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# The COMMERCIAL and FINANCIAL CHRONICLE

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## Truman Upholds ECA Program and Restates Policy for Prosperity

**In speech at Little Rock, Ark., he says nation must be kept strong and prosperous; it must aim to keep other friendly nations in same position; and it must support and attain an international structure for maintenance and enforcement of peace. Says program to insure domestic prosperity and social security is fundamental in national effort for peace.**

President Harry S. Truman, in an address at Little Rock, Ark., on June 11, at a gathering of the 35th Division of World War I, in which he served, outlined the objectives of the Administration's foreign policy and called for an early and overwhelming confirmation by the Senate of the North Atlantic Pact. He emphasized importance of knowing how to keep our economy strong and of having a "free labor movement."

President Truman

*The following is the complete text of the President's address:*

We are here to dedicate this beautiful park to the memory of the dead of two world wars.

The brave men who lost their lives in those wars would ap-

(Continued on page 32)

## Off The Skids—

### HOW AND WHEN BUSINESS AND THE STOCK MARKET WILL RECOVER

By MAJOR L. L. B. ANGAS

**Market observer is highly bearish on trade but more optimistic on stock prices because (1) they never rose in proportion to earnings; (2) they have in many cases fallen sharply; (3) the dollar has been depreciated; and (4) the government will eventually intervene. Advocates partial buying if Dow-Jones average falls to 158, when such action will appear to the public as "crazy" and "much too soon."**

**Inventory Policy . . . Bearish**

Any general change in inventory policy—through fear of a falling market—is not only largely self-stultifying but brings trade to a standstill because if middlemen will not give orders to producers as usual, producers will not produce as usual, workers will lack their usual incomes, and buying will not take place as usual at the shops. The movement of goods will therefore be sluggish. Inventories will not be reduced. The policy of reduction proves self-stultifying. Trade in the meanwhile becomes really bad.

L. Lee Basley Angas

That is happening under our noses. **(The stench thereof will soon suffocate the White House, and also perhaps the three great advisers.)**

**Law of the Falling Market**

Another snag is the law of the falling market, namely that if producers, consumers or middlemen expect prices to fall they will not buy today, in the fear—or hope—of lower prices. Trade gets extremely bad meanwhile . . . and does not revive until either

(Continued on page 37)

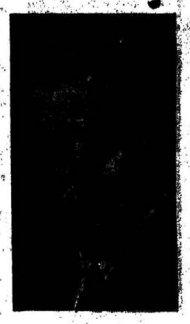
## Sound Currency and Banking Means Sound Economy

By WALTER E. SPAHR*

Professor of Economics, New York University
Executive Vice-President, Economists' National Committee on Monetary Policy

**Dr. Spahr, after condemning our monetary system and monetary policy, and contending our banking structure is defective because it rests on frozen reserves, asserts nation is floating on tide of managed economy. Holds general public does not understand evils of our irredeemable currency system, and, as result, people's purse has passed to pressure groups. Cites value of redeemable currency.**

As of Feb. 23, 1949, our 14,690 banks had deposits of $157,390,000,000. Of these, $117,855,000,000 were deposits of member banks of the Federal Reserve System. These deposits are the chief product of these banks, and they are payable in an irredeemable money, silver certificates excepted.



Walter E. Spahr

The reserves which member banks hold against their deposits rest upon a so-called "reserve," in gold certificates, held by the Reserve banks—a "reserve" that cannot be paid out to the member banks. This arrangement makes the reserve of member banks irredeemable domestically in so far as lawful reserve in Federal Reserve banks is concerned.

The only way member banks can realize on their reserve deposits is to accept another liabil-

(Continued on page 41)

*An address by Dr. Spahr before the Illinois Bankers Association, St. Louis, Mo., June 16, 1949.

*EDITORIAL*

## As We See It

### Beguilingly Plausible—Unfortunately

The President has once more put the thoughtful men and women of this country on notice that there is great need for us all to be on guard against the beguiling but thoroughly false plausibility of the "Fair Deal" doctrines. The grave danger is, of course, that the uninformed and the unthinking will not detect—leave alone be impressed by—the economic and philosophical naivete of the programs again outlined and defended last week at Little Rock. Failure of the matriculate in such matters as these to understand the political cunning which underlies much of this sort of thing merely adds to the general hazard.

**Until the collectivist notions swept across the Continent of Europe from the East and then across the Atlantic into our own boundaries during the 'Thirties; and until the politically shrewd, crowd-pleasing Franklin Roosevelt placed great masses of the people in this country under some sort of spell inherently alien to American traditions and American concepts, it would have been quite incredible that any good American, to say nothing of any President of the United States, should**

(Continued on page 32)

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# Let's Have Equity for Equity Capital

By EMIL SCHRAM*

President of the New York Stock Exchange

**Deploring apathy toward ownership in business enterprises and lack of businessmen's crusade in behalf of venture capital, Mr. Schram points out dangers in situation to our dynamic economic system. Ascribes present dearth of equity capital and low stock prices to faulty tax structure, and recommends: (1) attack on double taxation of dividends; and (2) changes in tax treatment of capital gains. Reveals new campaign for encouragement of venture capital.**

In many respects, this is the most pleasant time of the year. To me, June always signifies a month of youth and hope, when young men and women by hundreds of thousands turn their backs on a sheltered world and put the knowledge and skills acquired at school to the acid test. That means jobs, which, in one word, is the significance of the equity capital market to management.

Emil Schram

There is no crueler fate than to provide these eager, hopeful thousands with the best in education and have them find that no jobs are available. Grandiose words about the virtues of our political institutions are no substitute for jobs.

Youth abroad rejected democratic institutions because they themselves were rejected in their efforts to become useful men and women. This June some 700,000 new workers will be added to the labor force. We must not permit them to become Exhibit A of a stark contradiction between the claims of democracy and actuality.

This is a pleasant time, but not a time for pleasantries. If there are more shadows across the minds of the graduates of our high schools and institutions of higher learning than a year ago, we have to share the responsibility.

Recently, one of the New York daily newspapers was good enough to write that I have been conducting a one-man crusade in behalf of venture capital. This, of course, is an exaggeration. Although I have made four other addresses on this topic within recent weeks, I have no desire to appear in the role of a knight in shining armor. The plain truth is that, until recently, our fight had not aroused the enthusiasm of responsible executives and other leaders or had the cooperation which it merited. I think I know why some thought: "Schram is talking through his hat; all he wants is more activity on the Stock Exchange."

When our tax study, "Economic Progress: Tax Revision and the Capital Markets," was published in October, 1947, and in the period following until this year, my warnings seemed to run athwart the times. We said, in our 1947 study:

"Funds for business expansion cannot be met entirely through the generation of funds through internal sources, and we must—(1) make it possible for the groups which are the traditional source of venture capital to accumulate funds; and (2) provide incentive for them to invest such funds profitably. The only other course is to have the government provide funds. Nowhere has this policy been compatible with the maintenance of initiative and incentive and, in the end, of freedom."

Who cared if the equity market was stagnant? All of the economic indices—that is, all of the *other economic* indices—were pointing upward and making new highs, in employment, production and profits. Labor could only see in our concern an effort to capture a greater part of the national income. Government, still under the influence of a school of thought that envisions automatic economic adjustments as if they were as simple as the setting in and pulling out of plugs at a national switchboard in Washington, had scant sympathy. And, as for management, beyond polite agreement and sporadic evidence of genuine interest, I had the feeling that satisfaction with the way the ball was rolling and the strong position of many leading companies, as well as the large additions to net worth through retained earnings, were militating against the campaign to release risk capital for inevitably necessary expansion.

### What's Wrong? Is It the Present Tax Structure?

Having found fault with others, it is only fair to see where I may have been amiss. It may be that, in discussing the equity capital market, we have not driven home sufficiently its social significance or adequately stripped away the mysteries associated with finance. What has the equity capital market been saying? When the values of evidences of ownership move inversely to business activity and profits, when reinvested earnings seem to have no value and practically every new offering of common stock is greeted by a wave of apprehension and fall in the price of the outstanding stock, it should be clear that something is wrong. The equity market is a place where evidences of ownership can be acquired and transferred, but it is much more than that.

That one of the largest banks should have to pay 6% for additions to capital funds and dilute the equity of existing stockholders by offering stock at 64% of conservative book value at a time when corporate bonds are saleable at prices to yield less than 3% is eloquent proof that investment funds are absent in so far as savings going into ownership securities are concerned.

By necessity, only the stocks of very large or sizeable companies are dealt in publicly. Yields of 7 and 8% or more for the equities of cash-rich companies earning money spells lack of interest. It is as if the wares of a merchant were advertised at ridiculous prices in his windows and the public merely passed by and said, "No thanks, we are not interested." But important as these companies are, they present only a part of the economy.

Small and medium size businesses are effectively precluded from raising equity capital. We may talk about the vast pool of savings. For these enterprises it might just as well not exist. The most persistent force adding to the strength of bigness and to the weakness of small and medium size business is the present tax structure.

### Small Business Suffers

Big companies under present conditions cannot sell common stock except on a costly basis, but at least they have access to the marketplace. Not so with smaller companies, and yet in a readjustment period their needs are likely to be most urgent. According to data compiled by the Federal Trade Commission and the Securities and Exchange Commission, all manufacturing corporations at the end of 1948 had a current ratio of 2.7 to 1. Those with assets of $1,000 to $249,000 had a current ratio of only 2.14 to 1. The liquidity ratio, or ratio of cash plus government securities to total current liabilities, improves steadily as one moves from small to medium size, and upward to companies in the high group. This indicates where the inability to obtain additional equity funds is most serious.

Applications to the Reconstruction Finance Corporation for business loans have mounted rapidly in recent weeks. The place of the commercial banker in the financial organization of society is secure and life insurance companies have aided companies which did not want to pay going market rates for equity money. Again I say with the utmost emphasis at my command: None of these sources can or should take the place of the individual seeking a participation in enterprise. Trouble is bound to arise, as it already has cropped up, when management cannot accept the values placed by the market on common stocks.

To every estate faced with the problem of liquidation of business interests and every individual

(Continued on page 37)

*An address by Mr. Schram at the General Management Conference of the American Management Association, New York City, June 9, 1949.

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# INDEX

### Articles and News


Page

Sound Currency and Banking Means Sound Economy —Walter E. Spahr ..... Cover
Off the Skids (How and When Business and the Stock Market Will Recover)—Major L. L. B. Angas ..... Cover
Let's Have Equity for Equity Capital—Emil Schram ..... 2
Salesmanship in a Stock Exchange House—Lester Spitzer ..... 4
The Outlook—Not Another 1929—Emerson P. Schmidt ..... 6
Security Dealers' "Mark-Ups" and the NASD and SEC —John Dutton ..... 6
Management's Contribution to High Level Economy —James Blaine Walker ..... 7
The Economic Outlook: Short-Term and Long-Term —Victor Lea ..... 8
No Cause for Jitters in Business Outlook—Vergil D. Reed ..... 9
Our Enormous Investment Opportunities in Venezuela —Henryk A. S. Jordan ..... 9
Can We Maintain a High Level Economy? —W. Walter Williams ..... 10
Wage Policy in Recessions—L. Albert Hahn ..... 11
New Competitive Era Coming—Cloud Wampler ..... 13
The Capital Market and Labor's Standard of Living —Robert A. Gilbert ..... 13
Protecting the Taxpayer—C. Emory Glander ..... 14
Employment Forecast: Slightly Downward—Herman B. Byer ..... 15
Six Months of Chinese Currency Inflation—Howard H. Preston ..... 17
Danger in Deficit Financing—Roger W. Babson ..... 17

* * *

Truman Upholds ECA Program and Restates Policy for Prosperity ..... Cover
Circumvention (Editorial) ..... 3
NASD Monopolistic and Harmful to Industry, Dealers Say ..... 4
Charles Emerson Sees Socialism Paralysis Spreading ..... 5
Lawrence F. Smart Makes Plea for Sharing Commissions on Exchange Transactions ..... 11
Realty Prices "Walking Down Hill," Says Norman Strunk ..... 17
Business Recession Would Selectively Favor Utilities, Says Spencer B. Eddy, N. Y. State Commissioner ..... 19
Will They Get More or Less? (Boxed) ..... 20
Economists' National Committee on Monetary Policy Urges Enactment of Reed Gold Coin Bill ..... 20
Edwin J. Schlesinger Says Prosperous Rails Will Prevent Depression ..... 21
Berkeley Williams Protests Subsidizing Railroad Competitors ..... 21
George Terborgh Holds Postwar Profits Are Below Normal ..... 21
Oppose Inclusion of St. Louis Exchange in Mid-West Organization ..... 22
Federal Reserve Bank of N. Y. Issues Revised Foreign Exchange Circular ..... 22
Secretary Snyder States Reasons for Business Confidence ..... 23
Alexander Hamilton Institute Cites Recession in Manufacturing Industry ..... 25
Revolt in Russia Unlikely, Says Bedell Smith ..... 25
April Personal Incomes Decline, Reports Commerce Department ..... 30


### Regular Features


As We See It (Editorial) ..... Cover
Bank and Insurance Stocks ..... 22
Business Man's Bookshelf ..... 48
Canadian Securities ..... 20
Coming Events in Investment Field ..... 12
Dealer-Broker—Investment Recommendations ..... 8
Einzig—"The Gold Premium Problem" ..... 19
From Washington Ahead of the News—Carlisle Bargeron ..... 7
Indications of Business Activity ..... 40
Mutual Funds ..... 18
NSTA Notes ..... 12
News About Banks and Bankers ..... 15
Observations—A. Wilfred May ..... 5
Our Reporter's Report ..... 47
Our Reporter on Governments ..... 23
Prospective Security Offerings ..... 45
Public Utility Securities ..... 10
Railroad Securities ..... 21
Securities Salesman's Corner ..... 36
Securities Now in Registration ..... 44
The State of Trade and Industry ..... 5
Tomorrow's Market (Walter Whyte Says) ..... 38
Washington and You ..... 48



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# Circumvention

**Otis & Co. attempt to stay NASD denied. Court's decision discussed. Appeal contemplated. Key to opinion based on NASD membership. Would enable piercing confidential communications between attorney and client. Theory of surrender of Constitutional Rights upon joining NASD. Its error envisioned. Membership in NASD not voluntary. SEC has in effect so decided. Constitutional Rights may be surrendered voluntarily. These should not be wrested by duress or interpreted away.**

By action in the United States District Court for the District of Columbia, Otis & Co. recently sought to enjoin the National Association of Securities Dealers from taking any action to compel the disclosure of confidential communications between plaintiffs and any of their attorneys, and to vacate a decision of Business Conduct Committee of District No. 10 of the NASD whereby the plaintiffs were "ordered suspended for a period of two years . . . provided that such suspension shall terminate sooner in the event respondents furnish or cause to be furnished a full and frank report in writing containing the information required by the Committee's letter of Aug. 6, 1948."

**It will be remembered that both the District Court and the Circuit Court of Appeals have enjoined the Securities and Exchange Commission from piercing the veil drawn over confidential communications between attorney and client because of the absence of a *prima facie* showing of fraud. These rulings appertained to the Kaiser-Frazer underwriting. In view of these determinations, the decision of Judge Morris in the instant action of Otis & Co. against the NASD was something of a surprise.**

In denying the relief, Judge Morris pointed to the plaintiff's failure to exhaust its remedies and emphasized that there existed a chain of review from the District Committee to the NASD Board of Governors, then to the SEC and finally to the Circuit Court of Appeals.

Referring to the disposition made by the Circuit Court of Appeals concerning the SEC, Judge Morris said:

*"Clearly that decision is not dispositive of the questions presented in the instant action, for here the Association (NASD) is asserting its right to secure from the plaintiffs the privileged communications, notwithstanding their privileged character, because of the alleged obligations of a member to furnish reports that are called for under the Code of Procedure for Handling Trade Practice Complaints. No showing of fraud is relied upon, and no record of any evidence of fraud can here be asserted as res judicata."*

We have been informed that this decision is being appealed. Permitted to stand it holds in effect that what the SEC may not do the NASD can. It is an approval of the argument made by NASD counsel that membership in the NASD is tantamount to a surrender of constitutional rights.

To invade the confidential communications between attorney and client, the SEC must prove a *prima facie* case of fraud, the NASD need not do so. The SEC may be directly restrained by the courts in the circumstances. As to the NASD, there must first be the continuing travail in combat with the District Committee, the Board of Governors and then that same SEC. What a needless and prolonged passage to the ultimate administrative heads who were enjoined in the first instance, to those who are parties and partisans. As a rule, the law does not require the doing of a useless act and these intermediate reviews by interested parties appear to us to be utterly useless.

Of course a constitutional right may be voluntarily surrendered. This is done daily, for example, in leases where

(Continued on page 30)


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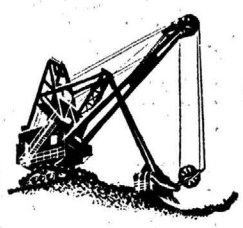

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# Salesmanship in a Stock Exchange House

By LESTER SPITZER*
Partner, Draper, Sears & Company
Members, New York Stock Exchange

**Asserting major premise of good salesmanship is keeping interest of customer in mind, Mr. Spitzer stresses aggressive action to get customer's good will. Warns against policy of running down competitors' wares, and explains procedure in overcoming customer's apathy. Describes radio and direct mail advertising as well as other methods of contacting new customers. Describes "follow-up" system in holding contacts with both prospects and customers.**

This idea of being a good salesman is something I have been trying to learn about for close to 20 years, and it is made up of a lot of things. The major premise is to keep the best interests of the prospect, the customer, first in mind. There are a great many times in the course of an average day, week, or a year's work when you will find that it is much better for you and for your employer and the customer, if you will favor the customer and think of him first, rather than your commission or your earning capacity or your sale as the most important thing in view.

Lester Spitzer

It is better to have the customer's friendship than his business, if you are going to sell him the wrong stock at the wrong time. People appreciate it if you will go to them on occasions, not with the idea of selling them something, but possibly of warning them, or giving them the viewpoint that it might be a good idea to be liquid, for after all, your customers are your livelihood and sometimes it pays to see, to a certain extent, that the customer is liquid and not fully purchased in securities, or maybe he won't have any buying power left just when it would be most useful. If you leave him in a more or less fully invested condition, you defeat your own purpose. If a favorable buying opportunity develops at a later time and the customer isn't liquid, you are unable to take advantage of it and sell him a good security at an attractive price.

We labor under a great handicap in the securities business, in that the advertising that is done is all quite passive and conservative. Many of you fellows are well acquainted, particularly those of you who are married, with the effect caused by some of the "bargain ads" that hit the newspapers on a Sunday. Your wife probably leaves, jet-propelled, for downtown Boston on Monday morning because some store is selling a $135 gown which has been reduced to $39.95.

We just don't do that sort of promotional advertising in our business. Of course, we do have financial writers, as Edson Smith, for example, who tells you that Youngstown Sheet & Tube is selling at $15 under its net quick, and a real bargain at 62. But the sort of advertising that stimulates people to rush in and buy, particularly women, is not used in our business. I would like very much to see at some time a further modification of the New York Stock Exchange rules with regard to the type of advertising that may be done by member firms, so that we, too, in our industry can go ahead and pursue the potential customer with the fine bargains that are today available not only on the New York Stock Exchange but in unlisted markets and the investment trusts.

The subject of investment trusts is a large one in itself and I think it has been quite thoroughly described by some of the previous speakers here, who undoubtedly are very thoroughly acquainted with it. As far as the investment trusts are concerned I will agree for a minute and say that whether you are primarily interested in National Securities, Keystone, Wellington, or possibly 50 others as you go down the list—and this is not a recommendation to buy or sell any specific security unless accompanied by a prospectus—there are bargains in these investment trusts today, just as there are in the listed securities and the unlisted field, and I don't think we should overlook them.

### Stock Salesmanship on New Basis

I started with the firm of Bright, Sears & Co. more or less as a customer's man about 20 years ago. At that time, the business functioned on a different basis. Seated, or better still, rooted at your desk when the Stock Exchange opened, you 'phoned a lot of people and said, "It's up ⅛" or "down ¼." Calling these quotations off the ticker that reported these transactions on the floor of the Exchange. It was quite pointless.

The business today is a business where you can't sit at your desk and expect someone to walk in and want to buy 1,000 shares of Anaconda or some other security. You simply have to go out today and sell these stocks. People can live without 1,000 shares of Steel in the vault. They need a roof over their heads and a place for their car, clothes and many other things, but they just don't need 1,000 shares of stock. They do very nicely without it, and as a matter of fact, they can do without it forever until you change their viewpoint on the subject. I have seen a lot of people that have said they don't know anything about the stock market, it

(Continued on page 33)

*A lecture by Mr. Spitzer, one of two, the 14th of a series in a course on Investment Salesmanship, sponsored by Boston University and the Boston Investment Club, Boston, Mass., May 3, 1949.


## After a Day of "No — No — No —"

Do you ever say to yourself after a day of fruitless calls: *What am I doing wrong? Am I using the right approach? Am I selling "benefits" or institutional gibberish? Where can I turn for help?*

Last winter the members of the Boston Investment Club decided to find some of the answers to those vital questions. In collaboration with Boston University they set up a course of nineteen lectures to be delivered by leading sales executives in such diversified industries as insurance, advertising, manufacturing, banking. The course was called "Successful Investment Salesmanship" and it was such a huge success that it was decided to publish the entire lecture-series in booklet form.

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# NASD Monopolistic and Harmful To Industry, Dealers Contend

**Another Group of comments "spell out" reasons for belief that Association exists solely because of its coercive powers.**

We present below additional comments made by dealers with respect to the National Association of Securities Dealers. With a few exceptions, the contributors express the opinion that neither the Association or its policies have, or ever had, the approval of the vast majority of the firms in the securities business. Among other charges made by dealers is the contention that the Association, rather than being a voluntary body, actually constitutes a monopoly by virtue of the regulation forbidding members from dealing with non-members on a parity. The effect here, is to create a caste system within the industry, with adverse consequences to both the securities business and the public interest.

### SMALL CALIFORNIA TOWN

We would not belong to the Association if we could do business as a non-member. Our principal objection is the fact that we cannot participate in the distribution of new issues or special offerings at a profit to ourselves without being members. We do not see how any Security Dealer belonging to the Association can have any objection to a Union closed shop. It seems to us that the SEC must have plenty of employees to do all the policing of our business that is required and we would much prefer to have the Commission do it than the Association.*

### SMALL CALIFORNIA TOWN

Do not approve of the NASD. Think its own percentage of dues for expenses to small dealers all out of balance with its own 5% mark-up rule applied to those same dealers. For instance why should a sole proprietor be assessed as a firm and also as a personnel of one? Double taxation and the percentage of cost of doing business runs up. Also why all the examinations when the SEC examines and also the annual CPA audit required under rule X-17A-S by the SEC. Also the state examines.*

### SALT LAKE CITY, UTAH

With very few exceptions the 5% mark-up appears very adequate. We meet resistance when it is above that figure.

### SMALL UPSTATE NEW YORK TOWN

I believe No. 4 question regarding the 5% mark-up makes it so unattractive to dealers, they can't get by as a general rule on this amount. When you consider what is paid as commission on the selling of new issues, the 5% rule is a brake on the whole selling effort.*

### SMALL UPSTATE NEW YORK TOWN

Re: Question 3 on reverse side hereof. It was on this matter that we broke with the NASD some years ago. We had joined the NASD when formed because we felt it was going to benefit the industry and in our small way we wanted to cooperate; but when the NASD began to ask for information which we felt was none of their business (they asked for a financial statement which we refused to give them), we resigned. We have never regretted our action. In fact, we have only regretted not resigning before we did. Re: Question 5. Such a rule in our opinion is not only monopolistic but most decidely un-American. We do not see how it could be legally enforced. Re: Question 6. I am not familiar enough with the whole Maloney Act to answer question yes or no but as concerns that part of it which permits the NASD to make the rules referred to in your article in the "Chronicle" of March 17, I most assuredly believe that part of the Act should be rescinded.

### SMALL UPSTATE NEW YORK TOWN

I endorse your attitude fighting against the punitive practices of the NASD. The big fellow putting the squeeze on the little—I hope you can do something about it.

### BROOKLYN, NEW YORK

**A closed shop does not** in my opinion represent our AMERICAN WAY OF LIFE or democracy. The NASD is just that.*

### SMALL UPSTATE NEW YORK TOWN

Resigned after realizing I was being regimented.

### ROCHESTER, N. Y.

Not members NASD. Not interested in questions. Admire, however, your forthright attack on objectionable practices and provisions of law.

### BUFFALO, N. Y.

Heavy taxation over the years has almost destroyed "venture" capital. Our old clients are so busy paying taxes that they have little interest in stock market. We resigned some years ago—would not submit to this eternal "bossing."

### BUFFALO, N. Y.

The panic of 1929 has been used to help politicians find berths for their friends in agencies created to ultimately eliminate the small investment dealer and the smaller business interests. The "Commercial & Financial Chronicle" is doing a truly honorable and patriotic deed in following this matter relentlessly to the end of free American enterprise. You are sure to be successful. Don't give up.

### NEW YORK CITY

I have never considered the NASD as a body of true representation of the securities industry, and for that reason I refused and do refuse to join the NASD under the present set-up. From a truly representative body of any industry I believe one should be able to expect a constructive and helpful policy in furthering the respective industry. The NASD, as far as I could observe in no way came even near such a policy. The facts are exactly contrary to that.

You know, every once in a while some newspaper reporter or

*Commented anonymously.

(Continued on page 31)

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# Sees Socialism Paralysis Spreading

**Charles M. Emerson, Managing Director of N. J. Building Contractors Association, says all of Europe and Asia is under blight of socialism and communism. Cites British situation.**

According to Charles M. Emerson, Managing Director of the Building Contractors Association of New Jersey, a creeping paralysis of socialism is spreading throughout all Asia and Europe, and, if continued, will be a form of governmental suicide which in the past has resulted in the overthrow of great nations. Commenting on the spread of socialism in England and our own country, Mr. Emerson states:

"Through socialization we have seen England reduced from a first-rate nation to a desperate, hungry, second-rate socialized body. The creeping paralysis crept over all of Asia and Europe like a blight and finally invaded England. The Bank of England, the Electric Power Industry, Railroads and Transportation, the Coal Industry, and Medicine were rapidly nationalized or socialized.

"They are now attempting to socialize the Steel Industry. What happened? Let us look at the Coal Industry. This industry was improved by new mechanized methods, and yet when nationalized, from June to October, 1948, the mines produced 158,000 tons a week less than in 1938 when the same industry was run by the 'inefficient' capitalists. If you want to know the true conditions in England, correspond with some of its citizens as I do and you will be astounded at the results brought about by this creeping paralysis. Take all the other countries of Europe and Asia and review what has happened in the last few years.

"As you review facts, figures, and results, you will make up your mind to one thing, and this should be emphasized—put Socialism, State Ownership and Control and Communism all in the same basket. They are blood brothers. The little innocent appealing child called 'Socialism' opens the door and then his gibbering big brother 'Communism' moves in. The fate of the now Russian satellites proves this fact.

"Now let us peer behind the Iron Curtain. Here lies Russia endowed with the greatest natural resources that can be found on this fifth-rate planet. It is behind this Iron Curtain that we find the witch's cauldron from which come the hellish brews which infect countries with paralysis. Our starry-eyed soap-box orators and pink tea party theorists paint the Soviet area as a veritable Eden. They say that the Iron Curtain was raised in order that the inhabitants of this 'heaven on earth' would not be contaminated by the theories of dirty, capitalistic countries.

"I have always been puzzled as to the reason why so many thousands of people are trying to crawl out under the Iron Curtain in the Westerly direction. Why do they want to leave such a haven of Eden? Have you ever talked with anyone who has escaped from this Eden? If so, you will find that the true reason for the establishment of the Iron Curtain is to hide from the rest of the world the misery, the low standard of living, the degradation, the squalor, the prison camps and the slavery which exist behind that same Iron Curtain. Also to prevent the poor Russian peasants from knowing that there are a few spots on the earth's surface where individual freedom exists and where the minor luxuries of life are common to everyone.

"I note in the morning paper of June 3, 1949, that in Moscow,

(Continued on page 47)

# The State of Trade and Industry

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

Recovering from its setback in the previous holiday week, total industrial production for the country rose slightly last week, but it continued to reflect a moderately lower level from that prevailing in the corresponding period of 1948.

A new postwar peak was attained in total claims for unemployment insurance in the week ended May 28 when such claims rose substantially to surpass their low point of a year ago.

In the same week initial claims for unemployment insurance decreased by 3%. This was the third consecutive week in which total initial claims showed a falling off.

* * *

John L. Lewis, United Mine Workers' head, came into public focus once again when on Wednesday of last week he ordered both the hard and soft coal miners to cease work for one week beginning on Monday, June 13, and ending June 20, because overproduction has "created menacing instability in the mining industry." "During this period," Mr. Lewis told all U. M. W. locals, "no work other than that essential to the protection of human life and property is authorized."

It was reported that the soft coal industry and the steel industry, which depends on coal, are better prepared to weather a coal strike than they have been for many years.

Official estimates of the U. S. Bureau of Mines place soft coal stockpiles at about 65,000,000 tons, or about twice as much coal as was above ground a year ago. It is understood that it is enough, if equally distributed, to last all types of consumers about two months.

The Bureau of Mines is regarded as conservative in its estimates and it is believed that coal stocks in all probability are considerably larger than the Bureau's 65,000,000-ton estimate.

Referring to the quit-work order, Lewis said, it was issued under the union's "contractual options under the agreements in all anthracite and bituminous districts." He apparently had in mind a clause in the present coal wage agreement which makes the contract applicable only "during such times as the miners are able and willing to work." Approximately 480,000 of the nation's coal miners are affected by the week-long walkout.

On May 13, last, Mr. Lewis called for negotiations with Mr. Moses, President of the H. C. Frick Coke Co., a subsidiary of the United States Steel Corp. He has made no other move to initiate negotiations over a contract to replace the present nation-wide agreement which is due to expire on June 30, next. The Southern coal operators have themselves begun talks with Mr. Lewis, but it is reported, these negotiations—now in progress in Bluefield, W. Va.—are making little headway.

* * *

Favorable weather in many parts of the nation last week encouraged consumer response to many special promotions. In the week total retail trade was maintained at a high level with aggregate dollar volume slightly below that of the corresponding week in 1948. Most shoppers continued to concentrate their purchases on moderately priced merchandise.

Total wholesale dollar volume increased slightly the past week. However, it was moderately below that of the comparable week last year. Commitments for Fall merchandise became more numerous during the week but the total was slightly below that of a year ago. Prompt delivery was stressed by many merchants.

**STEEL OPERATIONS IN CURRENT WEEK SCHEDULED AT 86.7% OF CAPACITY, THE LOWEST POINT FOR YEAR TO DATE**

Steel labor and management are poles apart this week on the wage question. The steelworkers' union is on the defensive more than they have been in years, according to "The Iron Age," national metalworking weekly. Management is determined that no concessions will be given that will raise the price of steel, increase overall costs or further depress the declining steel market.

Philip Murray's attitude on wage and security demands, this trade authority states, will be somewhat as follows: (1) Present deflation is man-made and unnecessary, (2) it is being used to scare labor and cut down demands by the union, (3) some industrialists are too pessimistic, (4) higher wages are the only thing that will keep up purchasing power, (5) social security is a must and (6) pensions must be provided by industry. Steelworkers still smart over steel industry captive miners being eligible for $100 a month pensions.

Steel management's view of the situation is: (1) The steel union has consistently held that everything steel management does is wrong, (2) steel orders have fallen off because customers have

(Continued on page 35)

We are pleased to announce that

ROBERT A. MACKIE
JULES BEAN

have this day been elected
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*Investment Securities*

40 Exchange Place New York 5, N. Y.

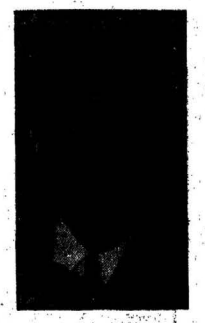
*June 15, 1949*

# Observations . . . .

## By A. WILFRED MAY

### Stockholder Dissatisfaction and Share Prices

Last week we discussed the marked rise in the voicing of stockholders' gripes against certain policies of their managements, chiefly having to do with dividend disbursements, bonus and pension plans, directors' holdings of shares, etc. We asserted that this situation wherein investors are joining labor and other community groups who demagogically carry on a permanent general attack on our industrial managers, constitutes another and perhaps definitive threat to our free capitalistic enterprise system. Also the possibility of loss of stockholder confidence in management as a *cause* of the citizen's inhibition from equity investment and of the low market price level, along with the converse accentuation of anti-management complaints as a *result* of bear market declines, was suggested.



A. Wilfred May

We offer herewith communications from two of our readers commenting thereon. One of these individuals is a self-constituted protagonist of stockholder rights and an inveterate participant in company meetings. The other is an academic student of finance and investment. Noteworthy and interesting is it that both these gentlemen, midst their varied comment, in common advocate that investors shun those companies in which they discern (actually or mistakenly) unsound management policies. The instrument of *blackball* is urged as the cure of abuse.

We are publishing these reactions solely for our readers' interest and the stimulation of public discussion of this vital matter—without implication of editorial evaluation of the views expressed.

**FROM MR. GILBERT**

*Following is a commentary from Mr. Lewis D. Gilbert. Mr. Gilbert has become widely known through his representation, by proxy, of small stockholders at their companies' meetings. He annually furnishes to about 5,000 of such interested investors detailed accounts of the happenings at 100 or so shareholder meetings.*

Dear Mr. May:

Apropos your recent column on "Company Managements on the Defensive," you will find that the growing distrust of certain management policies in the field of bonus and pension payments to top executives will not subside.

On the contrary it will continue to grow until management becomes more attentive to the wishes of independent public stockholders. The whip-hand we stockholders hold is simply that we will in increasing numbers refrain from making future investments in or adding to our holdings in corporations which follow a policy of "management preferred, shareholders watch out" tactics.

But, on a broader scale the faults are not entirely management's. Management was encouraged into thinking it could do what it wanted, for two major reasons.

**The first of these was the tendency of the financial press to attempt to protect management by glossing over its faults while over-emphasizing those of government and labor.** One of the few financial writers who has not followed this senseless pattern of what is really self-destruction has been Robert P. Vanderpoel, Financial Editor of the Chicago "Herald American." For example, in his column of May 8, 1949, Editor Vanderpoel stated the plain unvarnished truth when he wrote: "Corporation executives are spending good stockholder money trying to sell the private enterprise system to Americans, 99.44% of whom are already fully sold, and at the same time are doing their best to sabotage that system by grabs so greedy that they are becoming revolting."

**The second of the two blunders which accentuated management thinking it could do what it wanted with shareholder funds was committed by Wall Street.** It is for that, in large measure,

(Continued on page 39)

"The reward of a thing well done
is to have done it."
—EMERSON

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# The Outlook—Not Another 1929

By EMERSON P. SCHMIDT*
Director, Economic Research Dep't, Chamber of Commerce of U. S.

**Dr. Schmidt, warning if individuals and businessmen become hysterical, a collapse can come, contends current recession was expected and business prepared for it. Gives reasons why conditions are better than in collapse of 1929, and sees more investment needed to sustain prosperity. Cautious businessmen piling up useless reserve funds and hoarding incoming dollars can reduce business earnings. Outlines opportunities for creating greater stability.**

Even though business forecasting is neither a science nor a recognized art, we all engage in it. The businessman must forecast. Nearly every business decision is an exercise in judging the future. Changing wage rates, agreeing to adopt health and welfare programs, deciding whether or not to expand plant, determining price policy, determining the level of inventories, and adopting methods of raising new capital — all these decisions are based on what appears to be ahead.

Dr. E. P. Schmidt

The business executive who ceases to forecast soon ceases to be a businessman. This explains the popularity of forecasting sessions at business meetings—even though the payoff often seems to be a confusion of tongues and a heightening of uncertainty.

### The Forecaster's Mind-Set

The professional forecaster tends to predict a continuation of *whatever* trends *are current* for a period into the future, dependent mostly on whether he is, by glandular construction, a pessimist or an optimist!

A few days after V-J Day a government economist who spends much time doping the business future said, "We will have a six to nine months postwar replacement boom and then we will go back to the conditions of the 1930's." I saw him about once a month for the next two years and almost invariably month by month he made this same prediction in virtually the same words, not realizing the trick which his own mind-set was playing on him. He was much like the people who told us after V-J Day that it would be only a matter of *two to five years* until the Russians would have the atomic bomb, and even though nearly four of those years have now elapsed, many of them still say, "Just give the Russians two to five years!"

When business is on the downturn, sessions like this therefore are likely to accentuate the deflationary forces because most of us will simply and easily predict the continuation of what is taking place. That is, it is easy to predict that predictors will predict! If enough of us do so predict and if enough businessmen believe us, the ensuing business decisions will take the form of retrenchment both in terms of capital expenditure and in terms of inventory policy. If this analysis is sound, the forecasting itself becomes a stimulant of the boom and of the bust.

### Nonrecurring Phases of the Boom

The current recession has certainly been the most widely anticipated recession in our history. Few expected nearly 4 years of postwar expansion. No one foresaw the height of the boom or its duration. Everyone recognized, however, the presence of a host of *nonrecurring expansionist factors.*

(1) The rebuilding of normal inventories from the consumer through the retailer, the wholesaler, and the manufacturer.

(2) The enormous expansion of the money supply and the liquid assets in the hands of all sectors of the economy. Yet this was the one major factor most widely *underestimated* because during the depression so many people became believers in the "quantity theory of money" *in reverse,* due probably to the fact that the expansion of money in the last half of the 1930s did so little to restore high level economic activity.

(3) A further nonrecurring factor in business buoyance, it was assumed, was our foreign aid program (net foreign investment). *Few* people realized how UNRRA would lead to the British loan and the British loan to the Marshall Plan and the Marshall Plan to re-arming Western Europe — all these added to the International Bank, the World Fund, Export-Import loans, and what not.

(4) In spite of the wartime boom in defense plant construction, at war's end we still had a very substantial gap in productive capital equipment growing out of both the inactive depression period and the war period. The same was true of housing.

(5) Meantime, population was abnormally stimulated, the labor force increased by over one-half million persons a year, and we have become a much larger country in an economic sense.

On top of all this, the Treasury continued an artifically cheap money policy which put a premium on borrowing (investment) and discouraged savings. The banks stepped in and expanded credit more rapidly during the war and the postwar than any time in history.

Now all of these factors, most of which were imperfectly understood or only partially foreseen, account chiefly for the overemployment through which we have passed in the last few years.

### Retreat Expected

Few expected that artificial boom to continue and most people governed their affairs in such a way as to be able to absorb some contraction without going into hysteria or bankruptcy.

While our diagnosis, as we passed through the period, left much to be desired, we did develop a spirit of caution and we did throw up some mental and other safeguards. This has been all to the good.

In other words, the contraction which we are now experiencing was expected to come, and is natural and inevitable, although it does hurt, some workers and some businessmen. Even though we all foresaw it, in some quarters it is beginning to foster the jitters.

If enough individuals and businessmen become hysterical and fear that the foundations are collapsing, *this will bring on the collapse.*

If this occurs, growing demands for government to get into the fray will rise. Since depressions are supposed to be Republican Party phenomena, the Washington group is showing a disposition to "whistle its way past the cemetery." Should unemployment reach 5 million, the whistling will be replaced by action — of a kind(s).

### Does Government Have the Know-How and Wisdom?

Does experience with government furnish any basis for the hope that it can arrest deflation? Somehow, many people place a high confidence in government—this in spite of the fact that probably the greatest single source of the boom-bust sequence is the government itself.

Without eliminating war — a government project — we can never hope to bring about economic stability. The depression of the 1930s was to a large degree and aftermath of the First World War—the connection may be seen, for example, in the sudden burst of postwar reconstruction lending abroad, and the equally sudden collapse in 1928. The Second World War wrenched civilian production, prices, and indeed the whole economy out of any normal pattern. War and the methods of war financing are the greatest causes of boom-bust.

Nor did the governmental postwar policy following V-J Day indicate superior foresight and insight so far as the boom-bust problem is concerned. Toward the close of the war, government experts based policy on an anticipated unemployment of 8, 10 or 12-million unemployed—which did not happen. Rationing was abolished within a few weeks after V-J Day in anticipation of prompt, plentiful supplies and weakened markets. The Administration issued edicts and directives designed to force wage rates up—the first round of wage increases, then the second and on. (Even if its prediction of weak markets had proved correct, just how raising wage *rates* would have increased *payroll income* was never made clear.) While the primary and basic cause of postwar inflation was the multiplication of the money supply and of liquid assets (a government phenomenon), "inflation comes through the payroll," as Professor Joseph A. Schumpeter and others have pointed out. Thus government first paves the way for inflation and then sets it in motion —without intending to do either!

In terms of the boom-bust problem, our postwar foreign policy also greatly stimulated the boom although, even so, most people would say the UNRRA, the British Loan, ECA, and a host of other foreign and domestic aids had to be undertaken. But even if we are so agreed, does this type of situation not make it clear that government is not and perhaps usually cannot be in a position to mitigate inflation when such mitigation is called for, and may not be in a position to do the wisest thing to overcome deflation?

Similarly, when inflation was upon us, billions of dollars were turned over to veterans in the form of terminal leave bonds and other programs. At the same time the government greatly cheapened interest rates and raised the guarantee on residential loans so that the construction industry was overstimulated to the point where both labor and materials cost much more than they otherwise would. That all this was highly desirable does not change the fact that it

(Continued on page 30)

*Address by Dr. Schmidt before the Annual Business Conference of Sales Executives Club of Northern New Jersey and School of Business Administration of Rutgers University, New Brunswick, N. J., June 9, 1949.

# Security Dealers' "Mark-Ups" And the NASD and SEC

By JOHN DUTTON

## A Correspondent Enumerates Routine Involved in Single Sale

A while back one of our dealer friends sent the "Chronicle" a list of the physical transactions that were made to clear one trade. The NET FOR THE FIRM ON THIS TRADE WAS $6.64. I am going to try to repeat verbatim the steps that were necessary in order to handle this transaction. I wonder if some of the officials of the NASD who have never worked in a cashier's cage in an investment firm, or who have not had any contact at all with the actual workings of the securities business, would consider this $6.64 a conscionable profit. I wonder if they would take into consideration that such a transaction must be compensated for by other trades that show a much larger percentage than this one. I wonder if they realize that the margin of profit on an overall basis, of most security firms today is very low, because of the large number of transactions that are put through at a loss—as an accommodation to customers. I WONDER IF THEY COULD UNDERSTAND AFTER READING THE FOLLOWING HOW UNFAIR FISHING TRIPS INTO THE AFFAIRS OF THE AVERAGE BROKER-DEALER CAN BE, WHEN THEY PICK OUT A HANDFUL OF ISOLATED CASES OF WHAT MIGHT LOOK LIKE EXCESSIVE MARK-UPS AND SAY "YOU TOOK AN UNCONSCIONABLE PROFIT."

Here is the trade upon which this dealer showed a net for the firm of $6.64. A purchase ticket was written and sent to the broker through whom this stock was purchased. A ticket was sent to the customer. A copy was given to the salesman. The trade was entered in the customer's ledger. It was next entered in the journal. It was entered on the purchase sheet. It was also entered on the sales sheet. It was entered in the commission book. When payment was made by the customer, after he was chased for three days to get his payment in on time, so as to comply with margin requirements, it was entered in the checkbook. Payment was also entered in the ledger. The broker then failed to deliver the stock, which necessitated three calls. Then the stock carried a dividend and claim for dividend was made upon the registered holder. When dividend was received it was entered in the checkbook. Next a check for the dividend was sent to the customer.

### It's Time for Another Paragraph!

The broker phoned and made arrangements for delivery of the stock. It was delivered and a check was drawn to pay for it. Next a stamp ticket was made up; the stock was filled in for transfer. Then it was entered in the Stock In and Out book. The stock was delivered to the transfer office for transfer. Three days later a messenger was sent to the transfer office to pick up the stock. Upon delivery of stock to the office, records were completed in the transfer book. A letter was drawn and a registered mail receipt in duplicate was prepared. The transaction was entered in the insurance book. The stock was then entered out in the customer's ledger. It was delivered to the Post Office. When the red card was returned it was checked with the registered mail receipt. It was then entered in the customer's account on the holding card system.

All this for $6.64. And this is no extraordinary transaction. It is what happens in most instances where a security is bought for a customer. Sometimes there is even more work, such as in the case of a stock going to a loan; when substitutions have to be arranged, letters written requesting same, as well as when delivered, with receipts, powers, etc. And in the case of sales, signatures must also be guaranteed by a Stock Exchange firm.

It seems to me that some of our officials of the NASD and the Securities and Exchange Commission should be given a job working in the average small securities firm for about three months. They should start out for a week as a runner, general office assistant and flunkey. The next week as assistant to the one-man cashier's department which is about all most firms can carry today. After a month on this job they should be given a fistfull of leads and told to go out and see at least five prospects a day, and two every evening. They should carry their supply of prospecti with them. They should always leave one with the customer. They should work on a straight commission and pay their own carfares and telephone calls, as well as lunches for their prospective accounts. And when after weeks of this kind of banging their heads up against the sort of thing

(Continued under "Securities Salesman Corner" on page 36)

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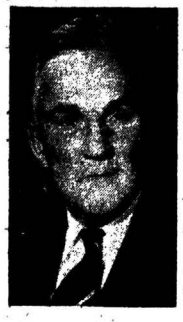
# From Washington Ahead of the News

By CARLISLE BARGERON

A few weeks ago I wrote an article to explode the assiduously circulated myth that TVA power built the atomic bomb. The article was challenged by Mr Sturdevant, director of public relations for the TVA. He admitted that the Manhattan Project at Oak Ridge did have its own steam plant but quoted a year-old letter from the TVA chairman, Mr. Clapp, to show that TVA, nevertheless, did furnish Oak Ridge some power, less than that furnished by its own plant. This, of course, had little or no bearing on my statement that Oak Ridge's own steam plant built the bomb.



Carlisle Bargeron

The argument that TVA power built the bomb has been used many times for many things, always for the purpose of enlarging the Public Power crowd's domain of government ownership. It was being used at that time, in Congress and elsewhere, to justify another steam plant for the TVA. Mr. Clapp cited the increased requirements of Oak Ridge. He told a Congressional committee:

"We now know that in addition to the requirements of our normal customer load, as we have estimated it, more is going to be expected of us with respect to the Oak Ridge atomic energy plant. They are planning an expansion, and they are counting on us to be able to meet their additional power requirements."

On top of this, proponents of the new steam plant introduced into the Senate debate, a letter from J. C. Franklin, "manager of Oak Ridge operations," Mr. Lilienthal's employee, to the TVA, saying that Oak Ridge was expanding its facilities and it had concluded that the most economical plan would be to get the additional power from TVA rather than stepping up its own power output. The letter had been made available to Senator Hill of Alabama, by Mr. Clapp.

