely in the durable goods area, have been accompanied by secondary impacts on total output and employment in the economy. As a net result, unregulated consumer instalment financing has accentuated general economic instability.

One reason why instalment credit has made for instability is the tendency in boom times for sellers to expand their sales by easing down-payment and contract maturities rather than by reducing prices and improving quality and service. This encourages competitors to do the same. This competitive relaxation in credit terms fosters an unsound credit structure in the instalment business as a whole. Lenders eventually become loaned up or overextended. When they get into this situation under boom conditions because of easy credit terms, it is not healthy for the economy.

Temptation to Excessive Indebtedness

Another reason for the unstabilizing effects of instalment credit is that individual consumers are tempted to incur debt beyond their means. Easy credit terms prove far from easy to the consumer who must forego other essential consumption in order to meet the discipline of regular and costly payments. It should be remembered, too, that even a light burden of instalment debt when incomes are at boom levels may be too heavy when a depression comes. Instalment credit is a financing medium for the masses; and at the present time, probably one out of every three lower and middle income families is indebted for instalment payments. A surfeiting of the market for instalment credit through too easy credit terms cannot fail to have, at some point, far reaching repercussions on sustained consumer buying of durable and other goods.

When total production in the economy is at or close to its maximum limit, consumer instalment credit is unstabilizing because it contributes to inflationary pressures. This occurs for two reasons. First, a large part of instalment credit is financed directly or indirectly through bank credit. When bank credit expansion adds to an excessive money supply, it feeds inflation, because more money, in the form of bank deposits, comes into existence to bid for the same amount of goods. Second, the credit dollars paid for consumer durable goods do not stop circulating when received by producers of those goods. They continue to circulate and become income and money demand for others. Thus, when output is already at maximum levels, expansion of instalment credit cannot call forth more goods. It can only swell demand in relation to supply. This inevitably means rising prices not only of consumer durables but of other consumer goods as well.

So much for background comment on consumer instalment financing. You are all familiar with the war and early postwar developments in this field and with the birth, demise, and resurrection—at least to June 30—of Regulation W. I need not remind you that when the previous Regulation W was discontinued by Congressional action, there was a fairly widespread feeling in business circles that postwar conditions of abnormal consumer goods demands had largely run their course; that inflationary pressures had been substantially spent; and that, in any case, instalment credit lenders in their own interest could be counted on to adhere to conservative financing practices. This appraisal of the economic situation proved to be premature. Within a few months after wartime Regulation W expired, inflationary tendencies again became dominant. A vital factor in the inflationary development was the expansion of all forms of credit, including consumer instalment credit. Accompanying these trends there was a sharp and rapid deterioration of instalment credit standards.

In the face of these conditions and the threat of continuing inflation sustained by credit expansion, the Congress, in the special session last summer, enacted legislation to permit the Federal Reserve System to restore Regulation W and also gave the System increased authority over the reserve requirements of member banks. Armed with this authority, the System was able to broaden its program of credit restraint. That program included somewhat higher short-term interest and discount rates, maintenance of high margin requirements on stock trading, reimposition of Regulation W, and higher reserve requirements for member banks. Regulation W as reintroduced was merely one part of a policy of wide scope. This is important to remember because it would be a mistake to regard Regulation W alone as a cure-all or a sufficient instrument, by itself, to assure sound credit conditions. Considered in this setting, Regulation W as reinstated last September, had the following primary and subsidiary purposes:

(a) to restrain inflationary credit spending for consumer durable goods;

(b) to reduce the threat to future instability of excessive instalment debt;

(c) to prevent financial positions of lenders from becoming dangerously overextended; and

(d) to supplement and reinforce a general program of anti-inflation monetary restraint.

The regulation was given the same general form that the previous regulation had when it lapsed about a year earlier.

The coverage and terms of the new Regulation W were designed to be restrictive enough gradually to eliminate excessive further expansion in instalment credit outstandings. It was not the objective, as had been made clear before Congressional Committees, to force a contraction in outstandings. The Board felt that under the conditions then prevailing, the aim should be to slow up the growth in these outstandings. In adapting the regulation to this end, the Board consulted extensively with the trade, either directly or through the 12 Reserve Banks and their 24 branches. Very careful study was given to conditions and practices in the durable goods and instalment financing fields as well as to conditions in the economy generally.

Since the present program of credit restraint was initiated, of which Regulation W is only one part, there has been an over-all abatement in inflationary pressures. The slowing down has been general. It cannot be said to be localized in consumer durable goods lines, although the indications are that some of these lines have been affected. Instalment credit growth has slackened but has by no means ceased.

These are salutary developments. They are in part attributable to general credit policies, including Regulation W; but they are doubtless due also to other economic factors. In any case, it is very desirable to have a more balanced economic condition emerge. Our problem has become somewhat different from what it was last fall. The problem now is to bring about and then maintain a condition of reasonable balance between forces of inflation and forces of deflation—in short, to maintain stability at high levels of economic activity.

Modifications of Regulation W

As you are all aware, Regulation W has recently been modified to take account of the somewhat changed economic situation, particularly in the credit area affected by the regulation. A regulation of this sort, which applies to one particular type of credit, has the advantage of being selective. It can be tightened or relaxed in accordance with conditions in this credit sector without necessarily signifying a final judgment as to the broad economic outlook. Accordingly, if it turns out later that instalment credit is again expanding excessively, the terms of the regulation can be made more stringent. Conversely, if economic conditions and the trend in the instalment credit area turn in the opposite direction, the terms can be relaxed.

Credit policies are intended to be flexible methods of contributing to a balanced, stable progress. If changes in policies are found to be desirable to meet altered conditions, it is the responsibility of the credit authorities to make those changes. Necessarily, decisions as to policy changes have to be related to the over-all credit and economic situation. Studies of changing economic conditions are continuously being made by the Reserve System; and through the Reserve Banks and branches, the Board is constantly and closely in touch with shifting currents of activity in commerce, industry, and agriculture.

We are always glad to have the benefit of discussions with those affected by the regulation. We hope that you will always feel free to consult with us either personally or through your Association's representatives. Federal Reserve officials are genuinely appreciative of the cooperation and help we have had from your Association and its officers in connection with Regulation W, and also, of course, in connection with other matters of mutual concern.

In concluding my comments to you on Regulation W, I should like to emphasize the fact that it is not the explicit purpose of Regulation W to protect any one who gives or receives consumer credit or to regulate competitive trade practices. At the same time, the regulation does have certain desirable by-products. Their tangible effects are fewer credit losses for business, fewer cases of family distress because of excessive or improvident consumer indebtedness, and credit competition that accords with sound credit standards.

Regulation not Inconsistent with Democratic Institutions

There is the philosophy of rugged individualism which holds that it is not the business of government to protect businesses or individuals against their own folly. There is also a contrasting philosophy that regulation which helps to bring about greater economic stability is entirely consistent with democratic and capitalistic institutions and with the objective of the greatest good for the greatest number. Such regulation should, of course, impose a minimum of government interference. I am for such regulation—not for regimentation.

We should recognize that instalment credit—carried to undesirable extremes—can endanger our economy and our social system. "Credit" is merely a more palatable name for "debt."

Mr. John J. Schumann, Jr., President of one of the large sales financing companies, spoke with profound wisdom when he stated in 1947:

"'Easy' credit terms are not easy. They are expensive. Every instalment buyer or borrower should understand that simple basic fact. As we have pointed out repeatedly in the past, the cheapest way to buy a car is to pay with one's own cash. The next cheapest way is to pay down as much as possible and pay off the balance as soon as possible. The most expensive way is to pay down as little as possible and string out the balance as long as possible. The sound way to buy a car on time payments is to buy it on the most conservative terms one can comfortably afford.

"A person who buys more credit than he needs is simply throwing money away. A person who contracts to pay beyond that which he can comfortably afford is begging for trouble and will probably get it."