It took considerable wind out of the opponents' sails. They had reason to believe there was something phony somewhere, that it was some teamwork between Lilienthal's atomic energy and TVA boys. They didn't disguise their suspicions but there was little they could do.

Well, it now develops that Oak Ridge is planning, was planning at that time, to switch to natural gas. It has gotten the approval of the Federal Power Commission to construct a pipe line to cost $10 million.

Oh, undoubtedly, this is just to be an additional supply. Undoubtedly, or so we will be told, there will be full need for the power from Oak Ridge's own steam plant, for that which it has been getting from TVA and that which it said in the letter read in the Senate, is expected from the TVA in the future.

For the time being, though, it is interesting to know the new propaganda line the Atomic Energy Commission is taking. Mr. Sturdevant in challenging my article, quoted an unidentified army officer as having said the reason the atomic energy plant was located at Oak Ridge was because of the accessibility of water power. This could easily have been the case, of course. Indeed, it seems quite logical.

Now, however, that the Atomic Energy Commission is trying to justify the construction of the pipe line, the propaganda is that the reason the Oak Ridge site was chosen in the first place is because of its proximity to big coal supplies in Kentucky, Tennessee and West Virginia. The plant, it is now explained, consumes 860,000 tons of coal a year.

Gone, dropped, cast aside is the bunk about TVA water power building the bomb.

Why, one of the great worries of the bomb builders, we are now being told, has been a coal strike. During the miners' strikes of '46 and '47, the current propaganda runs, Oak Ridge's coal stockpile dropped from 200,000 tons to 85,000 tons.

So the bomb managers have come to the conclusion they just can't jeopardize the nation's security by depending upon coal. They're converting to gas. It all sums up to the plain fact that it is impossible to get the truth from the TVA-AEC crowd.

Lilienthal dominates the scene. He was head of TVA and got to be head of the AEC on the propaganda that his miraculous TVA job made possible the bomb. His successor at TVA, Mr. Clapp, is his man.

And regardless of what Lilienthal is now doing elsewhere under the secrecy surrounding the AEC's operations, he has built up an empire in the TVA area.

First, the government takes a region, noted for its unpredictable precipitation and the low water of its streams, and pours out hundreds of millions of dollars in water power development. Then we learn this great water power utopia also has to have steam power. Now it has got to have natural gas.

The thing that amazes me is the utter audacity of not only Lilienthal but his crowd. The pipe line was in the works at the very time they were saying Oak Ridge was to depend upon TVA for its additional power and therefore TVA must have an additional steam plant. They apparently had no fear that this would come out. They are really sure of their ability to hoodwink Congress and the people as well.

## Henry Harjes Joins Doremus & Company

Henry H. Harjes has joined Doremus & Co., 120 Broadway, New York City, as an account executive. Mr. Harjes has been associated with J. P. Morgan & Co. both here and abroad, the Chase National Bank of New York and, more recently, was Vice-President of the export-import firm, Trading and Shipping Inc. During the war he was Chief Finance Censor with the Office of Censorship in Washington, D. C., and also served overseas with OSS.

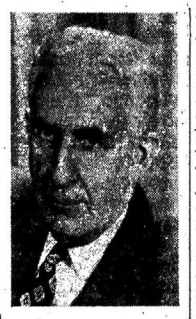
# Management's Contribution to High Level Economy

By JAMES BLAINE WALKER*

Goldman, Sachs & Co., Investment Bankers, New York City

**Deploring current squeamishness in and out of government circles regarding mentioning "depression," Mr. Walker sees obscure picture in situation. Says replacing "boom and bust" by planned or welfare state is ill-born philosophy, but contends we must recognize, as basic change, restoration of consumer's role in market place. Urges business managers keep their companies financially healthy and vigorous, and avoid excessive debt. Sees need of reviving buyer interest by reducing prices through more efficient business operation and organization. Decries government competing with its citizens.**

It is not at present difficult to describe prevailing conditions in the economic atmosphere or to take a fix on some of the not-so-heavenly political bodies which control our affairs. Plotting a future course, however, is a horse of another color. Broadly speaking we are still in the war economy which has now endured for some eight years. We continue to face huge government expenditures, high taxation, an inflated money supply, high prices, high wages and the threat of deficit financing. The production of goods is still large and employment substantial. Conforming to a war pattern, the businessman can yet feel on his neck the hot breath of a paternal government seeking to plan his affairs more vigorously. Finally there looms the threat of a Third World Shooting-War.



James Blaine Walker

During the last two years we have been proceeding along a precariously high plateau of production and employment. The experience had many of the earmarks of a boom. The pace was so fast that its continuance raised doubts in realistic minds. So for many there is no feeling of surprise in the fact that recently our prosperity plane has begun to lose altitude.

We now realize that in many respects consumers' needs have been met. Pipe lines show signs of overly high internal pressure. Production has become disquietingly spotty and unemployment has grown. Government is back in the money market peddling easy credit.

On the foreign scene while the Marshall Plan and ECA have achieved marked success, there are still many disquieting factors. Economic equilibrium in Europe is a goal of uncertain future. Great Britain is again making rather heavy weather of it. The Far East is in a mess. Rarely, if ever, in peace time have there been as many obstructions to a free flow of international trade.

In appraising all these factors with reference to our immediate future the judgment of the businessman is hung on the horns of no mean dilemma. There is much in the picture that favors continued but moderated prosperity. On the other hand giving weight to the disturbances and confusion that prevail and with today's high break-even points in manufacturing, there is bound to arise in the minds of some the spectre of that event which has usually followed great wars—a business depression.

At this point I find myself out of step with leading government officials and some business men. They have conjured up a frame of mind in which it is considered unholy to mention the word depression. One must revert instead to expressions reminiscent of the Victorian era when gals were disembodied to the extent of not having legs in a mentionable way. To this current squeamishness I emphatically rebel. If we cannot have open objective discussions and call a spade a spade we have indeed fallen to a low estate. The man who invented the expression "disinflation" belongs back there with those legless wonders of the 1870's.

### Picture Is Obscure

Now while I am willing to discuss depression, I am definitely not making predictions. The picture is most obscure. It still looks as though 1949 would be an excellent year for most businesses. Nevertheless I know a few concerns that right now are having to cope with sizable operating deficits. At best the situation is spotty.

However difficult it is to chart a course these days let us remember one thing — uncertainty is no stranger to our scene. American business men down through the years have demonstrated a capacity to cope with changing environment and an unpredictable future. We think these problems of ours critical and undoubtedly they are. But there have been many times in the past when our profit seeking forbears rested in no bed of roses.

If, as some believe, we are now in for important business adjustments, I see nothing disastrous in that. One is apt to forget that in a free system some cyclical changes are inevitable. Where people have freedom of action there is a tendency to respond to common enthusiasms and to common fears. Isn't it better to endure the consequences of these things and retain a relatively free economy than to submit to the slavery of total government planning?

We hear a good many people declare that we must do away with booms and busts entirely or give place to the planned or welfare state. That is an ill-born philosophy. It sprang from that little group of New Deal zealots who sought to justify their ambitions for assuming control of the business community. They were obsessed with the belief that in themselves all knowledge had

(Continued on page 28)

*An address by Mr. Walker at the First Annual Business Conferences sponsored jointly by Sales Executive Club of Northern New Jersey and School of Business Administration of Rutgers University, New Brunswick, N. J., June 9, 1949.

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

NEW ISSUE June 13, 1949

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Common Stock

($10 par value)

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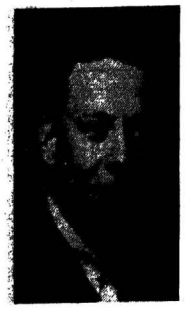
# The Economic Outlook: Short-Term and Long-Term

By VICTOR LEA*
Economist, Standard Brands, Inc.

**Though predicting continuation of recession extending into second quarter of 1950, Mr. Lea holds, because of government spending, there'll be no business collapse or precipitous price declines as witnessed in previous periods. In long-term outlook, foresees uncertainty due to "primrose path toward welfare state," and more inflation. Sees moral disintegration of voters and drift toward socialism.**

I will divide my observations into two parts: the "near-term outlook" and the "long-term outlook." I am purposely eliminating boring statistics, feeling that most of you are more interested in the figures displayed here on the beach than those contained in my book. However, I will be glad to discuss basic statistics with anyone after the meeting is concluded.


Victor Lea

As to the "near-term outlook," since last fall I have been convinced that we were going to have a business recession which would continue perhaps into the second quarter of 1950, and expect the following:

*Federal Reserve Board Index of Industrial Production, 1935-9=100: From a high of 195 (November-December, 1948) to 160 by December, 1949, or a total decline of 18%.*

*B. L. S. Wholesale Price "Combined" Index, 1926=100: From the present level of 156 to 140-145, or a decline of 7-10% by December, 1949.*

*B. L. S. "Farm Products" Price Index, 1926=100: From the present level of 174 to 145, or a decline of 17% by December, 1949.*

*B. L. S. "Food" Price Index, 1926=100: From the present level of 167 to 140, or a decline of 16% by December, 1949.*

I am afraid that unemployment and the Business Failure Index will score the only sizeable gains between now and the first quarter of 1950. I feel that corporate profits will decline because of high break-even points caused by the rigidity of many cost factors. This in turn will probably be reflected in a further lowering of security prices, despite the fact that recent stock market action has discounted to a considerable extent the poor corporate profit outlook.

### Comparison With Previous Depressions

However, I believe that the current business and commodity price situation is in no way comparable to that which existed in this country in 1920-21, 1929-33 or 1937-38 and that conclusions predicated on the history of these periods will be fallacious.

I base this opinion on the following:

(1) This has been the most publicized recession in U. S. history which makes it unique. We have learned much about the so-called business cycle in recent years and as a consequence industry in general has been more cautious.

(2) The business inventory situation is not nearly as top-heavy as it was in previous setbacks.

(3) Various consumer goods industries have had their individual depressions and are fairly well liquidated. Soft goods lines should stabilize although I think durables will decline further.

(4) Most important to me is the fact that the U. S. dollar is no longer automatically controlled by a convertible gold standard and government action alone determines the supply and cost of money.

(5) Farm prices, which are the most volatile group are, and in my opinion will continue to be, supported in some way by the Federal Government, which will prevent widespread precipitous declines such as have previously occurred.

(6) I believe that wage rates will be far more rigid due to strong union entrenchment and that reducing the cost of labor in a recession at this time will be extremely difficult, if not impossible. Since wage rates in many industries represent such a large proportion of finished product costs, this will tend to keep finished goods prices at relatively high levels.

(7) Unemployment insurance and old age pension plans, which were not in existence in previous business depressions, will cushion the shock of unemployment. Existing Federal Government programs along these lines can always be rapidly expanded.

(8) Gigantic Government public works programs such as highway modernization, school construction, expanding hospital facilities, etc., are already blueprinted and can be started if further cushioning is needed.

(9) Last, but not least, additional foreign aid programs on a huge scale could be counted upon to rid ourselves of burdensome commodity surpluses.

I therefore believe that Government activities and spending will prevent the business collapse, precipitous price declines and prolonged depressions witnessed in previous periods. Such measures will probably be felt about a year from now and U. S. business activity will again be artificially stimulated.

This outline of the "near-term outlook" leans heavily on not only a continuation, but an expansion, of Government spending. This might imply that I personally favor such action. Nothing could be further from the truth.

### Long-Term Outlook

Now let us consider the "long-term outlook." There is no one in this room who hopes as much as I do that I am 100% wrong in my predictions. First, let me clarify my political beliefs. I consider myself a "liberal" and "progressive." Webster defines "liberal" as: "Not narrow or contracted in mind; broadminded; not bound by orthodox tenets or established forms in political or religious philosophy; independent in opinion; not conservative."

"Progressive," Webster defines: "Favoring or striving for progress; especially in political and social methods."

I have firmly believed for years and will continue to believe that the Constitution of the United States is the newest, most liberal and progressive concept in government. I would like to add that I am against anything reactionary. Let us consult Webster again. "Reactionary" he defines: "A counter tendency; a movement towards a former political or social policy."

It cannot be denied that governmental "planned economies," public works projects, currency debasement and the like are reactionary by any interpretation of the word. The proponents of this type of government profess themselves to be the ultimate in progressive liberalism, but in advocating these "planned economy" measures under Government control they are in fact the perfect antithesis of liberals and can only be termed the most violent reactionaries. While they challenge the Constitution of the United States as a horse and buggy conveyance, the ultimate result of their policies would be to carry us back to the ox carts of the Babylonians. Planned economy programs are not only reactionary but have invariably been dismal failures.

To prove this point we have only to look at a few planned economy experiments of centuries ago.

*2130 B. C.:* The Code of Hammurabi, promulgated in 2130 B. C. established a wage and hour law for labor, which even took into account seasonal variation. Prices were also fixed and the general theme was security for the masses. Regulated also were builders' fees and warehousing charges as well as rental of cows in milk, calves, oxen, wagons and freight and passenger boats. Historical records indicate that the Code had an effect quite the opposite of that which was intended.

*1385 B. C.:* The Hittite Code of 1385 B. C. was a completely planned economy with wage rates, prices and everything else being regulated. The chief subjects dealt with, in order, were assault and battery, slaves, marriages, bandits, land tenure laws, feudal duties, military service, domestic animals, theft and damages, incendiarism, horticultural laws, laws fixing wages, rent and prices and laws on adultery and rape. The end result of this was, through deterioration of the economy, to deliver the Hittites into the hands of the Assyrians.

*524 B. C.:* Peisistratus in 524 B. C. came forth with an old age pension plan, which was copied in other ages in other lands, and made him a great political success. It was through the medium of this offer of security to the people that he was able to overthrow the Government of Solon. However, the prohibitive cost of the plan soon forced its abandonment.

Roman history is rich in attempts at planned economies, and they all had one thing in common—ultimate failure accompanied by great economic and political upheavals.

*33 A. D.:* Attempts at controlling the economy resulted in a great bank failure about 33 A. D. It took Tiberius four days to reopen the strong banks; the weak ones were never reopened.

*91 A. D.:* In 91 A. D., in the reign of Domitian, an AAA was set up. In this year there was a bad wheat harvest and an overproduction of wine. To stimulate the production of wheat and at the same time protect the vineyard interests, the Roman Department of Agriculture provided an AAA. It decreed that no more vineyards be planted in Italy and that 50% of the vineyards in the provinces be destroyed. A "Farm Credit Administration" was organized which established an interest rate to farmers of less than half the urban rate in Rome. This, too, was a failure.

*118 A. D.:* In the reign of Hadrian, in the year 118, an NRA was set up to alleviate the eco-

(Continued on page 43)

*An address by Mr. Lea before the Mid-Year Meeting of the Grocery Manufacturers Association of America, Inc., Virginia Beach, Va., June 6, 1949.

## *Dealer-Broker Investment Recommendations and Literature*

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

**Canada** — Monthly commercial letter — The Canadian Bank of Commerce, Toronto, Ont., Canada.

**Copper Stocks** — Analysis in current issue of "Fortnightly Market and Business Survey"—E. F. Hutton & Co., 61 Broadway, New York 6, N. Y.

In the same issue are discussions of **Food Machinery and Chemical** issues and a list of 20 favorite holdings of investment companies.

**Defensive Common Stocks**—Brief analyses of **Beneficial Industrial Loan Corp., Commercial Credit, Food Fair Stores, Inc., General Shoe Corp., Greyhound Corp., Lehigh Portland Cement Co., National Biscuit, National Dairy Products, R. J. Reynolds Tobacco, Sterling Drug, Warner Bros. Pictures** and **F. W. Woolworth Co.**—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Also available is a comparative table of preferred stocks of **Shoe Manufacturers.**

**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.

**Impressions**—Booklet of letters of appreciation from some of their clients—Available on request to corporate officers, attorneys or bankers—Ask for booklet X—Georgeson & Co., 52 Wall Street, New York 5, N. Y.

**Insurance and Bank Stocks**—Comparative table—White & Co., Mississippi Valley Trust Bldg., St. Louis 1, Mo.

**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.

**Unlisted Electric Utility Operating Companies** — Comparative table of 49 companies—New York Hanseatic Corp., 120 Broadway, New York 5, N. Y.

Also available is a table of related values for **American Telephone and Telegraph Co.**

* * *

**Art Metal Construction Co., Inc.**—Circular—H. M. Byllesby & Co., 111 Broadway, New York 6, N. Y.

**Ashland Oil & Refining Co.**—Circular—A. G. Becker & Co., 120 South La Salle Street, Chicago 3, Ill.

**Beatrice Foods**—Analysis—Cohu & Co., 1 Wall Street, New York 5, N. Y.

Also available is a report on **Kansas City Southern.**

**Brown & Bigelow**—Analysis and Study—Stanley Heller & Co., 30 Pine Street, New York 5, N. Y.

**Central Soya Company**—Analysis—William A. Fuller & Co., 209 South La Salle Street, Chicago 4, Ill.

**Chicago Railway Equipment Co.**—Circular—Swift, Henke & Co., 135 South La Salle Street, Chicago 3, Ill.

**Columbia Gas System**—Circular—Ernst & Co., 120 Broadway, New York 5, N. Y.

**Commonwealth & Southern Corp.**—Circular—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

**County Trust Co.**—Descriptive brochure—Hayden, Stone & Co., 25 Broad Street, New York 4, N. Y.

**Derby Gas & Electric Co.**—Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

**El Paso Electric Co.**—Analysis—Blair & Co., Inc., 44 Wall Street, New York 5, N. Y. Also available is a study of **Public Utility Switches.**

**Great American Insurance Co.**—Analysis—Geyer & Co., Inc., 63 Wall Street, New York 5, N. Y.

Also available are brief data on **Central Illinois Public Service** and **Interstate Power.**

**Know Your Securities**—Discussion of workings of the securities market—Westheimer & Co., 326 Walnut Street, Cincinnati 2, Ohio.

**National Gypsum Corp.**—Circular—Fahnestock & Co., 65 Broadway, New York 6, N. Y.

Also available is a circular on **Standard Brands, Inc.,** and **Twentieth Century-Fox Film Corp.**

**New England Gas and Electric Association**—Annual report for 1948—Write for a copy to H. C. Moore, Jr., Treasurer, 727 Massachusetts Avenue, Cambridge 39, Mass.

**Oregon Portland Cement**—Late data—Lerner & Co., 10 Post Office Square, Boston 9, Mass.

**Pacific Petroleums Ltd.**—Circular—First California Co., 300 Montgomery Street, San Francisco 20, Calif.

**Plymouth Cordage Co.** — Circular—Schirmer, Atherton & Co., 50 Congress Street, Boston 9, Mass.

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

**Shawinigan Water and Power Co.**—Analysis—James Richardson & Sons, 367 Main Street, Winnipeg, Man., Canada, and 80 King Street, West, Toronto, Ont., Canada.

**Southern Pacific System**—Study—Smith, Barney & Co., 14 Wall Street, New York 5, N. Y.

**United Gas Corp.**—Circular—Hirsch & Co., 25 Broad Street, New York 4, N. Y.

**Utah Idaho Sugar**—New analysis—Edward L. Burton & Co., 160 South Main Street, Salt Lake City 1, Utah.

**Warner Co.**—Memorandum—H. M. Byllesby and Co., Inc., Stock Exchange Bldg., Philadelphia 2, Pa.

**West Penn Electric**—Memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

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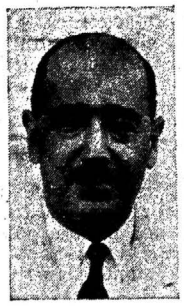
# Our Enormous Investment Opportunities in Venezuela

By HENRYK A. S. JORDAN

**Latin-American industrialist declares Venezuela offers American capital unparalleled chances for sound investment with fair return. Asserts her financial condition is sound with minimum of controls and restrictions. Although primarily agricultural, country's prosperity is based on oil.**

Visiting Venezuela—a tropical country in the coastal region and central plains of South America—one is transplanted from a world torn by crisis and threatened with dangerous economic and political uncertainties, to a land which is, indeed, a phenomenal exception. With a Spanish speaking population of more than four million and a territory larger than that of California, Oregon and Washington combined, Venezuela today is a land of unparalleled prosperity and unparalleled opportunity.



Henryk A. S. Jordan

Oil is the basis of Venezuela's prosperity. The second largest oil producing country, Venezuela contributes one-seventh of the world's supply. Oil makes it possible for the government to maintain favorable credit balances and to sustain sound domestic and foreign credit practices. As a result there are no restrictions on foreign exchange.

Even a brief sojourn in Caracas, the beautiful and modern capital, would convince one of the many opportunities for industry and investment. A thorough study of the economic situation would fortify one's first impression.

Investment opportunities await the investor in every field of economic endeavor. The country is primarily agricultural. Huge tracts of fertile soil could be most productive of cotton, sugar cane, coffee, cacao, and other crops. Yet, the country does not now produce sufficient foodstuffs to support its people. Investments in modern farming equipment could supply the needs of the domestic market and leave plenty for export. If proper transportation facilities were available, Venezuela could become a large meat producing country.

### Industrial Production Insufficient

Likewise, domestic industrial production fails to meet the steadily increasing needs of the country. Production of cement in 1936 was 128,000 metric tons, representing only 25% of consumption. The difference between production and need as exemplified above could be applied to almost every commodity. In a market hungry world, Venezuela is ready and waiting to do business at profitable terms with anyone who realizes the country's great potential and inexhaustible resources.

Oil is, of course, the foundation of the country's prosperity. Our industrial civilization turns oil into power and wealth. From a production of 120,000 barrels in 1917, Venezuelan production increased to 435 million barrels in 1948 of which 397 million barrels were exported. The fields are located in the Lake Maracaibo region of the Northwest. Explorations have also been made in the Guarica Area, southeast of Caracas, and it is said that the new fields will prove to be not less rich than those in the lake region. Since 1935 new refineries have been completed and others are under construction.

### Gold

There is also gold in Venezuela. During the first eight months of 1948 the mines yielded a total of 26,500 oz. of this precious metal. Rich diamond mines of Eastern Venezuela reached a production in 1947 of 60,045 carats.

Iron deposits at the mouth of the Orinoco river are estimated to hold 60 million tons of ore with an iron content of 60%. Other mines are said to contain another 50 million tons of ore. Other mineral deposits include: coal, copper, tin, lead, asbestos, magnesite and cinnabar.

In the past, oil absorbed the greater part of the financial resources and economic efforts of the country. With such a great source of wealth, Venezuela could afford to neglect other fields of activity. But an ever increasing population and a desire for a higher standard of living requires development of other industries. The present healthy financial situation of the country is the result, in large measure, of the favorable atmosphere created by the present leaders of the nation for new undertakings and well planned enterprises. This becomes most obvious in a review of the economic conditions of other countries where frustration caused by exchange restrictions co-exists with fears of economic depression.

In this connection the December, 1948 statement of Banco Central de Venezuela, the only bank issuing banknotes in the country, showed assets in gold foreign exchange in the amount of 1,084,-056,675 Bolivars (approximately three Bolivars equal one American Dollar), while notes issued by the Bank were valued at only 69,293,-925 Bolivars.

The Venezuelan future is bright. With a people confident and bearing good-will, Venezuela looks forward to continued and ever increasing prosperity. Her government would welcome far-sighted industrialists willing to help the country take its rightful place among the nations of the world.

### Investment Opportunities

Almost any field of activity offers good returns for investment. The most promising fields are those of mining and production of iron and other metals, machinery, foodstuffs and chemical, and all those endeavors which would help the country to attain some degree of self-sufficiency. Her needs are great and can be filled only through large scale undertakings.

Venezuela's financial life is well ordered and soundly organized. In the Central Bank one feels a clear concept of organization and stability characteristic of the banks in New York, London, or Paris. There are no signs of labor conflict and the whole population is actively cooperating in the development and in the welfare of the country.

**Venezuela today offers unusual opportunities for sound investment and a fair return on capital.**

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(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—Clarence F. Avery has been added to the staff of Wm. C. Roney & Co., Buhl Building, members of the New York and Detroit Stock Exchanges.

# No Cause for Jitters in Business Outlook

By VERGIL D. REED*

Associate Director of Research, J. Walter Thompson Company

**Asserting business is still unusually good and that recession from peak was desirable happening, taken in time, marketing specialist holds only real cloud in business sky is consumers' hesitancy to buy. Urges price reductions to maintain output and selling volume, and scores newspapers for misinterpreting economic data. Lists as favorable economic factors: (1) size of export market; (2) growing population; (3) high personal incomes and wages; and (4) tremendous liquid assets in form of savings.**

In recent testimony before a Congressional Committee, my friend, Dr. A. D. H. Kaplan summed up the present situation quite neatly when he said we had reached the stage where the baby had to be burped. We could with equal aptness say that we had just finished a rather breathless chase after fool's gold at the end of the inflation rainbow. Now that that alluring glitter has faded we start whistling in the dark.

Vergil Reed

Long faces are not typical of Americans, but we do get the jitters easily — and the jitters, if adequately pampered, can either bring on a nervous breakdown or make a hypochondriac out of an organically sound economy. Under present favorable conditions, American business will have to try very hard indeed to become a hypochondriac, let alone making itself really sick. Our thoughts and energies can surely be put to better use, but faith must be bigger than fear.

Strangely enough, many business and government leaders alike have grossly underestimated the vitality and stamina of the American economy, its industries as well as the market. That has been true in the distant and near past. It is true at present, when many are seemingly so busy looking for hidden weaknesses that they entirely overlook obvious strengths.

We heard loud wails about unemployment reaching 10 million to 12 million during our post-war reconversion period. The maximum was 2.7 million. We hear those same wails today in spite of the fact that the number of people employed was greater in December, 1948, and in January, February and March, 1949, than in the same months a year previous. The small increases in unemployment for those months are accounted for by new additions to the labor force.

### Readjustment Natural

The present period of recession, reflation, disinflation, readjustment, or any other fancy name you wish to give it, is not only a natural but a desirable happening which we should welcome and and ride out rationally with thanksgiving that it was delayed longer. On March 26, 1947, I said in speaking to a group of bankers, "The trend to further inflation is the only barrier I can see to the enjoyment of a long period of sound prosperity to the great advantage of all. If our business leadership is not capable of solving this clear-cut and definite problem, and solving it decisively, aggressively, and quickly, the penalties will be crushing, the public will lose faith, and the private enterprise system definitely will be in the dog house both at home and abroad. People will fail to recognize the fact that the cause of the failure will be the shortsightedness of people, rather than the failure of the system."

While some further drop in prices must be expected, there is certainly no reason or cause for any depression even approaching the severity of that from 1920-21 when prices fell suddenly and far. Even by the end of 1950 it is doubtful if wholesale prices will have fallen as much as 20% from 1948 peaks. The retail price index actually rose very slightly in both March and April, but little was said about that fact in the press, nor about recent rises in wholesale food prices.

Business is still unusually good measured by any standard. Now that June is here and none of the dire forebodings of January have come true, it is time we face the facts—and they are very encouraging.

Until the present readjustment appeared, everybody was clamoring for it. Now we have it. Baby's tummy ache is a natural result of too rapid feeding and intake of too much air. Let's burp him and get it over with. He isn't going to die. He isn't sick. He's going to thrive, if we don't go into hysterics and scare him to death.

Our economic climate and outlook are remarkably favorable with only slight cloudiness and turbulence here and there. We will consider the clouds and bumps first, the favorable facts later, and then take a look at what to do about it.

### Clouds and Turbulance

The temporary reluctance of both business and consumers to spend money is the biggest and blackest cloud in our economic sky. So far this decline in retail sales and business buying is small and is bringing a slow drop in many prices. However, purchasing power is abundant and widely spread. This is a waiting for better values, and postponed buying plus ample purchasing power spells greater demand when better values are offered. The only danger is that the tug of war be too prolonged before better values are offered and aggressively promoted.

Newspapers and news magazines are encouraging undue pessimism through misinterpretation of the facts and absolutely misleading headlines. A New York headline blares forth "U. S. April Job Figures Show Seven-Month Drop—Industry in its worst post-

(Continued on page 26)

*An address by Mr. Reed before the Institute of Cooking and Heating Appliance Manufacturers, Cincinnati, Ohio, June 7, 1949.

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

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# Public Utility Securities

By OWEN ELY

## Delaware Power & Light

Delaware Power & Light currently sells on the New York Stock Exchange around 19½, pays $1.20 and yields over 6%. Earnings in the 12 months ended March 31, based on an increased number of shares, were $1.76 (after 17c amortization), a gain of 40% over the previous 12 months' period (based on the same number of shares). The stock is currently selling at about 11 times earnings.

The company expects to spend about $17 million for construction this year, $21 million in 1950 and $15 million in 1951, or a total of $53 million. This compares with a net plant account of about $47 million (including subsidiaries) at the end of 1948 (excluding depreciation and plant acquisition adjustments). Thus plant account will be nearly doubled. Largest item in the program is the construction of a 132,000 KW steam generating station in Wilmington, to be ready in 1951, which will account for about half of the overall program; a 33,000 KW addition to the Vienna Plant will also be constructed.

Of the $53 million required funds about $13 million will probably come from cash on hand, retained earnings, and depreciation and amortization. Four million dollars was obtained in March from the sale of 232,520 shares of common stock. The company is currently obtaining about $15 million from the sale of $10 million first mortgage and collateral trust bonds and 50,000 shares of preferred stock. This will leave $21 million to be obtained through future security sales. Construction costs are now declining and it may be that the finance program can be curtailed somewhat as a result. No program has been laid out in detail, but the company will probably try to maintain the capital ratios around their present level. Pro forma capitalization is now 47.5% debt, 19.2% preferred stock, and 33.3% common stock equity. Common stock book value is about 18. The company may not have to do any further financing until the summer or fall of 1950.

The big jump in earnings during the past year appears to have been due to an increase in gas rates plus increased sales and lower fuel costs. It appears likely that share earnings may taper off around the present level, as sales are now running a little under last year. The $1.20 dividend, reflecting a 68% payout, seems conservative.

The company's revenues are about 83.4% electric, 16.2% gas and 0.4% ice and refrigeration service. It obtains two-thirds of its electric requirements, and substantially all its gas, from Philadelphia Electric Company. The territory served with electricity is widely diversified, including the highly industrialized city of Wilmington with an estimated population of 125,000, and the farm area (specializing in poultry) extending south to Cape Charles, Virginia. The company serves the entire State of Delaware (it is perhaps the only company to serve an entire State) and portions of Maryland and Virginia. The territory is generally known as the Delmarva Peninsula, being separated from the mainland by Chesapeake Bay. Total population served with electricity is 382,000.

Due to the large proportion of rural territory average residential KWH revenues last year were 3.96 cents. In April 1948 the use of fuel clauses was increased, and about 80% of all electric sales (and all gas business) are now subject to automatic rate adjustments for fuel costs. At the present time the company is subject to regulation within Wilmington by a local utility board, but there has been no State regulation of utilities. However, a three-man commission is now being created which will supersede the local commission.

The long-term trend seems favorable. The Wilmington plant, when available in 1951, will save the cost of constructing new transmission lines (including under-river cables) and will substantially replace the power now purchased from Philadelphia Electric. There are several big projects in the territory which augur well for future growth. DuPont is now centralizing all its research faciltiies in a new $30 million development; and two big bridges are projected, each to cost about $30 million—one over the Delaware River and one over part of Chesapeake Bay.

## With E. F. Hutton & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—William H. Bateman has become affiliated with E. F. Hutton & Co., 623 South Spring Street.

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(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—Maxine Bryant and Earl B. Musser have joined the staff of Herrick, Waddell & Reed, Inc., 1012 Baltimore Avenue.

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# Can We Maintain a High Level Economy?

By W. WALTER WILLIAMS*

Chairman, Committee for Economic Development
President, Continental, Inc.

**Defining high level economy as reasonably full employment, combined with efficient production and high rate of economic progress in a free society, Mr. Williams says it can be achieved if we use properly our economic "know-how," and at same time do not lose freedom in efforts to maintain it. Cites as basis for future confidence: (1) our strengthened monetary system; (2) continued high government spending; (3) our income tax system; (4) our unemployment compensation and agricultural price policy, and (5) our determination to avoid another depression.**

I would like to take a moment to explain what the subject under discussion means to me. As I am choosing to define it, the question we are considering is one of the two or three great questions of our time. The answer to it will basically determine the course of history in the decades to come. I think there is danger that we may look at this question in a way that makes it either too easy or too difficult and in either case, unimportant or even trivial. One way of looking at this question is to interpret it as meaning, "Can the United States maintain full employment?" Now if this were all we were after there would be no doubt that the answer is yes. If all we want is full employment there is nothing easier to achieve; we could get that by a gigantic boondoggling program. But certainly this is not all we want and we would not be satisfied with this objective if we achieved it at the price of other important objectives.

W. Walter Williams

At the other extreme we might define the question as "Can the United States maintain continuous, full employment and efficient production, together with economic progress and increasing standards of living in a free society?" If we take these words "continuous full employment" literally, I have no doubt that the question is unnecessarily difficult. A free and progressive economy implies change and adaptation. In a world of imperfect foresight and immobility, it implies the possibility of error and friction. Therefore it means that employment would not and probably should not at any time be perfectly full, and that there would be and should be some economic fluctuations. Not only is this objective or combination of objectives unattainable; it is also more than we really need. Our real question is whether we can achieve something less than that, but still more than we have achieved in the past. The true objective is reasonably full employment, subject only to minor fluctuations, combined with efficient production and a high rate of economic progress in a free society. What we are after is not merely a high level economy, but a high-energy and high-opportunity economy as well.

I believe that this objective is within our capacity to achieve. I can only say that I believe it is within our capacity. Its achievement is not ineviable or certain.

### Obstacles Not Insuperable

We can no longer delude ourselves into thinking that there are no unsolved problems. But I believe that when we look at our problems, appraise what we have and what we haven't, we shall see that the obstacles to achievement of this important objective are not necessarily insuperable.

I should be clear at the outset that the possible limitations upon our achievement of this objective do not lie in the supply of productive resources—in the supply of labor, plant and equipment or basic raw materials. Relative to other countries or other times, we are abundantly provided with productive resources. We have a large, efficient and energetic labor force. Our managerial talents are the envy of the rest of the world. We have been endowed by nature with tremendous natural resources. More important than any of these, we have the capacity for creating capacity and the technique for improving technique. Our national income is so high that we can maintain the world's best standard of living and at the same time devote a large part of our current output to expansion of our productive facilities. Most countries of the world are confronted with a difficult choice between using their current production to maintain and slightly improve consumption levels and devoting some output to the improvement of their capacity to produce in the future. We also have that choice, but because we make it within the framework of a relatively large per capita income, the choice is much easier for us. Furthermore, we have in our large and well-organized scientific facilities and personnel, the instrument for a continuous improvement of the technology of production.

### Question of Exhaustion of Resources

I am aware that many people are greatly concerned over the possibility that we shall soon exhaust our supplies of petroleum or iron ore or fertile soil. I believe that such people serve a useful function, but not as forecasters. They serve the function of alerting us to a problem which must be solved and the solution of which makes their forecasts false. I believe that so long as we have this great capacity for increasing capacity and highly developed technique for improving techniques, we shall continue to prove these forecasts wrong.

It is quite obvious that one major aspect of this combined objective, the high employment aspect, is not a problem of the supply of resources in any fundamental sense. Geographical or industrial bottlenecks may, from time to time, cause frictions which make the level of unemployment somewhat higher than it might otherwise be. But the really serious problem is a problem of utilizing the resources that we have.

I do not wish to imply that the supply of resources is not a limiting factor in our economic well-being. It is the basic limiting factor. Despite our relative abundance we are a poor country by the standard of what we would like to have. It is important to recognize this. It is important to recognize that there are limits to what the economy can provide, no matter how efficiently it operates. We shall be doing ourselves a great injury if we demand from the economic system more than its resources are able to provide. But having recognized this, the great problem — in the sense of the great question about which action can be taken—is the effectiveness with which we use our resources to produce what the country wants, including increasing our capacity to produce in the future.

### What Is At Issue

What is at issue is the adequacy of our social institutions, our public and private policies, our economic know-how and our general standards of values. Of this list it is the knowledge and the values that are the main things. If we know how to do so and want to do so, institutions and policy can be changed in ways that will serve us more effectively. The ultimate limitations upon our capacity to maintain a high level economy are how well we understand the way in which our economic system works and how badly we want it to work better.

Our economy can make effective use of the gasoline engine if a relatively small number of persons learn the principles of manufacturing and operating such an engine. The tremendous technological development of our times rests upon knowledge that is in a relatively few minds. But the effective functioning of our economic and social system depends upon very widespread knowledge of the principles and possibilities of a highly complex and interrelated system. We cannot leave the making of social decisions to a relatively few social scientists. It would cease to be our system if we did that. So the question whether we have the kind of knowledge necessary to make our economic system function more adequately is not whether that knowledge exists in the minds of a few experts, but whether that knowledge exists in or can be translated to the minds of a very large part of the population.

Perhaps even more important than the question whether we know how to maintain an economy of reasonably high employment and efficient production consistent with progress and freedom, is whether we really want to do that. Of course everyone will recognize that the objective is a desirable one. But will there be sufficient acceptance of this general and long-run objective if it should come into conflict with group of short-run purposes?

When one states one's confidence about our ability to maintain reasonably high employment in a progressive and free society, it is naturally the high employment aspect of this objective that comes into question. Because we have had progress and freedom we tend to take them for granted. Because our generation has lived through one of the worst depressions in history, we are obsessed by the difficulty of maintaining high employment. I think it is quite possible that in this way we have reversed the proper emphasis in the question. Because we are so obsessed with the problem of high employment we may overcompensate. That is, the real danger may not be that we fail to maintain reasonably high employment, but that we take action to maintain high employment which

(Continued on page 38)

*An address by Mr. Williams at a Business Conference of the School of Business Administration, Rutgers University, and the Sales Executives Club of Northern New Jersey, New Brunswick, N. J., June 9, 1949.

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*LETTER TO THE EDITOR:*

# A Plea for Sharing Commissions On Exchange Transactions

**Lawrence F. Smart, over-the-counter dealer of New Orleans, says ailing securities business could be given a new lease on life if stock exchange members would be permitted to share commissions with non-members on business latter originate.**

Editor, Commercial & Financial Chronicle:

On all sides one hears of the lack of profits among the members of the big Stock Exchanges. Some say that if it were not for commissions received from the grain and cotton business, nearly all brokerage houses would be running in the red.

In looking about for scapegoats upon whom to lay the blame for this situation, what about looking into our own family? We find two branches handling stocks, the listed securities and the unlisted securities families.

Do they cooperate for their mutual benefit and for the good of the business? I would say the answer is emphatically No.

The reason that I, an over-the counter dealer, employ the phrase above "emphatically no," is that not one whit of compensation is passed on to the unlisted securities dealers for the listed business which they are forced at times to accept and to execute for the full and entire benefit only of the Exchange members.

The Exchange members may not realize it, but the over-the-counter dealers are burdened by a cruel competitive disadvantage in the non-allowance of a part of commission to them. Certainly it is unjust.

And why are we unwillingly forced by circumstances to accept such business? Because the listed branch of the securities family is fortunate in having its wares put before the public by plenty of free advertising. Some daily newspapers are devoted almost entirely to listed quotations, to news of companies whose stocks are listed and to opinions as to the course of the listed market. Almost all Metropolitan daily papers devote part of a page to listed quotations. Also many magazines and large statistical organizations are primarily engaged in publicizing listed securities. No wonder lots of investors only want to buy securities where they can watch the day-by-day quotations.

The over-the-counter section of the securities business has no interest — except speculative of course—in helping to stem a break in the listed market—and why should they? They don't get any part of the commissions. However, over-the-counter securities suffer in a downswing—why should people buy the unlisteds when you can get listed stocks in the same industries cheaper?

It seems to me that the whole securities fraternity stands by with a do-nothing attitude when stocks slip lower and lower below their real value. Apologies are here noted to those Exchange member firms who do try to stop investors from throwing securities away at far less than their real value. I particularly refer to the commendable "Aw Nuts!" newspaper ad of a prominent firm several months back. In fact several clever ads have been presented but not enough. Anyway a start in the right direction has been made. Incidentally, a campaign to get the same beneficial advertising rates enjoyed by department stores would help financial advertisement.

And now to cure the ailing patient. The question has been asked, when one takes sick in a public place—is there a doctor in the house? Among the Unlisted Securities family, there are plenty of good and highly trained doctors (salesmen, sole proprietors, partners, etc.) who can treat the patient and thereby earn a reasonable fee. Mind you, it costs a lot to train a salesman—so why not grab at the golden opportunity to acquire thousands overnight? I'll wager the Listed business will double or triple with the help of the over-the-counter dealers. As a suggestion to turn the unwilling over-the-counter dealers into enthusiastic salesmen, Exchanges should allow bona fide non-member dealers 40% of gross commissions if they do the bookkeeping on their own clients' transactions, 25% if the Exchange member has to do it for them. This rate is by no means too high, as certain member firms provide wire service and clear transactions for out-of-town Exchange members for less than 60% of the gross.

They should not be afraid of losing too many of their men who might want to go into business for themselves. Mathematically it works out the same whether you pay an independent salesman more or pay an employee less and also pay his maintenance.

The over-the-counter dealers may also tap a new class of buyers —the masses. This arrangement could make the market course smoother with less ups and downs by providing more salesmen to sell the goods on the counters of the Stock Exchange.

If Listed stocks were merchandised in the same manner as department store articles, that is from wholesaler to retailer to public, or as insurance, from wholesaler (state agents) to retailers (local agents), we would witness, I believe, a much larger business for the wholesaler (exchange member), a much steadier business and a greatly improved business economy.

Remove this roadblock to a larger traffic in securities, and let all men in the securities business participate in all phases of that business, without anyone having to apologize to any investor for charging an extra commission. The over-the-counter men are now used to selling large blocks of listed securities after the close of the listed market. The very next day this same over-the-counter dealer loses interest in the securities that he sold because he no longer can make a commission out of them. Also remedy this unnatural situation.

If anyone else holds the same opinion on the matter of the Exchanges thusly enlarging their sphere of activity, they could help by writing the Exchange member through whom they do business and by endeavoring to get additional publicity.

In conclusion, we members of the Securities family, whether we realize it or not, are pretty important to the American way of life. Let's eliminate if possible deep bear markets whose very publicity generates a slackening of business activity and brings on depressions. A united, firmly-welded front, a rebirth of the fighting spirit of the old toughened operators of former decades of Stock Exchange glory, will do the trick. Let's pull together right now for a bigger and better stock and bond business, for a stronger and more secure America. Pull together not only with one another but with labor and with our duly elected government.

LAWRENCE F. SMART,
Hibernia Bank Bldg.
New Orleans, La.
May 27, 1949.

# Wage Policy in Recessions

By DR. L. ALBERT HAHN*

**Economist cites past German and French experience as forecasting likely resistance to wage adjustments here. Asserts forcing of wage inflation in an otherwise deflationary environment, following Keynesian philosophy, would disastrously aggravate depression and disrupt American economy. Maintains adjustment of costs to new price level necessary to keep economy going without ever-renewed inflationary injections. Pleads for us to put economic laws to work again and rebuild free economy.**

ZURICH, SWITZERLAND—From many sides, especially labor leaders, the argument is presented that in a recession wages must be raised in order to maintain purchasing power. In view of the inclination of the unions to enforce a wage inflation in an otherwise deflationary environment, the question whether this will alleviate or aggravate a depression may prove vital to the American economy.

Photo: H. N. Rubien
Dr. L. Albert Hahn

The idea that raising of wages is a means of assuring full employment is an outgrowth of Lord Keynes' theories.

Nowhere does the difference between Keynesian and pre-Keynesian economics show up stronger than in the matter of full employment policy.

Classical-neoclassical economists had not the ambition to "maintain full employment." Their idea was: every boom is followed by a depression during which the excesses of the boom have to be corrected and liquidated; the price level is bound to fall. Interference by interest rate manipulation or deficit spending can prevent the price level from falling too far below an "average" level. Before this happens no real recovery is possible. Only an economy where costs have been adjusted to the new price level keeps going in a "natural way" without ever-renewed inflationary injections.

### Keynes' Ambitions

Keynes' full employment policy is more ambitious. It does not aim at restoring but at maintaining full employment. But this ambition is somewhat involuntary. For in his system full employment cannot be restored through wage adjustments. It can only be maintained through price and demand support. Wages cannot be lowered in view of labor's resistance to lowering of money wages and in view of threatening "over-saving deflation" which would overcompensate the effects of lowering of wages. There is only one way out: inflation or reflation by manipulating the interest rate downward and by government spending. If a man is taking a bath and the water in the tub is shallow he must lower his body to be covered. If he does not lower himself the only other way to be covered is to run more water into the bathtub.

### "Refilling the Bathtub"

We have tried to show that such "refilling of the bathtub" is practicable only in very special situations, for instance, during a depression, after the excesses of the previous boom are already well liquidated, but never with a view to extending a dying boom. Otherwise, to go back to our metaphor, the water will soon flow out of the tub again or it may be impossible to cover the body at all. Therefore, not only must the opening of the faucets be well timed, but also the body must already have been lowered quite a bit.

It is true that intervention can be too late and too weak. This was the mistake committed at the beginning of the '30s, at least in Europe. A deflationary monetary and fiscal policy was continued for much too long a period and reflationary measures, when finally introduced, were too timid.

### Intervention Too Early and Too Large

Today the great danger lies in the opposite direction. Keynes himself has expressed the opinion that low interest rates are the means of prolonging a boom and many of his followers think that government spending has to set in every time demand dwindles. This has created an atmosphere that may well force an intervention at too early a moment and on too large a scale. But I doubt its success. Before the boom is liquidated to a certain extent and the price and demand situation, created through over-speculation, revised downwards, everything spent will prove to have been poured into a barrel without a bottom. Nothing else will be achieved but a waste of valuable ammunition. A short-lived consumer-spending boom will soon collapse without having revived the economy to a natural life but after having endangered the credit and currency of the country. Whether one wants it or not, prices will go down in the next depression from their boom level, as they have always done in depressions, and the only question is at what level the price decline can and should be arrested. So, after all, wages will have to come down: the man in the bathtub will have to lower his body.

But will he do it? I must confess that I doubt it and this situation frightens me.

### Germany Under Purchasing Power Theory

I have once already lived through a period in which wages should have been lowered but were not because of the arguments of the purchasing power theory. From 1927 on employment began to decrease in Germany at a time when demand was still holding up. Entrepreneurs held that unemployment was the result of a too rapid rise in wages and a subsequent replacement of labor by capital. Labor leaders rejected wage reduction in the face of steadily mounting unemployment. Their argument was, just as it is today, that high wages are necessary to maintain a high level of purchasing power. Indeed the reasons advanced at that time in dailies presenting the views of labor were so identical with those of today in this country, that I sometimes have the feeling of living this period of my life over again.