Excessive debt means living beyond our means. The individual whose future income is heavily mortgaged loses that spirit of self-reliance which we all recognize as the bankbone of our nation. Instead of the satisfaction and confidence that come with building up a nest-egg of savings, he has the misery of trying to keep his head above an engulfing ocean of debt. If he loses his job or has sickness in his family, he is without resources. Having already used up his borrowing power, he has no place to turn—no place save one: his government. Multiply that by several million people and you have an appaling problem on your hands.

Misuse of Instalment Credit

You may say that he should not have overcommitted himself, that he should work out his own salvation. True. But we may as well frankly face the fact of what very probably will happen. Since society encouraged the misuse of instalment credit, society — acting through government—will find itself trying to salvage the situation. We saw something of mortgage moratoriums and government intervention in the 1930s. But with millions overextended in instalment credit, the 1930 experience could be mild by comparison. That would not be a pleasant prospect.

Please do not misunderstand me. I am not an alarmist. I am not criticizing the reasonable use of instalment credit. But when we are calmly considering the subject together, I think we should realize where the mass abuse of instalment credit can lead. Those who oppose moderate restraints on consumer credit, as represented by Regulation W, would do well to consider carefully the responsibility or risk they may be assuming. Regulated credit is far better, to my mind, than socialized credit.

The Federal Reserve Board of Governors, as you know, has concluded that reasonable regulation of consumer instalment credit on a continuing basis will make for sounder credit conditions and for greater economic stability. We have made this recommendation to the Congress, with the President's endorsement, only after extended experience and study. We would prefer, as you would, to have no regulation of instalment credit terms. Certainly, we do not seek responsibility for the regulation—it is at best an onerous task. We believe, however, that the economic record in support of Regulation W, flexibly administered for the purpose of preventing excessive expansion or excessive contraction of instalment credit, is clear.

The Reserve Board is under no illusions as to the potency of Regulation W in contributing to economic stability. By itself, it is not and cannot be a panacea, a guaranty of economic stability. For that matter, it does not have sufficient impact either to prevent a boom or to prevent a bust. But it is unquestionably a useful tool, supplementary to reserve requirements and other available instruments, to influence credit conditions in the interest of economic stability. In recommending legislation to continue Regulation W, the Board has tried to put the legislative issue in this light.

Kenneth Gosman Joins Uhlmann & Latshaw

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—Kenneth W. Gosman has become associated with Uhlmann & Latshaw, Board of Trade Building, members of the New York Stock Exchange. Mr. Gosman was previously with Wahler, White & Co. and prior thereto with Harris, Upham & Co.

Howard D. Pomeroy Joins Ranson-Davidson Co.

(Special to THE FINANCIAL CHRONICLE)

ST. PETERSBURG, FLA.—Howard D. Pomeroy has become associated with the Ranson-Davidson Company, Inc., Florida National Bank Building. He was formerly with A. M. Kidder & Co. and Cohu & Torrey.

With Edw. Brockhaus Co.

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, OHIO — William C. McOwen has become associated with Edward Brockhaus & Co., Inc., members of the Cincinnati Stock Exchange. Mr. McOwen previously was with Otis & Co. and the First Cleveland Corp.

Steussy With A. C. Allyn

(Special to THE FINANCIAL CHRONICLE)

MADISON, WIS. — Edwin E. Steussy has become associated with A. C. Allyn & Co. of Chicago. Mr. Steussy was formerly with the Milwaukee Company and Holley, Dayton & Gernon.

Herrick, Waddell Adds

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Herrick, Waddell & Reed, Inc., 418 Locust St., have added Harry L. Branigin to their staff.

Joins Charles E. Bailey

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — Jesse E. Johnson has become associated with Charles E. Bailey & Co., Penobscot Building, members of the Detroit Stock Exchange.

W. F. Rutter Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Carl E. Shumway is with W. F. Rutter, Inc., 19 Congress Street.

With King Merritt

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, MINN.—Samuel W. Fredericksan has joined the staff of King Merritt & Co., Inc., Pence Building.

With State Bond & Mtg.

(Special to THE FINANCIAL CHRONICLE)

NEW ULM, MINN.—Leonard E. Youngquist is with State Bond & Mortgage Co., 26½ North Minnesota Street.

"Bust, Deflation or Disinflation?"

(Continued from page 14)

vate enterprise to provide employment.

Now the trouble comes when in the face of an increase in living costs of around 75%, you have some groups in business, among the well-to-do farmers and in organized labor, whose profits and income have increased two or three times that amount while other groups with fixed incomes have not gained even to the extent of the increase in living costs. There is disequilibrium and where the adjustments must come.

Call it a "bust," a deflation, or "disinflation," or what you will. There must be a restoration of something approaching the prewar relationship between all these groups before we can have economic stability.

Rise in Consumer Credit

As a nation we cannot have the masses of the people sustaining themselves by using not only all of their current income, but by piling up consumer credit and going into debt for houses as fast as they have been at terribly inflated prices. The economy simply does not adjust itself automatically when people quit going into debt or when creditors say the saturation point has been reached and they have to start collecting.

From the end of the war until now, consumer credit has increased from $7 billion to $16 billion. Mortgage debt has increased from $20 billion to $35 billion. Obviously, the more debt contracted for such purposes, the fewer people there are left to buy the production of our vastly increased industrial capacity.

Moreover, the people who piled up this $9 billion of instalment credit since the end of the war will have to pay it off at prices nearly double those prevailing before the war. In much the same way, the people who went into debt for housing paid $11,500 last year for a house that cost $5,000 before the war. What they got for their money is a matter that we need not go into here. It is pertinent to this discussion to suggest that just as much housing would have been provided without enactment of the credit provisions of the Veterans Act and the removal of allocations on scarce building materials which sent prices of some of them soaring as high as 300%.

I have said that there is no device in our system providing an automatic adjustment of the tremendous disequilibrium that has become imbedded in our economy since the war. One such device might be to legislate a capital levy on all groups profiting inordinately from the scarcities created by war and the untimely removal of the full harness of economic controls. We might apply the revenue against the national debt and credit the amount against the income tax liability of the millions of fixed income earners who, in a very real sense, have been defrauded by inflation.

That was done by the Labor Government in Norway through an *ex post facto* capital gains tax to pay for the restoration of villages destroyed in reprisal bombings by the Nazis. But there is no such simple solution in a free economy under which we operate.

Pressure Groups

It is not easy to speak with restraint about what has been allowed to happen in the American economy since the end of the war. In the light of experience during the period one is tempted to suggest that the broad avenue of economic stability so long in building has become a one-way street for minority pressure groups having the most influence with the Congressional traffic cop at the corner.

Each one of these groups wanted the benefits of inflation for himself, but wanted the other fellow to pay for them. The farmer wants a floor under his prices but no ceiling. The real estate people and building materials suppliers want easy credit so as readily to dispose of homes and materials they have to sell at inflated prices. But they resist having any excess profits taxes that would permit government recapture of some of the profits thus made.

Labor has always wanted price control, but has vigorously resisted wage control. The bankers want higher interest rates, but they have fought the requests of Federal banking agencies for power over expansion of credit. Business insisted on the quick exploitation of the staggering volume of normal and backlog demand for goods built up in the war years, but as strongly resists new and higher taxes which should accompany that exploitation to help pay for the war.

Nearly every public address by Washington officials on the subject of inflation or disinflation these days contains somewhere the statement that "nothing is to be gained by recriminations." That instinct is natural enough, particularly when a backward glance so clearly shows that our present predicament could have been so easily avoided. In the present situation it remains for the Federal Government to avoid mistakes of the past and for the rest of us to avoid getting panicky while waiting for the adjustments to take place.