As is well known, wage reductions were opposed in Germany for years by the trade unions. They even succeeded in obtaining substantial wage increases at a time when the depression was

(Continued on page 29)

**This article contains excerpts from Dr. Hahn's recently published book, "The Economics of Illusion" (Squier Publishing Co., 20 Broad Street, New York City) —EDITOR.*

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**OFFERING PRICE $101.75 PER SHARE**

(Plus accrued dividends)

*Copies of the Prospectus may be obtained from the undersigned by persons in any State where the undersigned may lawfully offer these securities.*

**Kuhn, Loeb & Co.**

June 16, 1949.

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# Missouri Brevities

Clinton Industries, Inc., St. Louis, which is now reported to be the country's third largest manufacturer of corn products, on June 2 obtained approximately $7,500,000 through the sale to an insurance company of a like principal amount of its first mortgage sinking fund 3¾% bonds, due 1964, and used approximately $6,500,000 to pay outstanding term bank loans of the company and will advance $500,000 to Juice Industries, Inc., a subsidiary, to pay a short-term bank loan of like amount. The balance will be added to working capital. This placement was made through Merrill, Lynch, Pierce, Fenner & Beane, investment bankers, of New York City.

On June 9, a group of underwriters, headed by the same New York bankers, publicly offered 150,000 shares of Clinton Industries, Inc. capital stock (par $1) at $26.75 per share, the net proceeds thereof to be added to working capital to be used to pay for improvements, etc. The Missouri banking houses participating in this offering are: Newhard, Cook & Co., O. H. Wibbing & Co., Reinholdt & Gardner, Dempsey-Tegeler & Co., Stix & Co., Scherck, Richter Co. and I. M. Simon & Co., all of St. Louis, and Stern Brothers & Co. of Kansas City.

Clinton Industries, Inc. and its subsidiaries as at March 31, 1949 reported total current assets of $19,773,071 and total current liabilities of $9,896,967.

* * *

**Stix & Co. and Peltason, Tenenbaum Co., both of St. Louis, on June 2 participated in the public offering of $3,150,000 Arkansas-Missouri Power Co. 6½% interim notes, due Dec. 15, 1951, at $47 per unit of each $45 principal amount, plus accrued interest. Of the net proceeds, $700,000 will be used to pay off temporary bank loans, approximately $1,000,000 for current general corporate purposes, and the remainder of about $1,307,000 will be applied toward the company's construction program. The notes are convertible on or after June 15, 1950 into, and payable at maturity (if the company so elects) in, shares of preferred and common stock.**

* * *

Stern Brothers & Co., Newhard, Cook & Co., Reinholdt & Gardner and Dempsey-Tegeler & Co. were included in the group of investment bankers who on June 8 publicly offered $75,000,000 Public Service Electric & Gas Co. first and refunding mortgage 2⅞% bonds, due June 1, 1979, at 101¼% and accrued interest.

* * *

**St. Joseph Light & Power Co. on June 3 filed an application with the Securities and Exchange Commission requesting permission to issue and sell at competitive bidding $4,750,000 of first mortgage bonds due 1979. In addition, it seeks authorization to amend its charter so as to provide for an increase of the authorized common stock from 45,000 shares ($100 par) to 600,000 shares (no par). Continental Gas & Electric Corp., the parent, is to receive 212,579 of the new common shares in exchange for its holdings of 40,409 shares of present St. Joseph stock, and will purchase an additional 105,213 shares of the new common for $2,000,000 cash. The net proceeds to be received from the sale of bonds and the new stock are to be used to finance St. Joseph's construction program for the years 1949-1951.**

* * *

Stern Brothers & Co., Dempsey-Tegeler & Co. and Reinholdt & Gardner on May 18 were included in the nationwide group of investment bankers who publicly offered 800,000 shares of Southern California Edison Co. common stock (par $25) at $32.25 per share. The offering was oversubscribed.

* * *

**Missouri Utilities Co., Cape Girardeau, on May 26 filed a registration statement with the Securities and Exchange Commission covering 51,184 shares of common stock, par $1, which are to be offered to common stockholders on a four-for-one basis. This issue will be underwritten by a syndicate headed by Edward D. Jones & Co., St. Louis. New Proceeds are to be used to pay for construction.**

* * *

The May Department Stores Co., St. Louis, for the year ended Jan. 31, 1949, reported consolidated net sales of $407,266,466 consolidated and net earnings after Federal income taxes of $19,650,653, or $6.52 per common share, compared with sales of $358,013,576 and net of $17,231,481, or $5.94 per common share, for the preceding fiscal year. The consolidated net earnings for the Jan. 31, 1949 year include the income of the stores of the Strouss-Hirshberg Division from the date of acquisition — May 10, 1948. The current assets totaled $119,984,936, and current liabilities $33,565,019.

* * *

**Stern Brothers & Co. also participated in the public offering on May 19 of 80,000 shares of $4.50 cumulative preferred stock, without par value, of the United Biscuit Co. of America, at $103.50 per share and dividends.**

* * *

Western Auto Supply Co. reports May sales of $10,522,000 which compare with $10,287,000 for the same month last year, a gain of 2.3%. For the first five months of this year, sales aggregated $42,400,000, against $44,322,000 for the corresponding period in 1948, a decrease of 4.3%.

* * *

**John R. Kauffmann & Co., St. Louis, on May 15 publicly offered 150,000 shares of Shomee Oil Corp. of Missouri class A common stock at par ($1 per share). The net proceeds are to provide working capital to carry on a general oil business.**

* * *

Illinois Terminal RR., St. Louis, for the four months ended April 30, 1949 reported a net income, after fixed charges and taxes, of $236,545, equal to 47 cents per share, compared with a net of $393,752, or 79 cents per share, for the corresponding period of last year.

Berkshire Fine Spinning
Black, Sivalls & Bryson
Commonwealth Gas
Mississippi River Fuel
Delhi Oil
Texas Eastern Transmission
Rockwell Mfg.
Southern Union Gas
Southwest Gas Producing

*Bought — Sold — Quoted*

SCHERCK, RICHTER COMPANY
Landreth Building
St. Louis 2, Mo.
Bell Teletype SL 456 Garfield 0225 L. D. 123

## Pittsburgh Bond Club Spring Outing

PITTSBURGH, PA.—Bernard C. Kelley of Halsey, Stuart & Co., President of the Bond Club of Pittsburgh, has announced that the annual spring outing of the club will be held on Tuesday, June 28, 1949, at the St. Clair Country Club.

As usual, the outing will feature a golf tournament and competition for the Bankers Cup now held by Arthur H. Hefren. There will also be a La Bocci tournament. This outdoor bowling game has become increasingly popular at Bond Club outings.

Dinner will be served at 7:30 p.m. to be followed by entertainment and awarding of prizes for the sports events.

Silas J. Titus of R. C. Schmertz & Co. is General Chairman of the outing and is assisted by the following sub-committees:

**Dinner**—Philip K. Herr, Fidelity Trust Co.; Austin S. Umstead, A. E. Masten & Co.; Owen Kraft, Blyth & Co.; Thomas Lynch, III, Moore, Leonard & Lynch.

**Golf**—Raymond M. Taylor, Raymond M. Taylor & Co.; H. Sheldon Parker, Kay, Richards & Co.

**La Bocci**—Elmer E. Powell, Elmer E. Powell & Co.; James H. Scott, James H. Scott & Co.; Max N. Schugar, McKelvey & Co.

**Attendance** — Frank T. Sturek, Mellon National Bank & Trust Co.; Frank M. Ponicall, Singer, Deane & Scribner; Edward C. Kost, A. E. Masten & Co.

Out-of-town guests wishing to make reservations for this outing should communicate with Frank T. Sturek, care of Mellon National Bank & Trust Co., Pittsburgh 30, Pa.

## Irving H. Heller With Newhard, Cook & Co.

ST. LOUIS, MO. — Irving H. Heller has become associated with Newhard, Cook & Co., 4th and Olive Streets, members of the New York and St. Louis Stock Exchanges. Mr. Heller was formerly with Friedman, Brokaw & Lesser.

## With Hutchinson & Co.

(Special to THE FINANCIAL CHRONICLE)

PUEBLO, COLO.—Fred C. Dimmett is now affiliated with Hutchinson & Company, Thatcher Bldg.

STIX & CO.
INVESTMENT SECURITIES
509 OLIVE STREET
ST. LOUIS 1, MO.
Members St. Louis Stock Exchange

# NSTA Notes

**GEORGIA SECURITY DEALERS ASSOCIATION**

The Georgia Security Dealers Association has elected officers for the year beginning July 1, next.

These officers are as follows:

President: Lex Jolley, Johnson, Lane, Space & Company, Inc., Atlanta, Ga.

Vice-President: Alexander Yearley, IV, The Robinson-Humphrey Company, Atlanta, Ga.

Secretary-Treasurer: James S. Budd, Jr., The Citizens & Southern National Bank, Atlanta, Ga.

The following were elected to serve on the Executive Committee with the officers: John F. Glenn, Courts & Company; Clement A. Evans, Clement A. Evans & Company, Inc.; Byron Brooke, Brooke, Tindall & Company; J. R. Neal, Wyatt, Neal & Waggoner.

## COMING EVENTS

In Investment Field

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

**June 17, 1949 (Cleveland, Ohio)**
Cleveland Security Traders Association annual summer party at Kirtland County Country Club.

**June 17, 1949 (Detroit, Mich.)**
Bond Club of Detroit annual outing at the Grosse Ile Golf and Country Club.

**June 17, 1949 (Milwaukee, Wis.)**
Milwaukee Bond Club annual field day and picnic at Oconomowoc Country Club and Oconomowoc Lake Club.

**June 17, 1949 (New Jersey)**
Bond Club of New Jersey Annual Field Day at Rock Spring Club, West Orange, N. J.

**June 18, 1949 (New York City)**
New York Curb Exchange Floor Clerks Association Annual Outing at "The Neighbors," Pleasant Plains, Staten Island.

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

**June 21, 1949 (New York City)**
Second Quarterly Meeting of New York Security Dealers Association.

**June 24, 1949 (Kansas City, Mo.)**
Bond Traders Club of Kansas City Summer Outing at Lake Quivira Country Club.

**June 24-26, 1949 (Los Angeles, Calif.)**
Security Traders Association of Los Angeles annual spring party at the Arrowhead Springs Hotel.

**June 24, 1949 (New York City)**
Investment Association of New York annual outing at the Westchester County Club, Rye, N. Y.

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

**June 25, 1949 (Chicago, Ill.)**
Bond Traders Club of Chicago annual summer outing at the Nordic Hills Country Club.

**June 28, 1949 (Detroit, Mich.)**
Securities Traders Association of Detroit and Michigan annual summer party at the Lochmoor Club, Grosse Pointe Woods, Mich.

**June 28, 1949 (Omaha, Neb.)**
Nebraska Investment Dealers Bond Club spring frolic at the Omaha Country Club, to be preceded by a cocktail party June 27 at the Omaha Athletic Club in honor of out-of-town guests.

**June 28, 1949 (Pittsburgh, Pa.)**
Bond Club of Pittsburgh Spring Outing and Golf Tournament at St. Clair Country Club.

**June 28, 1949 (New York City)**
New York Curb Exchange Five and Twenty Club Golf Tournament at Siwanoy Country Club, Bronxville, N. Y.

**July 1, 1949 (Philadelphia, Pa.)**
Investment Traders Association of Philadelphia Annual Summer Outing at the Whitemarsh Valley Country Club.

**July 27, 1949 (Pittsburgh, Pa.)**
Bond Club of Pittsburgh Mid-Summer Picnic at Mill Grove, North Park.

**Sept. 9-11, 1949 (Oregon)**
Pacific Northwest Group of the Investment Bankers Association 1949 meeting at the Gearhart Hotel, Gearhart, Oregon.

**Sept. 9, 1949 (Pittsburgh, Pa.)**
Bond Club of Pittsburgh Fall Outing at Chartiers Country Club.

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

**Dec. 2, 1949 (New York City)**
New York Security Dealers Association 24th Annual Dinner at the Hotel Pierre Grand Ballroom.

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

## C. T. Ayers Joins Merrill Lynch Co.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—C. T. Ayers has become associated with Merrill Lynch, Pierce, Fenner & Beane, 511 Locust Street. Mr. Ayers was formerly Manager of the trading department for Taussig, Day & Co., Inc.

C. T. Ayers

## Mackie, Bean V.-Ps. of Luckhurst & Co.

Luckhurst & Co., Inc., 40 Exchange Place, New York City, announce that as of June 15 Robert A. Mackie and Jules Bean were elected Vice-Presidents of the firm.

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# New Competitive Era Coming

By CLOUD WAMPLER*
President, Carrier Corporation

**Prominent corporation executive points to huge reservoir of unsatisfied consumer demands, along with plentiful money and credit supply, as basis for maintaining business at high readjusted level. Says once we enter the real competitive era, a lot of business can be done for long time. Sees greatest danger in continuation of taxing and spending philosophy, which can produce and prolong depression. Holds large volume of business ahead.**

It seems to me that a sound, common-sense appraisal of the current situation leads to some fairly definite and not disheartening conclusions. There is nothing particularly mysterious about the highlights and shadows in the present business picture. Of course, we are in a period of readjustment. And, of course, this involves some belt-tightening. But this is hardly surprising after a protracted period in which everything—production and consumption, prices and wages—all have been spiralling steadily upward. Certainly a correction at this time is healthier than would have been a continuation of the soaring spiral. For in that direction lay certain trouble.

Cloud Wampler

When we get right down to basic fundamentals, we find this condition: There is a huge reservoir of unsatisfied demand that still exists in this country. And both money and credit are still plentiful for the satisfaction of these demands. Also, these United States of ours still have a lot of growing to do. Certainly no one of us believes that we, as a nation, have reached our peak or that our standard of living, already the envy of the rest of the globe, will not be raised higher and higher.

Beyond this, there is a world demand that for the time being at least must be supplied in large part from this country.

Are we equipped to do the job? Of course we are! We have the finest system ever devised for filling these needs—the system of free, private, competitive enterprise. And we have the material resources, the machinery, the intelligent manpower, the energy. But, above all, we have the know-how and—I still believe—the guts.

So—for either the short haul or the long—I see no reason for getting panicky or for pulling in our horns to the extent where we cannot do an aggressive, hard-hitting job. Once we get down to real competitive trim there is a whale of a lot of business to be done, now and for a long time to come.

### Uncertainties

Admittedly, there are uncertainties. And to my way of thinking the greatest one of all can be focused down until it pinpoints on the city of Washington in the District of Columbia. To state the case bluntly, I believe our one big danger lies in an extension of the political philosophy of tax and tax and spend and spend, always with the basic thought of spreading the power of government, of making both individuals and business concerns more and more dependent upon government and, in turn, throwing government more and more into business. Incidentally, there is a term for this. It is state socialism.

Ladies and gentlemen, it simply does not make sense for us to sit back and watch political theorists—for the most part none-too-successful businessmen themselves—tear down an economic machine that has proved itself to be the best, the most efficient, the most productive device the world has ever known.

And believe me, this isn't a situation in which you can write a check and then let someone else do the job for you. Every single one of us has a responsibility that must be exercised if we are to retain our freedom. In fact, the two words—freedom and responsibility—cannot be separated.

I want to come back later to this whole question of big government and its economic effect on business. But first let's get down to specific cases about our current business situation and our future prospects, always assuming someone does not come along and upset the economic applecart.

### Government Spending Will Prolong Depression

Implied in this remark is that we shall have a severe or prolonged depression only if the government relies solely on its spending power to turn the tide and refuses to take those actions which will reactivate and reinvigorate the factors making for expansion in the private sector of the economy. Putting this another way, Washington simply must stop doing those things that undermine the whole structure of confidence on which enterprise rests.

To a very large degree, the members of this great association depend upon the construction industry for a livelihood. And when we come right down to it, construction activity is not a bad barometer for business in general. When the country advances, when population continues to increase, when more homes are needed, and more and better stores and office buildings and factories are required, then most of us live and operate in a favorable business climate.

Now I don't subscribe to the theory that we can read the future completely just by looking at the past. But form charts are important whether we are studying the stock market or planning on an afternoon at the race track.

Anyway, we can find a lot of interesting food for thought if we take the construction activity pattern for World War I, and the same pattern for World War II, and place them on top of each other.

Without bogging you down in a lot of statistics, the easiest way to do this is to trace the curves on an actual chart. (Uncover the chart!)

In order to get a true picture, we almost have to limit the past performance chart to private construction. For public construction figures can, and do, jump all over the lot.

Also, for purposes of clear comparison, it seemed wise to reduce dollar volumes to index figures. And let me make one point very clear. I don't mean to indicate that the $2,217,000,000 total of private construction in 1915 was equal to the $4,390,000,000 volume of 1940.

However, considering the devalued dollar and the higher costs

(Continued on page 25)

*From an address by Mr. Wampler before the 60th Convention of the Heating, Piping and Air Conditioning Contractors Association, Detroit, Mich., June 8, 1949.

# The Capital Market and Labor's Standard of Living

By ROBERT A. GILBERT
Secretary of the Committee of Investors of America

**Mr. Gilbert cites seven possible ways of clarifying to labor its need of an active capital market for its own welfare. Declares plant investment, "the additions to labor's tools," occurs more rapidly under private capital accumulation than under government spending. Declares a fourth-round wage increase would plunge entire community into severe depression.**

In recent years the annual rash of foolish demands by some labor leaders has done much to destroy perennial confidence in securities. As we again approach wage contract negotiation time for some important industries and as labor again prepares to demand another (fourth) round of wage increases, it is appropriate and necessary that the importance of labor's not receiving anything more until capital markets revive be clearly defined. It should be mentioned in passing that such a review is doubly important — important of course to the investment community to realize how much it has in its favor from labor's own standpoint, and important to all of us that the real issue be sufficiently understood by labor itself so that labor does not persist in the wrong direction, thereby, like a blind Samson, pulling down the house on itself and everyone else.

Robert A. Gilbert

Securities in recent years have failed to pace other segments of the nation's economy. Just how important are stock prices and stockholders' earnings and dividends to labor? Do we really have a case or are we trying to justify to ourselves the retention of our property? The latter question is one we must answer thoroughly because it is very easy for the opposition to state that the rich will of course cover their faults in every way to protect their fortunes, and to tell labor that it can gain much by sharing the wealth. Thus we must really present the situation with sufficient clarity and understanding so that even labor will realize the absurdity of destroying private property.

Another round of wage increases at the present point in the business cycle would be very injurious to property values because of several reasons, such as—(1) the present delicate balance of supply and demand in many industries, a balance which could be placed in serious maladjustment by higher wage costs now; (2) the altitude of the debt, which makes very inflationary the retrial of any deficit spending tactics to support a high wage level; (3) the rising tide of communism in many parts of the world which could easily gather momentum if we have a labor government here, etc.

### Earnings, Consumers' Dividends, and Labor's Earnings

Stockholders' dividends and earnings make for excellent "consumers' dividends" and labor's earnings. That is the principal stake labor has in the revival of the capital market, and I am sure it can be proven to labor so clearly that they will not permit such radical leaders as they have to destroy it. Why should not the financial community present such facts as the following to labor, hoping that others, including government, will reiterate them. I mention the government among the others who should help on this problem because the government presumably wants unity, and labor is too far out of line to permit unity. The time has come when the government must side with capital in no uncertain terms, or in effect abrogate the Constitution and change the American system. Such are the implications of the present situation.

(1) Total payrolls tend to follow profits rather than wage rates and so does employment.

(2) Mass production competing under the profit motive produces substantial "consumer dividends" by offering better goods at lower prices.

(3) Corporation profits if completely confiscated would not add much to labor's wages now, and in years of poor business would add nothing.

(4) Division of all the wealth among everyone would add little to labor's stake now, not to mention its future effects on labor.

(5) Foreign standards of living in inefficient economies are much lower for labor and others, proving labor cannot consume what it does not produce and that nowhere in the wide world does labor receive as much help in producing as in the U. S. A.

(6) Additions to labor's tools, i.e., plant investment, occurs more rapidly under private capital accumulation than under government spending.

(7) The cost of living shows a tendency to level off or decline in bull markets while a bear market does not necessarily lower it.

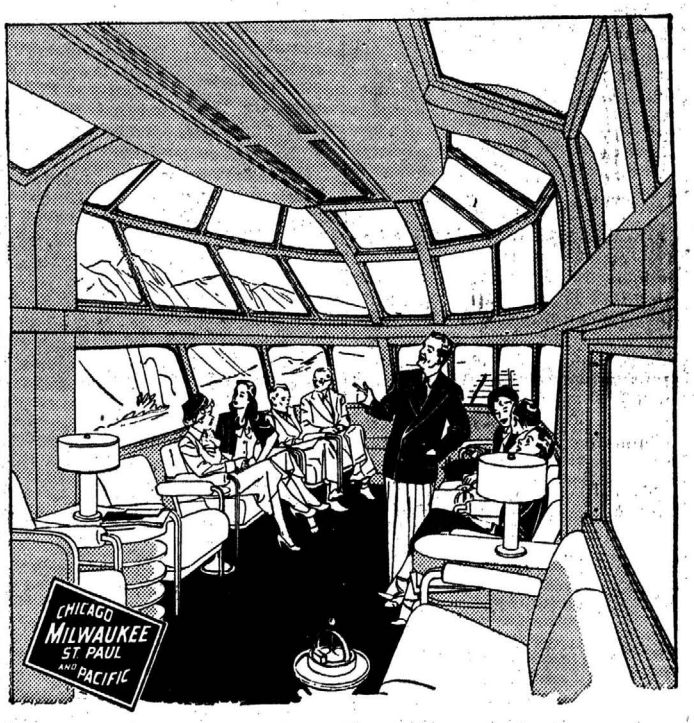
Having proven the above points to labor, we should not be satisfied with negative arguments but should also sketch to them their future under a free enterprise economy. Then we can also touch on their fate in all probability if they do not allow a free enterprise economy here.

### Labor's Tieup with Free Enterprise

To give some of the statistics in proof of the above seven points—

(1) In 1922-1940 there was only one year when payroll of manufacturing corporations did not increase or decrease as profits rose

(Continued on page 22)

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# Connecticut Brevities

Directors of **Hartford National Bank and Trust Company** and of **First National Bank of Hartford** announced that they have signed an agreement to merge under the name of the former. The merged bank would be the largest in Connecticut and the fourth largest in New England. Under the proposed plan each holder of First National would receive 10 shares of new stock for each share held and present holders of Hartford National would participate on a share for share basis. A special meeting of stockholders of each bank is planned for June to vote on the merger. The business of the consolidated bank would be conducted at the present Hartford National quarters and at the Farmington Avenue and Elmwood branches. Ostrom Enders will continue as President of Hartford National and James W. Knox, President of First National, will become a Senior Vice-President of the new bank.

* * *

**The Hartford-Connecticut Trust Company** has made an offer of $70 a share for stock of the **Plainfield National Bank** at Moosup. Directors of both banks have approved the purchases and stockholders of Plainfield National will vote on the proposal on June 24. If the sale is approved, the bank will be operated as a branch bank, the twelfth of Hartford-Connecticut's branch banks.

* * *

**Kaman Aircraft Corporation** has filed a registration statement with the SEC covering 170,456 shares of Class A non-voting common stock and 11,362 shares of Class B voting common. Both issues are to be sold at $5.50 a share. Proceeds will be used to finance purchase of tools and equipment to manufacture the company's recently certified helicopter. Tentative plans call for production of 25 helicopters in 1950.

* * *

The name of **Resolute Fire Insurance Company** has been changed to **Resolute Insurance Company.** The company will now be in a position to write casualty as well as fire insurance. **Resolute** has also obtained a charter for a wholly owned life insurance company to be known as the Resolute Credit Life Insurance Company. The new company would write insurance through banks and finance companies on the life of a purchaser or borrower for the duration of a loan on an automobile or chattel purchase. The new charter provides for a minimum initial capital of $200,000 and $100,000 paid-in surplus.

* * *

**Bridgeport Hydraulic Co.** is offering its stockholders the right to buy one share of common stock at $26.75 for each 10 shares of stock owned. Subscription warrants expire June 30, 1949.

* * *

Bristol County Water Company, a subsidiary of **Greenwich Water System,** has sold $1,250,000 of 3⅛% first mortgage bonds, due 1979, to Mutual Life Insurance Company. Part of the proceeds will be used to refund $850,000 of presently outstanding bonds.

* * *

**The Southern New England Telephone Company** has registered with the SEC an issue of 400,000 shares of $25 par common stock. The company proposes to issue to stockholders of record June 21, the right to buy one new share at $25 a share for each six shares owned. The stock will not be underwritten.

* * *

The Connecticut Public Utilities Commission has given the **Hartford Gas Company** permission to issue $1,500,000 first mortgage bonds. Proceeds are to be used to pay off $400,000 of notes, to finance the company's construction program and to increase working capital.

* * *

**Connecticut Power Company** has called for payment on July 1, 1949 at 101 and interest $19,000 of its first and general B 3¼s due Jan. 1, 1967. Payments will be made by the Hartford National Bank and Trust Company.

* * *

**Yale & Towne Manufacturing Company** has converted its bank credit line of $7,000,000, of which $5,000,000 has been borrowed, into a three-year term loan. Six semi-annual installments are provided for, the first of which is due Sept. 30, 1949.

* * *

Consolidated sales of **Electric Boat Company** for the year 1948 were $54,558,099, more than twice the 1947 level. The management estimates that about $20,000,000 of aircraft and submarine construction work accomplished in 1947 is included in the 1948 sales. Earnings after taxes and preferred dividends were equal to $2.49 per share and the equity per share of common stock on Dec. 31, 1948 was $17.45.

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**Bell System Teletype: HF 365**

## Van Horne Pres. of Stone & Webster Secs.

The election of Edward K. Van Horne as President of Stone & Webster Securities Corporation, 90 Broad Street, New York City, is announced. Mr. Van Horne, Executive Vice-President for many years, succeeds Robert H. van Deusen who has been President since 1932. Mr. van Deusen was elected Chairman of the board. The election as Treasurer of F. W. Q. Birtwell, formerly Assistant Treasurer, is also announced.

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# Protecting the Taxpayer

By C. EMORY GLANDER*
Tax Commissioner of Ohio
President, National Association of Tax Administrators

**State Tax official, pointing out too much emphasis is placed on protecting revenues and too little on Protection of taxpayer, scores growing taxation burden, and contends rate of increase in taxation exceeds growth of national income. Urges businesslike budgeting and sound accounting administration. Says Federal-State-Local taxation system is a crazy-quilt, and urges taxpayer be given more protection.**

A year or two ago, "Life" magazine published an interesting story in pictures showing how, for 4,000 years, taxes have vexed the world. There depicted were Egyptian, Assyrian and Persian taxpayers bearing tribute in kind to their rulers. There also were Rome's Publicans, profiteering tax, concessionaires; Queen Boadicea, one of the earliest rebels against taxation without representation; and King John and King Charles I, who taxed so heavily that one lost his prerogative and the other his head. American incidents likewise were included. There were illustrations of the Stamp Act Repeal, the Boston Tea Party and the Whiskey Rebellion. In case you may have forgotten, the Whiskey Rebellion was neither a sobriety movement nor a revulsion against bad liquor. Our forefathers simply thought that a whiskey tax of 7 cents to 18 cents a gallon was too much.

I thought of those historical incidents recently while reading the Report of the Advisory Committee on Internal Revenue Taxation. It said: "There is too great an emphasis on 'protecting the revenue,' too little on protecting the taxpayer. . . . The key to a fuller utilization of the taxpayer's cooperation lies in the adoption of government policies and practices which will lead to a greater degree of mutual confidence."

Those words both raise and answer a grave national question, and I make them my text today.

### I

### The Growing Burden of Taxation

In the old Roman calendar the 15th day of March was known as the ides of March. You will recall Shakespeare's "Julius Caesar" in which the soothsayer warns Caesar, saying: "Beware the ides of March." "Plutarch's Lives" tells the inside Story. It says "that a soothsayer bade him (Caesar) prepare for some great danger on the ides of March. When that day was come, Caesar, as he went to the Senate, met this soothsayer and said to him by way of raillery, 'The ides of March are come'; who answered him calmly, 'Yes, they are come, but they are not past.'" And you will remember the tragedy that befell Caesar. He fell at the hands of his friends, even Brutus. He was the victim of a terrible danger, which, though very near to him, he would not see or believe.

It is my conviction that an equally great danger besets the American people now. It is ever-present, like the perfidy of Caesar's friends. But, like Caesar, we do not see or believe.

A recent newspaper editorial pointed out that citizens of 25 states voted last November on proposals involving state bond issues, higher state taxes, or increases in state spending. It summarized the results as follows: Of 16 proposed bond issues, 12 were approved. Of 19 proposals for increased spending, 13 were approved. But of 19 proposed tax increases, 12 were defeated. "In other words," the editorial concluded, "most of the voters in the 25 states liked the idea of more governmental spending. And their enthusiasm for such spending mounted with the degree to which they believed they, themselves, would escape or postpone paying the cost."

I would state it more emphatically. Too many people have the delusive impression that governments can indulge in an everlasting orgy of spending at the expense of persons other than those directly benefited. Our nation is suffering from a chronic attack of the "gimmies," and it is high time that we face the facts! We need to pray, as Thomas Huxley did when he summed up the scientific creed in a single sentence: "God give me strength to face a fact though it slay me."

The facts which I ask you to face are calculated in the billions. I wonder how many of us can really comprehend a billion dollars. I read somewhere that if you had started at the beginning of the Christian era to spend a billion dollars at the rate of $1,000 a day, and had kept it up continuously, your total expenditures to January, 1949, would amount to about $711 million. To reach the billion-dollar total at this rate, you would have to go on spending $1,000 a day for another 791 years, or until A.D. 2739. That is how much $1 billion is. Yet, in 1947, the total tax take in the United States, Federal, state and local, was almost $52½ billion!

Look back with me for a moment across the vista of the last three decades. It is 1917 and the national economy is geared to the first World War. Yet the total tax burden in the United States is but $3½ billion. Let 10 years pass. It is 1927, and our nation is on the threshhold of that other era of inflation when everyone thought the millenium had dawned. Even then the cost of all government in this country was but slightly over $9 billion. Now move ahead another decade and it is 1937. We are in the terrible '30s when our government was "shooting the works" in pump-priming projects of many sorts. Even then our annual tax burden had moved up to only $12½ billion. Of course we are putting much of the cost "on the cuff" through deficit financing, but nevertheless the contrast with the present is startling. From $3 to $9 to $12 to $52 billion in the annual tax take—that is an increase of 1500% in the short span of 30 years!

But, you may say, is not this a matter of relativity? After all, we have experienced a tremendous increase in the national income in these latter years. Yes, that is true, but have you compared the trend in taxation with the trend in national income? If you will make such a comparison you will discover the fact which I most want to impress upon you today—that the tax burden has been increasing more rapidly than the national income.

Taxes in the United States now consume about 30% of our total national income. This means that our people work about 15 weeks out of 52 for government. Federal taxes alone last year were about $2 billion more than the total national income just 15 years ago. The truth of the matter is that the percentage of all taxes to national income has been more than doubled in the last 20 years. This trend, sooner or later, will take its tragic toll of our American standard of living.

Moreover, let us not be deceived by our increased national income as stated in today's dollars. If you relate that income to the prewar dollar you will encounter a surprising fact. You will find that ever since 1945 there has been an actual decline both in our "real" incomes and in our "real" savings. Indeed, our real savings have fallen more rapidly of the two. If the government continues to take each year in taxes more and more of our dwindling earnings, there will be less and less available for investment to maintain and expand our economy. The hope for a free America is an ever-expanding economy based upon private enterprise. But this nation cannot nourish an expanding economy if our wellspring of national savings is pumped dry by government.

There is another interesting fact that I would have you notice. The burdens of taxation in these last 20 years has shifted from state and local taxes to Federal taxes. In fact, the state and local burden in recent years was relatively lighter than it was two decades ago, while the converse is true of Federal taxes.

The state and local tax picture, however, is rapidly changing. State expenditures in 1947 were up 35% over the wartime levels. In the same year, state debt, reversing a six-year downward trend, increased about one-fourth. While state reserves were still mounting, the rate of increase had sharply diminished. New taxes were imposed in almost two dozen states since January of 1947, while tax rates were increased in an equal number. In California, which levies a state sales tax, local sales taxes were levied in 123 municipalities. In my own state of Ohio, which has had no new or increased state taxes since the middle of the depression, local income taxes have been levied by almost a half dozen of our larger cities. And so the trend goes.

But the fact of greatest significance in the whole picture is the mortgage which our generation has placed upon the future earnings of ourselves and our children. The Federal debt has reached the astronomical figure of $252 billion—a quarter of a trillion dollars! State and local debt constitute another $15 billion. This adds up to $1,770 per capita as compared with a mere $12 per capita 35 years ago.

Here then is the danger which confronts our nation—that, oblivious to the consequence, we shall spend, tax and borrow ourselves into financial slavery. I say to you that the time has come to cut governmental budgets, to pay governmental debts and thereby to pave the way for ultimate tax reduction—that is, if we really do love our children or have any concern for the generations yet unborn. After all, it is our debt, not theirs. It is ours to liquidate if we have the moral stamina for self-sacrifice which it sternly requires.

### II

### Approaches to Budget and Tax Reform

At this point, you may remind me that this nation is engaged in a gigantic and costly effort to build world peace and security. With that I shall agree. You may also ask me what particular governmental expenditures should be cut. I shall quickly tell you that I do not know.

It is precisely because I do not know that I can suggest at least two desperately needed reforms in governmental finance. One is the need for budgeting and accounting

(Continued on page 36)

*An address by Mr. Glander at the 17th Annual Convention of the Edison Electric Institute, Atlantic City, N. J., June 2, 1949.

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# NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

N. Baxter Jackson, Chairman of the **Chemical Bank & Trust Company, New York**, announces the election of Robert L. Hamill, senior partner of Sanderson & Porter, to the Advisory Board of the 30 Broad Street office of the bank.

Mr. Hamill is also Chairman of the Executive Committee of the Chamber of Commerce of the State of New York and is a Director of Central Foundry Co., Mercantile Insurance Company of America and North British & Mercantile Insurance Company of America.

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The Board of Trustees of **The Bowery Savings Bank, New York**, has appointed Ralph L. Cocks, Herbert F. Reilly and August M. Strung Principal Executive Assistants.

Mr. Cooks has been with the Bank since 1920, Mr. Reilly since 1935, and Mr. Strung since 1928.

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B. Hollon Smith, 2nd Vice-President of the Investment Department of the Banker's National Life Insurance Co. of Montclair, N. J., for the past six years, has been elected a member of the Board of Directors of **The National Bronx Bank of New York**, it was announced on June 14. by Harvey L. Schwamm, President.

Mr. Smith, who has been in the banking and insurance fields for 20 years, was associated with the Investment Department of the Bank of New York prior to becoming a Vice-President of the Banker's National Life Insurance Co.

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Promotions and new appointments on the official staff of the **Chase National Bank of New York** were announced by the bank on June 9. The promotions were: Victor E. Rockhill as Vice-President in the public utilities department; Lyon F. Terry as Vice-President in the petroleum department; Robert C. Dallery, Jacque C. Frost, James P. Mitchell and Walter H. Wightman as Second Vice-Presidents in the commercial banking department, and Hamilton T. Slaight as Second Vice-President in the public utilities department; Milton S. Coe and Andrew A. Peaty as Assistant Cashiers in the foreign department. New appointments from the clerical force to the official staff included Harold B. Coburn, William M. Ellis, Neal T. Fitzpatrick and James J. Maher as Assistant Cashiers; John C. Clark, as Assistant Manager of the bond department; and Donald W. Brown, Arthur R. Clark and Howard Sneed as Assistant Branch Managers.

* * *

As noted in our June 9 issue, page 16, Edward C. Holahan has been named to succeed Norman G. Hart who will shortly retire as head of the **New York Agency of the Royal Bank of Canada.** Mr. Hart, who will retire on pension after a long career with the bank in Canada, the United States and Europe, has been head of the New York agency since 1938. He is a well-known figure in financial circles on both sides of the Atlantic, having served as Manager for the bank in both Barcelona and Paris. A native of Guysboro, N. S., Mr. Hart served his banking apprenticeship at Antigonish, and gained experience at various branches in Eastern Canada and in various departments of the bank in Toronto, London, England, and at the New York agency.

* * *

Harvey D. Gibson, President of **Manufacturers Trust Company of New York**, announces that Leonard Dalsemer, Executive Vice-President of The Lord Baltimore Press, and Marvin C. Whatmore, Vice-President of Cowles Magazines, publishers of "Look Magazine," have been appointed to the Advisory Board of the bank's office at 741 Fifth Avenue. Mr. Dalsemer is also a director of the Folding Paper Box Association of America, and Vice-President of The John Hopkins Club of New York. Mr. Whatmore was formerly associated with the **Iowa Des Moines National Bank & Trust Co.** until 1935 when he went with the Des Moines "Register and Tribune." He has been with Cowles Magazines since 1937.

* * *

On June 10, N. Baxter Jackson, Chairman of the **Chemical Bank & Trust Co. of New York** announced the appointment of J. Kenneth Boyles as Assistant Manager of the 320 Broadway office of the bank.

* * *

**Guaranty Trust Company of New York** announced on June 10 the appointment of Frederic K. Bullard, formerly Assistant Secretary, as a Second Vice-President, and James R. King, Jr., formerly Assistant Secretary, as Assistant Treasurer. Both are identified with the company's general banking department at the Fifth Avenue office.

* * *

On June 10 the **Greenwich Savings Bank of New York** opened its new 57th Street office at 3 West 57th Street, near Fifth Avenue. The 57th Street branch had previously been located at 2 West 57th Street. Mementoes were presented to those attending the opening of the new office. The main office of the bank is at Broadway and 36th Street, while the bank also has a 16th Street office at 16th Street and Sixth Avenue.

* * *

Forty-five years of service were honored Tuesday, June 14, 1949 when the trustees and officers of the **Roosevelt Savings Bank, Brooklyn, N. Y.**, tendered a luncheon to the Bank's President, Mr. Adam Schneider, Jr. on the occasion of his 45th anniversary with bank.

Mr. Schneider was made a trustee of the bank in 1928 and President on July 3, 1941. He is a past president of Group V Savings Bank Association of the State of New York and is a trustee of the Savings Bank Life Insurance Fund. He is widely known as an authority on savings bank investments.

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The 90th anniversary of the **Dime Savings Bank of Brooklyn, N. Y.**, is being observed this month. Incidentally it is learned from the Brooklyn "Eagle" the bank has a record of 90 years of consecutive dividends to depositors. From the "Eagle" we also quote:

"Total dividends paid to depositors since 1859 have amounted to $182,669,041.07 and 'The Dime' has never paid less than 2%. Today's resources amount to over $592,000,000 with 291,172 depositors listed on 'The Dime's' records, as compared to 204,504 ten years ago. The total amount on deposit in June of 1939 was $196,487,000.

(Continued on page 16)

# Employment Forecast: Slightly Downward

By HERMAN B. BYER *

Assistant Commissioner,
Bureau of Labor Statistics, U. S. Dept. of Labor

**Reviewing basic indicators of recent economic trends, Labor Department official points out that they are all downward, fewer job opportunities being offered than at any time since war. Holds it is unlikely serious situation will arise this year, however, and looks for higher production level when excess inventories are worked off and prices become stabilized.**

For the first time since the war's end, my economic report to you is concerned with the word "downtrend." Our major interest is jobs, and currently employment developments are heavily colored by the downturn in business activity which first became noticeable late in 1948. Jobs generally are more difficult to find than at any time since the war, hiring is at a low ebb, the workweek is becoming shorter, and the number of jobless is significantly greater than at this time a year ago.

Herman B. Byer

Nevertheless, when placed in their proper perspective, the declines of the past six months have been both mild and orderly, and there is considerable evidence that the general economic situation remains quite strong, with many favorable factors still at work.

Most of the basic indicators of recent trends in the national economy point in the same direction—slightly downward. One of the most comprehensive of these measures is the Commerce Department's estimate of "gross national product." This shows that, in the first quarter of 1949, the market value of goods and services produced by the nation's economy dropped (after adjustment for seasonal factors) for the first time since 1945. The decline between the last quarter of 1948 and the first quarter of 1949 amounted to about 3½%, or an annual rate of $9 billion from the record level of $265 billion which was attained in the last 3 months of 1948. Significantly, however, it is still $11 billion above the average for the first quarter of 1948.

Highlighting the fields of activity which have been most affected, the data show that the great bulk of the drop occurred in two important sectors — personal consumption expenditures, and inventory accumulation. The drop in spending by consumers, amounting to $4 billion, was largely a reflection of lower prices, and physical volume was probably down only slightly. Income of consumers, however, continued to exceed their actual expenditures, and personal savings rose, reaching a new high rate of $21 billion a year, or well over 10% of disposable income. The decline in the amount of output going into inventories totalled about $3 billion, and the records indicate that business inventories were growing at only a third of the rate which characterized the fourth quarter of 1948.

In addition to these very moderate drops — mostly associated with price uncertainties and the return to more normal conditions of buying and selling—the gross national product estimates also show small declines in residential building and in business plant and equipment outlays. On the other hand, government and net foreign purchases have risen slightly.

### Industrial Production

Figures on industrial production show a similar down-trend. In March, the Federal Reserve Board's adjusted index stood at 184% of the 1935-39 average, a drop of about 5% from the peak of 195 which was reached last Autumn. Sharp drops between those months, amounting to 10% to 15%, occurred in textiles, paper, lumber, rubber and machinery.

Since March, the level of industrial production has declined somewhat further. Steel production by the middle of May was down about 7% from the all-time record set in March. It was still relatively high, however, higher, in fact, than in any postwar month before last October.

Residential building is another sector of the economy which is somewhat below previous peaks. In the first four months of 1949 about 245,000 dwelling units were started, as against 280,000 during the same period of last year. The total value of new construction in April amounted to nearly $1.4 billion—virtually the same as in April of 1948. This marks the first time since the war's end that expenditures have made no gain as compared with the same month in the year before.

Private construction is down sharply from last year's comparable levels, with residential building off 20%, industrial construction down 24%, and commercial building off 12%. On the other hand, outlays for public utilities, and for institutions and other types of public construction were considerably higher than at the same time in 1948.

### Fewer Job Opportunities

It is possible, of course, to examine many more facets of the national economy, but I shall confine myself to only one more aspect—the impact of these various developments upon the national labor market. Unlike any previous period since the war's end, the economy is offering fewer job opportunities than in the previous year and is failing to absorb the annual increase in the labor force. The major reduction in employment has taken place in manufacturing, with the job total down some ¾ of a million from last year's levels. The average factory work week is also off by nearly two hours. Declines in factory payrolls have been fairly widespread, with the textile, leather and household appliances industries hit the hardest. The woolen and worsted industry and shoe manufacturing, in fact, are back to prewar levels. In recent months, layoffs have also become pronounced in many of the steel-fabricating industries.

Employment in railroad transportation has also declined markedly over the year. On the other hand, employment in government was up by about 200,000, and construction and trade have shown little change.

Despite the drop in employment and the resultant rise in unemployment, and despite the many headlines on this subject in January and February and March, the course of unemployment in April and early May showed that the situation was not worsening notably. In fact, a chart of unemployment in the past 8 weeks would show that it has moved on a line virtually parallel to that of last year, except that it has been on a higher level. In other words, although unemployment rose sharply during the first quarter of 1949 to about ¾ of a million above last year's level, it has not "snowballed" since then; in fact, it has just about levelled off.

Last year, unemployment fell seasonally between April and May, rose to a seasonal high of 2¼ million with the close of school, and then dropped to a low of 1,650,000 in October. This year it does not appear likely that the influx of students will be snapped up as eagerly as they were last year, so the level of unemployment may even rise by approximately a million during the Summer months. While this higher level would still be extremely low when related to the size of the labor force, it does spell difficulties for particular industries, areas and individuals.

In addition, individual joblessness tends to be more prolonged than has been true in the recent past. In April, 1949, about 800,000 people had been out of work for 4 months or longer, compared with 300,000 this past January and 400,000 in April a year ago. Nevertheless, most of the unemployed still constitute a temporary group. Thus, of the 3.1 million persons who were actively looking for work in February, about 40% were no longer seeking jobs in March. About a million of them had either returned to their old jobs or had found new ones, and 400,000 dropped out of the labor force, generally to keep house or to attend school.

With demobilization and reconversion a full 3 years behind us, the veteran of World War II has become almost as thoroughly integrated into the civilian economy as the veteran of World War I. Consequently, it is virtually impossible, even were it desirable, to insulate him from what is happening to the rest of the economy.

### How Veterans Fare

Actually, however, veterans appear to have fared somewhat better in employment over the past year than nonveterans. About 12.5 million veterans had nonfarm jobs in April, 1949—200,000 more than a year before; at the same time, nonfarm employment of nonveteran men in the same age group declined by about a million. Similarly, the rise in veterans' unemployment in the past year has been slightly smaller than for all men of similar ages; the number of unemployed veterans increased from 620,000 in April, 1948 to 810,000 a year later, a rise of about 30%; the increase for all men 20 to 44 was about 36%.

The general import of the various production and employment factors which we have been discussing thus far is clear enough. During the past four to six months the economic climate has indeed changed, and we are definitely down from the postwar peak.

But that is not, in my opinion, the most important conclusion to be derived from the current data. A far more significant one is that this change, though fundamental, is not necessarily the harbinger of worse things to come. The shift from the feverish, supercharged condition of the economy, in which "cost was no object" to a more normal situation in which business at a fair price is still extremely good, was obviously inevitable. It had to come sooner

(Continued on page 27)

*An address by Mr. Byer before the American Legion Area Conference, Kansas City, Mo., May 24, 1949.

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# Michigan Brevities

An amendment to the certificate of incorporation of Hudson Motor Car Co. has been filed and became effective June 1, 1949. On May 20, the stockholders approved a proposal to change and increase the authorized common stock from 2,000,000 shares, without par value, to 3,000,000 shares, par $12.50 per share. The outstanding common stock, the number of shares remaining unchanged had previously been carried on the books at a stated value of $12.50 per share.

* * *

**Michigan Consolidated Gas Co. on June 1 filed a registration statement with the SEC covering an issue of $25,000,000 sinking fund debentures due July 1, 1967. The net proceeds are to be used to repay $3,500,000 of promissory notes, to retire 40,000 outstanding shares of 4¾% cumulative preferred stock, to prepay $7,250,000 of 2½% promissory notes of Austin Field Pipe Line Co., a subsidiary, and for expansion of facilities. The underwriters of this issue are to be determined through competitive bidding.**

* * *

The Detroit Stock Exchange reports that trading volume in May was 186,267 shares, having a dollar value of $2,758,444. In addition, 19,171 American Telephone & Telegraph Co. and Columbia Gas System, Inc. rights were traded. Trading volume in April was 224,229 shares with a dollar value of $3,096,965, and in March was 272,914 shares having a dollar value of $3,376,662.