D. G. Dempsey Nominee

Dumont G. Dempsey, partner in Newhard, Cook & Co., St. Louis, is a nominee for director of Clinton Industries, Inc.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

• **Alabama Gas Corp., Birmingham, Ala.**
March 29 filed $6,000,000 first mortgage bonds, series A, due 1971. **Underwriters**—To be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc., White, Weld & Co., Kidder, Peabody & Co. and Stone & Webster Securities Corp. (jointly); The First Boston Corp.; Salomon Bros. & Hutzler and Equitable Securities Corp. (jointly). **Proceeds**—To pay off $4,000,000 2¾% notes and the balance for construction and working capital.

• **American Loan & Finance Co., Hamilton, Ohio**
March 21 (letter of notification) 2,000 shares of 5% participating, non-accumulative preferred and $100,000 of 4% five-year subordinated notes. No underwriter. For future expansion.

American Oil Explorers, Inc. (4/18)
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. Expected about April 18.

• **American Research & Development Corp., Boston**
March 30 filed 166,500 shares ($1 par) common stock, to be offered at $25 per share. **Underwriters**—Estabrook & Co. and Harriman, Ripley & Co. **Proceeds**—For general corporate purposes.

Argus, Inc., Ann Arbor, Mich.
Nov. 1 filed 115,315 shares ($10 par) 5½% cumulative convertible preferred stock. **Offering** — To be offered initially for sale to stockholders at the rate of one preferred stock and purchase warrant for each 3½ shares of common stock held. With each share of preferred purchased company will issue a purchase warrant entitling the holder to buy 80/100 of a share of the company's ($1 par) common stock on or before Dec. 31, 1950. **Underwriters**—Leason & Co., Inc., and First Securities Co., Chicago. **Proceeds**—For working capital.

Arkansas Power & Light Co. (4/26)
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.; Union Securities Corp. **Proceeds**—Reimburse treasury for funds expended in property additions, etc. Expected about April 26.

Associated Telephone Co., Ltd. (4/18)
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. Expected week of April 18.

Bardwell & McAlister, Inc. (4/1)
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.

Brunswig Drug Co., Vernon, Calif.
March 15 filed 24,000 shares ($4 par) common stock. **Underwriter**—William R. Staats Co. **Proceeds**—To selling stockholders.

• **C. I. T. Financial Corp. (4/19)**
March 30 filed $50,000,000 debentures, due April 1, 1959. **Underwriters**—Dillon, Read & Co. Inc.; Kuhn, Loeb & Co.; Lehman Brothers. **Purpose**—Working capital.

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.

• **Cambridge (Mass.) Electric Light Co.**
March 29 filed $2,750,000 25-year notes, series A, due 1974. **Underwriters**—To be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co.; The First Boston Corp.; Kidder, Peabody & Co.; Otis & Co. **Proceeds**—To fund presently outstanding borrowings.

Capital City Boating Corp., Washington, D. C.
Jan. 4 (letter of notification) 50,000 shares ($2 par) 6% non-cumulative preferred stock. Price, $3 per share. **Underwriter**—Lawrence R. Shepherd & Co., Washington, D. C. To operate company, purchase an excursion boat and invest in the securities of other transportation or amusement companies.

Central Hudson Gas & Electric Corp. (4/5)
March 3 filed 20,000 shares of cumulative preferred stock. **Underwriters**—Names to be determined by competitive bidding. Probable bidders include Union Securities Corp.; W. C. Langley & Co.; Shields & Co. **Proceeds**—Payments on outstanding short-term notes. **Bids**—Bids for purchase of the stock will be received by the company up to 10 a.m. (EST) at office of Irving Trust Co., 1 Wall Street, New York.

Chace Industries, Inc., West Chester, Pa.
March 7 (letter of notification) 68,000 shares of 6% noncumulative 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.

• **Clarvan Corp., Milwaukee, Wisc.**
March 25 (letter of notification) $65,000 of 10-year 6% debentures. No underwriter. To pay accounts and to reduce bank loans.

• **Climax (Pa.) Fire Brick Co. (4/4)**
March 25 (letter of notification) $225,000 first mortgage and collateral trust 5% bonds, due April 1, 1951-1957. **Underwriter**—S. K. Cunningham & Co., Inc., Pittsburgh, Pa. Price: 98 to 100, according to maturity. Funding of indebtedness.

Coleraine Asbestos Co. Ltd., Montreal, Canada
Aug. 16 filed 200,000 shares of capital stock. **Price**—50 cents per share in Canadian Currency. **Underwriter**—P. E. Frechette. **Proceeds**—For drilling operations.

Commonwealth Edison Co., Chicago, Ill. (4/12)
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 April 12.

• **Connecticut Light & Power Co. (4/18)**
March 28 filed 200,000 shares (no par) preferred stock. **Underwriters**—Putnam & Co., Chas. W. Scranton & Co. and Estabrook & Co. **Proceeds**—For construction. Expected about April 18.

Continental Engineering Co. (4/4)
Jan. 28 (letter of notification) 500,000 shares of common stock (par 50c). Price par. **Underwriter**—William C. Hitchman Co., New York. For equipment and expenses.

• **Dayton Folding Box Co., Harrison, Ohio**
March 23 (letter of notification) 1,500 shares of 5% cumulative ($50 par) preferred stock. No underwriter. For working capital.

• **Debra Corp., Brooklyn, N. Y.**
March 28 (letter of notification) 880 shares class A (no par) and 88 shares class B stock (no par). **Price**—$250 per share. **Underwriting**—None. Build a family camp.

• **Dodge & Cox Fund, San Francisco, Calif.**
March 28 filed 17,000 beneficial shares in the fund.

• **Equity Fund, Inc., Seattle, Wash.**
March 29 filed 400,000 common shares.

• **Fidelity National Insurance Co., Denver, Colo.**
March 25 (letter of notification) 33,000 shares of class A common stock ($3 par). To be offered at $9 per share. No underwriter. To increase capital.

• **Finance Co. of America at Baltimore**
March 16 (letter of notification) 45 shares of Class A ($100 par) common. **Price**—$213 per share. No underwriter. Offering is being made on behalf of holders of fractional scrip certificates.

• **Financial Fund, Inc., Seattle, Wash.**
March 29 filed 100,000 shares of common stock.

First Springfield Corp., Springfield, Mass.
Feb. 28 (letter of notification) 5,471 shares of common capital stock. **Underwriter**—D. J. St. Germain & Co., Springfield, Ohio. Additional working capital.

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 Finance Corp., Chicago, Ill.**
March 25 (letter of notification) 15,050 shares of common stock. **Price**—About $6 per share. No underwriter. To increase working capital.

• **General Portland Cement Co., Chicago**
March 23 (letter of notification) 303 shares ($1 par) common. Price at market. **Underwriter**—Betts, Borland & Co., Chicago. Proceeds will be distributed pro rata to the holders of scrip certificates.

General Telephone Corp., New York (4/5-6)
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.

• **Gennert (G.) Co-operative, Inc., N. Y.**
March 24 (letter of notification) 3,000 common shares (par $100). Price, par. **Underwriting**—None. Corporate purposes.

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.

• **Green Mountain Mining Co., Missoula, Mont.**
March 22 (letter of notification) 10,000 shares of common. Price, par (6¼¢ per share). With each block of 100 shares of common is offered a production agreement designated as one unit. No underwriter. For operating funds, for purchase of supplies and to finance cost of driving a tunnel.

Horwood Lake Gold Mines Corp.
Dec. 27 (letter of notification) 100,000 shares of capital stock. **Price**—$1 per share. **Underwriter**—Charles W. Warshoff & Co., Newark, N. J. For development of mining properties.

Hotelevision, Inc., L. I. City (4/4-6)
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 (4/12)
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., 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. **Bids**—Bids for purchase of the stock will be received at Room 1567—231 So. La Salle Street, Chicago, up to 11 a.m. (CST) April 12.

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.

• **Kansas Power & Light Co. (4/26)**
March 25 filed $10,000,000 first mortgage bonds, due 1979. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co.; Glore, Forgan & Co.; Equitable Securities Corp.; Blyth & Co., Inc.; Union Securities Corp.; The First Boston Corp. **Proceeds**—To reimburse company's treasury for capital expenditures and for meeting, in part, the costs of future capital expenditures and for other corporate purposes. Expected April 26.

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.

• **Lowell Adams Factors Corp., N. Y.**
March 24 (letter of notification) 147,500 shares of common stock (par 10¢). **Price**—$2 per share. **Underwriter**—First Guardian Securities Corp., New York. Operation of business.

• **Macco Corp., Paramount, Calif.**
March 21 (letter of notification) 500 shares ($1 par) common at over-the-counter market price to be sold by Edward A. Pellegrin, director. No underwriter. No proceeds to company.

Mack's Block & Supply Co. (4/1)
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. Expected April 1.

NEW ISSUE CALENDAR

March 31, 1949

Super Market Stores Corp.	Common

April 1, 1949

Bardwell & McAlister, Inc.	Notes & Common
Kansas-Nebraska Natural Gas Co.	Preferred
Mack's Block & Supply Co.	Capital Stock
Orange & Rockland Electric Co.	Preferred

April 4, 1949

Climax Fire Brick Co.	Bonds
Continental Engineering Co.	Common
Hotelevision, Inc.	Class A Stock
Nielsen Television Corp.	Pfd. & Com.

April 5, 1949

Central Hudson Gas & Electric Corp., 10 a.m. (EST)	Preferred
General Telephone Corp.	Debentures
Ohio Public Service Co., noon (EST)	Common
Playboy Motor Car Corp.	Pfd. & Com.

April 6, 1949

Mountain States Power Co.	Common
Pennsylvania RR., noon (EST)	Equip. Trust Ctfs.

April 7, 1949

Tucson Gas Electric Light & Power Co.	Common

April 11, 1949

Mississippi Power & Light Co.	Bonds
Ohio Public Service Co., 11:30 a.m. (EST)	Bonds

April 12, 1949

Bell Telephone Co. of Pa.	Debentures
Commonwealth Edison Co.	Debentures
Illinois Power Co., 11 a.m. (CST)	Preferred
San Diego Gas & Electric Co.	Preferred

April 18, 1949

American Oil Explorers, Inc.	Common
Associated Telephone Co., Ltd.	Preferred
Connecticut Light & Power Co.	Preferred

April 19, 1949

C. I. T. Financial Corp.	Debentures
Toledo Edison Co.	Bonds

April 26, 1949

Arkansas Power & Light Co.	Debentures
Kansas Power & Light Co.	Bonds

May 10, 1949

Public Service Electric & Gas Co.	Bonds

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.

● **Minneapolis (Minn.) Gas Co.**
March 20 filed 109,039 shares ($1 par) common stock. **Offering**—To be offered stockholders at rate of one additional share for each 10 shares held. **Underwriters**—Names to be supplied by amendment. **Proceeds**—To pay off $750,000 of bank loans and to finance additions to its utility properties.

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.
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.

Mountain States Power Co., Albany, Ore. (4/6)
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. Expected to become effective April 6.

● **Murphy Ranch Mutual Water Co., Whittier, California**
March 21 (letter of notification) 1,118 shares of common stock to be sold at $9.18 per share. **Underwriter**—San Gabriel Development Co. For capital additions and extensions.

● **National Beverage Corp., Washington, D. C.**
March 17 (letter of notification) 9,172 shares ($10 par) preferred and 100,000 shares ($1 par) common. Price, par. No underwriter. For housing space for offices and plant operations, laboratory and operating equipment and other operating expenses.

Nielsen Television Corp., New York (4/4-6)
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. (4/5-11)
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 the purchase of the stock will be received up to noon (EST) April 5 and for the bonds up to 11:30 a.m. (EST) at Room 1600—70 Pine Street, New York.

Oklahoma Gas & Electric Co.
Feb. 25 filed 89,000 shares ($20 par) common stock. **Offering**—Offered for subscription by stockholders of record March 23 on basis of one new share for each 10 shares of common held at $32.50 per share. Rights expire April 12. Standard Gas & Electric Co., parent, will subscribe for 50,002 shares of the proposed issue, plus any shares unsubscribed by others. **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.

● **Owens & Minor Drug Co., Richmond, Va.**
March 28 (letter of notification) 500 shares of 5% cumulative preferred (par $100). Price, par. No underwriter. For general corporate purposes.

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.

● **Palestine Economic Corp., New York**
March 28 filed 600,000 shares ($25 par) common stock. **Price**—$28 per share. **Underwriter**—None. **Proceeds**—For development of industries and real estate and the balance for working capital and general corporate purposes.

● **Pan American Sulphur Corp., Dallas, Texas**
March 28 (letter of notification) 111,050 shares (10¢ par) common stock. **Price**—$2 per share. No underwriter. For advances to subsidiary and for general corporate purposes.

● **Panther Valley Finance Corp., Lansford, Pa. (4/4)**
March 29 (letter of notification) 1,025 shares of 5% preferred stock (par $100). **Underwriter**—Fitzgerald & Co., New York. **Price**—$100 per share and dividend. Working capital.

● **Paraliner Co., Inc., Baltimore, Md.**
March 21 (letter of notification) 1,000 shares of common stock (par $10). Price, par. No underwriter. For parts inventories, advertising, printing, circularizing and the balance for working capital.

● **Parker (William) Co., Inc., New York**
March 23 (letter of notification) 1,800 shares of common stock (par $1) and 600 shares $5 non-cumulative preferred stock (no par). **Underwriting**—None. To be offered in units of three common and one preferred share at $103 per unit. Corporate purposes.

● **Peerless Casualty Co., Keene, N. H.**
March 28 filed 50,000 shares ($5 par) common stock. **Offering**—To be offered to stockholders at the rate of five new shares for each 16 shares held. **Underwriters**—Names to be filed by amendment. **Proceeds**—To increase the company's capital surplus.

Pepsi-Cola Bottling Co. of Washington, D. C.
Dec. 21 (letter of notification) 31,500 shares (10¢ par) common stock to be sold to public at $3 per share; 40,000 shares to be offered to trade accounts; 27,500 shares to be offered on behalf of a stockholder at $3 per share and 10,000 options at 1¢ per share. **Underwriter**—Willis E. Burnside & Co., Inc., New York. For working capital and payment of taxes. Expected early in April.

Playboy Motor Car Corp. (4/5)
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. Statement effective March 25.

● **Plywood, Inc., Detroit, Mich.**
March 28 filed 150,000 shares ($1 par) common stock. **Underwriter**—Baker, Simonds & Co., Detroit. **Proceeds**—For working capital to finance inventories and operations and for other corporate purposes.

● **Rochester Gas and Electric Co., New York**
May 26, 1947 filed $16,677,000 of Series L first mortgage bonds, due 1979, and 50,000 shares ($100 par) Series G, cumulative preferred stock. **Probable bidders**—Halsey, Stuart & Co. Inc. (bonds only); Blyth & Co., Inc.; Glore, Forgan & Co.; Merrill Lynch, Pierce Fenner & Beane; Harriman Ripley & Co.; Lehman Brothers; The First Boston Corp. and Smith, Barney & Co. (jointly). **Proceeds**—To repay $18,850,000 of short-term notes, to repay any additional borrowings and to finance construction. This financing was delayed awaiting a court decision which was favorably decided Feb. 24, 1949.

● **Royalite Oil Co., Ltd., Canada**
March 29 filed 1,250,000 shares of capital stock. **Underwriters**—Kidder, Peabody & Co. and Dominick & Dominick, New York. **Proceeds**—Go to selling stockholders: Dominion Securities Corp., Ltd., Toronto, and James Richardson & Sons, Winnipeg, Manitoba.

● **Russell Belden Electric Co., Joplin, Mo.**
March 23 (letter of notification) $200,000 of 4% debentures. No underwriter. To open branch outlets and to get greater distribution of merchandise.