**The 10 most active traders during May were: Detroit Edison Co., Commonwealth & Southern Corp., Warner Aircraft Corp., Goebel Brewing Co., McClanahan Oil Co., Frankenmuth Brewing Co., General Motors Corp., Friars Ale Brewing Co., Peninsular Metal Products Corp. and Avco Manufacturing Corp.**

* * *

For the six months ended March 31, 1949, Miller Manufacturing Co., Detroit, reported a consolidated net income of $203,534, or 35 cents per common share, after charges and Federal income taxes. This compares with a net of $180,267, or 32 cents per common share, for the corresponding period last year. J. W. McDougal, President, stated that "it is conservatively estimated that the company will realize operating savings in excess of $100,000 per year on its West Branch investment." This investment involved an expenditure of approximately $395,000.

* * *

**Wm. C. Roney & Co., Detroit, are offering $300,000 of H. W. Rickel & Co., Detroit, 5½% convertible debentures due June 1, 1961, at par and accrued interest. The net proceeds will be used for construction and additional working capital. The debentures may be convertible into common stock at any time up to and including May 31, 1959.**

* * *

Lakey Foundry & Machine Co., Muskegon, reports for the six months ended April 30, 1949 net earnings of $619,277, or $1.26 per share, compared with net earnings of $612,661, or $1.25 per share for the same period last year. Sales this year were $7,939,086, against $7,944,245. For the quarter ended April 30, 1949, net was $253,479, or 51 cents per share, compared with $365,798, or 75 cents per share, in the preceding quarter and $321,902, or 66 cents per share, in the corresponding period in 1948. Sales for the April 30 quarter this year were $3,689,758, compared with $4,249,328 in the preceding three months and $4,302,465 in the like quarter a year ago.

* * *

**The application of National Electric Welding Machines Co., Bay City, to list 380,000 shares of its $1 par value common stock was approved by the Detroit Stock Exchange on June 7, with trading expected to begin in about 30 days. The company owns and operates three plants aggregating 75,000 square feet of floor space and each year since May 1, 1937 has paid dividends on its stock. Regular and extra distributions for the year ended Oct. 31, 1948 totaled 32 cents per share, the largest ever paid in any one year.**

* * *

The operations of Fry Products, Inc., Detroit, for the calendar year 1948 resulted in a net profit after Federal taxes of $95,341, which is equal to $1.27 per common share outstanding. This compares with $1.37 per share earned for the year 1947. Three dividends totaling 30 cents per share were paid during 1948. For the first-quarter ended March 31, 1949 net earnings totaled $45,187, or 60 cents per share, as against $2,673, or under 4 cents per share, for the three months ended March 31, 1948.

* * *

**General Motors Corp. produced 265,280 passenger cars and trucks in the United States and Canada during May, establishing its highest monthly output. The total exceeded April, 1949, by 13,917 units and compares with the previous high of 262,628 units produced during April, 1941. Of the total vehicles produced in May, 1949, 219,892 were passenger cars and 45,388 were trucks. The attainment of the high monthly rate of production in May was made possible by an increasing availability of steel, GM officials said. For the year to May 31, 1949, General Motors Corp. has produced 1,087,335 passenger cars and trucks in the U. S. and Canada, compared with 898,293 for the same period last year.**

* * *

**First of Michigan Corporation and Watling, Lerchen & Co., participated together with two groups of investment bankers, in two public offerings, viz: On May 18 of 800,000 shares of Southern California Edison Co. common stock (par $25) at $32.25 per share (which issue was oversubscribed); and on June 2 of $20,000,000 3⅛% sinking fund debentures due June 1, 1969, of The Sperry Corp. at 100.37% and accrued interest.**

**First of Michigan Corporation also on June 8 was among those publicly offering $75,000,000 Public Service Electric & Gas Co. first and refunding mortgage 2⅞% bonds, due June 1, 1979, at 101¼% and accrued interest.**

L. A. DARLING
Common Stock
DISPLAY FIXTURES
and
PRECISION CASTING
Moreland & Co.
Member Detroit Stock Exchange
1051 Penobscot Building
DETROIT 26, MICH.
Bay City — Lansing — Muskegon

# News About Banks and Bankers

(Continued from page 15)

The total today has soared to $529,167,000, and in addition there is $1,789,200 in school savings and Christmas Club deposits."

* * *

The "Old Timers" of **The Lincoln Savings Bank of Brooklyn, N. Y.**, met recently and organized a Lincoln 25-Year Club. Officers of the new club are: Fred. Gretsch, Honorary President; George H. Doscher, President; John A. Elbe, Vice-President, and Raymond I. Bundrick, Secretary - Treasurer. Mr. Doscher has been with the bank over 55 years. The Lincoln has 33 members of the staff that have been with the bank for 25 years or more. The combined service of all the club members total 1,030 years.

* * *

Announcement was made on June 6 by the **Marine Trust Company of Buffalo, N. Y.**, of the promotion of Arnold E. Koch from Assistant Manager of the Main-High office to Manager of the Fillmore office, effective Aug. 1. Mr. Koch, says the Buffalo "Evening News," will succeed John F. Horan, who will become Manager of the Riverside office upon the retirement of Christ S. Warren on Oct. 1. Announcement also was made of the appointment of Carl A. Weber as Assistant Manager of the Main-High office, succeeding Mr. Koch.

* * *

Cyril F. Ginther, a trustee and Senior Vice-President of the **Erie County Savings Bank of Buffalo, N. Y.**, died on June 6. Mr. Ginther was 66 years of age. The Buffalo "Evening News" reports that he was Treasurer of Group I, New York State Savings Bank Association, a member of the Bond Club of Buffalo and the Bond Club of New York.

* * *

Francis P. McGinty, President of the **First Bank & Trust Company in Utica, N. Y.**, died on June 5 at the age of 80. Mr. McGinty, a brother of Brother Bonaventure Thomas, President of Manhattan College, Riverdale, N. Y., was known for his civic and religious interests. His activities included a Regency of Le Moyne College, Trustee of Our Lady of Lourdes Church, and a Fourth Degree Knight of Columbus. Mr. McGinty was well known in banking circles throughout New York State for his work in devising plans for operating banks in the Utica area during the 1930 bank holiday period.

* * *

At the annual meeting of the Rhode Island Bankers Association at Providence, R. I., on June 9, William A. Soban, Vice-President of the **Union Trust Company of Providence**, was elected President of the Association. M. Randolph Flather, Treasurer of the Industrial Trust Co., was elected Vice-President of the State body, and George W. Holt, Jr., Vice-President of the Providence National Bank, was named Treasurer. The foregoing is from the Providence "Journal" of June 10, from which we also take the following:

"Members of the Executive Council named to serve three years were: Louis E. Grover Jr., Vice-President of the Citizens Savings Bank, and Everett J. Bateman, President of the Wakefield Trust Co. At a meeting of the Executive Council after the regular session, Milton A. Roy, Assistant Secretary of the Industrial Trust Co., was chosen Secretary of the organization to replace Elmer D. Nickerson, also of the Industrial Trust Co., whose retirement was announced. For his 14 years of service as Secretary of the organization, Mr. Nickerson was given a resolution passed by the members recording their appreciation and congratulations for a job well done. A check also was presented."

June 30 has been set as the date when the stockholders of the **Hartford National Bank & Trust Company** and the **First National Bank of Hartford, Conn.**, will act on the plans for the proposed merger of the two institutions. An item appeared in our issue of June 9, page 2490, regarding the proposals and the exchange of stock. At the coming meeting the stockholders of the Hartford National, it is learned from the Hartford "Courant" of June 10, will vote to increase its capital from $4,000,000 to $5,150,000 to provide for the stock exchange. The Hartford National will have surplus of equal amount $5,150,000, and undivided profits of more than $2,700,000, making total capital funds of more than $13,000,000.

* * *

A recommendation that the capital of the **Phoenix State Bank & Trust Company of Hartford, Conn.**, be increased from $1,600,000 to $2,000,000 by a 25% stock dividend has been made to the stockholders by the directors, who have also recommended that the par value of the shares be reduced from $100 to $25. Reporting on the proposed plans, the Hartford "Courant" of June 11 said:

"When the authorizations are voted stockholders will come out with five $25 par shares for each present $100 par share. The annual dividend rate on the $100 par stock has been equal to $10 a year. It is expected that this rate will be maintained on the new capitalization. Upon the completion of new new capitalization plans, capital will be $2,000,000; surplus $2,400,000 as now and undivided profits will be in excess of $1,000,000. Undivided profits at a recent date were $1,475,000. Approval of the proposal has been granted by the State Banking Department. This will be the first capital change, excepting surplus increases, since the merger of the Phoenix and the State banks in 1926."

* * *

The resignation of Frank L. King as Vice-President and a director of the **Union National Bank of Newark, N. J.**, was announced by Vincent J. Murphy, President, on June 5, it was stated in the Newark "News" of June 6. Two other recent resignations from the bank were: C. Warren Crandall, Executive Vice-President, and Percy J. Smith, Assistant Cashier, noted in these columns June 9, page 2490.

* * *

Action on the question of increasing the capital stock of the **First National Bank of Philadelphia** to permit the declaration of a 25% stock dividend will be taken at a special meeting of the stockholders of the bank on July 12. The bank's capital stock at present consists of 311,100 shares of $10 par and payment of the stock dividend would increase the number of outstanding shares to 388,875. In quoting this, the Philadelphia "Inquirer" of June 10 quoted President Harry C. Carr, President of the bank, as having the following to say in announcing the board's recommendation for the stock dividend:

"For the past 15 years the bank has maintained a constant rate of dividend upon the stock of the bank, despite increased earnings, for the purpose of building up its capital structure to enable it to expand its operations. The board now feels that the capital structure has been built up to an extent sufficient to justify the distribution of a larger proportion of the earnings of the bank than over the past years. The board does not contemplate any change in the present rate of dividend per share." It is added that the First National has been paying regular quarterly dividends of 40 cents a share.

* * *

**The Pennsylvania Title Association of Philadelphia** announces the election of the following officers for 1949-50: President, Preston D. Brenner, Title Officer, Land Title Bank and Trust Company, Philadelphia; Vice-President, John H. Kunkel, President, Union Title Guaranty Company, Pittsburgh; Treasurer, Gordon M. Burlingame, Vice-President, Bryn Mawr (Pa.) Trust Co.; Secretary, Carl P. Obermiller, Title Officer, Land Title Bank and Trust Company, Philadelphia.

* * *

The **Bank of Commerce and Savings of Washington, D. C.**, opened on June 6 the new quarters of its Brightwood branch at 6422 Georgia Avenue, N. W., Washington. Francis E. Robey, a Vice-President of the bank, is Manager of the branch.

* * *

**American Security & Trust Company's** new Woodley Park office opened on June 6 at Calvert Street and Connecticut Avenue, **Washington, D. C.**, Daniel W. Bell, President of the bank, announced. It is the only branch bank in the District of Columbia to be fully air-conditioned and feature a drive-in window for motorists. In connection with the special public preview on June 4, costumed Treasury volunteers sold over $3,000 in savings bonds from an authentic Conestoga covered wagon at the branch. The branch is designed to serve the Woodley Park section of about 40,000 residents.

The Woodley Park office is under the managership of Kenneth Birgfeld, Assistant Vice-President of American Security.

* * *

**The Bank of Virginia of Richmond, Va.**, announced on June 11 the promotion of Louis Reekes to Vice-President and Frank T. Hyde to Assistant Cashier. Mr. Reekes is in charge of the bank's West Broad Street office, Richmond, and both have been at that branch since its opening in August, 1948. Mr. Reekes joined the bank's loan department in 1941, after 15 years in investment banking and sales finance fields. He was made an Assistant Cashier in January, 1944, and Assistant Vice-President in January, 1946. Mr. Hyde was with the United States Tobacco Company for 3½ years. He served with the Navy from February, 1942, to Dec. 8, 1945, and was commanding officer of the USS Goldsborough DD-188. He joined the bank in 1945, working in various departments until assigned to the new West Broad Street branch.

* * *

A merger of the **Citizens Savings Bank of Weston, Ohio**, with the **Bank of Wood County of Bowling Green, Ohio**, was approved by the directors of both institutions on June 7, under a contract devised by the Federal Deposit Insurance Corporation, it was reported from Bowling Green on June 8 by a correspondent from the Toledo "Blade." The action, it is said, followed an alleged shortage of private accounts in the Weston bank. It is further said that under the terms of the contract all commercial and savings accounts of the Weston bank will be transferred to the Bowling Green institution.

* * *

On May 31 the **State Savings Bank Company of Maumee, Ohio**, was absorbed by the **Commerce National Bank of Toledo, Ohio.** With the absorption a branch was established by the latter institution at Maumee, advices from the Board of Governors of the Reserve System state.

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# Danger in Deficit Financing

By ROGER W. BABSON

**Mr. Babson stresses serious situation to nation that may result from threatened deficit financing. Says either taxes must be increased or government expenses correspondingly reduced, if a new wave of deficit financing is to be avoided.**

During the 28 years that I have been writing this weekly column, I have seldom suggested to my five million readers that they write their Congressmen. I am doing so now, however, because of the indifference which I found as to government finances on my recent annual trip about the country.

Roger W. Babson

For the first time in many peace years the Government has reached the "parting of the ways" in connection with balancing the budget. Of course, during the war it was impossible to balance the budget and no one asked that it be done; but today the situation is very different. The country is now at peace; business is fairly good; and employment continues to be high. On the other hand, due to the demands from abroad and the possibility of smaller income tax receipts, one of two things is necessary. *Either taxes must be increased, or Government expenses must be correspondingly reduced.* The Hoover Commission recommends an annual reduction of $3 billion.

I believe that President Truman is an honest man, but I fear some of his advisors are either misleading him or else are ignorant of economic truths. He wants a balanced budget, but he seems unwilling to balance this budget in the obvious and sensible way—namely, by reducing Government expenses. This would be the natural way for any business to balance its budget; in fact, this policy of economy would have saved Mr. Truman from undeserved financial trouble which, through no fault of his, came upon his former haberdashery store which I visited a few weeks ago when in Kansas City.

### The Present Danger

The present danger is that Congress, to satisfy those who are opposed to increased taxes and also those who want to hold jobs for their friends, may cause the country to fall into the terrible and dangerous habit of deficit financing—that is, to run the Government at a loss and borrow money to make up the difference. Such a borrowing policy is like a Prohibitionist starting in to drink, or like a bank clerk starting to gamble, or like any family living beyond its means. Once the habit starts, it is very difficult to stop, and always ends in disaster.

I was recently talking with Mr. Eugene W. Stetson, one of the best informed bankers in New York, regarding the general business outlook. He stated that commodity prices could stabilize and employment hold up "if the business interests of the country could have faith in the Democratic Congress now in session in Washington." In other words, the recent decline in commodities and the accompanying increase in unemployment, is largely due to a fear amongst thoughtful people that proper efforts will not be made to reduce Government spending and prevent further debt.

### Write Your Congressmen

Therefore, if you readers of this column are interested in getting a fair price for your product and holding jobs for yourself and family, I earnestly urge that you write your Congressmen as follows: "Please vote to reduce Government expenses so that it will be unnecessary for Uncle Sam either to increase taxes or to go into further debt." If your Congressmen will take your advice on this matter, the decline in business at this time might be checked. But otherwise, a constant decline in prices, wages, and employment may be expected. It would be the old story of trying to burn a candle at both ends.

Let's be frank. You know your Congressman. Would you employ him to run your own business? Yet, you have elected him to run the greatest business in the world; and I say this very seriously. On the other hand, your Congressman is anxious to please a majority of his people who vote for him. The labor interests are organized to push for a deficit program. They seem to have no interest in balancing the budget, but merely to make trouble. Hence, the hope of the situation lies with independent voters such as the farmers, small businessmen and unorganized workers. Perhaps, you will suggest to your Congressmen that much of this desired economy could be brought about without firing anyone, but by merely not replacing those Government employees who resign or die.

# Sees Realty Prices "Walking Down Hill"

According to Norman Strunk, Staff Economist of the Society of Residential Appraisers, a professional organization of 6,000 residential property appraisers, "real estate prices will walk down hill, rather than run down." This statement was made in the Society's publication, "The Review."

Mr. Strunk points out that the general trend is clearly downward in terms of prices, business activity, and national income. The question, therefore, is one of the rate and not of the direction of future decline.

"So far we have been slowly walking down hill; and there are five reasons for continuing this rate," the economist continues. "Business isn't at all bad this year. House construction in 1949 should not be more than 20% below last year's record; real estate activity is well above that of the war and prewar years; and prices aren't down much except on the older or poorly located properties."

"The present downward trend appears to be caused by natural economic forces rather than by any one or several precipitous crises such as this country faced in 1929," writes Mr. Strunk. "The current readjustment is healthy and thus far has been very orderly."

# K. C. Bond Traders To Hold Outing

KANSAS CITY, MO. — The Bond Traders Club of Kansas City will hold its Annual Summer Outing on June 24, 1949 at Lake Quivira Country Club. There will be Golfing, Swimming, Badminton, Shuffleboard and Bridge.

Reservations may be made with L. B. Carroll, Prescott, Wright, Snider Co., Secretary of the Club. The guest fee is $10.

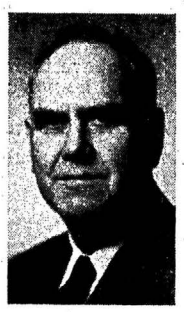
# Six Months of Chinese Currency Inflation

By HOWARD H. PRESTON*

Professor of Money and Banking, University of Washington, Seattle

**Professor Preston gives a first hand account of the course of depreciation of the Chinese "Gold Yuan" currency. Says China's inflationary experience offers little that is new, and proves necessity of linking sound fiscal policy with monetary reform. Ascribes collapse of Gold Yuan currency as both cause and effect of military and political disaster that befell the issuing government. Looks for no easy solution**

The Chinese Gold Yuan currency (universally known in China as "G. Y.") has collapsed. It was first put into circulation on Aug. 19, 1948, to replace the Chinese National Currency (known as "C. N. C." or "Fapi") which had become worthless. Seven months after the "G. Y." notes first appeared they were worth less than 1/1000 of their issue rate in terms of U. S. money.



Howard H. Preston

Mrs. Preston and I first met the new G. Y. (Gold Yuan) currency of China on Sept. 20, 1948 at Shanghai airport. One of the requirements in passing customs was to surrender our United States money. Together we Prestons had $42.86 U. S. We were told to keep the change and were handed $168 G. Y. in crisp new notes for our $42 in currency, i.e., four to one. Our first expenditure was a tip to the boys who hustled our bags into the waiting auto. They accepted it avidly but this was not proof of its value; they would have taken C. N. C., which was still in circulation, albeit perhaps less eagerly.

In the next two or three days we had abundant evidence that the G. Y. was good money. My haircut the next day in the elite Metropole Hotel shop was G. Y. $1.20, the first 30-cent haircut I had had for years—decades (the next trim in the less pretentious shop at Yenching University, catering to students and faculty trade, was $0.60 G. Y.—the first 15-cent haircut in my life). Our duties took us next day to Nanking, about 185 miles distant from Shanghai. The tickets for two with a two-berth compartment and real comfort were G. Y. $14.50. A trip from Seattle to Portland, approximately the same distance, in an intermediate class sleeper would be more dollars U. S. than this was in G. Y. Our Nanking rooms at the World Health Organization Hostel were G. Y. $5 each per night. A one G. Y. note was beginning to look like a U. S. dollar bill. We were soon to learn, however, that its purchasing power depended upon what you needed to buy with it. A small bottle of ink was one G. Y., but the ink had come from the U. S.; therefore, it necessarily carried transportation and handling charges. Gasoline was double its U. S. price.

In Nanking we were given an advance of $3,000 G. Y. on our Fulbright salary and living costs, all in crisp $5 notes. This was $750 U. S. and seemed at least double that amount since our earliest expenditures — services and railroad transportation—were in fields of relatively low prices. With stories of Chinese banditry and holdups in mind I took this much cash with apprehension. We were spending a night in Nanking and making an all-day train trip to Hangchow via Shanghai; I coddled this bundle like a baby. It was with genuine relief that I handed over $2,500 of these notes to the Hangchow University bursar for safekeeping. Most of them were used by mid-November, but I left $100 as a nest egg. When I drew out the last $50 in January it was worth about 25 cents U. S. (200-1). When this was written (March) G. Y. were 4,500 to $1 U. S. and sinking fast. On March 9 I exchanged $1 U. S. for 4,500 G. Y., the first exchange I made with G. Y. worth less than 1/1000 of their original value in terms of U. S. money; we sensed then that it was gone.

Our experience with the rapidly sinking G. Y. and the efforts being made to find suitable substitutes for it as money is well illustrated by a trip I made March 2-7 from Canton to Changsha, about 500 miles into the heart of China. On the northward trip I made an inventory of my various kinds of money. Since it shows what we were using as means of payment I refer to my train notes.

I was equipped with several kinds of "money." First, my G. Y. for small current transactions; 400 of them bought a large serving of fried rice in the diner to supplement the fruit, sandwiches, and cookies that my wife had tucked in my suitcase. Then I had my U. S. money pocket. I didn't fill it very full, both because of safety and its limited acceptability in rural China. Another pocket contained Hongkong notes; the 10-cent pieces have a picture of King George and the imprint of the "Government of Hongkong." Some of the $10 Hongkong bills I carried were issued by the "Hongkong and Shanghai Banking Corporation," reminiscent of the bronze British lions guarding the impressive entrances of the bank's Hongkong and Shanghai buildings; others carried the imprint of the equally solid "Chartered Bank of India, Australia, and China." Hongkong money had come to be practically the standard of value in Canton and the preferred medium of exchange.

In addition to the above I had "big head" Chinese silver dollar pieces. Each is approximately the size and weight of a U. S. silver dollar. The actual exchange value of silver coins bears little relation to the market price of their silver content. My dollar pieces cost me $1,500 G. Y. apiece, or about 65 cents U. S. Not many weeks previously Chinese silver dollars were at a premium in Shanghai in terms of U. S. notes, that is, it required more than $1 U. S. to buy a Chinese dollar coin. Silver constitutes a store of value cherished by hard-money-loving Chinese.

Before digressing further about silver I must complete the inventory of my stock of "money." In my left trousers' pocket I had a book of American Express travelers' checks—a safe and negotiable form of "money" that I husbanded carefully. Finally, my personal check book was riding along in my briefcase. In some places a U. S. check is the preferred "money." A student going to America found herself holding more than the legal amount (then $100) of U. S. money which would pass customs. She sought a personal check for the surplus. Americans in China with bank accounts in the U. S. prefer our personal check; it can be sent home for deposit or held as a store of value. So I bumped along on the train carrying six kinds of money, the least prized being the G. Y.

It seems ironical that Hongkong money has become both the favorite medium of exchange and the accepted standard of value in Canton when we recall that less than two years ago the British Consulate building was burned and the British banks in Canton were attacked as a demonstration against the British retention of Hongkong. In the Shanghai-Hangchow area, where we spent several months, even the critics of "American imperialism" eagerly accepted U. S. money as far as they could legitimately do so.

Down to this point the account of our experiences was written on the train from Canton to Changsha, as noted above. The journey ended with the paper incomplete. I resumed the writing after my return to Lingnan University at Canton. One of my first tasks at Changsha was to buy my return ticket. This had to be paid for in G. Y. since the railroad is Government-owned. I had not brought along the needed 58,800 G. Y. for three reasons: (1) it is bulky; (2) it might lose a great deal in value in three days; and (3) I was warned that I might be held up (an unnecessary precaution).

At the Changsha branch of the Shanghai Commercial and Savings Bank we found that the G. Y. had shrunk, even in three days. The bright new notes with which I bought my ticket in Canton cost me 2,398.75 per U. S. dollar. The Changsha banker offered notes at 3,200 per dollar and kindly suggested I might get more in the black market. I didn't try. Now how to pay? My monetary stock, as noted above, consisted of G. Y., U. S. currency, Hongkong bank notes, "Big Head" silver dollars, American Express Company Travelers' Checks, and my own bank deposit in a Seattle bank. I asked about the possibility of the latter.

"Certainly we will take your check, Mr. Preston—no exchange charge." Then an embarrassing moment, my check book was at the home of Dwight Rugh, my host and the Changsha representative of Yale-in-China. Once more the courteous, "Never mind, never mind; we will send a messenger for your check." The bank officer handed me a bundle of bills nearly the size of a brick—64,000 G. Y.

Upon leaving the bank I soon found that aside from official transactions, railroad tickets, postage, etc., the G. Y. was practically gone in Hunan Province. Dwight Rugh told me he had just collected approximately $30,000 in Chinese silver coins in payment for tuition and board for the current term at Yale-in-China. At the Fuh Siang Girls' School which I visited late in the day of my guide, Miss Gertrude R. Bayless, pointed out a building that interested me especially. She called it "The Bank." It was, in fact, a granary for stor-

(Continued on page 24)

*This is a first-hand report of China's second monetary inflation since V-J Day. The C. N. C. currency had been repudiated before we reached China in September. During six of the eight months that G. Y. notes have been in circulation, Mrs. Preston and I lived in China where I held an appointment as Fulbright visting professor. This paper is written to record, in terms of actual experience, the fate of this money and some of the consequences of hyper-inflation. No attempt is made to buttress the story with statistical data. It is written in the first person in order to preserve the personal flavor. Our account book is used for actual exchange rates, a more realistic set of figures than the official rates would be, if available.

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# Mutual Funds

By HENRY HUNT

## Market Review

"Whether a bullish attitude at this time is warranted depends largely on what one expects to happen to business activity and earnings. If we are to have a short recession present levels are probably low. If a severe depression is in the offing, current prices could prove high. There is considerable difference of opinion as to what lies ahead . . . on the part of some of our better known economists on the future course of business. In general the conclusions are that while further adjustments are likely, no serious trouble appears in prospect.

"The failure of the averages to hold above their lows of the last six months was disappointing but it should be noted that the market is now close to the level where it has found good support since 1946. These low points and the subsequent recoveries were as follows:

| | Low Point | Subsequent Gains |
|---|---|---|
| 1946 | 163.12 | 13 % |
| 1947 | 163.21 | 14½% |
| 1948 | 165.39 | 16½% |
| Recent 1949 | 165.00 | -- |

"Fortunately this test of those former support levels is coming at a time when there are several favorable technical factors:

"(1) The short interest is the highest in 16 years.

"(2) The ratio of the short interest to the average daily volume of trading in last month is the highest since May of 1938, shortly before the market advanced sharply.

"(3) The smaller odd-lot traders are beginning to sell on balance.

"(4) The market has rallied from its May-June lows to a higher July-August level in each of the last 52 years. The average gain was 16.4% with the upturns ranging from 0.6% to 82%. (From the study by Standard and Poor's.)

"(5) The large purchases of open-end trust shares and the willingness of the managers of these trusts to invest most of this new money in conservative issues, provides a cushion for the market.

"(6) The small amount of margin trading means that holders of stocks can be deliberate in their decisions as to whether to hold or sell.

"(7) The qualitative adjustments of the last three years have removed most of the distortions that developed in the advance from 1942 to 1946."—Written by **Harris, Upham's** Ralph Rotnem.

## Mutual Funds vs. "Telephone"

"Difficulties of investors who follow the one egg, one basket method were never better exemplified than in American Tel. & Tel., so frequently used as a 'one-stock portfolio.'

"This stalwart, reputable investment has sold at a lower price each year since 1946. Not since 1943 has it sold as low as the recent 140¼—off 30% from the 1946 high vs. a decline in the Dow-Jones Industrial Average of 20%.

"Despite the record of uninterrupted dividends since 1881—despite the payment of $9 yearly since 1922, this stock has seen some remarkable ups and downs. Every few years that big dividend looks a little bit dubious to some stockholders and a certain amount of selling sends the price tumbling.

"Nobody can suspect the wicked 'professionals' in this particular case, because the company's report for 1948 showed that it had *765,800 stockholders of whom more than half were women. Probably no other stock is so widely held by widows and orphans. Average number of shares held was 30.5; no stockholder held as much as 0.33% of the total outstanding; holders of one to five shares numbered 210,000; holders of less than 100 shares numbered 720,000 (94% of the total). No state in the union had fewer than 600 stockholders.

"We thought as we saw the stock sink to a new low for six years, how much better the widows and orphans—and a lot of other people as well—might feel with their funds in investment company issues.

"To satisfy ourselves we compiled the performance result, over the 12¼-year period 1937-March, 1949, of an investment in Telephone, and assumed reinvestment of dividends just as in our calculations of performance results of investment companies. The result was +51%; in contrast 53 investment companies had a combined gain of 69%. And many of the investment companies had far superior, much-above-average results as shown below:

| | 12¼ Year Performance Results |
|---|---|
| Fundamental Investors | +97% |
| State Street | +90% |
| Eaton and Howard Balanced Fund | +82% |
| Wellington | +80% |
| Commonwealth | +80% |

—From **Arthur Wiesenberger's** "Notes and Comment."

* EDITOR'S NOTE: Approximately the same as the number of mutual fund shareholders.

## Wellington Sales at New Peak

Record sales of **Wellington Fund** shares in the first five months of this year were reported to the board by Walter L. Morgan, President. He said sales in the period totaled $11,421,000, or a gain of 71% over the like period of 1948. May sales showed a 56% gain over the like month last year.

The number of stockholders in the Fund in May also reached a new record total of more than 32,000, located in virtually every state in the union, he added. In the 12 months' period ended May 31, 1949, the number of shares of Wellington Fund outstanding increased from 3,251,437 to 4,509,172. The average investment per stockholder in the Fund amounted to $2,300 invested in more than 200 securities—bonds and common and preferred stocks.

## Stock Market Well Adjusted

"The stock market for more than 2½ years has prepared for the change now taking place in the economic trend. In the interim, our broad stock price index has fluctuated meaninglessly in a range 15% to 30% below its 1946 high, representing the longest period on record in which investors have anticipated a recession.

"Stocks became progressively cheaper as profits mounted, with the result that the average price-earnings ratio in 1948, as measured by the 50 industrial stocks in the Standard & Poor's daily index, was the lowest since 1918. It may be said—and rightly so—that 1948's record profits were transitory, and that any appraisal of stock values should be based on average earnings over a term of years.

"Taking the 11 years 1938-48, average earnings per share on the industrial stocks, adjusted to our index, were $10.77, against $22.75 in 1948 alone. Even on that conservative long-range basis, stocks are selling at 13 times earnings, exactly in line with the average price-earnings ratio for that 11-year period. Stated another way, net income per share would have to drop about 50% from the 1948 figure before the 1938-48 price-earnings ratio would be duplicated."—From **Vance, Sanders** "Brevits."

## Tobacco—The Industry of Steady Earning Power

"The common stocks of leading tobacco companies have always been notable for the stability of their earnings and dividends. Depressions are taken in their stride—indeed earnings were *larger* in 1932 than in 1929, larger in 1938 than in 1937. Tenacity of the smoking habit is, of course, the answer. In urgency of demand tobacco comes next to the bare necessities of life.

"The industry is also notable for its persistent, steady growth. On average, over the past 30 years, cigarette consumption, for example, has doubled every 10 years. Snuff consumption shows the same steadiness of growth but at a slower rate.

"This extraordinary stability plus steady growth has put tobacco common stocks in an investment class by themselves. Few, if any types of investments can match their long-term record.

*"For stability of income they are more like preferred stocks and bonds than like common stocks. Yet they offer the long-term growth possibilities that can be found only in a common stock.*

"In 1949 the tobacco companies should again demonstrate their relative insensitivity to the general business picture. As against an expected decline of as much as 10% in general industrial production this year, output of the tobacco industry is expected to increase slightly over last year.

"In combination with sustained to somewhat higher unit output, the tobacco companies should benefit somewhat from lower tobacco costs, although no pronounced decline in raw tobacco prices is imminent for this year. With retail prices of tobacco products expected to hold, tobacco companies' earnings for 1949 should be maintained at around 1948 levels. This contrasts with an expected decline of about 20% in earnings of the average industrial company."—From a recent **Distributors Group** folder.

## E. & H. Balanced Fund Crosses $40,000,000

During the month of May, assets of **Eaton and Howard's Balanced Fund** crossed $40,000,000 for the first time in its 17 years of existence.

It is interesting to note that as of May 31 per share asset value was slightly higher than at the year-end. Common stock holdings amounted to 56.2% of assets on May 31, little changed from the Dec. 31 figure. Nice going!

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## With Francis I. du Pont

(Special to THE FINANCIAL CHRONICLE)

MIAMI BEACH, FLA.—Frank L. Edenfield has become associated with Francis I. du Pont & Co., 2809 Collins Avenue. Mr. Edenfield was formerly with Paul A. Davis & Co., and Cohu & Torrey.

## Mercer Hicks Corporation

Mercer Hicks Corp. has been formed with offices at 72 Wall Street, New York City, officers are Mercer Hicks, President; John J. Reilly, Vice-President, and Kenneth T. Hoeck, Secretary and Treasurer.

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# Business Recession Would Selectively Favor Utilities, Says N. Y. State Commissioner

**New York Commissioner maintains business recession will harm utilities less than other industries, and a 25% increase in his State's generating capacity is needed and would be healthy. Urges that method of determining rate base be maintained unaltered despite changes in administrative personnel.**

At a meeting of the New York Society of Security Analysts held on June 8, 1949, Spencer B. Eddy, member of the New York State Public Service Commission, stated that the rate of return on capital invested in public utility enterprises should not be construed as being a "sacred cow," but it should be something which is flexible enough to provide a large enough return on invested capital so that new investors will be attracted to place funds in this industry as new monies are needed for capital expenditures.

Spencer B. Eddy

It is realistic to permit public utility companies to earn more money in good times than in bad times so that during good times utilities will be able to accumulate sufficient monies to tide them over the tougher times, according to Mr. Eddy. The Commissioner was queried as to whether the present rate of return permitted in New York State, which is equal to 5% on invested capital (original cost basis) is sufficient to make this objective a reality and his answer was that it was not.

Some investors object to buying public utility securities in this State because the New York Public Service Commission evaluates the rate of return on the basis of original cost less depreciation, whereas some states permit a rate of return on reproduction cost. During inflationary periods, those companies which have been permitted to earn on the basis of reproduction costs have appeared to fare better than those which have been permitted to earn on original cost less depreciation where the property was built during periods when costs in general were lower. Mr. Eddy pointed out that valuation on the basis of reproduction costs could work quite adversely during periods of deflation. On the basis of original cost, the investor is assured that the property for rate purposes will continue to be valued at what it cost even though prices may decline and it may be cheaper to reproduce the property at the time the valuation is made.

### Facilities Short

"Facilities for the production of electricity and gas are still quite short in New York State," said Mr. Eddy. "This calls for tremendous outlays of capital for building of additional and new utility plants." The speaker explained that the overall electric capacity in the State should be increased by approximately 25%. The increased demands for electric services have resulted in the utilities making vast capital outlays since the war, at a time when prices have been inflated. Thus, original cost as the basis of determining rates in New York State may well prove to be a boon to the industry in the event of a general business recession with an accompanying lower price level.

"A business recession is not expected to be as harmful to the public utility companies as it may prove to be to various other lines of business," the Commissioner continued. "In order to insure an adequate supply of electrical power in New York State, plus a sufficient reserve of power including the reserve necessary for the purposes of national defense, a 25% increase in generating capacity would be quite healthy for the industry and not result in any over-capacity.

At the present time there is sufficient demand for electrical energy so that a substantial portion of new construction is necessary. For example, to prove the inadequacy of present facilities, last fall a great many industries in the upstate area were forced to curtail the use of electricity during peak hours. In addition, there still remains a deficiency in the amount of manufactured gas which is available in the state. All generating facilities, including those which are old and expensive to operate, are being utilized. Thus, in any recession when the demand falls off the older and more expensive to operate units will be taken off with the result that the utilities will not be as hard hit as other business enterprises. Inasmuch as the utilities do not have adequate reserve power under present circumstances, during a recession, when the business load would tend to drop off, they would then probably have little more than the reserve which they should have," according to the speaker.

Mr. Eddy disclosed that at the present time the Public Service Commission is conducting an investigation on the matter of truck rates in New York State. In the next six months a report will probably be issued on what should be done about the longer-haul rates as well as the shorter-haul rates.

Within New York State 1.2 million new telephones have been installed since the war. In addition, there are applications on file for the installation of another 250,000 telephones. Prior to World War II, New York had approximately 3,000,000 telephones so that the increase to date represents a 40% expansion in the number of telephones. The investment in telephone plant and equipment, however, has more than doubled because of rising costs. The average investment per telephone installed has increased by about $20. The reason the Commission recently granted an interim increase in rates to the New York Telephone Co. is that the plant investment has been doubled with the result that the old rate of return on the investment was inadequate based on present costs of installation.

### Manufactured Gas Inadequate

The amount of manufactured gas which is available in New York State is inadequate to meet the heavy demand. Were it not for the fact that within the next two years it is expected that natural gas will be brought in through pipelines from other parts of the country the speaker would be of the opinion that the manufactured gas industry would probably have to make large expenditures to take care of the load which it is being called on to carry.

Referring to busses, the speaker stated that 25% of the privately-owned busses have been completely depreciated while the New York municipal busses have been depreciated to the extent of 35%. The bus industry has been called on to make tremendous expenditures to take care of its increasing load.

### Depreciation Method

The method used in depreciating the utilities in New York State is based on straight-line depreciation of property on the original cost basis. The speaker explained that because so much new utility plant has been installed since the end of the war, even if prices hold up, New York State utility companies would not be adversely affected on the basis of original cost rather than reproduction cost method of valuation for rate-making purposes because the cost of new plant is high.

An important point brought out by Public Service Commissioner Eddy was that fundamentally whatever method of determining the rate base is used, either reproduction or original cost, it should not change with the change in the personnel which administers the laws. Changing from one theory of rate determination to another can produce dishonest results and be extremely harmful to the utilities.

# New Members of NASD Investment Trust Underwriters Group

WASHINGTON, D. C.—The National Association of Securities Dealers, Inc., has appointed two additional members to the Investment Trust Underwriters Committee, in order to broaden its representation of the industry, it was announced. The new Committee members are: Walter L. Morgan, President, Wellington Fund, Philadelphia, and Herbert R. Anderson, Executive Vice-President, Distributors Group, Inc., New York.

Walter Morgan Herbert R. Anderson

Other members of the Committee previously announced are: Edward B. Conway, Chairman, F. Eberstadt & Co., Inc., New York; Harold W. Cameron, Pacific Northwest Co., Seattle; Chas. F. Eaton, Jr., Eaton & Howard, Inc., Boston; Woodford A. Matlock Broad Street Sales Corp., New York; George S. McEwan, Paul H. Davis & Co., Chicago; Harry I. Prankard, Lord, Abbett & Co., New York; Henry T. Vance, Vance, Sanders & Co., Boston.

Announcement of the enlargement of this important industry committee was made by Clement A. Evans, Chairman of the NASD.

# Curb 5 & 20 Club Golf Tournament

The annual golf tournament of the Five and Twenty Club of the New York Curb Exchange will be held this year at the Siwanoy Country Club in Bronxville, New York, on Tuesday, June 28. Charles Leichner is Chairman of the Tournament Committee, which also includes George Herrel, Marcus Kaufman, Milton E. Reiner and Leonard Wagner.

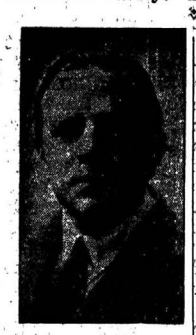
The Five and Twenty Club is composed of Curb Exchange members who have owned seats on the Exchange for 25 years or longer. The tournament is open to all members of the Curb and their guests.

# The Gold Premium Problem

By PAUL EINZIG

**Dr. Einzig, commenting on pressure of South Africa and other gold producing countries for permission to sell gold at a premium, points out these countries, as well as Britain, would gain nothing from the proposal, as premiums on gold are almost exclusively in soft-currency areas. Favors bounties to increase gold production.**

LONDON, ENGLAND — The question whether gold producers and holders of gold stocks should sell gold above the prices determined by the official gold parities of their currencies has been subject to much discussion lately. The South African Government is very anxious that the International Monetary Fund should release it from its obligation to abstain from selling gold at a premium. In the House of Commons, too, a Socialist Member of Parliament has repeatedly urged the Chancellor of the Exchequer to sell gold at something like £20 per oz. in countries where it is at a premium instead of selling it to the United States at about £8 per oz. The answer given to him was that Great Britain is under obligation to abide by the statutes of the International Monetary Fund, forbidding the sale of gold at a premium. This answer and the publicity given to the refusal of the International Monetary Fund to authorize South Africa to sell her gold at a premium is liable to create an unjustified prejudice against that Institution. In reality, both South Africa and Great Britain have a much better reason for abstaining from selling gold at a premium than the rigid application of the rules of the International Monetary Fund. It is high time this reason should be clearly stated.



Dr. Paul Einzig

The countries in which gold commands a premium are almost exclusively soft-currency countries. Indeed, it stands to reason that the softer their currencies are the higher premium is commanded by gold on their free markets or black markets. A currency is soft because it is distrusted at its prevailing official parities. That distrust manifests itself in the magnitude of the premium on gold. One of the reasons why soft-currencies are distrusted is that the trade balance of the countries concerned is adverse. In particular, they are short of hard currencies needed for their essential import requirements. This means that they would be unable to pay in dollars or other hard currencies for the gold they would import to satisfy demand on the free market or black market.

If Great Britain or the Union of South Africa were to sell gold to soft-currency countries, they could, therefore, receive payment in the form of soft currencies only. In most cases the proceeds of such gold exports would be utterly useless, at any rate for the time being. The currencies against which the gold would be sold are hopelessly inconvertible. Yet it is dollars that both Great Britain and South Africa need. They are doing their utmost to stimulate their export drive to the dollar area in order to reduce their dollar deficit. Unfortunately, the absorbing capacity of the North American market for their goods is limited, even more so now than it was before the war, owing to the development of the production of synthetic rubber, textiles, etc., in the United States. Gold is practically the only commodity which can be sold to the United States in unlimited quantities. It would be foolish, therefore, to sell gold to countries outside the Dollar Area.

Admittedly, the price of $35 per oz. at which the United States are prepared to buy imported gold in ulimited quantities is far from satisfactory. It is the prewar price and the cost of production of gold, like that of everything else, has risen considerably during the last 10 years. At this price it does not pay to work the poorer seams, a fact which tends to curtail the output.

It is arguable that if only the producers were to be allowed to benefit by the high premium, through selling to soft-currency countries part of their output, the resulting increase of the output would make it possible to maintain gold shipments to the Dollar Area at their present level, and to sell the surplus output on a profitable basis. The answer to this argument is that in any event it would be sheer waste to export gold to countries where it would be simply hoarded by the public. It would be a mistake to encourage the import of gold by countries which have no export surplus to pay for the gold imports. The Governments of the countries concerned would not stand to benefit in any way by the sale of the imported gold to the hoarding public.

At the same time it is obviously to the interest of the gold-producing countries, and of world reconstruction in general, that the gold output should be increased. Larger gold shipments to the United States would mitigate the world-wide scarcity of dollars, scarcity which is by far the most important single factor handicapping recovery. The only effective way in which an increase of gold output could be encouraged would be through an increase of the American buying price. Alternatively, the Governments of the gold-producing countries could stimulate the output by paying a premium to their own gold producers. This again is, however, against the rules of the International Monetary Fund. In several instances the International Monetary Fund has intervened and has forced the Governments concerned to discontinue the payment of premiums. In this respect its policy is more open to criticism than in respect of its opposition to the sale of gold at a premium for hoarding or industrial purposes. It is to be hoped that some formula could be found under which the increase of the gold output could be encouraged.

# Herman Lass With Bendix, Luitweiler

Herman Lass, who has been in the "Street" for 20 years, has become associated with the New York Stock Exchange firm of Bendix, Luitweiler & Co., 52 Wall Street, New York City, members of the New York Stock Exchange, as a Customer's Broker. Mr. Lass believes that one of the few bright spots in the financial business is the wide popularity of the regulated open-end investment trusts. He foresees these trusts as a permanently important media for investors of moderate means. "This popularity is no flash," said Mr. Lass, "but the beginning of a real trend."

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# Canadian Securities

By WILLIAM J. McKAY

After several false starts it is abundantly clear that the inevitable postwar economic adjustment is now in course of operation. The efforts that are still being made to disguise this obvious fact can only serve to prolong the difficult transition period. British and Canadian presentment of foreign trade statistics still tends to convey the illusory impression that the boom conditions of the past era of sellers' market are not yet at an end.

The reason for this unwillingness to act in accordance with current economic indications is an obvious reluctance to abandon wartime exchange controls on which depend the maintenance of the present overvalue level of the pound, and to a lesser degree that of the Canadian dollar. As far as Sterling is concerned it is now impossible to produce any logical economic argument against the case for devaluation.

However, we learn from British sources that the time is not yet ripe for the unpegging of the pound as it is still too early to determine its true value. But the fact that trade is conducted on a profitable basis by means of transferable Sterling at a discount in the neighborhood of 20% definitely refutes this contention. In the meantime procrastination can only cause further deterioration of the British export position already jeopardized as a result of noncompetitive British prices and a growing lack of confidence in Sterling. Reasons for hesitancy in taking immediate action are all the more difficult to justify, as in view of the present economic trend, the cost of British imports is likely to decline sharply and the disadvantage of a lower valuation of the pound would be thus offset.

Similarly in the case of Canada the process of transition to more normal conditions will be all the more difficult in the absence of a greater degree of flexibility in the management of the Dominion's economic affairs. As matters now stand Canadian financial and commercial policy is based on the maintenance of the Canadian dollar at its present parity. In order to preserve this apparently sacrosanct exchange level it is considered to be essential to maintain reserves in gold and U. S. dollars at a minimum total of $500-$600 million. Whenever this level is threatened it is necessary to institute economic controls and restrictions for its protection.

At the present time there is a certain degree of complacency concerning the Dominion's economic well-being as the last announced total of the exchange reserves was approximately $1 billion. It must be borne in mind, however, that these reserves are subject to violent fluctuations. At the end of 1947 they fell below $500 million and as a consequence the Dominion austerity program was brought into operation. During 1948 the exchange reserves increased to nearly $1 billion as a result of restrictions placed on imports from this country, offshore ECA purchases of nearly $700 million, a U. S. loan of $150 million, record meat shipments to this country of approximately $100 million (following the removal of the Canadian livestock embargo) a record tourist season, and the general high level of Canadian exports in this period of sellers' markets.