● **Russell Berg Fund, Inc., Boston, Mass.**
March 24 filed 10,000 shares ($1 par) capital stock.

San Diego Gas & Electric Co. (4/12)
March 18 filed 300,000 shares 4½% cumulative preferred stock (par $20). **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Blyth & Co., Inc., White, Weld & Co. and Shields & Co. (jointly). To reimburse company's treasury for capital expenditures, etc. Expected about April 12.

● **Scudder, Stevens & Clark Fund, Inc., Boston**
March 29 filed 59,199 shares of capital stock.

● **Shareholders' Trust of Boston**
March 24 filed 250,000 shares ($1 par) capital stock. **Underwriter**—Harriman Ripley & Co.

● **Square Deal Market Co. Inc., Washington, D. C.**
March 24 (letter of notification) $100,000 of 10-year 5% debentures. No underwriter. For additional working capital.

● **Stevenson Plywood Corp., Hoquiam, Wash.**
March 24 (letter of notification) 300,000 shares of common stock. **Price**—$1 per share. No underwriter. To complete building of plywood plant and for working capital.

Super Market Stores Corp. (3/31-4/1)
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.

Tennessee Odin Insurance Co., Knoxville, Tennessee
Feb. 28 (letter of notification) 10,000 shares (no par) capital stock. To be offered at $8.50 per share. **Underwriters**—Milhous, Martin & Co.; Stein Bros. & Boyce; Marx & Co.; J. C. Bradford & Co.; Equitable Securities Corp. (Dallas); Elder & Co.; Strader Taylor & Co.; Bullington-Schas & Co.; Fisher Hawes & Co.; Underwood, Neuhaus & Co. **Proceeds**—For account of Hamilton National Bank, Knoxville, for benefit of a trust.

Texas 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.

Toledo (Ohio) Edison Co. (4/19)
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. Expected about April 19.

● **Tracerlab, Inc., Boston, Mass.**
March 24 filed 104,000 shares ($1 par) common stock. **Underwriter**—Lee Higginson Corp. **Proceeds**—To develop industrial applications for radioactivity and the manufacture of equipment for that purpose; and for working capital.

● **Tri-Continental Corporation, New York**
March 29 filed 163,460 shares ($1 par) common stock. These shares were issued to Selected Industries Inc. in exchange for 297,200 shares of common stock of General Shareholdings Corp. held by Selected Industries.

Tucson Gas, Electric Light & Power Co. (4/7)
March 16 filed 66,000 shares ($10 par) common stock. **Underwriters**—Blyth & Co., Inc. and The First Boston Corp. **Proceeds**—For construction.

Mrs. Tucker's Foods, Inc., Sherman, Texas
Nov. 26 filed 200,000 shares of common stock (par $2.50) of which 80,000 will be sold by the company and 120,000 shares by certain stockholders. **Underwriter**—Rauscher, Pierce & Co., Inc., Dallas, Texas. **Proceeds**—For general corporate purposes.

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

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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. Expected in April.

● **Yellow Cap Oil, Inc., Washington, D. C.**
March 18 (letter of notification) 15,000 shares (no par) common. **Price**—About $10 per share. No underwriter at present. For rehabilitation of present oil producing properties, drilling of new wells on present properties and properties to be acquired and for other expenses.

Prospective Offerings

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.

● **B & G Foods**
March 25 reported offering of 25,000 class A shares expected shortly through Straus & Blosser, Chicago.

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.; Otis & Co.

● **Bridgeport (Conn.) Hydraulic Co.**
March 22 stockholders approved issuance of 36,000 common shares. Stock expected to be offered in June, first to present stockholders on a one-for-ten basis. Smith, Ramsey & Co., Bridgeport, Conn., may be underwriter.

● **Brooklyn Borough Gas Co.**
April 4 New York P. S. Commission will hold hearings on company's application to sell a $1,000,000 first mortgage bond issue and 10,000 preferred shares.

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.

● **Cherry Rivet Co.**
March 16 stockholders voted to increase authorized common stock to 500,000 shares (par $1) and to create 50,000 shares of preferred (par $10). New shares would be available for sale to provide additional capital should occasion arise.

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.

● **Columbia Gas System, Inc.**
March 28 reported company plans sale of 1,350,000 additional common shares to present stockholders either in May or June, with The First Boston Corp. Expected to be dealer-manager.

● **Dayton Power & Light Co.**
March 25 company's expansion plans call for sale of some $10,000,000 bonds later this year. Probable bidders: Shields & Co., Halsey, Stuart & Co. Inc., Morgan Stanley & Co., Blyth & Co., Inc. and The First Boston Corp., Harriman Ripley & Co., Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly); Lehman Brothers; Union Securities Corp. and Salomon Bros. & Hutzler.

● **General Precision Equipment Corp.**
April 26 stockholders will vote on increasing authorized capital from 800,000 common shares to 1,135,000 shares to be divided as follows: 120,000 shares of preferred stock issuable in one or more series; 15,000 shares of convertible preference stock, issuable in one or more series and 1,000,000 common shares. Stockholders also will vote on approving an employees stock purchase plan, to permit certain officers and employees to purchase preference or common stocks.

● **(H. J.) Hines Co.**
March 24 stockholders approved an increase in company's indebtedness up to $20,000,000. Company has arranged to borrow $15,000,000 at 2.90% from five institutional investors.

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 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.

● **Joy Manufacturing Co.**
March 24 stockholders voted to increase authorized indebtedness of the company to an amount of $10,000,000 at any one time outstanding. Traditional underwriter, Hallgarten & Co.

● **Kansas Electric Power Co.**
March 28 company expects to make capital expenditures during 1949-50 in an amount expected at $3,350,000, requiring financing unless merged with parent (Kansas Power & Light Co.).

● **Kansas Gas & Electric Co.**
March 25 American Power & Light Co. (parent) stated it proposes to sell its holdings of common stock of the Kansas Gas & Electric Co.

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.

● **National Distillers Products Corp.**
March 29 reported company planning to make a public offering of $40,000,000 25-year debentures, with proceeds to replace a 25-year 2½% bank loan, due serially next year, and to reimburse the company's treasury for funds being spent on company's new chemical plant. This new $10,000,000 plant is being constructed for the manufacture of sodium and chlorine, following contract arrangements with E. I. duPont de Nemours for licenses to processes involved and for engineering and technical assistance. **Underwriters** will be Glore, Forgan & Co. and Harriman Ripley & Co., Inc.

New England Electric System
May 17 stockholders will vote on increasing common stock from 7,500,000 to 8,500,000 shares and to reduce par from $20 to $1. Expected sufficient stock, to raise $6,000,000, will first be offered stockholders. 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 New Haven & Hartford RR.**
April 13 stockholders will vote to authorize by vote of the holders of Preferred stock the creation or issuance of not exceeding $3,500,000 of equipment obligations given for more than 75% of the cost of the equipment covered thereby, and in connection therewith the creation of liens upon such equipment in excess of 75% of its cost. Probable bidders: Harris, Hall & Co. (Inc.); Halsey, Stuart & Co. Inc., Salomon Bros. & Hutzler, Lehman Brothers & Bear, Stearns & 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).

Oklahoma Gas & Electric Co.
March 25 Standard Gas & Electric Co. proposes to sell in the near future 200,000 shares of Oklahoma common it now owns, plus any shares purchased through rights offered by Oklahoma to its stockholders to purchase 89,000 shares (Standard has the right to subscribe for 50,002 shares and will exercise such rights). Probable bidders include: Merrill Lynch, Pierce, Fenner & Beane; The First Boston Corp.; Lehman Brothers and Blyth & Co., Inc. (jointly).

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 RR.**
May 10 stockholders at annual meeting will vote on authorizing an increase of $100,000,000 in company's present indebtedness. The management has not specified the type of obligation which may be issued in accordance with the authorization. The company said the new financing is necessary to provide "capital improvements costing many millions of dollars."

● **Phillips Petroleum Corp.**
April 26 stockholders will be asked to approve an increase of 2,500,000 shares in the company's authorized common from the present 7,500,000 shares. There is no present intention to issue additional shares.

● **Potomac Electric Power Co.**
March 25 reported company may be in market with about $9,000,000 common. Probable bidders: Lehman Brothers; Kidder, Peabody & Co.; Merrill Lynch, Pierce, Fenner & Beane.

● **Public Service Co. of Colorado**
May 23 stockholders will vote on increasing authorized common to 1,875,000 from 1,250,000 shares and authorized preferred to 375,000 from 250,000 shares.

● **Public Service Co. of New Hampshire**
March 30 reported company plans to sell about $4,000,000 bonds and perhaps 100,000 shares of common stock, possibly in June. New England Public Service Co. (parent) may also sell 200,000 of the 493,856 shares (about 59% of outstanding stock) which it holds. Possible bidders for bonds: Halsey, Stuart & Co. Inc. (bonds only); The First Boston Corp. and Coffin & Burr Inc. (jointly); Kidder, Peabody & Co. and Blyth & Co. (jointly); Smith, Barney & Co. and Harriman Ripley & Co. (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.

● **Southern California Edison Co.**
March 28 it was announced company plans to issue 800,000 additional shares of its common stock and "is preparing such an issue, for such time as it may be offered at approximately the level of the current market." Traditional underwriters: Harris, Hall & Co. (Inc.), and The First Boston Corp.

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. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.; The First Boston Corp.

● **Staten Island Edison Corp.**
March 28 corporation has asked SEC permission to sell competitively $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.

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. Traditional underwriter, Dillon, Read & Co. Inc.

● **Tucson Gas, Electric Light & Power Co.**
March 28 reported company's sale of $3,500,000 30-year first mortgage bonds subsequent to sale of 66,000 common shares now in registration.

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.

Wilcox-Gay Corp.
March 14 stockholders authorized an increase in authorized common stock from 500,000 to 750,000 shares (par $1) and approved proposal to waive preemptive right to subscribe to additional shares. Company proposes to offer additional shares publicly, the proceeds to be used for additional working capital. No imminent financing planned. Traditional underwriter, Gearhard, Kinnard & Otis.

"Neither an Inflationary Or Deflationary Cycle"

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member of the Federal Reserve Board, tells us: "Deflation is more imminent at this time, and we have been in a recession for several months."

And yet, because these officials have the power to administer these government controls over our economy, theirs are the decisions which may profoundly affect us all. It is obvious, particularly in view of the political pressure always prevailing in Washington, how dangerous their power might be.

Let's think back to the fall of 1945. Washington prophets at that time forecast postwar unemployment would reach 8 million; further estimating a $20 billion drop in national income and other deflationary developments . . . *none* of this happened! It was another case of crying "Wolf." Businessmen familiar with the problems of postwar transition were convinced that the 1945 prophecies were incorrect . . . and time proved them to be right.

Now, we wonder, whether the 1949 prophecies are any better?

But apart from the power of government to extinguish business by taxation and regulation, it is time for all to recognize the fact that an old-fashioned, corner apple-selling depression, is not in the cards. Long before such a possibility might be threatened, we will witness pump-priming on a scale that will make the Marshall Plan look like the "widow's mite." The likely result, however, is that the physical volume of production will hold at reasonable levels, commodity adjustments will be ironed out, and business will show its usual ability to adjust to costs —providing, there is not too much interference from government.

On the surface, it would appear that providing security "from the cradle to the grave" for all people is in keeping with an advancing civilization. However, irrefutable historical evidence down through the ages clearly shows that the so-called protective spirit of government is the greatest internal menace to general welfare.

Inequitable Controls

Now don't think I'm against controls as such—nothing could be farther from my mind. In certain instances, and at certain times, controls are not only necessary, but from many angles beneficial to our state of society. I do, however, oppose inequitable controls, among them credit, whereby certain segments of our economy are favored at the expense of others.

In recent months we have watched the spectacle of increased bank reserves, lifted in order to curtail business lending, while the regulations governing instalment buying were relaxed. Meanwhile, the control of credit for the purchase of securities was continued at 75% of market values, now at last to be reduced to 50%. Surely, here are three widely diverse fields in which credit control has received different application. Was it valid for the government to make it easier to buy consumer goods on instalment credit than to buy a share in the nation's leading industries?

It is an ironic fact that the source of much of our inflation —government spending—is never mentioned by the Washington officials who are most reluctant to relax existing controls and would even extend them and then still further aggravate the condition by higher taxes. Income and wealth are not created by government, but by the productive efforts of the people. The government merely siphons the money, by means of taxes and borrowings, and then distributes the money through its spending channels.

Dr. Nourse says we are in a period of "disinflation" . . . don't bother to look the word up in the dictionary, it isn't there . . . it is merely another way of expressing the change which has taken place from a seller's to a buyer's market—a natural result of the old, old immutable law of supply and demand.

Neither Dr. Nourse nor Dr. Keyserling, both of whom are on the President's Economic Advisory Committee, feel that Mr. Truman's program will interfere to any great extent with the inflationary outlook, as they see it. On this score, I can't agree with them! — A $4 billion increase in taxes in the light of declining business, increasing unemployment and competitive price cutting *will* seriously affect our economy.

Call it disinflation, deflation, recession, depression, or what you wish . . . a healthy readjustment in our economy is under way. Higher taxes or anything that would give favored groups special privileges or concessions, might will accentuate the momentum to such a degree as to cause a severe upset in business . . . even bring about a depression.

As has been pointed out by many buisness leaders, "there is no reason why the government should not begin to think in terms of reducing costs, rather than taking more money from the people through increasing taxes." And if we need an incentive we can look to "Our Lady of the Snows—Canada," where many of the nuisance taxes have been eliminated or cut; income taxes reduced by a third, and the double taxation on common stock dividends partly removed. . . . It should happen here!

Our Reporter's Report

Distributors of stocks and bonds are finding that a well-informed salesman, that is one who is familiar with the properties and products of the issuer, is the best assurance of a successful flotation.

With this theory in view one of the larger underwriting firms, which frequently acts in advisory capacity to a prospective issuer, has been applying it quite extensively and with highly satisfactory results.

In recent months it has used this plan on four separate corporate undertakings, all of which have proven complete successes and now is engaged, in an advisory capacity, in applying the same formula to the Ohio Public Service project which involves the sale of a million shares of that company's stock, 638,100 shares for the account of the Cities Service Co. and 361,840 shares for the account of the company.

The procedure calls for the bringing together of those who will participate in the distributing syndicate with officials of the company of issue who proceed to set forth the salient factors about the property and then submit to questioning.

At a recent meeting in Cleveland the count showed more than 160 interested security distributors were present and anxious to get all the facts available. Similarly, at a New York meeting, close to 400 were present and many of them remained around after the set time of the meeting had expired for the purpose of acquiring additional knowledge.

This procedure has paid off handsomely, according to its sponsors, with only one drawback, that it generates too much immediate interest in a given issue and to that extent complicates things a little.

Cut in Margins

Although not as directly concerned with the matter as the brokers who carry the public's accounts, investment firms found reason for cheer in the Federal Reserve Board's action in reducing margin requirements to 50%.

The hope among investment bankers lies in the expectation that the more liberal credit allowable will tend to generate more interest in the seasoned markets and accordingly provide a more propitious background for the offering of new securities.

All things being relative, the underwriters have not been faring a great deal better, by and large, than the brokers since the turn of the year and could do with a lift in underwriting activities.

Opposes Direct Sale

For the second time in a fortnight, Rep. Celler (D., N. Y.) has taken steps to block the direct sale of new securities by a utility company to a group of insurance firms. A week or so back he helped prevail on the District of Columbia Public Utilities Commission to turn down a similar proposal by the Potomac Electric Power Co.