With the abrupt change in economic conditions that has taken place this year, and in the absence of the non-recurrent items of 1948, the Dominion's exchange reserves are likely to be endangered as they were in 1947. In this event the Canadian authorities will once more be faced with the choice between devaluation of the Canadian dollar and the simultaneous removal of exchange controls, or the maintenance of the present exchange level with the concomitant necessity of imposition of further drastic controls and restrictions. If in the meantime, however, the pound is devalued the Canadian course of action will be largely dictated.

During the week in both the external and internal sections of the bond market there was evidence of a large volume of underlying supply. This is by no means remarkable especially in the case of internals; what is perhaps more surprising is the relative stability of Dominion internal bonds and also the market for free funds in face of the distinct threat of Sterling devaluation. Stocks, after earlier rallying attempts, finally followed the New York lead and all sections, with the exception of the golds, resumed the downward trend.

CANADIAN BONDS

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## Schwabacher & Co. Add

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CAL.—John C. Poshepny has been added to the staff of Schwabacher & Co., 600 Market Street, members of the New York and San Francisco Stock Exchanges. Mr. Poshepny was formerly with Davies & Mejia.

## With Stephenson, Leydecker & Co.

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, CAL.—Lester M. Grant has been added to the staff of Stephenson, Leydecker & Co., 1404 Franklin Street.

## With Boettcher and Co.

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO.—Walter MacStewart has become affiliated with Boettcher and Co., 828 17th Street, members of the New York Stock Exchange.

## With Johnson & Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CAL.—Jerome G. Davis is now associated with Johnson & Co., Russ Bldg.

# Will They Get More or Less?

"The American Medical Association is firmly opposed to the medical care section of S-1679 [the national health bill now before the Senate] and certain other sections of the bill, and to any other bill which lodges primary initiative and control of medical care in a Federal bureaucracy; that contains uniform and compulsory features to be established nationally and imposes a direct Federal tax on every worker to finance the program.

"Such plans concentrate further power in the central Government. They absorb functions which are much better retained at the local level and they greatly increase the overall cost of providing health services. Most important, existing evidence establishes the fact that such plans lead to a widespread and serious deterioration of the quality of medical care.

"Government is unable to deliver the services that are promised and which would be paid by the plan set forth in S-1679; the proposal constitutes an extreme example of compulsory paternalism, impossible of practical operation, and contrary to the principles of American democracy."—The Board of Trustees of the American Medical Association.

**We wonder if it ever occurs to the sponsors of such measures that those who really need medical attention may get less, not more, of the competent care they require should such a program take effect.**

# Recommend Enactment of Reed Bill

**45 members of Economists' National Committee on Monetary Policy favor H. R. 3262 which would restore a gold coin monetary system.**

In a statement issued by the Economists' National Committee on Monetary Policy released June 13, and signed by 45 members of the organization, the enactment of the Reed Bill (H. R. 3262) which would provide the United States with a gold coin monetary system is advocated for the following reasons:

I

Restoration of a gold-coin monetary standard in the United States would reestablish integrity in the promises to pay issued by the Treasury and Federal Reserve banks. Most of the paper money of the United States carries promises to pay which, under present laws, are not, and cannot be, honored. Statements on some of these notes as to the nature of the security underlying them are not in accordance with fact. No nation, if it can avoid doing so, should permit its Treasury and banks to issue and circulate such promises. Our country can and should avoid this practice.

II

A circulation of an irredeemable paper money permits and invites a much freer and less responsible issuance of circulating media than would be possible if these promises to pay were redeemable in gold on demand. Profligate government spending and depreciation of the nation's currency in terms of goods and services are natural consequences of the issuance of such a currency.

III

Restoration of a gold-coin monetary standard and system would return to the people a high degree of direct control over the government's use and abuse of the people's purse. Under our system of irredeemable currency, the people's purse is at the mercy of pressure groups to which the majority of Congress have been yielding since such a currency makes it easy for Congress to spend the people's money as demanded by such groups.

IV

Restoration of a gold-coin monetary standard and the return to the people of their proper control over the use of their public purse should provide them with a potent weapon against socialization and regimentation by their government.

V

Restoration of a currency characterized by integrity in the promises to pay should, in so far as any currency can do so, inspire confidence and encourage saving, investment, production, employment, and trade.

VI

The free flow of gold, silver, and our other money across our international boundaries should enable private ingenuity once more to go where it will and can, when it will, in search for goods, markets, and services with the consequence that foreign trade should expand and other nations should, sooner than otherwise would be the case, be able to develop their trade, obtain more gold and silver, reestablish redeemable currencies, and increase their production and wealth.

VII

The monetary stock of the United States is ample in ratio and amount to permit reestablishment of a redeemable currency.

VIII

Resumption should be at the established rate of $35 per fine ounce of gold. This standard has been maintained at our Treasury and Federal Reserve banks since Jan. 31, 1934. Fixity is a basic requisite of a good monetary standard, and there is no valid reason why the weight of our standard gold dollar should be altered.

The statement is signed by the following:

CHARLES CORTEZ ABBOTT
Harvard University.
CHARLES C. ARBUTHNOT
Western Reserve University.
JAMES WASHINGTON BELL
Northwestern University.
H. H. BENEKE
Miami University, Oxford, Ohio.
CLAUDE L. BENNER
Continental American Life Insurance Co. Wilmington, Delaware.
FREDERICK A. BRADFORD
Lehigh University.
J. RAY CABLE
John B. Stetson University.
WILBUR P. CALHOUN
University of Cincinnati.
CECIL C. CARPENTER [1]
University of Kentucky.
ARTHUR W. CRAWFORD [2]
Chamber of Commerce of the United States, Washington, D. C.
WILLIAM W. CUMBERLAND
Ladenburg, Thalmann & Co., N. Y. City.
REV. BERNARD W. DEMPSEY, S.J.
St. Louis University.
D. W. ELLSWORTH
E. W. Axe & Co., Inc., Tarrytown, N. Y.
FRED R. FAIRCHILD
Yale University.
CHARLES C. FICHTNER
Buffalo, N. Y.
MAJOR B. FOSTER
Alexander Hamilton Institute and New York University.
A. ANTON FRIEDRICH
New York University.
ROY L. GARIS
University of Southern California.
E. C. HARWOOD
American Institute for Economic Research.
HUDSON B. HASTINGS
Yale University.
WILLIAM F. HAUHART
Dean Emeritus, Southern Methodist University.
JOHN THOM HOLDSWORTH
The University of Miami.
MONTFORT JONES
The University of Pittsburgh.
DONALD L. KEMMERER
University of Illinois.
WILLIAM H. KIEKHOFER
The University of Wisconsin.
WILLIAM H. KNIFFIN
Bank of Rockville Centre Trust Co., L. I.
J. L. LEONARD
University of Southern California.
EDMOND E. LINCOLN
du Pont Building, Wilmington, Delaware.
A. WILFRED MAY
Executive Editor, The Commercial and Financial Chronicle, New York City.
ROY W. McDONALD
Donovan, Leisure, Newton, Lumbard and Irvine, New York City.
DAVID H. McKINLEY
The Pennsylvania State College.
MELCHIOR PALYI
Chicago, Illinois.
FRANK PARKER
University of Pennsylvania.
CLYDE W. PHELPS
University of Southern California.
CHARLES L. PRATHER [3]
The University of Texas.
LELAND REX ROBINSON
76 Beaver Street, New York City.
R. G. RODKEY
University of Michigan.
OLIN GLENN SAXON
Yale University.
CARLTON A. SHIVELY
The New York Sun.
WALTER E. SPAHR
New York University.
JAMES B. TRANT
Louisiana State University.
RUFUS S. TUCKER
Westfield, N. J.
RUSSELL WEISMAN
Western Reserve University.
NATHANIEL R. WHITNEY
The Procter and Gamble Co., Cincinnati.
MAX WINKLER
Bernard, Winkler & Co., New York City.

[1] Thinks bullion redemption would be adequate.
[2] Would prefer deferment of effective date.
[3] Prefers gold bullion to gold-coin standard.

# Chas. Merrill Honored With LL.D Degree

Charles E. Merrill, directing partner of Merrill Lynch, Pierce, Fenner & Beane, has received a Doctor of Laws degree from Kenyon College, Gambier, Ohio, in recognition of his leadership in the field of finance and education.

Chas. E. Merrill

In awarding the degree, Gordon K. Chalmers, President of Kenyon College, cited Mr. Merrill as "Reformer of investment banking practices, benefactor to education. He has pioneered almost every new idea that has come to Wall Street in the last quarter of a century."

Mr. Merrill has been a vigorous champion of higher education. Under his leadership the partners of Merrill Lynch, Pierce, Fenner & Beane organized the Merrill Foundation for the Advancement of Financial Knowledge, which has already made grants of almost a half million dollars. His firm has also operated its own training school from which it has graduated some 250 veterans since the close of the war.

Mr. Merrill also holds LL.D. degrees from Amherst and John B. Stetson Universities.

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*LETTER TO THE EDITOR:*

# Says Prosperous Rails Will Prevent Depression

**Edwin J. Schlesinger urges pressure be brought on Congress for sound railroad legislation.**

Editor, Commercial & Financial Chronicle:

The recession in which the country now finds itself should be stopped in its tracks. It surely would be inexcusable to allow a recession to become a depression if it can be possibly avoided. It is entirely natural, in fact should have been anticipated, that a war and the customary postwar boom must be followed by period of reaction. This reaction, however, need not be permitted to get out of hand and assume the devastating proportions of a depression.

Edwin J. Schlesinger

Perhaps as good a way as any to keep the current recession in check is to permit the railroad industry to function in a normal and healthy fashion. Prosperous railroads spell a prosperous and healthy economy. Right now the railroads do not find themselves free to spend as much money for equipment and improvements as they would like. The reason for this is due largely, if not entirely, to the fact that the relationship between income and outgo is not what it should be. In other words, expenses are increasing too fast.

Financially healthy railroads are of prime importance to the country and everybody living in the United States. In the event of war we will need a modern railroad plant. That this is so, World War II most thoroughly demonstrated. Sound business and full employment also calls for a healtny railroad set-up. The railroads are the largest buyers of many of the most important basic products and manufactured goods. Nothing should be permitted to stand in the way of normal railroad purchases.

Labor, management and the rest of the people, are dependent upon the railroads and should work together. This may sound Utopian but it is just plain unvarnished common sense. Nobody begrudges labor its full measure of reward and prosperity. But where does labor come off (this refers to labor in general) if the railroads do not prosper? Management must run the roads as efficiently as possible and the men holding managerial positions of importance should be removed unless efficient. The public should bring the appropriate pressure on Congress to assure sound railroad legislation.

If everybody pulls together a depression may be avoided. But all should realize that they must put their shoulder to the wheel, and do so promptly. After the splendid cooperation on the part of the entire people as demonstrated during the late war, a united effort should not only be possible, but feasible.

EDWIN J. SCHLESINGER
41 East 42nd Street
New York 17, N. Y.
June 10, 1949

*LETTER TO THE EDITOR:*

# Protests Subsidizing Railroad Competitors

**Berkeley Williams writes "Chronicle" inevitable result of such practice will be disaster of railroad nationalization. Says rails are still chief element in our national economy and defense.**

Editor, Commercial & Financial Chronicle:

Railroads are now definitely attacking, with commendable vigor, their Dining Car losses and the Free Pass abuses to which I referred in your issue of May 5.

In justice to himself, in the public interest and in justice to the railroads, every "John Q. Public" citizen is again urged to act promptly to save himself from calamitous consequences in a decidely more serious matter. It is the matter that threatens our national economy, our national safety and more than $23 billion private investment in our railroads, namely, the billions of taxpayers' money that are being poured out by Federal and State authorities to subsidize railroad competition. Like the weather, however, it is often discussed and nothing done about it.

Berkeley Williams

Stated in simplest terms, the picture presented is that of the railroads providing and maintaining all their own basic facilities, 395,000 miles of track, 192,000 bridges of all kinds and sizes (longest 12 miles), 1,500 tunnels ranging from 100 ft. to 8 miles long, etc., while by contrast, practically all taxes paid by highway carriers are being lavishly spent in the construction and maintenance of the highways they use. The big trucks which do all the road damage pay only 10% of highway revenues. The other 90% is paid by the general public. (This statement is based on a study made by Mr. F. N. Barker, Engineer of Highway Research of the Highway Department of Illinois.) Fair or reasonable?

The commercial air lines, whose facilities are largely provided at the expense of the City, State and Federal Governments, carry less than 6% of the inter-city mail; the railroads carry the remaining 94%, yet the railroads receive less for carrying the 94% than the air lines get for carrying the 6%. On the 94% that the railroads handle, they are actually losing money. Eddie Rickenbacker testified before the Senate Commerce Subcommittee that airline subsidies, which rose to $48 million last year, have made air transportation immune to the grim necessities of sound business practices, and further stated that air transportation in this country is suffering from too much coddling and wet nursing. Fair or reasonable?

It is common knowledge that practically all of the traffic moving on the rivers is being handled for private interests and not for the general public. Fair or reasonable?

Paradoxically, the railroads' taxes are being used to subsidize all of their competitors.

In other words, railroads stand on their own feet, no part of railway tax money is spent on track building, on maintenance, or on improvement of railroad plant; but billions of taxpayers' money is being spent on highways for bus and truck lines, dams and locks for barge lines, air ports and marked routes for air lines, that subsidize competition. Unfair, unreasonable and immoral.

Inevitable result of such practice will be the disaster of railroad nationalization and we know from experience during and following First World War that Federal operation cost the American taxpayers $1,616,000,000, an average of about $2 million a day, notwithstanding increases in freight rates and passenger fares. Whereas, the American people took in $2,500,000 a day in the form of taxes from railroads during World War II, thus the difference between Government operations and private operations was $4,500,000 a day in favor of private operations. These facts should be repeated again and again, "lest we forget."

More than 17,000 passenger trains start on their runs in the United States each day; the rails carry any and every kind of shipment from a crate of eggs to the bubble tower weighing 490,000 pounds, that was recently carried from the factory in Missouri to refinery in Texas, plus 91% of all non-local mail.

Can there be any doubt that the rails are the chief element in our national economy and national defense?

The time is later than the general public thinks to do something to protect our country's welfare, and the 900,000 railroad stockholders in particular to protect their investment. Either the public must demand it so vigorously that government will stop subsidizing competition through public taxation or prepare to pay higher rates for less service.

Those who have traveled on railroads in any foreign country know the nightmare of government ownership and operation.

BERKELEY WILLIAMS.
June 15, 1949
302 E. Grace St.
Richmond, Va.

## Women's Bond Club Elect New Officers

The following officers were elected at the annual meeting of The Women's Bond Club of New York, held on Tuesday, June 7: President, Miss Isabel H. Benham, R. W. Pressprich & Co.; Vice-President, Miss Dorothy R. Funck, Assistant Vice-President of Irving Trust Co.; Secretary, Miss Helen Dickinson, H. M. Gartley, Inc.; Treasurer, Miss Marion Quell, Irving Trust Co. Newly elected to the Executive Board were Mrs. F. H. Howard, Starkweather & Co., and Miss Florence Zuchtmann, Distributors Group, Inc. Continuing as members of the board are Miss Frances B. Rand, American European Securities, and Miss Lucile Tomlinson, investment company consultant.

## Sanders Shanks, Jr., Dead

Sanders Shanks, Jr., President and Editor of the "Bond Buyer," died June 11 at the age of 58 after an illness of several months. Mr. Shanks had been with the "Bond Buyer" since 1914.

## Moran & Co. Formed

NEWARK, N. J.—Moran & Co. is being formed with offices at 744 Broad Street, to engage in a securities business.

# *Railroad Securities*

Under the best of circumstances it is a difficult and discouraging problem to write a weekly column on railroad securities. Under present conditions it is a well-nigh impossible task. Market movements are without basis in reason. There have been few newsworthy developments in recent months. When there has been news of a constructive nature it has been completely ignored. When there have been developments that can in any way be construed in an unfavorable light they have been widely publicized and exploited. Under such circumstances the railroad analyst finds that what bullish material he may put out is largely wasted ammunition. There is a great temptation just to go into hibernation until the spell of unreasoning pessimism has had time to spend itself.

If reason is to return to the markets, however, it is necessary to shake off this temptation to succumb to the defeatist attitude. There is certainly nothing in the record to date that will support the prophets of doom in their eternal cry that the railroads individually and collectively are on their last legs. A business recession has been going on for sometime. The popular belief appears to be that with any decline in business and traffic from the boom levels of the war years and the postwar period, the railroads would be unable to make any money. This attitude has naturally been fostered by industry statements in connection with recurring requests for higher freight rates and passenger fares. It is interesting to look at the record to see just how true these pessimistic forecasts have proven so far.

Purely on the basis of press reports one is forced to the conclusion that we are already in a full-fledged depression. For the first four months of the year, however, gross revenues of the Class I carriers were off only 2.7% from a year earlier. The decline amounted to some $79.4 millions. This drop in revenues can hardly be accepted as a sign of serious deterioration when it is considered that revenues in the west, and sympathetically in other sections, were curtailed badly by the severe winter weather in the first two months. In many places the snows were the heaviest ever recorded, and rail and highway travel was at a complete standstill.

More important even than the trend of revenues is the measure of success met by the railroad managements in offsetting the decline in business by compensating reductions in operating costs. With heavy fixed costs and the burden of fixed charges, the railroads are traditionally slow to get their operations under control when traffic does start down. There is also always a high leverage in railroad earnings. Nevertheless, in the four months through April 1949, net operating income of all Class I railroads was down only 1.3% from the like 1948 interval and net income after all charges dipped only 3.9%.

The influence of the heavy storms on individual railroads is obvious from the fact that net operating income of carriers in the Western District were off 42.2%, or $36.4 million, compared with a drop of only $2.7 million for the industry as such. Net operating income of the Southern District was off $3.6 million while in the Eastern District, which had been hit by a hard winter in 1948, net operating income was up roundly $37.3 million. In the month of April alone both the Eastern and Southern Districts showed increases while the Western District net operating income was off 18.8%.

Full details as to operating costs for the four months are not available as yet. For the first quarter, however, the statistics are quite gratifying. The most serious problem is always the control of transportation costs. For the three months these were cut by $52.9 million, a larger percentage than the decline in revenues. About 55% of the decline in revenues was offset by the lower transportation expenses. Maintenance outlays, however, were practically as high as they had been last year. It is indicated that most railroads are continuing heavy work in an effort to get as much as possbile out of the way before Sept. 1. This augurs well for substantial savings in these accounts later in the year to match the current contraction in transportation costs.

## Holds Postwar Profits Below Normal

**George Terborgh in pamphlet issued by Machinery and Allied Products Institute refutes President's Council of Economic Advisers.**

A pamphlet, entitled "Inflation and Postwar Profits," recently issued by the Machinery and Allied Products Institute, Chicago, Ill., and prepared by its Director of Research, George Terborgh, supports the view that postwar business profits, instead of being excessive as claimed by President Truman and his Council of Economic Advisers, are, on the contrary, below the normal rate of the prewar period. The basis of the contention is that because of currency inflation, "real profits" are exaggerated.

George Terborgh

"When proper adjustments are made for rising prices, true profits for the three-year period, 1946-48, are $31 billion rather than the $50 billion reported by corporations," Mr. Terborgh points out. "For the three postwar years true profits on a replacement-cost basis are actually lower by 6%, or $19 billion. In consequence, corporate postwar savings, popularly believed to be $30 billion, shrink $19 billion down to only $11 billion."

"The overstatement of postwar profits," says Mr. Terborgh, "has cost American corporate industry very heavily from the standpoint of public relations. Had it shown its true profits of $31 billion for the three-year period 1946-48 rather than the $50 billion it did show, it would have saved itself no end of criticism and attack. The cost of the overstatement would have been even more direst and substantial, however, had the Treasury allowed replacement costing for income-tax purposes. For the difference in the reckoning of taxable income, which we found to be $19 billion, would have effected a tax saving of nearly $8 billion. As it is, corporations have paid more money in income taxes for the three years than they have salvaged in real profits ($33 billion against $31 billion). Thus the rate on corrected taxable income has exceeded 50%."

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# Bank and Insurance Stocks

By H. E. JOHNSON

## This Week—Insurance Stocks

During the past several months some of the leading investment houses specializing in insurance stocks have issued reports on a number of the more favorably situated companies.

While space does not permit a detailed discussion of all individual situations, some highlights and comments of the various reports are interesting. Therefore appropriate comments on several of the companies are presented below. Others will be commented on in succeeding weeks as the occasion arises.

### AETNA INSURANCE COMPANY

"Aetna Fire" is one of the older and better known companies in the insurance industry. It has a profitable operating record going back over 43 years.

The results for 1948 were the best in its history. Nevertheless there are indications that earnings for this year should be equally favorable. The company has a large volume of high quality business on its books which should insure profitable underwriting results. Also the conservative investment position of Aetna with about 77% of assets in cash and governments should, as underwriting permits, allow a more aggressive investment policy with a benefit to investment income.

Dividends have been paid continuously for the past 75 years. The present rate has not been changed since 1940. It amounts to only a little over 50% of the 1948 investment income of $3.42 and 21% of consolidated net adjusted earnings of $8.60.

With the outlook for underwriting earnings favorable and the capital position of the company more comfortable, an increase in the dividend is possible. A more liberal policy over a period of years is justified and could benefit the stock materially.

### AMERICAN INSURANCE COMPANY

Another of the insurance stocks which is popular with investors is the American Insurance Company of Newark. The company has been in business for 103 years and is one of the larger units in the industry. Assets combined with those of subsidiaries amounted to more than $100,000,000 at the end of last year.

Earnings of this organization have been very consistent. An operating profit has been realized in all but two of the last 39 years. The company also has a long record of dividends. Payments have been made in each of the last 77 years.

For the year 1948, consolidated operating earnings for "American of Newark" are estimated at $2.41 a share. Certain reserve adjustments of a non-recurring nature by the casualty subsidiary prevented underwriting earnings from this division from making a better showing. These adjustments having been made last year, earnings this year could improve by a corresponding amount and show a profit.

Net investment income last year was equal to $1.25 a share. The dividend of 70 cents absorbed only about 56% of this amount. After a period of consolidation of the recent sharp upward trend in premium volume a more liberal dividend policy would seem to be a logical expectation.

### SECURITY INSURANCE COMPANY OF NEW HAVEN

This company is one of the smaller but better institutions in the insurance field. The company has been in business over 108 years and has established a record of consistent and profitable operations. Consolidated assets amounted to about $31,000,000 at the end of last year.

For a number of years prior to 1948, the company had an unsatisfactory statutory underwriting record. This was common in the industry and when the adjustment in rates and better control of losses were made in 1948, underwriting operations on a statutory basis were once again profitable.

As the upward trend in prices has stopped and with fire losses running considerably below a year ago, there are reasons to believe that "Security" can, barring catastrophic losses, show earnings this year equal to the $7.77 estimated for last year.

Of the earnings reported for 1948 $2.46 came from investment income. The dividend of $1.40 per share was equal to approximately 57% of the investment income.

With underwriting operations once again in a profitable period "Security of New Haven" should regain some of the following it lost as a result of the unsatisfactory underwriting period of the war. This in turn should be reflected in the stock, which to some observers, is selling considerably below its real value as an insurance company.

# Oppose Mid-West Stock Exchange Merger

**Campaign started to keep St. Louis Stock Exchange from joining Midwestern Exchange in Chicago.**

According to the St. Louis "Globe Democrat," a campaign has started to keep the St. Louis Stock Exchange alive, despite the recent 28-to-6 vote by its members to merge it with a new Midwestern exchange in Chicago.

Officers of the four large banks and of four brokerage companies in St. Louis met at the Noonday Club, St. Louis to discuss the possibilities of keeping alive the local stock exchange, which is almost 50 years old. The merger plan calls for its liquidation about Sept. 1.

Present at the meeting were officers of the St. Louis Union Trust Company, Mercantile-Commerce Bank and Trust Company, Boatmen's National Bank and Mississippi Valley Trust Company.

Also there were Edward D. Jones, Vice-President of the St. Louis Stock Exchange and a strong opponent of the liquidation plan, and three other brokers who are against it: Walter C. Haeussler, Senior Partner of Paul Brown & Co.; Presley W. Edwards, Senior Partner of A. G. Edwards & Sons; and J. E. Simon, Senior Partner in I. M. Simon & Co.

The bankers present at the meeting made it plain that they were not impressed by a statement by James E. Day, President of the Chicago Stock Exchange, that the new exchange would not take any banking business out of St. Louis.

# Issues Revised Foreign Exchange Circular

**Federal Reserve Bank of New York gives instructions as to filing reports relating to transactions in foreign exchange, transfers of credit, and export of coin and currency, made necessary by Executive Order No. 10033 and by amendment, thereto, of April 27, 1949.**

Allan Sproul, President of the Federal Reserve Bank of New York has issued to all banking institutions in the Second Federal Reserve District and others concerned a revision of Operating Circular No. 19, revised to June 9, 1949, relating to reports of transactions in foreign exchange, transfers of credit, and the export of coin and currency. The revision of the operating circular was made necessary by the issuance, on Feb. 8, 1949, of Executive Order No. 10033, and by the amendment, on April 27, 1949, of the Regulations of the Secretary of the Treasury, originally issued on Nov. 12, 1934, relating to transactions in foreign exchange, transfers of credit, and the export of coin and currency. The amended regulations continue in effect the requirements of the earlier regulations calling for monthly reports by banks, bankers, and brokers or dealers in securities, and for quarterly reports by certain other persons; in addition, they call for annual reports as to short-term foreign currency claims on, as well as short-term dollar liabilities, to "foreigners." These new annual reports are designed to furnish information which will enable the United States Government to comply with official requests for data made by the International Monetary Fund.

Allan Sproul

Executive Order No. 6560, dated Jan. 15, 1934, prohibits, unless licensed or excepted as provided therein, transactions in foreign exchange, transfers of credit, and the export or withdrawal from the United States of coin and currency. Section 5 of the Order authorizes the Secretary of the Treasury to prescribe regulations to carry out the purposes of the Order; and to require any person engaged in any such transaction transfer, export, or withdrawal to furnish complete information relative thereto.

Executive Order No. 10033, dated Feb. 8, 1949, among other things, authorizes (a) the National Advisory Council on International Monetary and Financial Problems to determine what information is essential in order that the United States Government may comply with requests for data received from the International Monetary Fund; and (b) the Director of the Bureau of the Budget to determine what Federal executive agency shall collect such information.

# The Capital Market and Labor's Standard of Living

(Continued from page 13)

or fell (not in the same proportion, of course). From 1933 to 1940 the hourly wage rate in 25 manufacturing industries increased from 49 cents to 73 cents, yet total employee compensation as a percentage of realized national income increased only from 62.2% in 1933 to 64.9% in 1940. The latter figures really offer striking proof to labor of the economic axiom that wage rates do not make wage payments nor employment. The same economic law, of course, would operate under any form of government although its effect might be somewhat veiled. In other words, labor under another form of government might receive steady or increased monetary wages or ration coupons, but the value of these could only be measured by the goods available to be rationed or bought. If labor under its own government were to decree itself more wages and then work no harder nor have any added tools there of course would be no net effect. Labor should forsake leadership which gives it fallacious ideas, or in the ensuing social revolution its leaders will become its masters. Another point worth mentioning in this connection is that labor will find no real social security in an unproductive economy.

(2) Mr. Kettering of General Motors in a speech a year ago stated that one of the things the financial community fails to mention in its daily reports is the "consumer dividends" our system creates. An excellent illustration of this was the chart recently presented to a Congressional investigating committee by General Motors showing that the 1948 Chevrolet (price $1280, horsepower 90) is a better car than the 1929 Buick (price $1320, horsepower 74). Why should not other industries cite similar examples? In a pamphlet published about 1½ years ago, "The Importance of a Living Wage for Capital," the writer tried to give some figures on this for some industries. To give as an example of the overall record some recent figures—The 1948 figure of the B. L. S. product price index was 159.3 compared to 103.3 in 1921 and 95.9 in 1928, while in contrast the 1948 figure of the F. R. B. index of industrial production was 192 compared to 58 in 1921 and 99 in 1928. Thus production in the U. S. A. has outstripped prices. Such gains are extremely unlikely under a planned economy. It is only the struggle to survive under competition which accelerates economic progress, and this struggle is really labor's servant.

(3) Corporation profits in 1948 are estimated at about $20.7 billion (including about $3 billion of inventory valuation). This profits figure compares to wage payments of $115 billion. Thus wiping out business profits completely would add only 18% (14% after eliminating inventory profit) to 1948 wage payments, not to mention how much it would detract in the course of events from the future real value of wages. It is perhaps worth while to remind labor that in years when business does not make substantial profits it still pays wages (even in years when it breaks even or loses).

(4) As for the share-the-wealth hallucination, statistics of income published by the Treasury Department for 1945 (released last year) show for example that of the total tax liability only 10.8% was on incomes over $60,000, while 53.1% was on incomes around $5,000 or less. The cost to labor if viewed from a socialistic share-the wealth angle is undoubtedly less to have some large incomes than to permit the inefficiencies of a planned economy. Let labor consider the cost to it of stifling the economic exploitation of inventions. Surely labor will realize, if the situation is explained to it that it owes its appliances, cars, cheap clothes, abundant prepared foods, etc., in a large degree to business initiative. Surely labor does not wish to lose these wonderful conveniences. Share-the-wealth propaganda involves a basic fallacy—that wealth (or for that matter the standard of living) is a static total, not a product. If wealth were such a static total it would be easily divisible, but it is a product and cannot be equally divided unless all its factors are also divided. Thus labor, to share-the wealth, must divide not only any cash it finds but also the intelligence, initiative, foresight and thrift that are vital parts of the production of wealth (and the standard of living).

### Living Standards Abroad

(5) The lower standard of living prevailing in foreign countries is being increasingly mentioned to labor, and it is to be hoped that much more education of labor will be done in this respect. The figures seem most effective when translated into hours of work for well known goods. For example, the Russian works 1 hour, 10 minutes for a loaf of white bread compared to 7½ minutes here; 2 hours, 4 minutes for a pack of cigarettes compared to 9 minutes here; 252 hours for a woman's woolen dress compared to 12 hours, 54 minutes here; 580 hours, 15 minutes for a man's worsted suit compared to 25 hours, 20 minutes here. These figures prove conclusively that labor cannot consume what it does not produce in any country and that in no country does labor receive so much help (tools, etc.) in producing. How foolish labor would be to destroy such a good situation for itself. Why should labor begrudge capital its 1948 profit stint of 14% of its wages, when for this percentage it had a standard of living 933% above Russian levels (in terms of bread). Labor is too sensible to vote itself into such a degraded situation, if it has the facts. Let labor take a good look behind the Iron Curtain. Also let labor realize there is no real social security in inefficiency. Labor might be interested in knowing that communism has been tried and failed in this country at various times and places, in isolated communities established by ardent radicals who were certain it would prove an economic paradise. A 75-year experiment in Iowa was abandoned a few years ago.

(6) Expenditures for new plant and equipment in 1922-1930 ranged from $50.10 to $75.40 per capita (in constant dollars), whereas in 1934-1938 the range was $32.20 to $55.50. Government spending in the socialistic 30's thus did not make up for the drop in private plant investment, and labor did not gain in productive capacity what it might have achieved. Labor should be glad to see capital accumulate. In connection with its own progress labor might do well to consider the recent statement of C. R. Noyes (President of the National Bureau of Economic Research). "It appears that for the first time in our entire history, the process of growth in reproducible wealth has practically ceased for an entire decade. Moreover at this writing seven years have already passed out of the current decade which will end Jan. 1, 1949. If the guesses made below as to 1944 and 1945 turn out to be justified, there has been no growth in non-war reproducible wealth for the first seven of the current ten years."

(7) The cost of living shows a tendency to level off or decline in bull markets and it does not necessarily decline in a bear market, so labor has good reason to wish for better conditions in the securities market. For example from 1922-1929 the cost of living

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index declined from 127 to 122, while the course of stock prices is well known for this period. In 1929-1932 the cost of living index went down to only 92 while a stock index declined from 289 to 64. In 1938 the cost of living index went to 100 from 102 in 1937, so the decline in the stock index from 153 to 128 did not benefit labor. Conversely the recent doldrums in Wall Street have been accompanied, until a few months ago, by a spiralling cost of living. One might assume the explanation of such a phenomenon is that when business is prosperous and competitive it tends to lower its prices. If labor realizes these things, wouldn't it help us create a bull market rather than permit its leaders to criticize profits and management? A corollary effect could be a demand by labor for savings plans rather than social benefits.

**Understanding Capital's Function**

If figures along the lines of these examples are presented vigorously and vividly to labor they should remove both the misunderstanding and skepticism labor has about capital's function. They should clear up the doubts lingering in the back of labor's mind that anything capital says in its defense is only self-justification. These doubts have formed the base of many radical labor leaders' appeals.

When labor accepts capital's function and desists in uneconomic demands, it need not feel it is doing a favor to capital. Let us point out to labor the future economic progress possible under free enterprise. Labor in all its thinking seems prone to think in terms of the status quo, whether it is thinking about sharing the wealth or whether its monetary wages in 1949 will exceed 1948's. If labor receives no monetary increase in 1949, this does not mean it will never gain again. It does not even mean that real wages will not gain in 1949. The real progress we have sketched in talking about "consumer dividends" will continue, probably at an accelerated rate, and labor will be well served by the American system over the years. Let labor remember the economic progress of the past 150 years in the U.S.A.

What happens in 1949 and the near future to labor and in fact, to all of us if labor insists on a fourth round? One thing seems certain—a fourth round will accentuate what readjustment is occurring in business, probably into a severe depression. In the ensuing unemployment labor is likely to consider itself blameless. If it does not accept the basic economic principles outlined, it certainly will not accept the blame for any recession. Moreover, if it is unreasonable enough to demand a fourth round of wage increases, such an attitude will probably translate itself into demands for socialization (in the coming recession) of industry to prevent unemployment. Thus labor and all of us are now at the crossroads. We must choose between systems of economics. However, economics usually makes politics over a period, so a loss of economic freedom to a planned economy probably entails in the course of events the loss of political freedom. Religious freedom is also involved, if one may take the examples of totalitarian and communistic experiments abroad. Either the individual is free in every respect, or he blindly obeys the controlling government and the latter is all the faith he is supposed to need or be permitted to have. What a momentous decision for labor to have to make! Can we permit them to decide before they have all the facts, set in their proper background of economic, political and other ramifications? It could be so easy for labor unthinkingly to choose the easy way to solve its problem—communism.

# Snyder States Reasons for Business Confidence

**Treasury Secretary points out business today is operating close to record levels, after three years of record output.**

Secretary of the Treasury John W. Snyder, in an address at College Camp, Wisconsin, on June 10, reiterated his belief that we are going through a necessary and healthy business readjustment which provides the foundation for further economic progress.

John W. Snyder

"It is normal to expect minor declines in business from time to time, Secy. Snyder said, "even when the general trend is upward. But, in the period since the war, we became so used to new business records month after month, and year after year, that our failure to make new nighs in 1949 becames a topic of discussion. The fact that business is continuing to operate at close to record levels, after three years of unprecedented output, has been overlooked entirely too much.

"The latest figures show that our major economic indexes are holding very close to last year's levels for the comparable month, or even exceeding them. Employment in April was only 1% below last year's figure, which was a record for that month. Industrial production was down only 5%. Retail sales, however, were 3% higher than in April, last year, and total personal income is at the rate of about $214 billion a year. To me, this does not look like a recession.

"The readjustment period which we are going through is not a sudden development. It has been going on, in fact, since the very end of the war, as industry after industry has made its transition to a buyers' market.

"It is a remarkable testimony to the good sense and caution of the American people that the three record-breaking years of peacetime activity have resulted neither in over-extended credit, in excessive speculation, or in a dissipation of personal or business assets. In consequence, we have no reason to fear a repetition of the forced liquidation of commodities and securities which followed the brief postwar boom after the First World War.

"On the contrary, we have the advantage of being exceptionally strong financially, both as to individuals and as to business, which places the economy in an unusually favorable position for a further advancement.

"Americans have $200 billion in liquid savings. They hold an estimated $22 billion in cash, $43 billion in personal checking accounts and $67 billion in savings accounts. They hold $48 billion in savings bonds and $20 billion in other Federal Government securities. These holdings of liquid assets are more than three and one-half times as large as at the beginning of the war in 1939.

"Other types of savings have also shown a great increase. Life insurance and pension reserves of individuals, for example, have risen by $57 billion since 1939—to a total of $90 billion.

"Consider the strong situation of the farming industry. Farmers of this country have $20 billion of liquid assets; that is, their cash, their demand deposits, their savings accounts, and their Federal Government securities. This is a tremendous figure. It is eight or nine times the entire agricultural income of the nation 15 or 16 years ago. Another bright point is the relatively small volume of farm mortgage debt. The total of $5 billion is actually lower than it was at the beginning of the war. The entire farm situation is in striking contrast to the experience during and after World War I.

"We also have a business machine supplied with $65 billion in working capital—only slightly below last year's record peak. That same business structure has greatly expanded its plant and other equipment. Business as a whole has invested more than $75 billion in construction and equipment since the war ended. This plant expansion places business in a position to make effective use of the many new materials which have been discovered in recent years, and of the new processes and techniques which have been developed.

"Here we have the foundation for a dynamic era of progress in the years ahead. Under the urgent requirements of the war, many important discoveries were made in new types of materials, new chemical products, and new industrial techniques. These discoveries will shortly be translated into new types of consumer goods, and into better and cheaper types of familiar products.

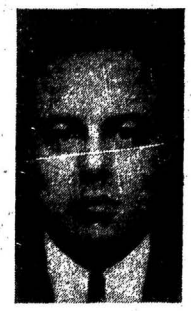
"Within a relatively few years, we may expect revolutionary changes in our economic life through the development of atomic energy. Incalculable advances in industry, in medicine and in research will be made possible through the atomic energy program. There is every evidence, in fact, that we are entering a new era of research and discovery, which was initiated by the concentrated efforts of our scientists under the challenge and urgency of war. Each new scientific discovery opens an entirely new field which provides the basis for further discoveries.

"With this reassuring view of the future, and with the basic strength which underlies our present business structure, I feel that an attitude of confidence in the business outlook is amply justified."

# George A. FitzSimons With H. Hentz & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — George A. FitzSimons has become associated



George A. FitzSimons

with H. Hentz & Co., 120 South La Salle Street. Mr. FitzSimons was formerly manager of the trading department of Apgar, Daniels & Co.

## C. H. Scott in Little Rock

LITTLE ROCK, ARK. — C. H. Scott is engaging in a securities business from offices in the Boyle Building.

## Walter Manning Opens

Walter J. Manning is engaging in a securities business from offices at 41 Broad Street, New York City. Mr. Manning was formerly with Brady & Co.

# *Our Reporter on Governments*

By JOHN T. CHIPPENDALE, JR.

A strong demand exists for all Treasury securities, with the eligible issues the market leaders. . . . The bellwether of the bank group is the 2¼% due 1956/59, which is being bought for income and maturity. . . . Federal has been keeping the market in tow by selling the longer eligibles. . . . However, this cannot go on too long, and it seems as though the authorities do not relish the idea of having to use dwindling supplies of these longer eligibles to keep prices steady. . . . Many believe that a sustained rising trend in the higher income bank issues is purely a matter of time. . . .

**The tap bonds are also going out of the market in substantial volume with savings banks the main buyers. . . . Switches and swaps are still being made by these institutions but it appears as though new money purchases are now more important than the former, because savings that continue to increase must be put to work. . . . Although there is no shortage of tap bonds and the authorities will supply them to the market, the demand for these securities is substantial and may increase sharply in the near future. . . . This undoubtedly accounts for the constructive attitude that is developing toward the restricted obligations. . . .**

**ACTIVE MARKET AHEAD**

The government market is looking toward the last half of 1949 with considerable optimism because it is believed that the effects of the credit easing policies of the authorities will be much more pronounced during the next six months than was the case during the first half of the year. . . . It generally takes time before the full implication of a major change in monetary policy such as we have had, is realized and is expressed by tangible action in the markets. . . . The business picture is not likely to change and this will probably mean less demand for funds for expansion and working capital purposes. . . .

**Also during times of uncertainty such as we are in now, there is usually an increased demand for riskless securities such as government obligations. . . . All in all, it seems as though a period of increased activity and larger volume of business appears to be in store for the government securities markets. . . .**

**BANKS DOMINATE MARKET**

Savings banks and commercial banks continue to dominate the government market, with both of these institutions acquiring securities that will help them to maintain income. . . . This means the trend into longer-term higher-coupon obligations still goes on, with switches from the nearer-term issues being done in larger volume. . . . Savings banks are heavy sellers of the 2% bonds, and even shorter maturities in order to acquire the higher-income tap issues. . . . The reluctance of these institutions to part with higher-coupon eligibles is getting more pronounced. . . .

**Commercial banks appear to be more interested in the 2¼s due 1956/59 than any other security in the eligible list. . . . The large banks in the important money centers have been among recent heavy buyers of this issue. . . . There is, however, considerable buying of the 2s due 1952/54 and the 2½s due 9/15/67/72, either as separate purchases, or in combinations. . . . Some deposit banks have been splitting their investments, putting part of the funds in the 1952/54s and the rest in the longest eligible 2½s. . . . In this way a favorable income is obtained without extending maturities too much. . . . The deposit banks evidently will have to do their own refunding in the market in order to maintain earnings, because it seems as though the monetary authorities are not concerned enough to give them higher-coupon obligations in major refunding operations. . . .**

**INVESTMENT OUTLETS CONTRACTING**

Business loans are still on the skids, and indications are that private placements will slow down considerably in coming months, which should result in more funds going into the government market. . . . Commercial banks are already putting money to work in Treasury issues. . . . Life insurance companies are still sellers on balance but not as vigorously as in the past. . . . It would not be surprising if these institutions were to seek an outlet for some of their resources in the government market in the not distant future. . . .

**Not too many desirable corporate issues are coming along and the yield spread between these securities and governments is narrowing so that it may not be advisable to make commitments in obligations that do not embody the same favorable features that are to be found in Treasury securities. . . .**

**DEFICIT FINANCING DISCUSSED**

Deficit financing is getting more attention in the financial district with the opinion that when it has to be done, it will be by means of the lowest cost obligation, namely, Treasury bills. . . . Nonetheless, deficit financing is definitely considered a bullish factor as far as the government market is concerned. . . . Despite the fact that the monetary authorities like to surprise the market with each refunding operation, the feeling is that the July certificates will be "rolled over" into the 1¼s. . . .

**MARKET FAVORITES**

The 2¾% due 1960/65 continue to be the leaders in the partially-exempt group, with the larger banks again showing a real interest in this bond. . . . Eleemosynary institutions are likely to be sellers of tap bonds, since it is reported that purchases of equities will probably be made at or near current levels. . . .

**The 2¼s due 1959/62 continue to be well bought, but it is indicated that the 2½s due 1962/67 and 1963/68 have recently taken some of the play away from this bond. . . . Good buying still goes on in the 2½s due June and December, 1967/72.**

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# Six Months of Chinese Currency Inflation

(Continued from page 17)

age of rice. Most school fees, it seems, are paid in kind. I had found a new kind of "money."

### History of the Gold Yuan

May we turn now from these personal experiences in different cities to a brief description of the initial issue of the G. Y. notes. As stated in the introductory paragraph, the new money "G. Y." (Gold Yuan) was inaugurated Aug. 19, 1948 after the old Fapi or C. N. C. (Chinese National Currency) had depreciated to practically zero. When the new money was issued six ciphers were chopped off the old notes and the remainder was then divided by three, or, in other words, one new G. Y. equalled 3 million C. N. C. (1 G. Y. equals 3,000,000 C.N.C.). At the same time the ratio to the U. S. dollar was $4 G. Y. equals $1 U. S.,[1] making C. N. C. 12 million to one U. S. dollar.

Redemption of the C. N. C. was limited to a few months' time after which they became worthless. Today you may see a $100,000 note rolled into a cone and used as a container for a few peanuts. When we arrived in September they were still in circulation and it was a puzzle to us to get a workable formula by which to quickly compute change in C. N. C. or customs gold units. The Chinese are quick and almost invariably honest in making change so we ordinarily took a look at the handful and assumed it was correct.

The total volume of G. Y. when issued in August was limited to $2 billion. A reserve of 40% in foreign exchange and specie was created by commandeering all of the foreign balances of private citizens. Gold and silver was also taken over, the gold at 200 G. Y. per ounce, equivalent to $50 U. S. per ounce. Silver was paid for at 3 G. Y. per ounce. The total collateral back of the notes was 100%. The remaining 60% above the cash reserve consisted of stock in partially or fully Government-owned business enterprises. The notes appeared to be well secured.

Two features of the G. Y. currency should perhaps be noted—the quality and denominations of the notes. The first notes issued had been printed in the United States in 1945 with the expectation that they would be put in circulation immediately after V-J Day. They are dated 1945. They are excellent in design and on good quality paper. The later issues were printed in China and, while they depict interesting local scenes, are not as good in quality.

[1] Just to add a little to the confusion, C.N.C. had been heavily supplemented—almost supplanted—by "customs gold units," worth 20 times the regular C.N.C. For our purposes we will treat them all as one.

There were fractional notes in circulation in September and October but with the depreciation they have practically ceased to circulate. The largest denomination we have seen in circulation are the $100 notes. A new issue of $1,000 notes was contemplated when we left Shanghai and may be circulating there now. All of the notes from $1 up are uniform in size (5⅞ x 2⅜) and generally in good condition. This is in striking contrast to the Hongkong notes circulating in Canton.

The total authorized issue of $2 billion (U. S. $500 million) seemed modest indeed by U. S. standards, but it was estimated to be six times the value of the outstanding C. N. C. at 3 million to 1. Moreover, by the time the new notes were a month old, Tsinan, capital of Shantung Province, had fallen to the Communists. Quickly other cities in North China and Manchuria followed. The military reverses narrowed the area within which the money circulated and impaired the confidence of the people in their Government.

The quantity in circulation was announced in September as approximately one billion. Thereafter there was no public announcement of volume outstanding. Effective Nov. 11 sweeping changes were made in the monetary regulations. These included an official revaluation at 20 G.Y.: $1 U. S. and removal of the ceiling upon the quantity of notes. Thereafter no attempt was made to revalue the notes as they fell in purchasing power. The volume in circulation mounted rapidly to meet the Government's budgetary deficit. Continuous statistics of notes outstanding are not available.

The quantity in circulation is not announced publicly. As I have stated above, it was originally to be $2 billion (U. S. $500 million). A well-informed American banker in Shanghai told me on Feb. 14 that the outstanding notes then totalled approximately $100 billion. Exchange that day was 1,700 to 1. An exercise in division will show a total in U. S. money of $58 million on the basis of these data. The velocity of circulation is incredibly high.

The regulations of August froze wages and prices at the existing level. In some areas, e.g., Shanghai under Generalissimo Chiang's elder son Chiang Ching-kuo, the enforcement of economic and price controls amounted to a reign of terror. The death penalty was imposed upon some violators (see "Life Magazine," Oct. 19).

At a distance from the Nanking-Shanghai area the controls were much less effective. We were in a position to observe the difference between Shanghai and Peiping since our duties took us to Peiping on Oct. 13 by plane. We noted that the attempt to hold the price line had been virtually abandoned in Peiping. Our host University was reluctantly forced to charge for our meals, on a no-profit basis, approximately four times the amount in G. Y. that we had paid at Hangchow in the weeks immediately preceding. When we returned to Hangchow in November, G. Y. had been revalued and the early October costs were completely outmoded. Throughout our month in the Peiping area we were living on G. Y. obtained in September at 4 : 1 (later generously readjusted by the Educational Foundation) so the higher prices seemed rather "rugged."

Price control was limited under the Nov. 11 regulations to essential foods. Pressure to remove the ceiling on general prices was widespread and the decision of the Government to lift restrictions was perhaps initiated or in any event was supported by a memorandum presented in late October by 17 professors in National Peiping and Tsinghua Universities. To meet the most pressing need for food, even before Nov. 11, large quantities of flour and rice were provided by the Government (much of it obtained through our American E. C. A.) on a ration basis at an almost nominal price compared to the open market rate.

In an attempt to adjust wages to increasing prices a cost-of-living index was prepared and officially published every two weeks. But even this was out of date almost before it was released. In almost all industrial plants part of the wages are paid in kind, rice and flour being the generally acceptable commodities. Even the faculty members of the National Universities received food products as part of their pay.

### Effect of Inflation

How has the inflation affected the economy? One of the first problems arose because of the enforced surrender by individuals of their gold, silver, and foreign balances to the Government in exchange for G. Y. notes. These involuntary recipients of the new currency undertook to convert their money into goods while its buying power was high. A "buyers' splurge" started about Oct. 1. Shanghai shoppers came to nearby Hangchow and cleared the famous silk stores of that city of their stocks of silk goods. Rice was bought for future consumption. The merchants, not relishing the prospect of accumulating cash and finding it impossible to replenish their fast-dwindling stocks of merchandise, began having store holidays. Pressure on the G. Y. was heavy.

Prices of staple goods have changed hourly in the periods of greatest depreciation of the G. Y. Public utility rates, postage, etc., were adjusted periodically. Usually when they were boosted they were relatively too high for a short time. Our most dramatic experience with a big boost in public utility rates was on a railroad trip from Peiping to Teintsin on Nov. 5 and 6. We paid exactly ten times as much to return on Nov. 6 as we had paid to come down, 30 hours previously. You ask why didn't I buy round trip? I thought of that too! The railroads won't play that way and they make the rules. On March 1, my Canton to Changsha ticket was raised to three times the rate upon which I had planned my trip. I came back for the same amount in G. Y. that I had paid for the trip north, but in U. S. money (which I actually used) it was substantially less after only a 36-hour visit. On the whole we won on our major trips. From Peiping to Nanking we rode a good plane for 124 G. Y. (equivalent to $31 U. S. when G. Y. were 4:1). We were paid upon arrival in Nanking at 35.1, making the actual cost $3.54 U. S. My telegram from Shanghai to advise of our arrival in Canton, Feb. 15, was less than 10 cents U. S. Two weeks later, when I wired Changsha (a shorter distance) for the same purpose the cost was approximately $1 U. S.

Interest rates have been fantastic. When funds are repayable in G. Y. notes from 20 to 60% per month have been reported. I know of one case where a shrewd board of trustees borrowed the money for a building at 20% per month. It was in essence a speculation in exchange in which they won handsomely. Before the building was completed G. Y. had dropped to less than 1/10th of the amount when the loan was made.

### Demand for Hard Money

As G. Y. depreciated there was an insatiable demand for hard money. In sketching earlier the security back of the G. Y., I called attention to the requirement that personal holdings of gold, silver and foreign balances must be surrendered to the government. From loyalty or fear a large amount was turned in. This was held by the Central Bank. In a desperate effort to arrest the fall of the G. Y. after it had been at 20 G. Y. to $1 U. S. on Nov. 11, a policy of selling government-owned gold was announced. The writer was privileged to witness certain interesting and even dramatic events associated with the sale of gold.

When walking down the Shanghai Bund on Tuesday afternoon, Nov. 30. I unexpectedly came upon the Chinese version of the thirst for gold which the ancients called "Auri sacra fames." A crowd in front of the Central Bank building overflowed the sidewalk and extended in queues blocks long.

Why the queue? Hundreds of men and women, young and old, grasping handsful of gold yuan notes were waiting for a chance to exchange them for gold or silver coins. Announcement had been made on Nov. 11 of the lifting of the ban against ownership of gold; by the month-end the Central Bank officially began the sale of gold. Gold pieces containing from one-half ounce — small square pieces—to larger bars were available to purchasers.

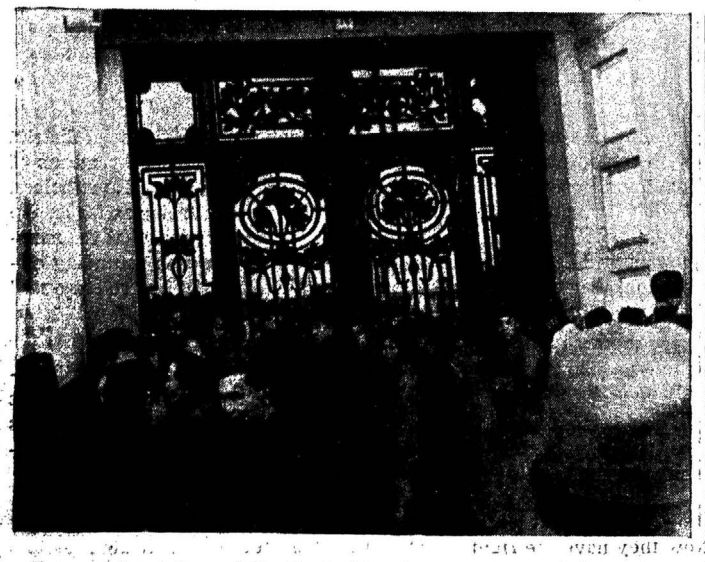
The terms of sale were not liberal but the demand on Tuesday afternoon appeared to be insatiable. Later in the week the lines were still there but partially confined by ropes. Gold was priced at gold yuan 1,000 per ounce. Since the United States Treasury will buy gold at $35 per ounce the Central Bank price was nominally equivalent to 3½c per G. Y. This seemingly overvalued the G. Y., since the open market exchange rate was from 40:1 to 45:1. Superficially, therefore, the G. Y. appeared to be exchanging at 3½ cents at the bank and 2½ cents or less in the market. But there was a string attached to the official sale of gold. For each 1,000 G. Y. exchanged for gold the purchaser must deposit 1,000 gold yuan in the Central Bank. This could not be withdrawn for one year. Interest was paid only at 2%. If the gold buyer wrote off the entire 1,000 G. Y. deposit at a loss he was selling his G. Y. at 1.75 cents U. S. each. Experience with the G. Y. since first issued Aug. 19 did not offer much encouragement for stability at the prevailing rate so that buyers of gold and silver did not regard their "deposit" as a real asset.

The real demonstration occurred Dec. 23. As I approached the Bund in a pedicab headed for the Central Bank on a business errand I saw the greatest street crowd I've ever witnessed. Traffic was practically paralyzed, a cordon of police was keeping the crowd back in order to permit the street cars to get through, but for several blocks no passengers were loaded or discharged from the cars. I learned that earlier in the day there had been a genuine riot; the Shanghai "Evening Post and Mercury" reported a crowd estimated at 100,000 and nine deaths all due to suffocation or excitement. The police didn't use their guns and seldom flourished their sticks. With an American visiting card and a show of need I got through the lines with a police escort and made it into the bank by the side door. Almost more amazing than the milling crowd and the scores of police in the street was the calmness of the officers of the foreign exchange department. I had the distinct impression of "business as usual."

### No Longer a Store of Value

It is easy to see why money is no longer a store of value. The depreciation has been so rapid that holding cash for even a week may result in cutting its purchasing power in half. Consequently, money is "hot" and spent quickly. We pointed out how a granary at Changsha had become a "bank." Wage earners try to buy staples as soon as they receive their pay. The gold rush described above was to acquire a tangible store of value. Silver coins and bars were eagerly sought for the same reason.

Various substitutes may be found for the G. Y. as a measure of value. In late autumn our missionary friends in Hangchow began to adjust wages of the servants in terms of the price of a dan of rice on date of payment. If the price of rice moved from 100 to 500, the number of G. Y. in the pay envelope was upped five times. In the Yunnan Province, it has been reported that the tin miners were paid according to the price of cotton. In Shanghai,



Scene at front door of the Central Bank, Shanghai, in a gold rush, December, 1948.

Another view of crowd lining up at Central Bank, Shanghai, for gold in December, 1948.

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prices were in effect made in U. S. currency. Some of the articles we purchased in December to be taken home to family and friends were priced in U. S. and laid aside on that basis to be paid for in G. Y. at the prevailing rate when we took delivery. I have noted that the measure of value and to a large extent the medium of exchange in Canton is Hongkong currency and in the Hunan Province (Changsha) it is silver. A friend from Tengchung (southwestern China) reports that silver and Burmese rupees are the prevailing money.

Two questions naturally arise: (1) Was stabilization in August a wise move? (2) What caused the breakdown? I have no positive answer to the first of these. When we arrived in China revaluation was a *fait accompli*. It is entirely possible that by August with C. N. C. dollars exchanging at 12 million to one U. S. dollar that something had to be done immediately. We questioned many persons when we first arrived regarding the stabilization program. It was looked upon by many as a bold, brave effort to save the national economy. On the other hand, some considered it a desperate expedient of a hard-pressed regime to prolong its control. Even those who questioned whether the value of the new money would be maintained welcomed the change from bales of C. N. C. to a bill fold of attractive G. Y. notes.

### Causes of Failure

In formulating the program the government failed to utilize the knowledge and experience of some of its best financial leaders. Progressive, public-spirited bankers have told me that while they were generally aware that stablization was to be undertaken they learned the details of the program only when it was made public.

It is doubtful whether any monetary reform could have succeeded in the face of military reverses and the loss of confidence in the government that made it impossible to balance the budget or finance the deficit through sale of bonds to the investing public, but some pitfalls might have been avoided. Moreover, it is important to note that the breakdown of the money did much to alienate the middle class and businessmen. Soldier morale was destroyed by inflation. It is said that stiffer resistance around Hsuchow in November and December resulted when the army was paid in part, at least, in silver dollars.

### A Second Phase of Inflation

In conclusion, I desire to emphasize that this is an account of China's second postwar inflation. The letters which we received from home during our first weeks in China indicated that the publicity on the C. N. C. inflation had been so effective that many of our friends envisioned us as going to market with a brief bag stuffed with practically worthless notes. Actually, at that time we carried fresh new G. Y. notes in our bill folds. The substitution of the G. Y. notes for C. N. C. was apparently not widely heralded in the United States and even today many home folks are unaware of the situation.

History is replete with illustrations of paper money inflation, usually associated with war or revolution. To keep myself humble I carried with me to China a $35 note authorized by our own Continental Congress in July, 1779. I remind you that it has been for 170 years a synonym for worthlessness—"not worth a Continental." Chinese students viewed it with interest. A year ago an American magazine headed an article "Inflation—The Fire That Rings the World." It truly does! The story of China's inflation could be duplicated in many lands, but I am not able to write from actual experience elsewhere. My account from China is almost embarrassingly personal, but it is hoped thereby to make the problems stand out more vividly. While we personally lost by adverse exchange rates, we didn't suffer any real hardship and I certainly do not write in a critical spirit. Six months in China has intensified our admiration for her people and increased our understanding of her crucial post-war problems, so easily minimized at long range.

China's inflationary experience offers little that is new. It proves once more the necessity of linking sound fiscal policy with monetary reform. The breakdown of the G. Y. currency was particularly unfortunate because, while it was due in large measure to the military and political disasters that have befallen the issuing government, it contributed to the loss of confidence in the Nationalist leadership and thereby was a cause as well as an effect of those disasters. I make no prediction regarding the future of China's money; this is indissolubly linked to the outcome of the civil strife and today there is no certain answer to the nation's tomorrow.

# New Competitive Era Coming

(Continued from page 13)

of 1940 as against 1915, the figures are not too far apart, although in this case the choice of 100 as an index figure for the two years was made arbitrarily.

If there is anyone here who cannot see the actual figures, the orange line covers the years from 1915 through 1926. And the black line ranges from 1940 through 1948. Let's see what happened.

During the first World War period there was a slight sag in 1918, but in general the movement was upward until we hit the recession year of 1921. In the more recent war years, the dip was more pronounced and more prolonged, until private construction spurted in 1946 to catch up with the earlier figures. Then the two lines stay together until 1923 in the case of the orange, and 1948 in the case of the black. And remember that at this point five years had elapsed since the end of World War I and that only three years have gone by since the low construction years preceding V-J Day.

It might be well right here to translate the index figures back into dollars. In the earlier period, the volume was very colse to $7,000,000,000 and in 1948 it was $13,631,000,000. If we added public construction, the totals would be approximately $8,500,000,000 and $17,600,000,000. And, of course, it must be remembered that public construction was some $8,000,000,000 more in 1942 than at the peak of the World War I era.

Nevertheless, all this provides ground for some interesting speculations. If past performance holds any hint for the future, then we can look forward to some highly satisfactory construction years ahead. During the eight years following the first World War, the curve was steadily upward with the exception of a single dip in 1921. In fact, there was no very real sag until 1929.

But whether or not the present curve follows the last one with real fidelity, we all know that there is a vast demand for building of many kinds, and particularly low-cost housing.

You will notice that I have made no effort to draw in a line for 1949 on the chart we have been using. Some months ago the Federal Government came out with a forecast that total new construction—public and private—would exceed the 1948 record by more than $1,000,000,000.

As has been the case with a number of other government forecasts, this prediction now appears to be quite a bit off the beam. Nevertheless, the contract award figures for the year to date are extremely interesting. The latest estimates, covering both public and private, are running only about 6% behind last year.

Here are some actual up-to-the-minute figures. Construction work done in May—last month—was valued at $1,538,000,000. In May of 1948, the total was $1,572,000,000. True, public construction was up—some 30%. Thus, private building in May amounted to $1,111,000,000. But this was only 9% lower than a year ago. And as far as the first five months of 1949 are concerned, construction work was 3% above the like 1948 figure.

Now it is my contention, and I intend to repeat it later in different words, that anything close to the record high of last year is not bad business. No—it is good business.

For some time now I have been talking about the period stretching from 1915 to the present. And what a period it has been—encompassing some of the most far-reaching events of all time. Two terrible world conflicts, each followed by a spurt in general business and then a pause for readjustment — the terrific boom of the late 1920s and the equally tremendous bust of 1929, which developed into the worst depression in our history. And, of course, there was the New Deal—and now the Fair Deal.

Surely it is safe to say that this period has been conspicuously lacking in one respect—so-called normal conditions have seldom, if ever, prevailed. The pendulum has been swinging in a wide arc, with little if any pause on middle ground. Perhaps—and how I pray this is so—we are finally on the way toward a blessed period of stability.

# Jos. Fischer With Goldman, Sachs & Co.

ST. LOUIS, M. — Goldman, Sachs & Co., members of the New York Stock Exchange, announce that Joseph S. Fischer has become associated with the firm in its St. Louis office, Boatmen's Bank Building. He formerly was a partner in Peltason, Tenenbaum Co. of St. Louis.

Joseph S. Fischer

# W. E. Hutton & Co. To Admit Stevenson

CINCINNATI, OHIO — W. E. Hutton & Co., First National Bank Building, members of the New York Stock Exchange, will admit Justin J. Stevenson to partnership on July 1st. Mr. Stevenson has been with the firm for some years.

## With Thomson-McKinnon

(Special to THE FINANCIAL CHRONICLE)

WEST PALM BEACH, FLA.—Langdon G. Higgins has been added to the staff of Thomson & McKinnon, 319 Clematis Street.

# Revolt in Russia Unlikely, Says Bedell Smith

**Former Ambassador scotches predictions of anti-Stalin uprising. Asserts Soviet leaders do not want war, although their policies may eventually lead to conflict.**

Lieut. Gen. Walter Bedell Smith, former Ambassador to Moscow and now in command of the First Army at Governors Island, on June 2 told members of the Chamber of Commerce of the State of New York that it was his belief that Russian leaders do not want a war at this time and that the possibility of an uprising in Russia against the Stalin Government was "extremely unlikely."

Lt. Gen. W. B. Smith

The address of Gen. Smith at the chamber's monthly meeting was "off the record," as were his answers to questions from the floor which followed his formal talk, but he authorized the publication of the following selected excerpts from his remarks:

"I do not believe the Russian leaders want a war at the present time. However, they realize fully that they have adopted a line of policy which may involve war. Their position is best expressed by a remark imputed to Stalin, who is alleged to have said, 'We do not want war any more than the West does, but we are less interested in peace than the West and therein lies the strength of our position.'

"The present state of tension and suspicion is not entirely a new development. Although for the first hundred years of our history our interests and those of Russia marched together in opposition to Britain, for freedom of the seas, serious tension developed at the time of Theodore Roosevelt's first administration, and some of the bitterest remarks made about Russian statesmanship were made by him. During the war, of course, there was much hope for and talk of the *entente cordiale* which would prevail after victory, but we were mistaken in our optimistic views and failed to take into account the basic hostility of Communism.

"The foreign policy of Russia under Czarism and Communism has been relatively consistent through the past five or six hundred years. Russia has always sought to extend its boundary and influence in whatever direction it found the least resistance. This Russian policy was pointed out by Lord Palmerston many years ago, and his statement to that effect is quite as accurate today and might well have served as a theme for our own foreign policy.

### Uprising Unlikely

"About a year ago while I was in London I dined with Mr. Churchill who was entertaining the wartime Chiefs of Staff. He was very alert and in his best form, but kept reverting to the possibility of unrest or an uprising in Russia against the government. In my opinion this is extremely unlikely, although as Lenin said, 'Any regime which remains in power for a long period of time becomes unpopular,' this life of the Soviet regime in Russia is entirely latent. The Russian people have what they want politically, they have no real understanding of democratic processes, and the secret police is much more efficient than it ever was during the Czarist regime or in any corresponding force anywhere in the world.

"Then the Russians have been accustomed to an authoritarian state during their entire history. Now they have the right to vote—true, the ballot gives the choice of several names, but they are all selected by the government and are their stooges. The party discipline is very strict.

### Molotov's Future

"The significance of the removal of Molotov as Foreign Minister will develop when we know what Molotov's new job is going to be. It looks as though Manlenkov is likely to become Stalin's successor, in so far as one individual will succeed him. So far as I know, Marshal Stalin's health is all right. It is not unusual for Georgians to live to be 100 years old. Even if Stalin did pass on, an upset is not likely to develop, as the Politburo is pretty firmly in control and his successor is probably already decided upon."

# Reports Recession In Manufacturing

**Alexander Hamilton Institute sees further decline in factory output, but with some resistance in near future.**

According to the Alexander Hamilton Institute, the decline in the output of manufactured goods which began last November was extended in April for the sixth consecutive month at an accelerated rate. The index of the volume produced, as compiled by the Federal Reserve Board on the basis of 1935-1939 as 100, and unadjusted for seasonal variation, dropped to 183 in April from 190 in March and from the postwar peak of 205 last October. Activity in April was the lowest since July, 1946; it was not only down 10.7% from the peak, but it was off 5.2% from the volume in April last year.

In addition to the drop in volume, the prices of manufactured goods extended their decline in April to a point 7.1% below the record high peak reached last August. As a result, the index of the value of factory output dropped in April for the seventh consecutive month, falling to 338.0 from the all-time high of 401.7 last September, a decrease of 15.9%. Nevertheless, the value of factory output in April was still relatively higher than farm income which is a measuring rod of the nation's normal demand for manufactured goods, the index of farm income for 1949 being currently estimated at 332.5.

The Institute says that a further decline in the value of factory output is indicated, with both prices and the volume of production going lower. This decline, however, may meet with some resistance in the not too distant future in view of the close approach of the output in April to the demand level, although the output is likely to drop below the demand level before the decline is halted. The chief uncertainty is whether or not farm income will be as high as is now indicated.

## Eastman, Dillon Adds

CARLISLE, PA. — Eastman, Dillon & Co. Members of the New York and Philadelphia-Baltimore Stock Exchanges, announce that Miss Kathleen Marjory Martin has become associated with them as a registered representative in their Carlisle office.

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# No Cause for Jitters in Business Outlook

(Continued from page 9)

war slump." Actually April was the first month in 1949 in which employment was not greater than for the same month a year ago, and **unemployment** in April actually declined 151,000 from March. Both employment and unemployment were greater during the first quarter, largely because thousands of women decided they wanted to work and thus made the labor force bigger. Another headline reads "452 Firms Report First Quarter Dip." The first sentence in the article says, however, "First quarter earnings of 500 companies showed a composite net income 6% higher than in the like period of 1948." There is no excuse for such slovenly interpretation. Such untruthful and misleading headlines are explosively dangerous sources of completely unjustified jitters. Americans have the right to expect their press to do a better job than this, and I have cited only two cases out of a disturbing galaxy of examples.

How often we hear the statement these days that production is catching up with demand on many items! But, is it? How many of you have all you want of goods or services? How few of you aren't ready to buy more—if convinced that good values are available? Demand is practically insatiable, given purchasing power **and the desire to use it.** Even the deepest dyed pessimist can't deny that purchasing power is vast today.

Weekly hours of work are down slightly from last year, but only about 4%. April employment was down slightly from a year ago—but only slightly. With our present labor force we can expect to have approximately 3,000,000 unemployed even in extremely prosperous times. There would be that many temporarily out of work, changing jobs, or moving from one part of the country to another. Even this degree of unemployment allows practically no choice of quality in employing workers.

New orders are down in many industries, but why shouldn't they be? Is it reasonable that we go on indefinitely, and with no breathing spells, beating the highest production and sales records in history—records envied by the whole world? There are still great backlogs of orders, particularly in the durable goods field. Of course, these backlogs are shrinking. They are the hangovers of the seller's market.

Home building is slightly down, but certainly there is justification for awaiting better values here.

Federal finances are bloated. Not only must further bloating be resisted but this baby needs burping badly. On the other hand, military and foreign relief expenditures are very considerable props to our present high level economy. If we can arrive at an understanding with Russia, the declines in military expenditures will be largely offset by increased trade with Eastern Europe.

Non-wage labor costs to industry are increasing and will probably increase further. The hourly or weekly wage rate is no longer a complete measure of total labor costs because the growing costs for pensions, paid vacations, profit sharing, and medical benefits—which do not usually show up in wage rates, cause considerable understatement of the total labor cost of doing business. The so-called "fourth round" of the labor unions will push for these non-wage benefits. Any considerable wage increases or extended strikes at this time will merely delay our readjustment, raise prices, and increase buyer reluctance. Spending is already low as compared to the amount of discretionary buying power available—in cash, bank deposits, and bonds.

### Fair and Warmer

As to the favorable factors in our economic climate—they are so numerous that even reciting a complete list of them is impossible within the bounds of a single address. To even "count your blessings one by one" is a sizable job. Having been in over 50 countries, I have never found but possibly two in which the people, even in what they consider prosperous times, would not envy us in the depression of the early '30s. It is most unfortunate that more of our people do not realize this fact and act accordingly.

Since 1940 you have had a Canada and a Norway added to your market—over 16,000,000 increased population. Between now and 1960 you will have added to it the combined populations of Norway, Bolivia, Panama, Paraguay, Costa Rica, and Luxemburg. When a boy is born today, his life expectancy is about 66 years. If he's born in 1960, it will be 68.2 years. A boy born in 1850 could expect to live to the ripe old age of 38.3 years. Your customers are living more than 25 years longer than those of your grandfather. That extra 25 years of buying time is a huge addition to the richness of your market.

The war baby bonus—approximately 5,000,000 more babies than would normally have been born between 1941 and 1947, will add much to the richness of your market in the '60s as they marry and establish new homes.

An obvious but generally overlooked fact is that the market for heating and cooking equipment grows at a much faster rate than the population itself. Families are your buying units and the number of families increases at a much faster rate than population. Between 1930 and 1940 the number of families increased 16.6% while population increased only 7.2%. The family rate of increase was more than twice that of population. In England it is almost three times the population rate.

The homes of the future will be smaller than in the past but better equipped and "mechanized" with conveniences. Your products must be designed, improved and adapted to this trend, but the trend offers you a constant, steadily growing market over the next two decades, with your war baby bonus enriching the decade of the '60s.

A major part of your market is, of course, new homes. In spite of our antiquated, inefficient, collusive, feather-bedded, code-ridden, and speculative home building industry, there will probably be approximately 14,000,000 new dwelling units built between now and 1960. Even more will be built with any significant cut in costs and prices of homes, but the demand for new homes is a relative one partly determined by the increase in the number of families, partly by the real income or purchasing power of those families, and partly upon the judgment of the buyer as to whether he is getting anywhere near a dollar's worth for his dollar.

Your market will be an increasingly well educated and discriminating one. Illiteracy is now only 2.7% of people 14 years of age and over. In 1948 over a third of our population age 21 years and over had a high school education. By 1960 approximately half the adult population will have gone through high school and more than six out of each hundred will have a college education. Far more will have some high school or college training.

There is a "law of marketing" in your favor. Many millions, including 14,000,000 ex-service men and almost as many women were uprooted from old environments and standards of living during the war. They attained new standards, tastes, preferences, and desires. People will fight far harder to retain the standards they have reached than they would have fought on their own, to reach them.

The ability of consumers and industry to buy is unquestioned even by the most pessimistic. Personal incomes are still running slightly higher than a year ago. In March they were at an annual rate of $214.3 billion, just a little below the all-time high of December, 1948, and 4% above the level of March a year ago. Wages are expected to remain at least as high as last year and may even increase slightly. Corporation profits for the first quarter of this year were very high though they may decrease slightly during the second half of the year.

Total disposable personal income (after taxes) for the first quarter of 1949 was running at an annual rate of $197 billion—over 2½ times the 1940 rate and 7% above the same period last year.

Liquid assets of individuals—stored up purchasing power—is now $207 billion. That is over three times the liquid assets of 1940 and is almost five times the total retail sales of the U. S. in 1939. Even at today's higher prices this represents a purchasing power almost double the savings of 1940. Savings are the highest and best distributed in our history. For the first quarter this year savings of individuals reached an annual rate of $21.2 billion, an increase of 86% over the same quarter a year ago. Large savings mean delayed or caution buying, but they also mean a firm, active, broad and relatively stable future market.

Real purchasing power (corrected for higher taxes and price inflation) is 53% higher than in 1940 and 6% higher than in the first quarter of 1948.

After paying taxes and subtracting from personal incomes the basic living costs (food, clothing and shelter) to give us a living standard equal to that of 1940, we have left what we call **discretionary** purchasing power. That is the money which the consumer can either spend or save at his discretion. Discretionary purchasing power for the first quarter of 1949 was running at an annual rate four times that for 1940—$103.2 billion as compared to $26.5 billion.

Indebtedness, both consumer and farm, is extremely low as compared to savings or disposable income. Consumer debt could be doubled without exceeding the 1940 ratio to savings, or increased 60% without exceeding the 1940 ratio to disposable income. Instalment buying is not a danger as in 1929. Farm mortgages are at the lowest level since the beginning of the First World War.

Total farm income in 1948 was three times that of 1940 in spite of some decreases in prices of farm products. Changes in the overall financial position of farmers show an even more remarkable gain. Farmers' cash assets in 1948 were over $22 billion as against $5 billion in 1940, and they have around $2.50 in cash or its equivalent for each dollar of debt compared to $0.50 in cash for each dollar of debt in 1940. There seems little likelihood of the withdrawal of government price supports, and farm purchasing power will remain high. Exports of farm products, however, can be expected to drop after European crops are harvested this year, unless those crops are smaller than expected.

Income is more widely and equitably spread than ever before and there have been great upward shifts of families by income groups. After deducting Federal income taxes, which bear more heavily of course on the upper income groups, approximately 16,000,000 families had moved up from the $1,000 to $3,000 a year level in 1941 into levels above $3,000 per year income by 1947. Over 21% of families now have incomes over $5,000, after taxes, as compared with 4% in 1941. By 1960 real incomes will be considerably higher and more evenly distributed than now. It will be more difficult to make a fortune but less difficult to attain a reasonably high standard of living.

An additional $2.2 billion to $2.5 billion of purchasing power will be released at the end of this year and the beginning of next in the form of premium adjustments or refunds on Second World War veterans' insurance.

Life insurance company resources have almost doubled over the past 10 years—from assets of $29.2 billion in 1939 to $55.4 billion in 1948. Life insurance companies, loan associations, and mutual savings banks can contribute about $6 billion yearly to business and real estate financing. Unfortunately though, we need more risk or "adventure" capital worse than we need these gilt-edge loan funds.

Interest rates are low and promise to remain so indefinitely, with a plentiful supply of funds to eligible borrowers. There was no credit stringency even at the top of the boom.

Unemployment insurance, other Social Security benefits, savings, low indebtedness, stock piling programs, farm price supports, and the ECA program are all "cushions" which we lacked in 1920 or 1929, and they can do much to avoid depression. Both Federal and State governments will increase public works programs, many of which are long overdue, if unemployment increases appreciably.

Private capital outlays for the first quarter of this year was 12% above those a year ago. Although there may be a slight drop during the second half, the outlays for the year are expected to total $18.3 billion, which is approximately the same as last year. Many manufacturers would increase their capital goods expenditures if they could sell their company's stock even at 10 times earnings. Any small decrease in residential and factory construction will be at least offset by increased construction of public utility plants, highways, hospitals, schools, water systems, river and harbor projects, and pipe lines.

Many plants have completed expansion or modernization programs and are equipped to operate with increased efficiency. Increases in productivity of equipment, management and labor still have great opportunities to offer and both management and labor are going to find it advantageous to profit from these possibilities. If government, management, and labor use even a modicum of their collective intelligence, our standard of living can be increased 25% by 1960, through increases in productivity.

Manufacturers' and distributors' inventories were low at the beginning of the year, and since then inventory accumulation has slowed down—particularly retail inventories. Inventories must be appraised in the light of increased population and inflated dollars. Taking these two factors into consideration, total inventories have been and still are quite reasonable. Retail inventories have improved both their quality and balance since last year, notwithstanding the fact that many dealers are apparently caught with long inventories of some heating and cooking equipment items.

Although exports will not break all-time records this year, they will remain extremely high as compared to any prewar standards. I am far more concerned about increasing our imports so that we can be paid for these exports, and can receive interest and dividends on present and future investments abroad. Most Americans unfortunately have not changed their foreign trade attitudes to conform to our change from a debtor nation to the world's largest creditor nation. Creditor nations must either increase their imports or give away a goodly proportion of their exports of goods and capital. Unfortunately, it is always easier for a creditor to forgive his debtors than for debtors to forgive their creditors.

The stock market is thoroughly deflated in sharp contrast to the rampant inflation of 1929. Many stocks can be bought for less than the liquid assets represented. Far more can be bought well under their book value. Reducing margin requirements from 75% to 50% recently hardly made a ripple on purchases or prices. This is a definite rock-bottom strength completely lacking in past depressions.

Although business failures are increasing over the all-time low of 1945 (810 failures), the 10,000 failures expected by some this year would still be only half of the average annual failures of the so-called prosperous '20s—and of course there are far more business concerns now than then. In the '20s the failure rate was about one out of a hundred concerns. This year's rate, even if it reached 10,000, would not exceed one out of three hundred.

For the first quarter, the **physical volume** of retail sales was approximately the same as a year ago but dollar volume was down about 3% due to price decreases. While most people think the cost of living is declining and prices falling, the consumer's price index actually went up very slightly in both March and April. There is certainly no evidence or threat of any panic break in prices.

The output of steel for the first quarter of this year went over 24 million tons—the largest quarterly output in history. Steel output promises to hold high, even assuming some small declines.

Decreases in carloadings are, in my opinion, largely offset by increases in truck hauling. The carloading index alone is no longer an unquestioned measure of total freight movement, particularly since recent rate increases and large truck output have encouraged increased truck hauling.

Basic economic conditions are strong, favorable, and sound with plenty of liquid assets, credit reserves, and unsatisfied wants. There are still many new products, techniques, and methods to come, in spite of the fact that the Commissioner of Patents of the United States resigned in 1833 because all the worthwhile inventions had been made. Each basic discovery or invention gives birth to a family of them.

Given ample purchasing power, any postponement of buying is apt to be short-lived, and certainly there is purchasing power in abundance. The economy as a whole is in remarkably good balance once the gas pains of inflation are relieved. The need for both consumer and industrial goods is still great.

This is the most talked of, most forewarned, longest expected, and most guardedly approached economic readjustment in history. This in itself is most encouraging, for great depressions usually start with unexpected and sudden panic. A gradual process of readjustment holds no basis for fear, but for confidence and hope instead. It should neither be severe nor long. What should we do about it?

### What to Do About It

First of all, management should question itself sternly and objectively on the soundness of its experience, methods, viewpoints, and philosophies as a source of future policies and plans. This is no time to back into your future looking at your past. The cocky, hell-bent-for-leather '20s; the bitter, humbling, and humiliating

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'30s; and the roaring, careless, production-crazy but marketing-blind '40s afford management but few constructive solutions to the problems of the '50s and the '60s. Perhaps they have even left in the minds of management some unfortunate fear phychoses which are a poor substitute for caution based on facts. These three decades do show a woeful lack of coordination of our productive capacities with other phases of our economy—marketing, public relations, the economics of consumption, and government, for instance. Each of these will have greatly added weight in the decisions of the next two decades.

Training for leadership in both our universities and our companies will call for your active participation. While thinking of this one, consider well the dangers of expecting the blessings of the free enterprise system to be taught objectively to your children by teachers, from the elementary schools to colleges, who have reaped so few of those blessings. Damning government will solve neither industry's nor government's problems—and government's problems reach far beyond those of your company or your industry, but government officials will deeply appreciate any help you can give them in solving their problems. Mass production is now dependent upon mass marketing, and marketing was a neglected step-child during the '40s.

There are several specific and immediate things to be done too. One of them is going to cause groans, but in my opinion it is inescapable, and the sooner the operation is over the better it will be for everybody.

Reduce prices. If prices are reduced to show better values, volume will remain high. You have a choice between keeping present prices with reduced volume, and lowering prices and margins to maintain volume, with the resultant maintenance of high employment, and finding offsetting increases in efficiency. The latter choice seems to me the only one in a buyer's market with reluctance in buying the major force to be overcome. Price cuts have already been made by such companies as Detroit Michigan Stove Company, Nash-Kelvinator, General Electric, Borg-Warner, Eastman Kodak, General Motors and Ford Motor Company. These cuts must follow, and at times precede, lower prices of materials, more regular supply, and increases in efficiency. It is far better to lead than to follow in such reductions, for the leader gets the greatest benefit in his public relations and advertising. Waiting for painfully extracted and delayed reductions will lower volume, employment, and purchasing power. Prices simply cannot remain indefinitely at present inflated levels. If we quickly adjust prices to changed conditions, there is no reason why we cannot remain at a very prosperous economic level for a long period.

As old order backlogs are being run through, vigorous promotion and selling must get new ones. Those now on the books came in almost in spite of what management did. The normal function of management is to sell aggressively as well as produce, and that selling effort must reach through to the household consumer.

Don't fall into the complacent error of assuming that you can capture the market of the '50s with 1939 or 1945 model advertising and selling. The job is bigger. The needed impact is greater. Measure the task to be done, figure the cost of doing it, then do it aggressively. These are the times when the fallacy of determining advertising and sales appropriations on the basis of a flat percentage of last year's dollar sales causes red faces among management.

Contrary to general assumptions, advertising shares with electric kilowatts the unique distinction of not having increased in cost since 1940. The cost per thousand people reached is just about the same in current dollars. The people you reach have far more purchasing power. If you deflate the 1949 dollar to a 1940 basis the cost of reaching a thousand people is actually 40% lower than in 1940.

Both old and new or improved products must be promoted aggressively, stressing their better values. When a pilot hits headwinds he opens instead of closes the throttle. Can you do less? For the 12 years from 1930 to 1941, inclusive, we invested 2.8% of our national income in advertising. Since 1941 we have invested only 1.6% in advertising.

Much will depend upon the soundness of legislation and government policies, and business leaders have the opportunity and the responsibility of helping to guide that policy. They must insist on the reduction of government expenditures and the reduction of taxes—as repeatedly promised by responsible officials when they were justifying increased taxes to stop inflation. Faith in government is a basic faith and must be preserved. Urge the elimination, or at least the reduction of excise taxes on such items as travel, automobiles, and other non-luxury items. The government should stimulate capital goods expenditures by giving an increased rate of obsolescence on the first year or two after installation, and by doing away with double taxation on profits. These are things that you and other businessmen, as well as labor and the general public, should constantly urge upon government as in the best interests of the entire economy.

With your capacity doubled since 1940, you manufacturers of cooking and heating appliances are worried about moving present retail inventories without loss. The filled channels of distribution have blocked the flow of your factory sales temporarily. Most of that retail inventory was made of black market and gray market materials which cost you as much as 45% of your total f.o.b. factory sales dollar. You are now shipping out merchandise to compete with these inventories in which the materials costs are less and they will go even lower. To clear those high-cost inventories you have the choice of taking cuts or sending your own salesmen out to help the dealers move them quickly before even lower cost merchandise comes into competition. Regardless of which of the two courses you choose, both you and your distributors are going to take a cut in margin on these high-cost inventories. Then you will have to do a better job of training both your factory and the retail salesman. I cannot imagine a better and more constructive job for the Institute than organizing and carrying out a sound and aggressive sales training program. Judging by the quality of salesmanship I have seen in your retail outlets it's badly needed, and would be a good investment.

You are worried about the productivity of labor. I think that the greater selectivity of labor you can now exercise will solve that problem in two ways. First, you can choose the better trained workers. Secondly, the chosen workers will be more easily convinced that if they are to retain their jobs your company must be in a position to give the values and prices which mean steady jobs and increased **real** wages. Even some of the labor leaders will admit the fact that regardless of wages we can't divide up more than we produce. Some managements must also share with labor the blame for wastes and inefficiencies that were condoned in the '40s but cannot be in the '50s. Your manufacturing equipment is far more efficient than before the war. Cost reductions are going to prove as advantageous to labor as to management—and the consumer.

There's still plenty of room in your industry for gains from standardization. With some 200 kinds of gas valves and 200 different settings on oil valves for your stoves, and with a whole galaxy of tensile strengths demanded in your steel sheets, you must be pretty tough customers for your suppliers—and those are only three examples. Perhaps a wholehearted standardization program for your industry would improve your relations with suppliers as well as cut your costs.

Instead of this being a year of floundering indecision it must be a year of decision. Stop looking so assiduously for hidden minor dangers and be guided by the obvious major strengths. Decisions based alone on conditions of the moment are not the basis for sound policies or plans. "Now" is merely a razor's edge separating the past from the future. What is true now might not have been true yesterday or may not be true tomorrow. We must discover and measure the trends and changes and, knowing them, base our decisions upon them. Those trends and changes are decidedly favorable to your future.

Markets are people with money to spend—and the desire to spend it. We have the people—16,000,000 more of them than in 1940. They have more purchasing power than the manufacturers of any other country could envision in their wildest dreams. Remember, however, that consumer purchasing includes the **desire to buy** as well as the ability to do so. Right there is where your job begins, and if you can't do it, after counting all your blessings one by one, then it's time to stop talking about the blessings of the free enterprise system, for enterprise has died and freedom will soon do so.

# Employment Forecast: Slightly Downward

(Continued from page 15)

or later. It was inevitable because the post war peaks in employment and output were in response to war created abnormal demands which could not last forever. The readjustment from those levels could not have been entirely painless, nor could it have been completed overnight. To me, the important point is that the shift has not turned into a panicky thing, pyramiding itself almost without end. Instead, it has been, in the overall, both limited and orderly.

### No Serious Situation Likely This Year

True, the readjustment, although well advanced in some fields, has barely begun in others, and there is always the danger that the downturn may suddenly become more general and more rapid. Valid economic arguments on this score may well be made. In my opinion, however, it is quite unlikely that anything serious will happen, at least this year. I base this conclusion not on sentiment or wishful thinking, but on three basic economic considerations arising out of the facts I have already laid before you. At the risk of over-simplification, I shall state them briefly.

The first of these is the inventory situation which I mentioned at the very beginning of this talk. One of the most important factors in the picture today is the effort by businessmen in every stage of manufacturing and trade to cut inventories to the lowest possible level and to reduce their commitments to virtually a hand-to-month basis. This is an entirely proper policy and quite healthy in terms of its longer-run effect. With production finally caught up to demand, lower prices were to be expected, and careful buying policies were the intelligent order of the day. As a result, probably fewer firms are in an uncomfortable inventory position than in any similar period of readjustment in recent economic history.

### Inventories Being Reduced

This leads us to the second point: the cutting of inventories and of commitments means that more goods are being sold than are being produced. Should this continue, a stage will be reached when there will have to be an increase in production simply to keep inventories up to the level necessary to maintain the current volume of sales. How soon this will have to be done in any particular industry is, of course, problematical. But the figures on consumer expenditures have been remarkably high right through this "downturn," and the preliminary April figures on retail trade do not indicate any falling off.

As I pointed out earlier, savings, already at record levels, increased still more during the early months of this year, although incomes were falling. The rise in the savings rate indicates that, to a considerable extent, many consumers are doing exactly the same thing which producers are doing—waiting for prices to drop. This is a natural development in an economy such as ours, and unless it is carried to an extreme, which I consider to be unlikely, it is not unhealthy.

### Price Drops

The natural question at this juncture—when and how prices will come down enough to bring back into the market consumers who are either reluctant or still price-out—leads me to the third point. Actually, prices have not been going down for an unduly long time, nor have they dropped very sharply. Until mid-February—only three months ago—the drop was virtually confined to farm products and almost every thing else was holding steady or moving up. Since then there has been relative stability in the farm products and food sectors and great weakness in the prices of textiles and various metals. The wholesale prices of farm products in early May were about 15% below the peak reached in January a year ago. At that same time, the wholesale prices of nonfarm and nonfood commodities were about 4% below their peak of last November.

In many industrial commodities, and in housing as well, price reductions so far have been largely nominal and not of the magnitude required to bring consumers into the market in the necessary large numbers. People who have waited thus far are willing to wait a while longer, even where they have the money. They have the needs; the question is largely one of price, since there is no real limit to the ability of the American market to consume all that we can produce. Are producers willing and able to turn out the goods wanted at the prices which buyers are willing and able to pay? For the short run, at least, the answer does not necessarily call for reductions in reasonable profits, although there are no doubt numerous instances where profits are too high; and certainly it does not call for reductions in wage and salary incomes. It calls primarily for a return to a tradition which has been neglected in the past few years of appealing to mass markets by giving more value for the same or less money; it calls for improved efficiency, for elimination of the wasteful practices which grew up in the day of sellers' markets, for greater emphasis in general on what we call, for lack of a better word, productivity. Reports that come in to us indicate that such a trend is definitely under way. The price question I have posed constitutes a real challenge to American business and American labor. He who says it cannot be met unless we first go through the wringer does not, in my opinion, know the America of today.

Thus far I have concentrated on the national picture. This I have done because no sector of the country is an independent entity unto itself. Neither prosperity nor recession recognizes state borders. Yet it is interesting and highly informative to see how the states in which we are particularly interested today fit into the national economic framework.

### The Southwest Situation

From a population standpoint these states have scarcely shared in the general increase which has occurred in the country as a whole since 1940. Population in this region rose to 18¼ million in July, 1948, from 17.8 million in April, 1940, a gain of 2½%; the national increase amounted to 11%. Kansas and Minnesota were the only states of the nine in this area to show an appreciable gain in population. On the basis of natural growth, this region should have had a much greater gain in population than it showed, but out-migration, particularly during the war, has been rather heavy.

Per capita income in your region has increased much more than in the country as a whole. Commerce Department estimates for 1940 and 1947 show that in the earlier year per capita income was below the national average in each of these states, ranging from a low of 44% of the national average in Arkansas to nearly 49% in Minnesota and Missouri. In 1947 the two Dakotas and Kansas were above the national average, and Arkansas, while still the lowest, had upped its ratio to 54%.

These states are largely agricultural and accounted for almost a fourth of the national agricultural income, as against only 1/20th of the total manufacturing payrolls. Manufacturing employment, however, has risen more sharply in this region than in the country as a whole since 1940.

One of the best and most current indicators of the economic health of your states is obtained from the unemployment figures. Continued claims under the State Unemployment Insurance program aggregated 114,000 in these nine states in mid-April, a rise of 65% as compared with the same period a year ago; for the country as a whole, the rise was 77%. Under the veterans' program, continued claims totaled 55,324, a rise of 8%; for the country as a whole the rise amounted to 14%. Thus it appears that unemployment has not risen as sharply in your states as in the country as a whole.

## Morgan & Co. Admits Carl L. Barnes

LOS ANGELES, CALIF.—Morgan & Co., 634 South Spring Street, members of the Los Angeles Stock Exchange, have admitted Carl L. Barnes, exchange member, to partnership. Partners in the firm are Emerson B. Morgan and Mr. Barnes.

## Butcher & Sherrerd Admit

PHILADELPHIA, PA.—Butcher & Sherrerd, members of the New York and Philadelphia-Baltimore Stock Exchanges, will admit W. W. Keen Butcher to partnership on July 1.

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# Management's Contribution to High Level Economy

(Continued from page 7)

come to rest. If we would let them plan our affairs, no one would ever again have to reach for an aspirin. Horsefeathers! To be realistic we had better put aside the thought of eliminating cyclical swings through the omniscience of feather-bedded bureaucrats and devote our attention to the means of moderating them within the operation of a free system.

No one, of course, wants to repeat the disastrous experience of the 1930's for which government must share responsibility with business. However, there is much we can do—and some things we are already doing—which will mitigate the extreme swing. Especially should attention be directed toward the psychological factors involved. One of our troubles is that the seeds of a depression are planted in the enthusiasms of a boom. There are some important lessons of restraint to be learned for all of us—business, labor and government. During the exhilarating sleigh ride of the last two years no one of these groups sought martyrdom in the cause of self discipline.