The current embroglio involves the Texas Gas Transmission Co., which proposes to sell $60,000,000 of 3⅝% first mortgage bonds, without competitive bidding, to an insurance group.

Mr. Celler is opposing the proposal on the contention that the company could market the bonds with a lower interest rate if it went to competitive sale.

National Distillers Corp.

The National Distillers Corp., it was indicated, would file the necessary registration with the Securities and Exchange Commission within the next few days to cover a planned offering of $40,000,000 in new 25-year debentures.

Proceeds of the offering which would be underwritten through director negotiation with the firm's bankers, would be applied to repayment of bank loans and to provide additional capital funds.

Meanwhile, Schenley Industries, Inc., is reported close to consummation on plans looking for the sale of $75,000,000 of 20-year debentures to insurance companies to refinance $45,000,000 of bank loans, due in 1951, and obtain new working capital.

New Issues Ahead

Next week promises to be comparatively quiet in the new issue field, but things begin to look up a bit thereafter, with April 12 shaping up as a busy day for underwriters.

Three syndicates are organizing, it is indicated, to go after Commonwealth Edison Co.'s $50,000,000 of 50-year debentures, a deal which should prove interesting in view of the unusually long maturity.

The same day, Illinois Power Co. is slated to open bids for 200,000 shares of new $50 par preferred stock. This competitive sale will be conducted in the company's home offices in Chicago.

FINANCIAL NOTICE

At a meeting of the Directors held March 28, 1949 it was decided to recommend to stockholders at the annual meeting fixed to be held May 6, 1949 payment on June 30, 1949 of Final Dividend of Ten Pence for each One Pound of Ordinary Stock free of British Income Tax upon the issued Ordinary Stock.

Net Profits for the year after deducting all charges and providing for taxation are £5,326,478 (£5,501,694). Preference Dividends absorb £321,750 net (£321,750 net) and Interim Dividends totalling ~~Two Shillings~~ free of British Income Tax for One Pound Ordinary Stock have been paid totalling £2,375,776 (£2,375,776). After paying Final Dividend amounting to £989,907 (£1,187,888) and allocating £1,838,193 to fixed assets and stock replacement reserves the carry forward will be £3,700,259 (£3,899,407). In addition to the above mentioned allocation there has been credited to the fixed assets and stock replacement reserves the sum of £3,600,000 and to the Employees Benevolent Fund £150,000 together representing that part of the provision for Excess Profits Tax no longer required. Corresponding figures for the year ending September 30, 1947 are given in brackets. The Company interest in the groups consolidated net profits for the year is £8,974,225 after deducting foreign taxes and where appropriate United Kingdom Taxes. The Company interest in the consolidated reserves of the groups at September 30, 1948 is £51,568,637 excluding reserves for future United Kingdom Tax.

Transfers received up to June 1, 1949 will be in time for payment of dividend to transferees.

As regards Bearer Warrants dividends will be paid against deposit of Coupon No. 204.

Stockholders who may be entitled by virtue of Article XIII(1) of the Double Taxation Treaty between the United States and the United Kingdom, to a tax credit under Section 131 of the United States Internal Revenue Code can obtain certificates giving particulars of the rates of United Kingdom Income Tax appropriate to the dividends payable June 30, 1949 on Ordinary Stock by application to Guaranty Trust Company of New York.

BRITISH-AMERICAN TOBACCO COMPANY, Limited

March 28, 1949.

DIVIDEND NOTICES

ROCHESTER & PITTSBURGH COAL COMPANY

The Board of Directors of Rochester & Pittsburgh Coal Company declared on March 22nd, 1949, a dividend payable out of net profits for the year 1948 of 5% on its Preferred Stock, payable April 27, 1949 to stockholders of record at the close of business April 13, 1949.

O'DONNELL ISELIN, *Secretary.*

ROCHESTER & PITTSBURGH COAL COMPANY

The Board of Directors of Rochester & Pittsburgh Coal Company declared on March 22nd, 1949, a dividend payable out of net profits for the year 1948 of $2.00 per share on its Common Stock, payable April 27, 1949 to stockholders of record at the close of business April 13, 1949.

O'DONNELL ISELIN, *Secretary.*

MAHONING INVESTMENT COMPANY

The Board of Directors of Mahoning Investment Company declared on March 22nd, 1949 a dividend of $5.00 per share on its Capital Stock, payable May 4, 1949 to stockholders of record at the close of business April 13, 1949.

O'DONNELL ISELIN, *Secretary.*

JOHN MORRELL & CO.

Morrell meats

DIVIDEND NO. 79

A dividend of Thirty-Seven and One-Half Cents ($0.375) per share on the capital stock of John Morrell & Co. will be paid April 30, 1949, to stockholders of record April 8, 1949, as shown on the books of the Company.

Ottumwa, Iowa. George A. Morrell, Vice Pres. & Treas.

GOODYEAR

DIVIDEND NOTICE

The Board of Directors has declared today the following dividends:

$1.25 per share for the second quarter of 1949 upon the $5 Preferred Stock, payable June 15, 1949 to stockholders of record at the close of business May 16, 1949.

$1.00 per share upon the Common Stock, payable June 15, 1949 to stockholders of record at the close of business May 16, 1949.

The Goodyear Tire & Rubber Co.

By W. D. Shilts, *Secretary*

Akron, Ohio, March 28, 1949.

The Greatest Name in Rubber

Robinson With Geo. Miller

(Special to THE FINANCIAL CHRONICLE)

PASADENA, CAL.—Alexander T. Robinson has become associated with Geo. R. Miller & Co., Inc., 81 South Euclid Avenue. Mr. Robinson was formerly with Maxwell, Marshall & Co. and Walston, Hoffman & Goodwin.

G. Brashears Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Clause K. Rudd has been added to the staff of G. Brashears & Company, 510 South Spring Street, members of the Los Angeles Stock Exchange.

Bache & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO — Ganson L. Bieder is now with Bache & Co., National City Bank Building.

DIVIDEND NOTICES

COMBUSTION ENGINEERING-SUPERHEATER, INC.

Dividend No. 179

A quarterly dividend of fifty cents (50c) per share on all the outstanding stock of the Company has been declared payable April 30, 1949 to stockholders of record at the close of business April 20, 1949.

OTTO W. STRAUSS, Treasurer.

NATIONAL DISTILLERS PRODUCTS CORPORATION

The Board of Directors has declared a quarterly dividend of 50c per share on the outstanding Common Stock, payable on May 2, 1949, to stockholders of record on April 11, 1949. The transfer books will not close.

THOS. A. CLARK

March 24, 1949 Treasurer

OTIS ELEVATOR COMPANY

COMMON DIVIDEND No. 166

A dividend of $.50 per share on the no par value Common Stock has been declared, payable April 29, 1949, to stockholders of record at the close of business on April 4, 1949.

Checks will be mailed.

BRUCE H. WALLACE, *Treasurer*

New York, March 23, 1949.

SOUTHERN STATES Iron Roofing Company

SAVANNAH, GEORGIA

Dividend on Common and Preferred Stock

A quarterly dividend of thirty-one and one-quarter cents (31.25c) per share on the Preferred Stock and twenty-five cents (25c) per share on the Common Stock of this company has been declared, payable on April 1, 1949 to stockholders of record March 22, 1949.

ROSS G. ALLEN

Secretary and Ass't Treasurer

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—There is fast approaching a time when you can simply write off as one of the biggest propaganda and political busts of 1949, all this millions of words of patter about plans to reorganize the vast Federal bureaucracy. The outlook is so poor for achievement that even the relatively more harmless reorganizations are unlikely this year to move more than a yard between home plate and first base. By "harmless" is meant those theoretical regroupings of so-called "like agencies" together, which satisfy "experts" as to how the bureaucracy should be reorganized, but which cut down the establishment by little or nothing and save the taxpayers zero dollars.

* * *

Congress has largely given up the idea of itself taking affirmative action to bring about any reorganization of the government establishment. Hence it may shift the responsibility to the President, which means that if there is to be any reorganization at all on any scale, it will have to be undertaken by the White House.

On the other hand, Congress is moving slowly with the legislation specifically empowering the President to submit proposals for reorganization. While the House has passed its executive reorganization bill, the Senate has not yet acted. Even though the Senate committee may report out its bill shortly, the Senate as a whole probably cannot act upon the bill for several weeks.

Under the pending bill the scheme is that the President will offer a proposed plan of reorganization. If both Houses avoid by concurrent resolution, expressing their disapproval of the particular scheme for 60 legislative days, then automatically it becomes operative, and the agencies are re-grouped as the President has directed.

The way this would work in practice is that if the President wants to bring about any substantial reorganizations in 1949, he must submit the reorganization plans to Congress 60 days prior to the adjournment of Congress. The 60-day waiting period must occur when Congress is in continuous session.

Under the Legislative Reorganization Act of 1946, the Congress is supposed to adjourn not later than July 31 each year. That means that since 60 legislative days must elapse, the achievement of any reorganization by the President in 1949 must be brought about by reorganization plans submitted not later than May 15 of this year.

It is doubted in authoritative quarters that the President will be prepared as soon as May 15 to offer to Congress any important executive reorganization plans under the pending bill.

It is even doubted that Congress will have its reorganization bill passed finally by May 15. Even if the Senate committee completes its bill in a few days, it is not scheduled to be taken up on the floor much before the middle of May because of the press of all business delayed by the filibuster over the proposed rule to curtail filibusters.

So in a nutshell the earliest possibility is that even by asking the Senate to aprove reorganization ahead of its turn on the Senate calendar, Congress might be able to empower the President to initiate executive reorganization schemes before May 15, but the President in all likelihood will not be ready to operate before that deadline.

On the other hand, Congress may not pass its reorganization bill before late June. In that case, the White House would submit no reorganization plans this year, for to do so would be just to serve notice to the affected and damaged agencies, that they had six months time to work up opposition through their pressure group customers to get Congress to knock over the reorganization next year.

There is even a possibility that the final bill will permit a single house to veto a Presidential scheme of reorganization. In such case one could toss the whole business out the window for it is easy to get a single House to veto any possible scheme.

* * *

In the near future the Democratic leaders of Congres, if not of the Truman Administration, may soon have to let the world know their disposition with respect to the move to "burn up" the life insurance companies in the course of a full-scale public investigation, with a view to bringing these companies to the Federal regulatory heel.

Early in February the Chairmen of the House and Senate Judiciary Committees, Rep. Emanuel Celler of Brooklyn and Senator Pat McCarran of Nevada, introduced resolutions calling for the creation of a joint Congressional committee composed of members of the two Judiciary committees, to conduct an investigation of the life insurance business for the purpose of "exposing" it and suggesting which Federal agency should regulate it what way, although this broad purpose was not expressed in the proffered resolutions.

Mr. Celler is reported to have found the House Democratic leadership most unsympathetic to his objectives. In fact, it is said that he got the word that they would just as soon wait and see what, if anything, the Senate might do about this thing before they expressed an opinion whether the House should touch this proposition.

So the heat was transferred to the Senate, and Senator McCarran named a subcommittee of the Senate Judiciary committee composed of Senators Warren G. Magnuson of Washington, Chairman, Harley Kilgore of West Virginia and Herbert R. O'Conor of Maryland, Democrats, and William Langar of North Dakota and Homer Ferguson of Michigan, Republicans.

This subcommittee's assignment is to consider whether the proposed investigation of the life insurance business should be recommended favorably to the full Judiciary committee.

None of the members of the subcommittee, with the exceptions of Senators Ferguson and O'Conor, would shine generally as advocates of freedom of business from governmental direction. Hence it would appear superficially, at least, as though the subcommittee will OK the proposed investigation.

If a favorable recommendation comes from the subcommittee, then the Democratic leadership in the Senate will have to make up its mind whether to let this thing go ahead through the full committee, and this probably will require both House and Senate Democratic leaders to ponder this issue, probably after consultation with the White House.

* * *

There are other Congressional investigations of business in various stages of incubation.

One of these is sponsored by the conservative Democrat, Rep. Francis E. Walter of Pennsylvania, Chairman of the House Democratic caucus. Mr. Walter called in a group of Department of Justice and Federal Trade Commission lawyers into a very hush hush conference to ask their opinions on his project.

Mr. Walter's project is a quiet, Judiciary committee study of the entire scope of the antitrust laws. His objective is first to codify the antitrust laws, and in the process iron out their inconsistencies, such as one law which under given circumstances makes it unlawful to cut prices and another which makes it unlawful to maintain prices. The other objective is, after codification and consistency has been written into the antitrust laws, to see what substantive changes can be made in these laws.

Those business representatives in Washington who have got a hint of Walter's objectives, are all for the idea. Mr. Walter has no public "TNEC" or name-calling program in mind. He would have top grade lawyers in Congress and in the Administration get together and quietly study this entire broad subject.

Embodied in the report of the Congressional Joint Economic committee was a half promise that through subcommittees the JEC would conduct separate inquiries into the entire monetary and credit situation, and into the investment of capital funds into business. Thus far no announcement has been made of plans for these prospective inquiries, although they are said to be still alive.

Finally, the project for a big "Monetary commission" study of money and credit, patterned after the commission study which lead to the creation of the Federal Reserve System, still has its advocates and an attempt will be made to get some sentiment for it.

* * *

Old line Republicans are by no means thrilled over the proposal backed by Senator Lodge, Massachusetts Republican, for dividing a state's electoral vote in proportion to its popular vote.

Under this system the Republicans might occasionally win a Presidential election by gathering sufficient electoral votes in big electoral vote states where they lacked a majority. On the other hand, the "solid south" would probably continue to give all its electoral votes to a candidate of whatever political bent, who ran under the auspices of the National Democratic party.

So they see more net loss than gain in this proposal and hope they don't have to bless such a proposition openly.

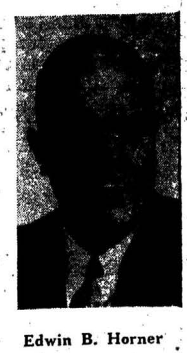
(This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.)

BUSINESS BUZZ

"Do you have a Prospectus explaining the Prospectus?"

Southeastern IBA Group To Hold Spring Meeting

LYNCHBURG, VA.—The Southeastern Group of the Investment Bankers Association will hold its Spring meeting May 7 and 8 at the Cavalier Hotel, Virginia Beach, Va. A golf tournament and other entertainment is planned.



Edwin B. Horner

The group will have as speakers and guests H. H. Dewar, of Dewar, Robertson & Pancoast, San Antonio, President of the IBA; Alden Little; Murray Hanson, general counsel of the IBA; and William C. King, Commissioner of Securities for the State of Virginia.

Edwin B. Horner, Scott, Horner & Mason, Lynchburg, the Virginia State Chairman, has been put in charge of the meeting by James Lemon, Johnson, Lemon & Co., Washington, D. C., the group chairman.

Parr, Pendleton, Williams With Hope Co., San Diego

(Special to THE FINANCIAL CHRONICLE)

SAN DIEGO, CAL.—John E. Parr, Clarence T. Pendleton and Roger K. Williams have become associated with Hope & Co., San Diego Trust & Savings Building. Mr. Pendleton was formerly with Buckley Brothers and First California Co. Mr. Williams was with Walston, Hoffman & Goodwin and Maxwell, Marshall & Co.

With Dean Witter & Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CAL.—John W. Zimmerman has been added to the staff of Dean Witter & Co., 45 Montgomery Street, members of the New York and San Francisco Stock Exchanges.