Whatever may be in store for us now, and excellent authorities remain moderately optimistic, we recognize a basic change in the economy. The consumer is being restored to his normal position in the market place. There, because of our wealth of production, he has a wide choice. Much of his spending is for needs the filling of which may be deferred. Under a democratic way of doing things it is fitting that he should have the last word. It is our credo that our citizens should express their will as to government through the ballot box. By the same token, they should have equal privileges in the market place as to their expenditures and mode of living. These two freedoms go hand in hand.

### What Management Can Do

The assignment to me at this meeting has to do with what steps might be taken by management to protect against adverse developments and assure a satisfactory level of prosperity. Such problems, of course, vary with different industries and are particular to each company. There is no common panacea. I am reminded of a friend who had been an outstanding success in building up a large corporation. When asked how he managed to make money even in poor years he said, "Nothing secret or fancy about it. No matter how bad things look, I say to myself, my job is to keep on doing business one way or another. I do my best, take some chances and let the worriers worry and the despondent despair. I sleep nights and they don't."

Of course, the most basic responsibility of any management is to keep its company financially healthy and vigorous. In proceeding through uncertain times such as these, capital should not only be ample but even excessive as regards foreseeable needs. The prudent manager will allow for emergencies and will provide himself with enough funds so that if a depression should occur, he can preserve the essential elements of his organization, fulfill his obilgations to his labor force and customers and be prepared to take advantage of the opportunities which have always characterized periods of deflation.

At this point in our postwar affairs we must be careful about debt. The management which would remain financially strong will not rely too heavily on current bank accommodations. Short-term loans should be reduced, extended into long-term obligations, or replaced with equity capital.

The inflationary forces unleashed by World War II have left us on a high plateau of wage rates, material costs and service charges. We experienced a pleasing adventure in prosperity as long as goods were in short supply. But today, with the buyer calling the signals in the market place, management is in a tough spot. Our basic objective changes from one of high volume production to one of lowered costs, better quality and improved distribution.

### Economy, First Consideration

The first consideration, of course, is that of economy. We realize that our recent rich prosperity has been somewhat akin to a sailor's holiday. The operation of many companies has been high, wide and handsome. Management has been extravagant and workers indifferent. We need to eliminate frills, pull in our belts and try harder. We should cease to justify expenditures on the ground that under present tax rates the government pays almost half. That is a reckless philosophy. Let us tighten up from the Old Man's office right out to the watchman's gate.

From experience we know that such steps will be necessary if we are to revive buyer interest, slow the pace of recession and enable us to level off on a new but saner period of prosperity. Management must now review the whole process of doing business from beginning to end.

Among other things we should consider possibilities for more complete integration of operation. By extending the scope of processing or broadening distribution, overhead burdens may be reduced and higher efficiencies obtained. This can be done by normal growth or by process of merger. Such steps in the past have characterized the American system.

This is also an excellent time to lay out plans for bettering plant facilities. There are construction needs which have been postponed or made necessary by changing conditions. Management could now set these up as definite projects to be activated as costs go down.

Only the other day in this vicinity I talked with the President of a large company who has adopted just such a program. He is currently using several old-style six or eight story warehouses located in congested city districts. These will gradually be abandoned in favor of new ones to be constructed of modern one-story design located on trunk highways in outlaying sections.

### Boom Years, Mean Lax Years

Boom years inevitably mean lax years. As we emerge from them and face declining volume, we are called upon to overhaul and repair the whole machinery of production. We know for example that some inventories have become unwieldy, unbalanced and in spots out of date. We should proceed to cut away dead tissue.

Similarly we should put our weight behind more effective production controls. We might start by reviewing the quality of supervisory personnel and the care used in laying out work. Particularly should we examine methods of material procurement and early processing in order to reduce wastage in later stages.

Happily this science of production control is developing rapidly. We now have, for many functions, electronic devices which perform beyond human capacity. These are the times in which they should be applied wherever possible.

Wise management will direct a critical eye toward the obsolescence factor in machine tools. In many cases what was good enough in a sellers' market will not suffice under conditions of keen competition. A manufacturer today who hasn't the last word in efficient and high speed tools is simply asking for trouble and doing his country a dis-service.

Pressure of declining volume should also stimuate management to activate research, design new products and promote new lines. In this connection it is important to find out accurately what the consumer is saying in the market place. I suspect that lack of buying is not entirely a matter of high prices. Certainly there are questions of quality involved. Perhaps some of our customers are looking for postwar lines and not warmed-over prewar lines. There should be vigorous research both in the laboratory and on the selling front.

### Plant Rehabilitation and Modernization

Thus if we could set up over a broad front a comprehensive movement for plant rehabilitation, modernization of equipment, more extensive research and the bringing out of new products, we would have a program of compensatory spending by businessmen within the American system. It would be a powerful defense against an acute depression.

To some the risk of doing these things as business recedes may seem great. To me the consequences of not doing them are even more dangerous. The planning boys on the banks of the Potomac would give their nylon shirts to proclaim that business had failed in this respect.

Similarly there is much that can be done in the field of labor relations that will tend to counteract recessive trends or at least soften their impact. This is a broad subject and my time today permits only the briefest discussion.

Of current interest is the attempt by some labor unions to secure another round of wage increases or their equivalent in other concessions. These should be opposed. In view of the present attitude of buyers it would be hard to think of anything more likely to bring on trouble.

We have also recently observed the desire of ambitious union officials to usurp some of the functions of management. Such tendencies are ill-timed and ill-founded. If business is headed for hard times, then more than ever should management have freedom of action and conversely be held responsible for results. But, of course, the issue cuts more deeply than that. Under our highly organized methods of production, responsibilities must be sharply defined because that is the American way of producing more goods for more people. Worker-managers and commissars have no place on this side of the Atlantic.

### Responsibilities to Labor

In standing up for its own rights, management must not forget that it has growing responsibilities to labor. The public conscience in this respect is a developing thing and management must keep step. Today, for example, we are beginning to witness once again the intermittent lay-offs of workmen. In many cases these are unavoidable. At other times their recurrence can be limited by better programming and more careful scheduling of production and sales.

Of broader import is the matter of improved communications between management and labor. This is still a field of great promise for securing higher work-efficiency, reducing costs and stabilizing employment. Efforts for a better understanding of mutual problems should be intensified as business declines. Time after time I have seen working men get all stewed-up over a complete misunderstanding of fact or over fears that were groundless.

But it isn't alone in the field of production that we have a job to do. In many spots the machinery of distribution is out of date and creaking at the joints. A sellers' market has permitted obsolescence to creep up on selling methods. Once again we have got to train salesmen of high order. Management should back them up with aggressive advertising and enlightened public relations. For some years now the role of the salesman has been played down as we exalted that of the production man. Let us restore him to his rightful place and develop more men like McCormick, Carnegie, Schwab, Patterson, Durant, Chrysler, and Paul Hoffman.

It is possible that we have forgotten some of the things practised by those selling wizards. They had a fine sense of working from the grass-roots up. Andy Carnegie peddled his own steel products and hung up many records for bringing back big orders. I understand that when a business recession set in, old John Patterson, President of the National Cash Register Company, would pack up a battered valise and take to the road. He would travel up and down the country, bolstering the morale of his salesmen and learning at first hand the wishes of his customers. It was definitely the hard way but it was a good way.

On the wider horizon there is another thing of vital importance. The managers of our business system still have much to learn as to what makes it tick. It has been growing infinitely more complex. Its workings have have been strangely altered by increasing governmental intervention.

We need to understand more clearly what causes maladjustments and breakdowns. Most business men have been so occupied with running their own companies that they have taken little time to study the broad problems of the economy and their own position in it. Opportunity for such study is offered by organizations like your own Sales Executive Clubs which are doing an excellent job throughout the country. We should however have more activities similar to this meeting here today—where men from both the business and academic fields get together in common effort to learn more about our economy.

In a period of declining business volume, work of this kind is doubly important. By a better understanding of the system as a whole, a given management will be more effective in its own sphere.

### A Service to Nation

In taking steps to improve operations and assure greater stability of employment, business management will be serving not only itself but the country as a whole. By more efficient production and better selling, it carries on that marvelous progression which over the years in America has yielded our people a rising standard of living. Our success was achieved by an economy of declining costs and growing markets. Nor must we ever forget that the pressure of lean years played an important part in this parade of accomplishment.

Now I would like to take up some matters in what might be called the field of business statesmanship. Irrespective of how well the affairs of a company may be managed, it cannot succeed if the economic environment is unfavorable. Under today's conditions the atmosphere in which we conduct business is determined largely by acts of government. Thus concern with the shaping of government policy is part of every business.

This is a new situation. In the past we took good government for granted. We assumed that like the oxygen in the air it would always be there, and there wasn't much we needed to do about it. No greater error could possibly have been made. We are now reaping the whirlwind. Suddenly we are faced with a government of mastodonic proportions. Each year it is reaching out further to control and regulate our economy.

Today if we posses any sense of reality at all we must see that an interest in determining government's policies is a **must** for every intelligent business man. Our duties in this field are just as basic as paying taxes and maintaining reputable credit. From here on out unless we will measure up to these responsibilities, it won't matter a damn how well we run our respective companies. Indifference will find us behind the 8-ball.

What is to be done? As I see it, the problem is double-headed. First to reawaken our people to the true nature of the American system. Many have never taken the trouble to understand it. Secondly, to point attention to those things which threaten it. Our efforts should be directed both to the neighborhood and the nation. This can be accomplished by management working with its own employees and in its own community as well as by lending support to national organizations already engaged in this work. Among the latter might be mentioned the Committee for Economic Development whose Chairman, Walter Williams, you have heard today.

### Difficulties Cannot Be Minimized

It would be folly to minimize our difficulties. We face opponents activated by a fanatical zeal. That's bad but not the worst. Our most baffling problem is the widespread apathy of a rich and complacent people. But even that should not deter us. Active minorities usually determine the course of events. It was so when we won our freedom. It was true when we adopted the Constitution. It was so when we got rid of prohibition. What really counts is strength of conviction.

Let us, therefore, pick up these new responsibilities with enthusiasm. What a cause we have! Let us recall to our people that it was freedom for individual initiative which opened the riches of their continent. Let us make clear that it was thrift and the investment of savings which constantly provided more efficient tools. Let us make clear that only through the use of better tools did we raise our standard of living.

Let us make plain that profit-making is an honorable institution. It is so for basic reasons. The very nature of man himself is to wish to improve his lot. Yet success in this does not rest alone with the individual. Under our free competitive system, profits are awarded in a democratic way, by the people themselves in the market place. Thus is the motive of self interest turned to common account. Moreover, profits are not like a miser's gold. They are in turn productive through expenditure for goods or reinvestment as capital.

Let us tell the story of American freedom and the part that business men played in its establishment. How we conceived an order designed to give every man a chance. How each citizen is free to work where he pleases, discuss what he pleases, vote as he pleases and worship the God of his choice. How in this country government is the servant of the people and not their master.

In all, this has been a successful system. On its record it is the finest economic and political organism ever fashioned by a great nation. Yet today there are many who would destroy it.

### Worshiping False Gods

Our danger arises from the worship of false gods. Some people see government itself as an omnipotent creator of wealth. Others pursue the credo that as to themselves something can be gotten for nothing. Still others would sacrifice their independence at the altar of a politically inspired phantom called security. In the

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aggregate and as currently practiced, this is a philosophy of paternalism.

What it results in is a constant growth of Federal power, and step-by-step encroachment upon the free enterprise system. Each new activity of government is considered justified if it serves almost any social purpose or politically appeases some self-seeking pressure group.

When one takes time out to appraise this trend and measure its nearby implications one feels very much like the little girl in London during the Blitz. At her evening prayers she asked God to protect her mother and daddy as well as her brother and sister. Then she wound up with "And also dear God take good care of yourself—cause if anything happens to you we're sunk."

The baffling enigma in this movement is that the fundamental issue is constantly overlooked. No one rises to question what effect the sum total of these added functions of concentrated Federal power may have upon our free enterprise system and the continuance of individual liberty.

But such things are at stake. It is imperative that we bring the basic issue out into the open. The call is for courageous and constructive leadership to fight for the American system. To my mind this is today the most important responsibility devolving upon the shoulders of business management.

The task is not a light one. We are losing today because high taxes and ambitious Federal paternalism are encroaching upon our freedoms first in one spot and then in another. It is a process of attrition. Our only possible remedy is to establish some common line of defense. To paraphrase Ben Franklin, "If we don't stick together we'll be stuck separately."

We should clarify in our minds the principles which we think are essential to our liberties. We should have some common understanding of the areas in which we believe it legitimate for government to operate. We should sharply define those in which it isn't. These things are called for now because this is the first time since our colonial forebears battled an absentee authoritarian Parliament in London that our liberties have been threatened by government itself.

I realize that this idea of establishing a common line of defense sounds both ambitious and difficult. But for the life of me, I don't see how we can avoid such effort.

As a matter of fact, the adoption of some general principles to govern our action may not be as complicated as would appear. In the first place, I believe we can all agree that any further increase in the Federal tax burden definitely menaces the functioning of our system. Consequently each proposal for added governmental action should be rigidly scrutinized and its tax cost widely publicized.

We can also affirm that the most responsive government is local government. We should, therefore, defend it against Federal encroachment and insist that there be left to local administration the functions which are local in application—especially education, medicine and hospitalization.

**Government Should Not Compete With Its Citizens**

Similarly we can endorse the principle that government should not compete with its citizens in producing goods and services. President Truman's recent threat to inject government into steel production was an alarming thing. It showed that even in high places there are those who do not understand the workings of our free system. This same general principle is involved in governmental plans for huge new projects of the TVA type. It seems to me we should join with the electric industry in their position. Its members affirm that it is OK for the government to undertake flood control and irrigation, provided we can stand the tax burden. We should, however, leave to private enterprise in the power industry the matter of generating and distributing the power incidental to these projects.

While we recognize the necessity of governmental regulation in many fields, we should insist that it remain regulation and not assume responsibilities of management. Moreover, we should declare that to preserve a healthy economy under our profit system, adequate, even liberal, earnings are essential.

These are but a few tentative suggestions. Are they not however sufficient to indicate that we can evolve a code of general principles to enable us to form a common line of defense?

But management's responsibility does not end here. We need more businessmen in public life. I was talking recently with the head of a large corporation who for one reason or another has been compelled to devote almost half his time to negotiations with regulatory commissions. He said "The trouble is not so much with our laws as in their administration. Because of heavy work burdens, what is happening is that policy decisions are being made down the line by inexperienced doctrinaire juniors."

Our attitudes in this respect must be modernized. We live in a new age. Not long ago a friend of mine was asked by the President to suggest some businessmen for responsible jobs in Washington. These were not cabinet positions but they were close to it and involved posts of vital importance to the satisfactory functioning of our economy. But executive after executive begged off. It was a case of "Let George do it." To my mind a continued shirking of such responsibilities will constitute an act of bankruptcy on our part.

This problem can be viewed in two ways. There will be businessmen so sincerely imbued with the importance of service that they will be willing to make a career of it. Of such, happily there is a growing number.

For most of us it would be a matter of dedicating a few years time. During the shooting war we were able to supply an army of business executives for a period of work in government. They took positions both high and low. They labored at times on interesting and important problems, but more often on matters of dreary routine. They worked unselfishly for the common good. Why can't we do the same thing in years of peace?

The need is not just for top-level executives whose activities will make the front pages of the press. There are many spots in government where younger, second-echelon men could make contributions invaluable to better public administration and improved relations between business and government. It should be possible for management to work things out so that they be given leaves of absence from their regular jobs.

This is no call for softies or those looking for an easy way of life. Work in government is trying, be it on the Federal or local level. It is frequently bogged down in excessive bureaucracy. It may be severely frustrating by reason of petty politics. But if we are to preserve the American way of doing things it is essential that more undertake it.

Our minds cannot dwell on this subject without thinking of the fate of Jim Forrestal. His was a distinguished career. It was significant not by reason of success as a businessman, or because he was a great Secretary of the Navy during World War II. Rather it was because of his high sense of public service.

It would be poor recognition of his qualities if we would allow his disaster to discourage us. Rather it should serve as an inspiration. He gave his life to a cause which was ours. Would it not be a fitting memorial if there could be started a Forrestal Foundation dedicated to the purpose of activating among businessmen a higher sense of public service and of enlisting in his name more recruits for governmental duty?

**Faced With Stern Realities**

Frankly we are face to face with some pretty stern realities. These are indeed critical times. The whole fabric of our freedoms is under threat from abroad and from the intrusion at home of an alien philosophy. No one is better qualified to define the issue than another distinguished public servant, General Lucius D. Clay. Upon his recent return to these shores he declared:

"To have seen the forces of evil at first hand makes you realize anew the wonderful inheritance that is ours in this land. I am sure that there is only one basic, fundamental thing that man cannot do without—and that is freedom. In our effort to improve our system, to raise the standard of living for everyone quickly, let us not lose this one fundamental by default."

# Wage Policy in Recessions

(Continued from page 11)

already clearly noticeable. Only later, at the bottom of the depression, they consented to extensive wage reductions, then entirely useless in view of the very deflationary price policy of the Bruning government.

In France the arguments of the purchasing power theory were officially accepted by Leon Blum and his government before the last war. Wages were at that time raised in an already clearly deflationary environment. This was, in my opinion, one of the chief reasons for the economic chaos which characterized the prewar Blum era.

But what was the position of economic science? One is entitled to state that at that time in Europe the purchasing power theory was considered fundamentally wrong by an overwhelming majority of scholars. The first to warn against its fallacies was the late Professor Gustav Cassel in an article which appeared in 1927 and which aroused great interest all over the world. This article, "Selbstkritik! Die Sinnlosigkeit der deutschen Arbeitslosenpolitik" (Self-criticism! the Senselessness of the German Unemployment Policy), explained how senseless it was to keep the wages of the employed high and to pay subsidies out of the income of the employed to the unemployed, instead of letting the whole population work at adjusted wage rates.

But the warning was not confined to orthodox economists. Professor Emil Lederer, a member of the Unabhanige Socialdemokratische Partei, who surely cannot be suspected of having been inimical to labor, in his book, "Eine Untersuchung ueber die Armut der Nationen" (An Enquiry Into the Poverty of Nations), 1927, says with reference to the effect of economically non-adjusted wage rates: "A sharp decline of the economy will be the consequence. The unemployment allowances cannot be paid any longer and the artificially erected wage system must collapse inevitably. A valorization of labor — what this policy would mean — is just not possible for the long run."

**Hansen Pre-Hansen**

And as to scientific opinion outside Europe, I may be allowed to quote a few sentences of Professor Alvin Hansen, obviously written before he became a Hansenian:

"It is therefore not surprising that the theory should become widespread that higher wages are the cure for the restricted market and declining price level of the last decade. This theory is accepted, one might almost say, by nearly every one in the United States, not only by trade union leaders but also by leading businessmen, politicians and journalistic economists. During the 1930 depression leaders of American public opinion in all walks of life were constantly urging that the surest basis for a revival of prosperity was a maintenance of wages or even an increase in wages. This state of affairs indicates a confusion of thought for which, it must be admitted, professional economists are in part to blame."

"We shall not succeed in solving the depression through the soothing and agreeable device of inflation. We shall come out of it only through hard work, and readjustments that are painful. There is no other alternative."

If the downward adjustment of wages was opposed in the last depression in spite of a warning by economic science, resistance against adjustments will hardly be weaker now that economists too adhere so overwhelming to purchasing power theory. In the last analysis, Keynes wrote his General Theory in order to find a way out of a situation which semed to him hopeless if attached in a traditional way. He felt that wages must be lowered in and after a depression, but he advised lowering them in real terms because it seemed no longer possible to lower them in money terms. He has, as I once said, transformed the evil of a rigid wage system into the virtue of an inflationary employment theory. But by doing this and conceding that wages are unadjustable downwards he has, of course, rendered them even less adjustable than they already were.

**The Power of Theories**

It is a well known sociological phenomenon that theories, even basically incorrect, if once accepted, can turn into an independent power which leads to the effect to which the original facts as such would never have led—thus seemingly proving the correctness of the original theory. The classic example for such an affect of a theory is Karl Marx's "Klassenkampf" conception (class struggle) which caused the development of class-consciousness rather than vice versa.

Perhaps we have to acquiesce in the fact that money wages have become unadjustable downwards and even have a tendency to increase during depressions—tragically not the least through the influence of a doctrine designed to protect the economy against such rigidities. But before acquiescing we should consider what an economy will look like which has again and again to be pulled out of a deflationary situation by government spending. Such an economy must necessarily undergo fundamental changes in its social structure. In the long run, government deficit spending leads necessarily to a progressive socialization of enterprises. Taxation has, from a certain point on, to be increased in order that government spending does not ruin the currency and credit of the country. Through this more and more enterprises become unprofitable so that the government must again replace them in their function of providing employment.

It is beyond the scope of this paper to examine whether the development which leads from economic rigidities to ever more governmental spending and from there to Socialism, is inevitable. Undoubtedly other alternatives exist. One is to urge the regulation of the whole economic process by the government, based on the idea that it is better to have all factors fixed according to a unified and centralized plan than as a result of the struggle of different pressure groups. This is how a Fascist economy works.

The other possibility is to put the economic laws to work again and in that way to rebuild a free economy. I personally hope that this way is still open.

# Milwaukee Bond Club Outing Program

MILWAUKEE, WIS.—The Milwaukee Bond Club will hold its annual field day and picnic on Friday, June 17 at the Oconomowoc Country Club and Oconomowoc Lake Club. Highlights of the day will include baseball, golf, tennis, cards, horseshoe pitching, special events, luncheon and dinner.

Members of the baseball committee are Henry F. W. Furlong, First National Bank of Wauwatosa, and Erwin G. Schleiger, Central Republic Co., Co-Chairmen; Fred Cloyes, Cruttenden & Co., Captain of the Guest Team; Charles W. Brew, C. W. Brew & Co., Captain of the Milwaukee Team; Tom Larkin, Umpire; and Paul M. Binzel, Scorekeeper.

Events in the Golf Tournament will be Individual Championship, low gross, for the First Wisconsin National Bank Cup; Team Championship (two-man team) low Gross, for the Puelicher Cup; Team Championship (two-man team) low net—Ames, Emerich & Co. cup; Special Handicap (1-15 inclusive) for H. V. Byllesby & Co. Cup; Special Handicap (16-30 inclusive) for E. J. Furlong Cup; Special Handicap (31-45 inclusive) Western Banker Cup. Prizes for these events are open to members of the Milwaukee Bond Club only. Also scheduled will be blind bogey (75090) for Wisconsin Electric Power Co. Cup; special guest events—low gross, low net, and high gross; putting (least number of putts) for the Laas Cup; and Milwaukee - Chicago Championship, four man team, for Fuller, Cruttenden & Co. Cup.

Members of the Golf Committee are Clarence A. Bickel, Robert W. Baird & Co., W. Lloyd Secord, the Milwaukee Co., Matthew H. Pahle, A. C. Allyn & Co., Co-Chairmen.

Other Committees are Horseshoe Pitching—John A. Talbott, A. C. Best & Co., Chairman; Cards, Edward D. Levy, Straus & Blosser, Bridge, and John A. Toennessen, John A. Toennessen & Co., Sheepshead; Tennis, Richard J. Murphy, Merrill Lynch, Pierce, Fenner & Beane. Ralph Rada, Paine, Webber, Jackson & Curtis, and Lester B. McElhiney, Loewi & Co., are in charge of a special event, William C. Davis, A. G. Becker & Co., and John P. Lewis, J. P. Lewis & Co., arranged prizes; entertainment is in charge of Wilbur G. Bingham, Bingham, Sheldon Co. and Walter O. Berge, Walter O. Berge & Co. Charles W. Gerlach, Charles Gerlach & Co., is General Chairman.

# New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following firm changes:

Transfer of the Exchange membership of Edward L. Nesbitt to Seymour Levien will be considered by the Exchange on June 23.

Homer W. Orvis will retire from partnership in Orvis Bros. & Co. June 30.

Thomas Henderson, partner in Betts, Borland & Co., died on June 7.

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# Circumvention

(Continued from page 3)

the right of trial by jury is given up, or by the signing of waivers in advance of testifying before a grand jury.

**However, to interpret these precious rights away by failing to realize that membership in the NASD, far from being voluntary is a form of duress, constitutes serious error and, in our view, Judge Morris in predicating his opinion on NASD membership completely missed the mark.**

What does the SEC itself say on the nature of NASD membership? We quote from its Release No. 3700 wherein in a Review of Disciplinary Action before the NASD it interpreted part of the Maloney Act as follows:

*". . . the policy behind this section (Section 15A (b) (7) of the Maloney Act) was directly linked with one of the key provisions of the amendment designed to apply especially in public distributions of securities. This is Section 15A (i), which was placed in the Act to afford an economic incentive for securities dealers to join a registered securities association, and to make the denial of membership or the expulsion of members an effective sanction. That section provides in part:*

*"'(1) The rules of a registered securities association may provide that no member thereof shall deal with any nonmember broker or dealer (as defined in paragraph (2) of this subsection) except at the same prices, for the same commissions or fees, and on the same terms and conditions as are by such member accorded to the general public.'*

*"As a result of this section it is virtually impossible for a dealer who is not a member of the NASD to participate in a distribution of important size. Indeed, the rules of the NASD under the above statutory authority not only prohibit members from dealing with nonmember brokers and dealers as above provided, but also forbid members to 'join with any nonmember broker or dealer in any syndicate or group contemplating the distribution to the public of any issue of securities or part thereof. . . .' Since the major underwriting firms of the country are members of the NASD, nonmember firms are practically excluded from participating in this type of business."*

**Clearly then, as established by SEC analysis and interpretation, joining the NASD is not an act of volition but a matter of compelling bread and butter necessity.**

We wonder whether the instant NASD procedure has not been suggested or perhaps dictated by the SEC. None will tell. Of course there must have been interlocking conferences and no doubt there are memoranda of these *en camera* meetings which will never be disclosed to the public.

Can there be any doubt that if the NASD is successful, the SEC will immediately come into possession of the information which by all the latter's deviousness it has failed to obtain because thwarted by the courts. The NASD would be a mere channel, and its partner the SEC would achieve by indirection what the courts had restrained it from doing directly.

**In the private dispute between Otis & Co. and Kaiser-Frazer we take neither part nor side. The administrative off shoots continue to be disturbingly intriguing. We do feel that Otis & Co. vis a vis the SEC and the NASD in its own fight is also in the position to take up the cudgels for the securities industry as a whole, and to create significant precedents defining and delimiting the powers of the policing bodies.**

## April Personal Incomes Downward

**Department of Commerce reports $900 million loss from March level, the fourth consecutive monthly drop.**

Personal income of the American people declined for the fourth straight month in April, dropping $900,000,000 below the March level, according to the Commerce Department report issued on June 9. On an annual rate basis, the income is stated at $213.7 billion, or 2.5% above the figure for April of last year. Though the national income is estimated by the Commerce Department to still be in excess of last year by a slight margin, the steady decline in recent months is disturbing to the Treasury Department, which depends on income taxes as the major source of government revenues.

# The Outlook—Not Another 1929

(Continued from page 6)

boomed the boom and helped pave the way for contraction.

Within the past few months, after nearly everyone else had become convinced that inflation is over, the President reiterated a comprehensive anti-inflation program, and promoted the Spence-inflation-control bill (H.R. 2753). Just a few weeks before the steel mills began to move away from peak capacity, the government demanded authority to promote or build more mills! Two members of the Council of Economic Advisers cried out for more controls while one member called it disinflation. Currently the government is reinvigorating its Savings Bond program at the time when the public is already disposed to save more than is currently being invested. The Federal Reserve Banks have been recognizing the existence of deflationary forces—even while other arms of the government have been whistling "more inflation." To this day, the Administration calls for a tax increase, while every free economist will tell you that such a move would be disinflationary.

It would be much more pleasing to be able to report that the government had the knowledge, wisdom and courage to adopt appropriate policies for periods of inflation and for periods of deflation. Certainly the government has the key responsibility for the boom-bust sequence.

The individual business is not large enough or powerful enough to make or break our economy. The same cannot be said of the government. Government is our "biggest industry," absorbing some $60 billion of our income, 25c out of every dollar. What these big revenue collectors and revenue spenders do can come close to governing the level of economic activity. Today we find our Federal government in a position where it is the largest electric power producer in the country, the largest landlord, the largest tenant, the largest holder of land, the largest money lender, the largest creditor and debtor, the largest owner of grain, the largest warehouseman, the largest insurance agency, the largest ship owner, the largest truck fleet operator. All this makes it also the largest employer, the largest writer of memoranda, the largest issuer of directives and orders, the largest buyer of paper including typewriter paper, the largest this, that and the other, on and on. When government acts wisely it helps the whole economy; when it makes a mistake, its likely to be a big one, and one of far-reaching importance.

If the government conducted its *own affairs* in an anticyclical fashion, it would have plenty to do, without spilling over into the private economy to tell the private sector what to do to prevent boom-bust.

These matters are mentioned because if we move into a period of reduced activity, persistent demands will be made to have government move in.

Government is composed of men who are no wiser and no more public-spirited than others. Government will need the soundest advice it can get and it behooves us all to study these problems so that we can enter the next serious downturn, should one come, with a consistent and effective anti-deflation program which will deliver results and in conformity with our historic conceptions of freedom and individual enterprise.

But it cannot be overemphasized that the greatest single contribution which the government can make to the boom-bust problem is to stop booming excessive booms and deepening and prolonging the deflation—through its own operations — taxation, expenditures, money and credit policies, lending and guaranteeing, subsidies, and a host of others. To do as poor a job as it has done, and then to try to advise and guide the private economy also—this just smacks too much of hypocrisy.

### Not Another 1929

Unless we permit hysteria or panic to overtake us it seems hard to believe that we are in for another 1929. At that time our banking system was highly vulnerable. The contractive forces in the space of three or four years destroyed nearly half of our money supply—bank deposits declined from some $22 billion to $14 billion. While bank deposits have been shrinking at a substantial rate, the banking system as a whole is by no means as vulnerable as in the 1930s. Furthermore deposits are insured to the point where mass withdrawals are unlikely.

Private debt is relatively low—relative to general level of economic activity now as compared with 1929. Mortgage debt is to a large degree on an amortized basis so that perhaps half of our homes are completely debt-free and the owners of the other half have built up substantial equities except perhaps in the case of those most recently purchased or contracted. In any case, wholesale foreclosures of homes and farms are not probable.

The liquid assets in the hands of individuals, businessmen, and farmers should greatly reduce the striving for liquidity, even though economic activity slows down further.

In the 1930s we had little in the way of so-called "built in security." Today we have a reasonably comprehensive system of unemployment insurance and old-age security so that at least destitution will not face the bulk of our people. While it is hard to believe that artificial agricultural support prices will guarantee continuity of economic activity, the mere knowledge that farm prices will not sink through the floor does remove the propensity to strive for liquidity or to sell at any price. It does provide psychological protection against panic.

The rigidity of wage rates on the down side and the threat of a fourth round of wage increases holds out the possibility of reduced payroll income. Maintaining wage rates may be the best insurance for destroying payroll income, a point which the labor leader and labor politician seem incapable of grasping. Such voluntary unemployment should be discouraged.

Thus, with the exception of the wage and labor problem, and a badly fouled up foreign situation, we appear to be in a stronger protective position than we were in 1929.

Furthermore, businessmen have learned a great deal about the nature of the business cycle.

### Prospect for Prosperity

Unless businessmen are needlessly going to stimulate deflation, it is vitally imperative that each business recognize and avoid certain threatening pitfalls.

Suppose, as an individual businessman, you adjust your inventories, production schedules, and plant maintenance or improvement plans to an imminent bust—which does not materialize. The harm done, in opportunities mistakenly sacrificed, is mainly to yourself and your associates.

Is it possible, however, that with the same underlying conditions as in this case, enough individual businessmen can be caught up in *an epidemic* of the same kind of pessimistic planning? If enough businessmen go in for deep depression adjustments, the sum of their adjustments *is* depression.

Have we reason to be afraid of such an epidemic? Recently an economic advisory service opened with these words: "Don't invest in anything now! Hold onto every dollar you have."

If enough people thus hoard their dollar income, their action will force depression. The American people are entitled to something better than such self-defeating advice.

*Readjustments in our economy are more numerous and more pronounced than they have been in the past several years. This is to be expected and welcomed.*

Just as a war economy is unfitted for peacetime, so an immediate postwar economy is under constant pressure for readjustment. The most intense demands tend to get prior attention. This pressure tends to raise prices and increase output. To some extent, this is healthy but when readjustment is called for, it should be welcomed and not resisted.

One of the most powerful weapons against depression in the hands of the businessman is his willingness and capacity to adapt his business and his product to these changing conditions.

Every business, just before its markets begin to soften, should do everything within its power to readapt its products, to change the product-mix, to re-adjust prices so that markets are constantly cleared without the reduction of production. To cut sales and advertising outlays at such times is a customary but frequently mistaken policy; it is the "easy" way out just because other costs won't "give" so readily.

Labor, too, must not resist change and must expect some shift to other jobs and must avoid overpricing its services if wage income is to be continuous.

Small piecemeal shifts with a constant improvement of the product and improved efficiency are more helpful than widely publicized price and wage-cutting, because the latter are apt to raise anticipations of still greater cutting. This, in turn, may encourage undue caution and delay with the hope of buying cheaper and cheaper.

### More Investment Needed

A continuing rate of investment equal to current savings is the key to sustained prosperity. As business expansion and improvement plans approach completion, the corporation should, so far as practical, pay out its earnings in the form of dividends or pay off debt. Hoarding income, a seemingly precautionary measure for a single business, is a powerful deflationary force when generally practised.

Both in the durable and nondurable goods industries there are still very substantial potential demands. Once price-quality adjustments have been made, a good market is still in prospect for most items.

In general, farmers, urban consumers, business and financial institutions are in a strong liquid position.

The entire world is goods and capital-hungry. With world recovery going forward, albeit slowly, the opportunities for capital investment outlets are enormous.

The vacancy rates both in commercial buildings and in rental housing are still substantially subnormal. Every city should reexamine its building code with a view to adopting performance standards rather than specifying specific materials. All monopolistic and make-work factors in the code or in the union contracts should be exposed through impartial government bodies and by newspaper writers.

Businessmen and labor leaders ought to be the first to insist that

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the consumer get full value for his construction dollar. Such a program could do a great deal to keep the construction industry going for many years.

**Businessman's Opportunity**

In short, the choice is not between walking blindfolded and jumping off lest you might fall. Piling up useless reserve funds and hoarding incoming dollars is the sure way to stop the dollars from coming in.

There are positive progressive steps which each businessman can take. The opportunities for greater stability exist. It is the responsibility of the businessman to explore the economic and the market landscape.

This is his opportunity to strengthen the foundations for his own enterprise, as well as the foundations for our democratic institutions and way of life.

**Conclusion**

If it were not for "problems" we would not have meetings like this today. Concentrating too seriously and too exclusively on "problems," however, can make us melancholy, drive us to drink or even worse.

This helps explain the healthy dose of "fun" which usually accompanies conventions and conferences.

Lest we get too melancholy let me quote from the preface of H. L. Mencken's new book ("A Mencken Chrestomathy"):

"Those who explore the ensuing pages will find them marked by a certain ribaldry, even when they discuss topics commonly regarded as grave. I do not apologize for this, for life in the Republic has always seemed to me far more comic than serious. We live in a land of abounding quackeries, and if we do not learn how to laugh we succumb to the melancholy disease which afflicts the race of viewers-with-alarm. I have had too good a time of it in this world to go down that chute. I have witnessed, in my day, the discovery, enthronement and subsequent collapse of a vast army of uplifters and world-savers, and am firmly convinced that all of them were mountebanks. We produce such mountebanks in greater number than any other country, and they climb to heights seldom equaled elsewhere. Nevertheless, we survive, and not only survive but also flourish. In no other country known to me is life as safe and agreeable, taking one day with another, as it is in these States. Even in a great depression few, if any, starve, and even in a great war the number who suffer by it is vastly surpassed by the number who fatten on it and enjoy it. Thus my view of my country is predominantly tolerant and amiable. I do not believe in democracy, but I am perfectly willing to admit that it provides the only really amusing form of government ever endured by mankind."

If the outlook and discussion gets too gloomy or too ponderous today, let us try to maintain the optimism of Mencken, the pessimist!

## Tyler & Mangum Join Staff Of Noble, Tulk & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Robert E. Tyler and Kenneth E. Mangum have become associated with Noble, Tulk & Co., 618 South Spring Street, members of the Los Angeles Stock Exchange. Mr. Tyler was formerly an officer of Holton, Hull & Co. and prior thereto was with Maxwell, Marshall & Co.

## Quincy Cass Adds

LOS ANGELES, CAL.—John J. Schumacher has been added to the staff of Quincy Cass Associates, 523 West 6th Street, members of the Los Angeles Stock Exchange.

# NASD Monopolistic and Harmful To Industry, Dealers Contend

(Continued from page 4)

radio commentator, for instance, is abusing and discrediting the over-the-counter securities. Did the NASD ever do anything to enlighten the public about the true facts? If it would not be for us over-the-counter dealers, who actually are doing pioneer work, many, many stocks at present would not be traded on the Big Board or the Curb Exchange.

As long as there is no true representation of the securities industry which has the interest of the industry at heart, I do not believe we will see much of an improvement in the securities industry. My idea would be, to do away with this ugly nonsense of the NASD, and create a truly representative body of the securities industry, which would approach the various corporations of which the stocks are being traded over-the-counter for a financial contribution, so that these corporations would also be able to start a truly constructive advertising campaign to enlighten the public about the so important over-the-counter market.

At any rate, in my opinion, it would be high time that something is done to stop the discrediting of the over-the-counter market.

The 5% mark-up rule is nonsense and inconsistent. You know, for instance, that traveling agencies, which do not have to go out to get business to the extent the over-the-counter dealers have to do, receive 7% commission just for booking of passage on an airplane or steamer. I think it is needless to point out the vast difference of conducting a securities business and running a traveling agency.

Another observation I made lately, is that many stores, for instance, have furniture or any other merchandise on display, but not actually in stock, and sell them and after having sold the merchandise they place their order with the manufacturer and get their 30% to 40%.

**JACKSON, MISS.**

I firmly believe the NASD should be abolished and only the SEC look after the business. With both requiring information and reports, it is too voluminous for the small dealers.

**PHILADELPHIA, PA.**

Members Philadelphia Stock Exchange **since 1923**, clearing through ——— ——— ———, Philadelphia, and also as salesman for same. All business done should be on a **commission** basis, all **commissions** should be fixed by the industry. Further, they should be high enough to enable an **intelligent, diligent** salesman to earn a reasonable living. Further the **industry** should establish standards—**professional standards**—just as law and medicine—and keep out the unfit. The proper policing should continually "weed out" the snide and untrustworthy.

**CHARLOTTE, N. C.**

I was a member of the NASD for several years, but recently resigned. Just about two weeks ago my non-membership was the sole cause of my losing a commision of several hundred dollars! Shall probably rejoin the NASD, but not from choice.

**PHILADELPHIA, PA.**

I see no reason to continue the existence of NASD under present set-up of SEC. I think both investors and dealers are adequately protected. In fact I disapprove of the NASD in every way.*

**PHILADELPHIA, PA.**

We resigned from the NASD some years ago, after having had our fill of its methods. We believe it is of no earthly use and wish more dealers had the courage to refuse to be browbeaten—and to resign. Our reasons for leaving the NASD are a matter of record. They have a file and we have one on the subject.

**PHILADELPHIA, PA.**

The power to regulate the securities industry should rest solely with the SEC.

**SMALL PENNSYLVANIA TOWN**

I consider the NASD an extension of the old NRA. It was always assessing its members, etc. Its rules were obnoxious in many respects. Your editorial recently on the NASD was not only timely but thoroughly refreshing and encouraging in its content. I am in 100% sympathy and agreement with your entire viewpoint.

**MEMPHIS, TENN.**

Just another move toward regimentation.*

**MEMPHIS, TENN.**

A year or two ago the SEC, in reviewing some action of the NASD, gave the legislative history of the Maloney Act. The decision stated that when the bill was in committee the proposal for no discounts to non-members came up. The committee was reminded that such a provision would violate the anti-trust laws. An amendment was thereupon proposed and passed exempting the NASD from the operation of the anti-trust laws. Question: Why should the members of the NASD be exempted from control by the anti-trust laws?

**SMALL TEXAS TOWN**

I think that the NASD should be abolished, for I consider it un-American. All security dealers have to obtain State licenses; when that is done each dealer should trade with any other dealer on exactly the same basis as Real Estate Agents. Members of the National Real Estate Association (who arrogate to themselves superior intelligence by calling themselves "Realtors") do not hesitate to deal 50-50 with any other licensed real estate dealer who is not a "Realtor"—they are only too glad to cooperate with another agent who will help them make some money. Lawyers cooperate with each other, whether or not both are members of the Bar Association. When the NASD refuses to give a non-member an even deal like the one given a fellow member, they, in my judgment, lower the dignity of the profession, and place themselves in a class with the CIO and other selfish, self-seeking, silly, subrosa outfits. They put themselves in a place like the college fraternity—more sham, little substance. Two wars for democracy failed to take the ego out of a considerable proportion of our people.

*Commented Anonymously.

**GREENSBORO, N. C.**

Should be named—"National Association of Securities Traders Yoke"—then the initials would spell out something indicative.*

**TOLEDO, OHIO**

It is difficult to answer these questions with a simple "yes" or "no." All of us resist regulation, and none of us like it. However, we think that regulation is inevitable, and would much prefer the self-policing to that of a political bureau. We have not found the NASD a burden, and in some cases the examiners have been very helpful in making suggestions. Much depends upon the administration of the regulations, and our experience has been that it has not been punitive. Furthermore, we would much prefer the hearing of complaints before a friendly and understanding body of fellow-dealers than before an inexperienced, uninformed group of outsiders.

**SMALL OHIO TOWN**

We wish we dared quote line and word, but the penalty for free expression is no longer any different in our country than behind the Iron Curtain, wherever the SEC and the National Committee are concerned.*

**CLEVELAND, OHIO**

There are some things about NASD that I don't like, but it's much more important to keep the crooks and the 10-15-20% profits boys out of the business than it is to preserve complete freedom in a business that never demonstrated any sizable capacity to police itself.

**CLEVELAND, OHIO**

Experience as a member of a District Committee confirms the opinion the NASD operation has been a distinct benefit to the industry.

**CINCINNATI, OHIO**

Think you are doing a splendid job in fighting our battles. It is the only voice on our side.*

**PITTSBURGH, PA.**

To me the NASD serves no useful purpose and costs plenty. It looks like a creation of the SEC for snooping purposes.

**ALLENTOWN, PA.**

In my opinion the drive by members of Stock Exchange for business and, in so doing, condemning the over-the-counter business has had a tremendous effect on some over-the-counter business. Yet the customer's men of those firms will push for all they're worth on an over-the-counter deal or underwriting issue with a big commission.*

**SMALL SOUTH CAROLINA TOWN**

Your circular of April 4th received, and I am returning the questionnaire marked with a "Yes" for all the questions. I am writing with an experience of over 35 years in the security business and, also, as a very small one man organization.

In regard to question 1, I believe a 5% spread is ample where no risk is taken. Our firm is also in the real estate business, and we receive a 5% commission on all our sales. We always try and purchase property for our customers at the lowest price possible. Thus, we feel that we earn our commission. It is my opinion that this also holds good for stock.

In regard to questions 2, 3, 4 and 5, I believe if there is to be a NASD, then, it should be lived up to, and the only way that I know to force this is by the methods they now use.

In regard to Question 7, we are a member of the NASD because we are forced to belong to do business. If we have to pay to belong, we do not think non-members should have the same privilege as those who pay.

It is my firm belief that not only the Maloney Act should be abolished but, also, the SEC. I see no reason why the Federal Government should regulate the security business except for fraud (which they always had power to prosecute for using the mails to defraud) any more than they do dry goods. I am greatly opposed to all actions of such a nature.

**SMALL SOUTH CAROLINA TOWN**

This firm established 1892, is a firm believer in the NASD! It is through ruling tactics of this kind that we are able to keep our business clean—we wish there were more to run the —— & Co.'s out of business. We stand behind the NASD and its principles 100%!

**NORFOLK, VA.**

I resent competitors being allowed to have access to my books. I resent having my profits regulated. I have been in this business thirty years and have never taken anything but a justified profit. It has always been my thought that if a man is dishonest in this business the SEC could take care of him. I am very much in favor of the SEC but I am dead against another set of policemen—it is an unnecessary expense to the industry. The NASD has not accomplished anything, but has certainly slowed down the unlisted security business. I resent having to pay for Governors' Meetings and the traveling all over the country of the officers. The sooner the Maloney Act is taken off the books the sooner our industry will be put on a profitable basis. Regulation is necessary but duplication of regulation is not.

**SMALL WISCONSIN TOWN**

It [5% mark-up] keeps out the unscrupulous dealer and salesmen. It protects the public by not making it possible for the smaller corporations to "dump" the securities of a weak or sinking corporation onto the innocent and unsuspecting public.

**NASHVILLE, TENN.**

We think the NASD is a useless expense.*

**NEW YORK CITY**

I can think of many more advantageous undertakings to the securities business than the above witch hunt. Why should the personal feelings of the security business be the subject of editorial exploitation?*

**FORT WAYNE, IND.**

Just another example of the regimentation that has been insidiously creeping upon the American people for the past sixteen years. It has come so slowly and imperceptibly that when the majority of the citizens awake to the realization that they are in shackles, it will then be too late. We have seen all too many instances of a people becoming shackled and how difficult or impossible it is to free themselves, once they are in chains.*

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# As We See It

(Continued from first page)

**be urging such courses of action as those again set forth last week, and be defending them with the arguments there (and often before) employed.**

This sort of thing, however, is constantly going on in this country today, and we are growing so accustomed to hearing these economic fallacies that the very elect at times are in danger of being subtly affected thereby. Let no one fail to realize the implications of what the President is saying. Here are some of his words at Little Rock:

*"We know that if we are to build a lasting peace in the world we must achieve three essential conditions:*

*"First, this nation must be strong and prosperous.*

*"Second, other nations devoted to the cause of peace and freedom must also be strong and prosperous.*

*"Third, there must be an international structure capable of adjusting international differences and maintaining peace."*

### Ambitious!

What ambition! What childish faith in strange dreams! We must assume (indeed have already assumed) responsibility for keeping the whole world (except, of course, those who differ with us in certain matters) "strong and prosperous"! And, presumably since this is not enough to occupy our full attention, we must also simultaneously create a sort of "United States of the World" whose binding ties shall be so strong, despite the many familiar centrifugal forces, that it can regularly act as a unit in all matters which affect international relations!

**Has the President, or anyone else, any idea as to how all this is to be done? Evidently the President thinks he has. Even at this time when virtually everyone else is wondering whether we are not losing, indeed have not already lost, a good deal of what the President calls prosperity, and are more or less constantly occupied trying to estimate approximately how much more of it we are destined to lose, Mr. Truman would appear to be oozing confidence that somehow we have "learned" how to manage everything so that we may always be prosperous. The prescription he now offers is not different from the one which he and those around him have been offering for a good while past. Indeed, it is essentially the same as that formulated by the New Deal managers who tried vainly to turn the tide from 1933 until the war put an end to mass unemployment and the other phenomena which are ordinarily associated with "bad times"—certainly not with prosperity.**

Here, in general, is the President's prescription:

*"It is unusual for this nation to maintain substantial armed forces in time of peace. Yet so long as there is a threat to the principles of peace—the principles on which the United Nations is founded—we must maintain strong armed forces. . . .*

*"Our national strength is not, however, simply a matter of weapons and trained men. Even more important are our economic growth and continued prosperity.*

*"Our economy is the center of a world economy. The hope of economic revival throughout the world depends in large measure upon the prosperity of the United States. If our production and purchasing power are badly impaired, if the buying and selling and investing that we do in other parts of the world are cut off, other nations will be plunged into chaos and despair.*

*"It is a prime belief of the Communist philosophy that our kind of economy is doomed to failure. The Communists predict that our prosperity will collapse—bringing the rest of the free world down with it. But they are wrong—just as wrong as they can be.*

*"We know more today about keeping our economy strong than we have ever known before. We know how to strengthen our economy through the expansion of production and purchasing power and the improvement of standards of living. We understand that constantly rising national output, increasing real wages, and a fair income for our farmers are basic elements of our economic strength.*

*"To maintain these elements of prosperity, it is not sufficient to drift with the tide. We must take advantage of the new opportunities, the increased demands, which result from the natural growth of our population. We must develop our natural resources and restore those we have depleted and wasted. We must establish a fair distribution of business opportunity; we must have a free labor movement able to hold its own at the bargaining table; we must protect the purchasing power of Americans against the hazards and misfortunes of life.*

*"These steps are necessary if we are to continue strong and prosperous."*

### Too Much "Gravy"

It is evident, we believe, from the general tenor of the President's words upon this occasion that had he been given to "completely explicit statements"—to borrow a term from the mathematicians—he would have found these steps not only "necessary" but "sufficient" for the purposes in hand. Certainly, such a conclusion appears to be implicit in much that the President has said elsewhere.

**Of course, the President has never taken the trouble, as those before him or now associated with him have never taken the trouble, to explain how steps such as these really insure prosperity in perpetuity. It has, of course, never been politically necessary for him or the others to do so. The programs he lays out either explicitly or implicitly call for too much "gravy" for too many people. In such circumstances it is not too difficult for those who are the recipients of public generosity to convince themselves that their largesse helps the giver as much or more than the receiver. If common sense raises doubts, the jingle of the guinea tends to resolve them, or at least to persuade the recipient to "leave such matters to the authorities."**

### Buncombe, of Course

Now, of course, the fact is that most of this talk of purchasing prosperity in perpetuity is economic buncombe, pure and simple. It is, moreover, peculiarly dangerous buncombe at this moment since it tends to strengthen the hand of the labor unions and others who would insist upon measures which would inevitably make the current situation worse. It is peculiarly dangerous buncombe, also, because it is in substantial part the basis upon which the President and others are building a foreign economic policy which can no more assure indefinite prosperity elsewhere than it can here.

**Is there not some way in which these things can be brought down to earth before too much damage is done?**

# Truman Upholds ECA Program And Restates Policy for Prosperity

(Continued from first page)

prove of the way you have chosen to honor them. This park will be a place of rest and recreation. It is fitting that a war memorial should be something that can be used and enjoyed by the people. Nothing could be more appropriate than to devote a war memorial to those values of human life which our soldiers died to preserve—the values of freedom and peace.

We are not a militaristic country. We do not glorify the military way of life. Some nations have taken greater pride in their military victories than in any other national achievement, but it has never been so with us. When we think of war, it is with a prayer that the sacrifices our dead have made will never have to be repeated.

After every war we have solemnly resolved to prevent future wars. We have learned, however, that it is not enough to make resolutions. It is not enough to utter them in speeches or to engrave them on monuments. We have learned that we must devote the best efforts of our whole nation to make those resolutions come true.

### We Turned Against League of Nations

We entered the First World War to restore peace and to preserve human freedom; but when that war was finished, we turned aside from the task we had begun. We turned our backs upon the League of Nations—the international organization which was established to maintain peace. We ignored the economic problems of the world, and adopted a tariff policy which only made them worse. We let our domestic affairs fall into the hands of selfish interests. We failed to join with others to take the steps which might have prevented a second world war.

This time we are fully aware of the mistakes that were made in the past. We are on guard against the indifference and isolationism which can only lead to the tragedy of war. This time we will not let our decisions be made for us by a little group of men who are concerned only with their own special interests.

### Vigorous Action Taken

This time we have taken vigorous and far-seeing measures to preserve peace and restore prosperity throughout the world. We have assumed the responsibility that I believe God intended this great republic to assume after the first world war. We have shouldered the enormous responsibilities that go with our tremendous strength.

We have been fortunate in having many public servants of ability and vision who have devoted themselves to the problems of foreign affairs and national defense. We have able leaders in the Congress who have mastered the complex details of our relations with other nations. They have made themselves familiar with the effects of our policies in all parts of the globe. They have labored painstakingly to enact a body of legislation to carry out the responsibilities we have assumed.

Most significant of all, the people of this country understand the supreme importance of our foreign policy and the great objectives toward which we are moving. Public debate has threshed out the basic questions of our foreign policy. The people have made up their minds. They have supported, and will continue to support, the measures necessary to maintain peace.

### Face Troubled Conditions

We have had to work for peace in the face of troubled conditions and against Communist pressures. But because we have been united in our determination to use our strength and our substance, we have already turned the tide in favor of freedom and peace. The disintegration of the democracies of Europe has been halted. Free peoples in many parts of the world have been given new hope and new confidence. The restoration of a system of world trade has begun. And all this has been accomplished without closing the door to peaceful negotiation of the differences between the free nations and the Soviet Union.

But we are only midway in carrying out our policy. We have a long way to go before we can make the free world secure against the social and political evils on which communism thrives. The cause of peace and freedom is still threatened.

Yet there are some who have grown weary of the effort we are making. There are voices which claim that because our policy has been so successful so far, we can now afford to relax. There are some who want to slash the aid we are giving to the economic recovery of other nations. There are some who want to reject the measures that are necessary for defense against aggression; there are some who wish to abandon our efforts toward the revival of world trade.

These are the same voices that misled us in the 1920s. They are misguided by short-run considerations. They refuse to face the plain facts. They try to convince us that we cannot afford to pay the price of peace.

But the people of the United States will not be misled a second time. We know that the short-sighted course, the easy way, is not the path to peace. The task is difficult, and requires firm determination and steadfast effort.

### Three Essential Aims

We know that if we are to build a lasting peace in the world we must achieve three essential conditions.

First, this nation must be strong and prosperous.

Second, other nations devoted to the cause of peace and freedom must also be strong and prosperous.

Third, there must be an international structure capable of adjusting international differences and maintaining peace.

The first condition is our own strength and prosperity. It is unusual for this nation to maintain substantial armed forces in time of peace. Yet, so long as there is a threat to the principles of peace, the principles on which the United Nations is founded, we must maintain strong armed forces. Any uncertainty as to the ability or the willingness of the free nations of the world to defend themselves is an invitation to aggression. We have seen the truth of this statement in the outbreak of two world wars.

Our national strength is not, however, simply a matter of weapons and trained men. Even more important are our economic growth and continued prosperity.

Our economy is the center of a world economy. The hope of economic revival throughout the world depends in large measure upon the prosperity of the United States. If our production and purchasing power are badly impaired, if the buying and selling and investing that we do in other parts of the world are cut off, other nations will be plunged into chaos and despair.

It is a prime belief of the Communist philosophy that our kind of economy is doomed to failure. The Communists predict that our prosperity will collapse, bringing the rest of the free world down

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with it. But they are wrong, wrong as they can be.

We know more today about keeping our economy strong than we have ever known before. We know how to strengthen our economy through the expansion of production and purchasing power and the improvement of standards of living. We understand that constantly rising national output, increasing real wages and a fair income for farmers are basic elements of our economic strength.

**Must Have Free Labor Movement**

To maintain these elements of prosperity, it is not sufficient to drift with the tide. We must take advantage of the new opportunities, the increased demands which result from the natural growth of our population. We must develop our natural resources and restore those we have depleted or wasted. We must establish a fair distribution of business opportunity; we must have a free labor movement able to hold its own at the bargaining table; we must protect the purchasing power of Americans against the hazards and misfortunes of life.

These steps are necessary if we are to continue strong and prosperous. That is why our domestic programs for the development of resources, for protection against economic hazards, for the improvement of social conditions, are fundamental to our national effort for peace.

The second condition essential to peace is that other nations, as well as our own, must be strong and prosperous. We need others nations as our allies in the cause of human freedom. We have seen free nations lost to the democratic way of life because of economic disaster. We know that despair over economic conditions will turn men away from freedom and into the hands of dictators.

**Aid Other Nations**

It is to our interest, therefore, to aid other nations to restore and maintain their economic health, our aim is not only to help other nations to help themselves, but also to encourage economic co-operation among them.

We have taken the lead in co-operating with other nations to restore a mutually beneficial system of world trade. No nation today can achieve prosperity in isolation. Only through participation in the trade of the world can a country raise its own standards of living and contribute to the welfare of other nations.

For years before the war, world trade was crippled by high tariffs, import quotas, exchange manipulation and other artificial devices for security commercial advantage. These practices were a symptom of international anarchy. They resulted, ultimately, in idle ships, idle men and economic chaos.

We have come a long way toward correcting these evils. Since 1934, we have worked out a multitude of agreements with other countries to reduce specific tariff barriers. In the general agreement on trade and tariffs of 1948, we struck a world-wide blow at these obstacles to trade.

But this work is not yet finished. If we are to succeed it is vital that the authority to negotiate reciprocal trade agreements be extended. We should then go on to establish a permanent international trade organization to apply standards of fair dealing in the commerce among nations.

The same co-operative principle has been applied in our great undertaking to restore the economies of the Western European nations to a self-sustaining basis. The food, fuel and equipment which we have sent to Europe have been matched by the efforts which these nations have made to restore their own economies and to co-operate with one another in increasing their production and raising their standards of living.

It is fair to say that the European Recovery Program has halted the social and economic disintegration which threatened the countries of Western Europe with communism and civil strife.

**Plan in Early Stages**

Nevertheless, the European Recovery Program is still in its early stages. At the outset it was estimated that it would take four years before these countries could again become independent of special economic aid. Only a little more than one year has passed since we began.

If we were to falter now and cut down our aid, the momentum of recovery would be destroyed. The people of these countries would be thrown into confusion and their advance toward economic self-reliance would be blocked. A slash in the funds available for European recovery at this time would be the worst kind of false economy. It would cancel the hopes and the plans of the Western European nations. It would be a great gain for Communism. I am confident we shall not make this mistake.

Our concern with the economic health of the world also extends to its under-developed regions. The prospects for peace will be immeasurably brighter if we can offer a future of hope and a better life to the people of these regions. In these areas there are millions who for centuries have known nothing but exploitation and poverty, whose economic life is still primitive.

**Not a Relief Program**

I have offered a program for bringing these people the benefits of our modern civilization. It is not a program of relief. While it is intended ultimately to bring about a great movement of capital through the channels of private investment for the development of these poverty-stricken regions, it is not a program of imperialism. The developments of these areas offers enormous potential benefits to a growing world economy.

We have to lay the foundations for this program with care. I expect shortly to send to the Congress recommendations for initial legislation. This will be but the first step of many that we shall take over the years to come, in this co-operative effort to better the living standards and to unlock the human skills and the natural resources of the under-developed parts of the globe.

**An Internationl Structure to Enforce Peace**

The third condition essential for peace is an international structure capable of suppressing international violence. However well conceived our economic programs may be, they cannot succeed unless there is some assurance against the outbreak of aggression. Neither our own prosperity nor the prosperity of other nations can survive unless we can protect the operations of economic life from the threat of war.

Such protection depends on two factors. First, there must be constant efforts by all nations to adjust their differences peacefully, Second, there must be an agreement among nations to employ overwhelming force against armed aggression.

The United Nations is a valuable instrument for accomplishing these ends. It has already achieved the peaceful settlement of difficult issues. It has stopped hostilities in the Near East and in Indonesia. It has done a great deal to explore and find solutions for many of the economic and social problems which afflict the world.

Much remains to be done, however, to carry out the principles of the United Nations. Within the terms of the United Nations charter, we and certain other countries have undertaken to provide greater assurance against the danger of armed conflict. That is the purpose of the North Atlantic treaty. The idea behind this treaty—the association of democratic nations for mutual defense—is well understood in this country.

Perhaps we do not understand, however, the importance of this pact in the eyes of the other democratic nations which are parties to it. They have been greatly weakened by the war. They have been haunted by the fear of again becoming the scene of conflict. By assuring them of our support the pact goes a long way to dispel their fears.

**Extols Senate Committee**

I have been greatly heartened by the unanimous report of the Foreign Relations Committee of the Senate this last week in favor of the North Atlantic treaty, I believe that it will soon be passed by an overwhelming majority in the Senate. The effect of this action will be immediate and far-reaching in allaying the fears which have retarded economic recovery in Europe.

It is of vital importance that the Atlantic pact be followed by a program of military aid to increase the effective strength of the free nations against aggression. This military assistance program based upon mutual help, will give additional confidence to the people of those nations as they continue to rebuild their economies.

These measures will bring a stability to the democratic nations of Europe which has not existed since the end of the war. They will at the same time contribute directly to the security of the United States.

I have discussed the three essential elements of lasting peace—a strong and prosperous United States, a strong and prosperous community of free nations, an international organization capable of preventing aggression.

We have given greatly of our effort and our strength to build a firm and enduring foreign policy upon these essentials. The burdens we have had to assume in this enterprise have been unusual. The size of the national budget shows that we are engaged in an undertaking without parallel in the history of our country or of the world.

But the goal we seek is a great one, and worth the price. Never has a nation had the opportunity which we have today to do so much for the peace and prosperity of mankind. Never has a nation had a better chance of reaching this high goal.

We must not falter now.

We must not defeat our own efforts by doing only half the job that lies before us.

The brave men, whose memory we honor here, did all that was required of them. They did not fail us. We must not fail them in our efforts to reach the goal for which they died.

We must press on in the confidence that we will succeed in the mission a divine Providence has assigned to us.

# Salesmanship in a Stock Exchange House

(Continued from page 4)

is very uninviting, or they don't want to buy some unlisted security, or they are not interested. Don't let tnat sort of talk stop you. If you have good, sound reason to believe that they have surplus money in one form or another, whether it is in government bonds, in savings banks or wherever they happen to have it, even under the mattress, if you feel that they are a prospect that can afford to buy the security you have in mind, that you would like to sell, then the best thing I can tell you to do is keep after them. I know I have worn out the word "Welcome" on a lot of door mats in and around Boston. But over a period of time it has paid to be more or less of a nuisance and ask for an order.

It is important that you continue to call on these people, no matter whether they buy or don't buy. If you keep at them long enough, based just on the law of averages, you should get some good results at a later date. No farmer will ever run a harrow down a field, throw some corn in, and expect to see corn six feet high in 20 minutes. And in the security business, your business doesn't develop rapidly. You just don't see it, because it is a very peculiar sort of business and it takes quite a while to develop it.

Very often you make calls and you think you have wasted your time and your prospect is hopeless and you will never get to first base with him. Yet, as time goes on—and selling securities is very much like a game of golf; it is all in the timing — you will again see that prospect at a time when he may be more receptive. I tell you that if you have been there before and he knows you, and you hit him at a time when he is in a more receptive frame of mind, you have an excellent opportunity to close the sale.

There is no reason to think, like some people, that you have to ask for the order the minute you see the man, because in this business of selling securities one of the most important things is to have the customer's good will. That is priceless. It takes a long while to build a customer's good will, and it can be destroyed very rapidly; it is a very perishable commodity. So you have to take your time, literally, and you have to be possessed of a great deal of patience in effecting these sales.

**A Method of Procedure**

Do some of these things: If you have seen prospects who aren't interested in buying whatever you happen to be offering them at the moment, but you are acquainted with and you have heard them mention one or two stocks they may hold at the present time send them a Standard & Poor's or Fitch statistical report. It may have nothing to do with what you are trying to accomplish, but just the same, you are moving in the right direction, because you are furthering the potential customer contact, you are acquainted with something he owns, and you are attempting to keep him in touch with it. Although he is not a customer and just a prospect, if you will service him to the same extent that you will take care of some of your regular customers, you will be building good will and in time it usually pays out.

I find that in our business, unfortunately, there are a certain group of people who believe in going around and knocking competitive firms. As far as Draper, Sears & Co. are concerned we welcome competition. I think any desirable and well-managed firm welcomes competition, because we are all in the same boat in this business and I would frown very strongly on knocking the next fellow's business or the way and manner in which it is operated.

If you are offering a man a certain investment fund, don't run down another one if he should evidence a slight interest in it. I don't think it is the thing to do. As a matter of fact, I think you all well know that the various representatives of the different mutual funds come into our offices, and I don't know how they do it, but they all bring in these lists and they are always up in the top three. How they manage it, I am sure I don't know, but no matter which one you look at, they hit it square on the nose for that firm, and they lead everybody by .065%.

Well, they all have good statisticians; they must be good because they all come up with the right answer. This business of knocking the next person's trust or fund isn't the thing to do. Give the customer the facts on the record, then let him judge the security for himself.

Now, sometimes you can create business where it is dormant if you sit down and talk to the fellow about the bargains that are available in securities, because there are many of them around. There are a lot of stocks selling below their net quick assets—and a lot of people are very apathetic, they don't know just what to buy. They own securities at higher prices and you can't get them to average.

**Removing Chaos in Customer's Mind**

Well, sometimes you can sell them because they have chaos in their mind and you can bring it to order. If a fellow has a stock that is essentially a sound security and it has been dropping sharply in price (through no fault of the company or the investment, but merely general market conditions) and you can get to reasoning with the customer that he bought a sound security and that it has declined to a still further attractive price which makes it a better value, you should be able to convince the customer that he is not throwing good money after bad, particularly so in the case of Funds, if he adds to it at the present time. No one knows that they have seen the bottom until they look back at it any more than we know we have reached the top until we have started down and look back at that.

This idea of averaging securities is sometimes a good thought. If you go to see a person who has securities at higher prices, and who feels very reluctant to do any new business at the present time, if they are in the frame of mind of waiting for the market to bail them out, merchandising your way out of securities isn't a bad thought and it has a definite appeal to some people.

Now, another thing to keep in mind is the type of person you are talking to. Very often, when you are talking to an elderly person, they shy away from speculative securities; they want investment securities. There are exceptions to the rule and it is quite true that somtimes you see men that are advanced in years who will buy high-risk securities. Chorus girls, speaking of elderly men, have said: "Just because there's snow on the roof, doesn't mean the fire is out below!" They, too, speak from experience.

(Continued on page 34)

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# Salesmanship in a Stock Exchange House

(Continued from page 33)

Some of the more aggressive Stock Exchange firms are taking advantage of new methods to obtain customers and sell desirable securities. In my own firm, we are using the radio and sponsoring Fulton Lewis, who broadcasts out of Lowell. I think I would like to have one of my partners, Mr. Jewell, tell you briefly something about this broadcast, the way in which it is handled, and the results that we are obtaining from it. It is quite interesting.

### Mr. Jewell's Comments

"This is certainly a surprise, being called on and I think I have a nerve coming up here without any notes. However, I will tell you in the next few moments about some of my sales experiences since our Investment Salesmanship Course started. Before I discuss the matter of our broadcasting in Lowell, I would like to say a few words about Mr. Spitzer.

"Why has he sold a million dollars worth Investment Funds?

"I believe the secret of his success is that the first person he sold was not the customer, but himself. In fact, he is a stockholder of Mutual Funds. In my own experience, if I am 100% sold on any type of security, I can generally do a better job in selling this security or securities to my customer. I think this matter of being sold yourself is contagious and enthusiasm generated by one who is completely sold on the security he is selling is contagious and is passed on to the customer and makes the sale that much easier. In other words, before you even try to sell a security, my advice to you is to make a complete study of that security and become 100% sold on it. This will help you when you are trying to obtain the customer's attention, then his interest and then his desire to purchase securities from you.

"I think the best example I can give you on this is the salesmen in the insurance field. I understand that over 90% of all insurance is sold by salesmen who sell the benefits of their type of insurance and I assure you that these men are thoroughly trained. The insurance companies have sales schools and some are trained to the extent of having a "canned" talk. They are 100% sold on insurance as a business. In selling their product they sell the benefits to be derived by the purchase of a planned program and this is what I am going to discuss with you in the next few minutes.

"Our salesmen selling Mutual Funds choose at least three good Funds and study them thoroughly. They know the dividend records of these three Funds for at least 10 years; they study the policy and the objectives of each Fund and sometimes even find out what side the President of the Fund parts his hair. With this knowledge and the enthusiasm so created they become completely sold on these Funds so that when they talk with a customer they can answer all his questions and outline to him the benefits that he receives. Too many salesmen talk in terms of figures rather than the benefits derived.

"In Lowell we are concentrating right now on two forms of advertising. First, we are conducting a direct-mail campaign and second, we are sponsoring Fulton Lewis, Jr., each Thursday night from 7:00 to 7:15 on the radio. In our direct-mail campaign and our broadcasting we are concentrating our efforts on Mutual Funds and the benefits to be derived from the purchase of same. The following is a typical recent Thursday night broadcast:

*"DRAPER, SEARS & CO.*
*"Fulton Lewis, Jr.*
*"June 2, 1949*
*"WLLH, 7:00-7:15 p.m.*

*"LEWIS: . . . I'LL HAVE THE NEWS FOR YOU IN JUST A MOMENT."*

*"LOCAL: How can I plan for retirement in 20 years? Can I afford to send my youngsters through college? I've just bought a home. Is there any way to pay off that mortgage a little less painfully? Can I invest as little as $25 a month? Every day sees a new investment problem laid on the planning desk of DRAPER SEARS. Prudent investors with hard-won savings, or an insurance check or a new pay raise, seek prudent advice. Why have thousands of investors come to DRAPER SEARS for counsel? Because each one wants down-to-earth, sensible advice for his particular problem—a tailor-made plan especially for him. You see, Investment Planning is a profession. You would take a legal problem to a good lawyer, or a medical problem to a good doctor. So, to plan a sound investment program, you should seek a sound professional guide. DRAPER SEARS, for two generations, has advised the people of Greater Lowell on how to invest wisely and profitably. And now DRAPER SEARS would like to present FULTON LEWIS, JR. . . ."*

*"LEWIS: . . . AND THAT'S THE TOP OF THE NEWS FROM HERE."*

*"LOCAL: One investor recently adopted an Investment Program aimed at comfortable retirement. He laid down the law to the DRAPER SEARS MAN who helped him decide on certain Mutual Investment Funds as the best place for his money. He said: 'Take no chances with this money. I've worked hard for it. Make it grow as fast as you can, but KEEP IT SAFE.' How can the right Mutual Funds pay such excellent returns year after year—in round numbers—4% or better, and still be so safe? Here's how DRAPER SEARS explained it to this man: 'There are two reasons. First, the kind of management your money gets when you own Mutual Fund Shares. Full-time experts keep their finger on the pulse of American Industry. The richest investor in the world commands no better financial guidance. Second, the way these financial experts guide the Fund's money into many channels. If you could afford to buy individual securities, would not the safest plan be shares in many companies, many industries? You'd run small risk then of any one company's failure, ruining your investment. Isn't that true? As a Mutual Fund owner you get the same advantage a big investor gets. Would you like to learn more about the DRAPER SEARS way to plan your investments? Write DRAPER SEARS, Box 72, Lowell. You'll be glad you did.'"*

"You will notice from the above script that it is written in very simple language. Looking back now, the first three or four nights I was writing the script for the broadcast, I was talking over the heads of my audience, because one day I called the board boy in and I read the script to him and then asked him what he thought of it. He shook his head and said, 'What's it all about?'

"I feel that our broadcasting is paying off because other dealers in the vicinity of our Lowell office have reported a pick-up in sales of Mutual Funds. Our own experiences have been very good. For example, just the other day a man came in to our Lowell office and said to me: 'I heard your broadcast last Thursday night and I would like you to explain to me the benefits you spoke of in buying Mutual Funds.' He then said: 'I had a note paid off about six years ago and I placed the $6,000 in a bureau drawer with some old ties, and two weeks ago I found the money.' I discussed with him a good Mutual Fund and the benefits that he would receive by way of expert management, diversification and safety of principal. He owns Mutual Investment Funds today.

"Now, getting back to the Radio program—starting this Thursday night we are going to write our script, taking each phase of a Mutual Investment Fund. This Thursday it is going to be on Income. The following week we will discuss minimizing risk in investment and then peace of mind and other phases based on selling the benefits of Mutual Investment Funds. I am very enthusiastic on the outcome of these broadcasts because in the past 30 days we have had requests from other security salesmen to become affiliated with us on account of our Radio broadcasting.

"Now, a few words on our direct-mail advertising. We have had excellent results in the past year from this type of advertising in obtaining new accounts and rejuvenating old accounts that have not done business for over two years, but let me give you a few words of wisdom right now. Before you start your mailing campaign, be sure that you have a well written, down-to-earth sales letter. This letter should be written on the basis that for every four words, three of them should be one-syllable words. Also, the literature that is accompanying this letter should be that which makes very easy reading, and one that speaks of benefits in the opening sentence. Also, every letter that is sent out should be followed up with a personal call, as I have found that even if a return card is enclosed, sometimes the best prospects are in those people who do not mail you back your return card. If your direct mail campaign is properly handled, your results should show between 5 and 10% return.

"In closing I would like to state that as far as I'm concerned, this course is a huge success and I'll hate to see it come to an end."

### Additional Remarks by Mr. Spitzer

Now as far as this advertising is concerned, as a salesman unfortunately you are rather handicapped, and you have to overcome it. If you were a doctor, you could hang out your shingle in front of the house and everybody would know you were a doctor. But you just can't snap on a Neon sign telling them you are a security salesman. You have to go out and let everybody know that you are identified with the securities business. You are working for a livelihood, selling securities; don't be bashful in talking about it. I think you heard from Mr. Wilkins some stories about his plumber and his income. Well, we have had a nursemaid at our house and now she is a stockholder in an investment trust; she didn't know what a share of stock was; but she does now.

#### People Are Saving Money and Are Prospects

The point is, people are saving money, and they have to do something with it. It is simply up to all of us to syphon off, divert, or place if you will, some of this money in good, sound investment securities. In a moment, our good friend Doug Laird of National Securities is going to tell us some better ways to sell these things, and the human equation in our business.

Remember, that by mentioning the fact that you are in the securities business or the brokerage business literally to every one you see, you are going to secure a circle of potential prospects. You have got to keep talking about it, because you can't wear a billboard in front of you like these sandwich men you see in front of a restaurant or a store. The only way you can get the word across is to sort of spread the gospel by letting them know that you are selling securities, and you've got to keep hammering at it all the time. If you are making a career, as you are, you must keep sowing the word at all times. If the milkman lands on your doorstep at 7:30 in the morning and you can talk to him, talk to him. Just because he is delivering milk doesn't mean he isn't drawing $120 a week; some of those fellows do it, and they have very tidy bank accounts. Your laundry man is not a bad prospect. They don't look too undernourished; they do very well.

I visited a few fire stations very recently. I haven't told my partners because I haven't booked an order yet, but I am going to get one of those firemen if I have to start a bonfire on my own doorstep. They are good prospects and I am willing to share them; there are a great number of fire stations around this city. They are perfect prospects in one way, because unless the gong goes off, you have a chance to talk to them because they are going to be there. Those fellows have a job, they will be around, they are saving money and you might as well spend a little time with them. Policemen are a little harder to get standing in a traffic box; I prefer the fire stations.

There are plenty of prospects; there are a lot of people making a living and saving up some money and putting it in one form of investment or another.

#### Security Salesmanship an Interesting Job

I have never had the feeling that I was getting up in the morning and going downtown to a job to do some work. It is a hobby, a pleasant hobby, a profitable one, and I can work diligently at it. Our business is very interesting. There isn't a day when you know what the answer will be at 5:00 o'clock. You can start off with a strong market and wind up with a weak one, or the sequence can be completely reversed.

The news affects us from day to day; the picture is constantly changing, and you have a tremendous assortment of securities to offer your prospects. You have the good ones, the bad ones, the dividend producers, the highly speculative, the quality stocks; it is a diversified list, and you are in a position to merchandise it and sell anyone who has the capital to buy exactly what they want. If they don't want something, it is up to you to keep talking to them until you can create a desire to buy what you have to sell—a suitable security!

Now, I know one of my partners, George Draper, has had a very substantial measure of success recently, and I would like to call on George and ask if he will spend a few minutes here to tell you how to keep fishing in the brook and casting until someone hits that fly. It is done, and we know it.

### Mr. Draper's Remarks

"Well, I don't know when it was, but at one of the first classes here, an older salesman on the Street said to me that he had never taken a graduate course in his college career that didn't pay off an X number of dollars. So at that time I said, 'All right, anything I learn here I am going to try to go out and use.' I remember parts of the course, and other parts, being a little technical with drawings up here on the blackboard, escaped me forever probably.

"One of the things mentioned was planning your work. In the past I have never planned any work. When I came into the office in the morning, I didn't know what I was going to do. Then I would start planning and thinking, and the telephone would ring, then it would be time for lunch, and so on. If you remember, somebody asked Mr. Redfield how he kept going all the time, and he described that book of his.

"I went back to the office and made a book. Down the right hand column against each prospect's name—if you remember, Mr. Redfield said that the thing that kept him going was a dollar inventory, which he maintained as a running total of possible sales at all times. When he ran out of ideas, he would go back to some of these interviews with customers in which the possible sale was $50,000. So I started a regular dollar inventory. It was surprising how quickly I obtained a possible aggregate of business of over $500,000 of listed and unlisted business. Now when I make a second call, I have a certain goal of how much business is possible, and I can give the prospect a very definite talk directed at a definite amount.

"One other thing about Mr. Redfield's plan. That was that he would start off a new month fresh; he would forget April and start off with May, taking the unfinished business of April and transferring it to the May sheet. I started that. So that now I start out fresh each month, with dollar signs down the right hand column, and I know exactly what I have to do; how often I have to make calls; what I have written to prospects; and when I wrote them.

"In my case, I am lazy, and so I have it fixed that a letter will go out on a certain date. A second letter will go out shortly afterwards, and then, according to plan, I have to call or else the prospect will have forgotten my second letter. Unless I follow through very fast on the second letter, I am out.

#### Closing a Sale

"The next thing that helped me was the fact that I learned to keep closing the sale. The fact is that I don't think until this year that I have ever asked a person for an order. I have been given orders since 1929, but I don't think I have ever asked for an order. That is an actual fact.

"On one order, I had to talk to four men who were trustees interested in the family welfare, and each one of those men had to OK a letter I wrote to them after calling on all of them. My letter gave them what I thought was the proper group of investment funds to fit their needs. Through the talks and the letters I said to each one of those men 'Does it make sense so far?' and as soon as he said 'Yes,' I respected his intelligence and didn't go back to that part. I got each that far. To each one, I said, 'Do you understand this, does this lead into the picture you want?' They can't back tread after an affirmative reply. If they once say 'Yes' you've got them that far. So that after talking to the four and having them constantly saying 'Yes' to me, I really felt when I left them after the last call that all I had to do was wait for the telephone. I had to wait two weeks, but I got the order. But there was never any feeling when I left that place that I wasn't going to get the order; I knew it, and it was the first time I ever kept closing a sale. I think

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lots of men on the Street, the majority of my contemporaries, have yet to ask for an order.

"Another thing that has helped me is Sullivan's Letter-Writing lecture. I think that was one of the weaknesses I have had that maybe I have gotten over a little bit. That is selling in the first sentences of a letter. I never did that before. I think his ideas are going to pay off to me.

"One other thing, and that is this matter of load. It used to come up. Since I have been in this course—and I am not saying it is due to the course — it hasn't come up. The simple reason is that I think the matter of load is brought up only if the client isn't sold in the first place. If he is sold in the first place, it is not a matter of hesitancy on his part; I don't think it becomes a matter of importance in his mind. The fact is, the other day I sold a thousand shares in one Investment Fund, and the bill came to $24,460. I telephoned the customer and said, 'If you will only buy 30 more shares, it will bring it over the $25,000 mark and then you can get 1% reduction, and he said, 'Who the - - - wants to multiply by 30?' Right then and there this matter of load was settled for me."

### By Mr. Spitzer

Now I think we are going to run a little over our time limit here, and as I am not a Delphic Oracle, and you have been subjected to a certain amount of verbal abuse and haven't been able to talk back, if there are any questions I will be pleased to answer them.

# First Boston Group Underwrites Central Illinois P. S. Common

Marking one of the largest equity financing transactions of the year in the utility field, Central Illinois Public Service Co. is offering to the holders of its common stock rights to subscribe for an additional 446,000 shares of common stock. The proceeds of the financing will be applied to construction. The offering has been underwritten by an investment banking group composed of 51 members headed by The First Boston Corp.

Subscription warrants entitling the holders to subscribe at $14.125 per share to one new share of common stock for each five shares held of record June 9, 1949, expire on June 23, 1949.

In addition to agreeing to purchase any unsubscribed shares, the underwriters may sell shares of the new common stock prior to the expiration of the subscription offer.

Funds from the sale will be used by the company to pay in part the cost of additions and improvements to be made to its properties, principally its electric plant and equipment. The company estimates it will spend approximately $24,100,000 over the next 18 months of which around $12,000,000 will be expended in the nine months ending Dec. 31, 1949 and the balance in 1950. One of the major projects is an additional unit of 60,000 kilowatts of capacity to the company's steam electric generating station on the Mississippi River near Grand Tower, involving an estimated expenditure of approximately $10,750,000.

Dividends on the common stock are being paid quarterly at the rate of $1.20 per annum. Giving effect to this financing, the company will have outstanding a total of $61,150,000 of funded debt; 150,000 shares of 4% preferred stock, $100 par value, and 2,676,000 shares of common stock, $10 par value.

# The State of Trade and Industry

(Continued from page 5)

tightened up on their buying, (3) steel can do nothing but curtail operations when orders drop off, (4) higher wages are not warranted because they would force prices up when they should be leveling off, (5) social security benefits are nothing more than a disguised wage increase and (6) pensions were not in the present contract and have no place in negotiations.

Mr. Murray is expected to go to the public with his ideas on the current downturn in business which he believes has caused millions of wage earners to hold up buying and to conserve their savings—if any. If he has his way he will make it plain that management is at fault, this trade authority notes.

The present outlook in steel is nothing to make either steel or labor people happy with the operating rate dropping fast and incoming business off considerably from a year ago. Cancellations are not fading, but are on the increase. The possibility of a long coal tieup is causing no anxiety among steel users and not much, if any, thought is given to a remote chance of a steel strike, "The Iron Age" concludes.

It now looks like the "testing" period on steel operations will come in the middle of July. If the decline in output is still kept within the bounds of a few points a week no serious dip is expected in the near future. But on the basis of present business at plants of steel users the ingot rate may go 75% sooner than most steel people thought it would. Whether it will go much lower than that depends on general business conditions.

**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 86.7% of capacity for the week beginning June 13, 1949, as against 89.1% in the preceding week, or a decline of 2.7%.**

**This week's operating rate is equivalent to 1,598,300 tons of steel ingots and castings for the entire industry, compared to 1,642,600 tons a week ago, 1,762,400 tons, or 95.6% a month ago, and 1,730,400 tons, or 96% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, highest prewar year.**

### CARLOADINGS TURN LOWER IN LATEST WEEK DUE TO MEMORIAL DAY HOLIDAY

Loadings of revenue freight for the week ended June 4, 1949, which included the Decoration Day holiday, total 698,824 cars, according to the Association of American Railroads. This was a decrease of 86,000 cars, or 11% below the preceding week due to the holiday. It represented a decrease of 122,382 cars, or 14.9% below the corresponding week in 1948, which also included a holiday, and a decrease of 201,923 cars, or 22.4% below the similar period in 1947, which did not include a holiday.

### ELECTRIC OUTPUT HIGHER LAST WEEK DUE IN PART TO INCREASED USE OF AIR-CONDITIONING AND REFRIGERATION

The amount of electrical energy distributed by the electric light and power industry for the week ended June 11, was estimated at 5,300,091,000 kwh., according to the Edison Electric Institute. This represented an increase of 281,821,000 kwh. above output in the preceding week, 168,280,000 kwh. or 3.3% higher than the figure reported for the week ended June 12, 1948, and 598,099,000 kwh. in excess of the output reported for the corresponding period two years ago.

### AUTO OUTPUT LAST WEEK AGAIN LOWER DUE TO HOLIDAY

Production of cars and trucks in the United States and Canada the past week advanced to an estimated 134,714 units compared to 98,087 (revised) units in the preceding week, "Ward's Automotive Reports" states.

The total compares with 100,831 units a year ago and 134,682 units in the like week of 1941.

Last week's output consisted of 105,805 cars and 22,119 trucks built in the United States and 4,252 cars and 2,538 trucks in Canada.

### BUSINESS FAILURES TURN SLIGHTLY UPWARD IN LATEST WEEK

Commercial and industrial faliures rose slightly to 174 in the week ended June 9 from 165 in the previous week, Dun & Bradstreet, Inc., reports. Casualties exceeded those in the comparable week of 1948 and 1947 when 110 and 66 concerns failed respectively, but they remained considerably below the prewar total of 279 recorded in the same week of 1939.

Failures involving liabilities of $5,000 or more increased to 143 from 132 last week; this compared with 92 casualties of this size a year ago. Small failures, those with liabilities under $5,000 dipped to 31 from 33 in the previous week but were noticeably above last year's level of 18.

Retail manufacturing and wholesale failures rose in the week. Construction had no change, remaining at 13, while commercial service casualties declined to 11 from 18 a week ago. Failures were more numerous than in the comparable week of last year in all industries and trades. The sharpest relative increases appeared in wholesaling and retailing, where casualties were about twice as numerous as a year ago.

All areas reported more failures than a year ago with increases particularly sharp in the South Atlantic, West North Central and South Central States.

### FOOD PRICE INDEX MOVES SLIGHTLY LOWER IN LATEST WEEK

Following the steadiness of the past few weeks, the wholesale food price index, compiled by Dun & Bradstreet, Inc., eased off slightly to $5.73 on June 7, from $5.74 the week before. The latest figure represents a drop of 19.4% from the $7.11 recorded a year ago, at which time food prices were heading toward their postwar peak reached in July.

The index represents the sum total of the price per pound of 31 foods in general use.

### COMMODITY PRICE INDEX IN MODERATE DECLINE TOUCHES NEW LOW SINCE FEB. 8, 1947.

The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., continued its downward trend this week to reach a new low since early February, 1947. The index fell to 242.52 on June 7, from 243.00 a week earlier. The latest figure compares with 286.25 on the corresponding date a year ago.

**Grain markets on the Chicago Board of Trade continued unsettled with prices showing further marked weakness.**

Wheat futures suffered a severe setback as new crop grain in the Southwest began to move at quotations considerably below the old crop level. Other depressing influences included the elimination of fears of drought in the United States and Canadian Spring wheat areas and failure of the CCC to resume active buying of cash wheat in the Southwest. Although wet weather delayed harvesting in some areas, prospects for the new wheat crop continued unusually good. Corn was fairly steady although prices were affected by the slump in wheat. Country offerings of corn fell off sharply with the easing in cash prices; government buying appeared to be at a standstill. With corn planting about completed, prospects for the crop appeared bright.

The domestic flour business remained generally dull despite some pick-up in hard wheat bakery flour bookings from the recent very low level.

**Inventories of flour are said to be low and an expansion in bookings is looked for when new crop wheat reaches the market in volume.**

Lard prices maintained a steady tone most of the week despite renewed weakness in vegetable oils. Cattle and hog prices turned downward in the latter half of the week although closing quotations were slightly above those of a week ago. All classes of sheep and lambs trended lower.

**Cotton prices continued to decline moderately during the past week as spot market activity dropped to the lowest level for any previous week of the current season.**

Weakness in securities and other outside markets contributed to the setback suffered in the early part of the week. Other depressing influnces included the continued slump in domestic cotton consumption and the expectation of another large crop this season. Domestic mill demand was confined to small quantities for prompt shipment; export demand was reported fairly good.

There was a steadier tone in prices for unfinished cotton cloth during the past week with inquiries for print cloths more numerous and demand for bag sheetings considerably improved.

### RETAIL AND WHOLESALE TRADE IN LATEST WEEK CONTINUES MODERATELY LOWER TREND UNDER LEVEL OF COMPARABLE 1948 PERIOD.

With the aid of special promotions and favorable weather, retail dollar volume was sustained at a high level in the period ended on Wednesday of last week. However, it was slightly below that of the comparable week in 1948, Dun & Bradstreet, Inc., reports in its current summary of trade. Many promotions stressed the approach of Father's Day and featured gifts for graduations and weddings; consumer response was generally favorable. Many shoppers continued to be more critical of price and quality than in previous years.

**Consumers continued to purchase a substantial volume of summer apparel but notwithstanding total dollar volume failed to approach the level attained in this similar week a year ago.**

The demand for women's moderately priced summer dresses, skirts, straw handbags, lingerie and sportswear remained sizable. Purchases of piece goods for home sewing rose slightly, while retail volume of men's slacks, sports shirts and straw hats increased moderately.

Retail food volume was practically unchanged from that of the preceding week. Housewives bought approximately as much as during the similar week in 1948. There was a slight decline in demand for large meat cuts, but interest in cold cuts, smoked meats and canned meats displayed a corresponding increase. Berries continued to be very popular in many areas with demand for reduced-price frozen foods large.

**There was a slight increase in the purchases of furniture and household goods last week. Total demand was moderately below that of a year ago.**

Bedding, small tables, outdoor furniture and fiber floor coverings were among the best selling home furnishing items in many localities.

The usual seasonal rise in the demand for silverware and jewelry was reported generally. Interest in hardware, sporting goods and decorating materials remained large.

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.

**Regional estimates varied from the corresponding levels of a year ago by the following percentages: New England, East and Southwest unchanged to down 4, South and Northwest down 3 to down 7, Midwest down 4 to down 8, and Pacific Coast down 2 to down 6.**

In addition to the sustained high interest in currently seasonal goods, the buyer demand for Fall merchandise rose slightly the past week. Total dollar volume of wholesale orders also advanced a trifle in the week, but failed by a slight margin to approach the high level of a year ago. The number of buyers attending many wholesale markets rose sharply following the previous holiday week, but was noticeably below the level of 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 June 4, 1949, decreased by 8% from the like period of last year and compared with a decrease of 7% (revised) in the preceding week. For the four weeks ended June 4, 1949, sales registered a decrease of 6% from the corresponding period a year ago, and for the year to date a like decline of 4%.

**Retail trade here in New York last week continued to show a decline with department store sales volume off by approximately 7% for the period.**

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to June 4, 1949, which included the Memorial Day holiday, declined by 17% from the same period last year, which also included Decoration Day. In the preceding week a decrease of 8% was registered below the similar week of 1948. For the four weeks ended June 4, 1949, a decrease of 11% was reported under that of last year and for the year to date volume decreased 6%.

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# Securities Salesman's Corner

By JOHN DUTTON

## DEALERS' "MARK UPS" AND THE NASD AND SEC

(Continued from page 6)

that all the rest of us have been doing for a good many years, they should finally bring in an order like the one mentioned above. We should pay them their share of the $13.28, which is $6.64, and then we should give them their post-graduate course. We should let them run the business for another three months and try to make both ends meet under the same conditions that the average retail dealer is facing today. AND THEN WE SHOULD SEND THEM BACK TO THEIR JOBS AT THE SEC AND THE NASD AND MAYBE THEY WOULD KNOW A LITTLE BIT ABOUT THIS BUSINESS BESIDES RULES, ADMONITIONS, SPEECHES, ADVICE, AND SLAPPING THEMSELVES ON THE BACK AND DRAWING DOWN THEIR FAT SALARIES, WHICH WE HAVE TO TAKE OUT OF THE MEAGRE PROFITS WE HAVE LEFT TODAY, AND WHICH WE PAY IN DUES, FEES, AND TAXES.

No one can judge what is a fair margin of profit or an unconscionable profit. Every man is the best judge of how much profit he can best obtain in order to meet competition and expand his business. That is the way it is in every other business AND THAT IS THE WAY IT SHOULD BE IN THE SECURITY BUSINESS. We are not talking about fraud and misrepresentation—that is an entirely different matter. But gross mark-up is a condition of business practice and when any bureaucrat can step into a man's business and pick out even 10% of his transactions and say that they are too high—I SAY LET HIM RUN THAT BUSINESS FOR A WHILE AND TAKE THE SAME RISKS OF LOSS AS YOU DO EVERY DAY IN THE WEEK—HE'LL FIND OUT WHAT IT IS TO MAKE A GO OF IT.

**It is about time that everyone who believes in fundamental freedom, and the future of our business, sees to it that the mandate of the "Chronicle" Poll is carried out, urging Congress to repeal the MALONEY ACT. Everyone would be better off — the underwriters, the Investment Trusts, the Dealers, and the public. A business that is slowly starving to death is not good for the country, nor the people who are engaged in it.**

# Protecting the Taxpayer

(Continued from page 14)

procedures that will clearly show the people what spending programs are contemplated, what they will cost, and how wisely the money has been spent.

I have been scanning the Reports of the Commission on Organization of the Executive Branch of the government, of which Herbert Hoover is Chairman and Dean Acheson is Vice-Chairman. The reading of those reports ought to be a "must" for every public official and every adult citizen in this country.

In the report on budgeting and accounting, the Commission proposes a plan which would tell Congress and the public two things: "1. On Budgeting: What is the money wanted for? 2. On Accounting: "What do the taxpayers get for it?" In other words, the Commission recommends "that the whole budgetary concept of the Federal Government should be refashioned by the adoption of a budget based upon functions, activities, and projects." It calls such a document a "performance budget."

I am convinced that there is need for a similar reform in every state, county and city in the United States. Two years ago I made a study of the tax and revenue system of the State of Ohio and its political subdivisions for the Governor and General Assembly of my state. The purpose of the study was to suggest ways and means of aiding local governments. The key to the problem was an index of local needs. But that index was exceedingly elusive simply because of the lack of adequate budgeting and accounting procedures on the part of local governments.

I think that businesslike budgeting and accounting, from the Federal Government on down, would expose startling information. I believe it would reveal countless cesspools of waste and extravagance that always develop in governmental units that, having no controls, tax and spend and spend the tax.

I have already alluded to our huge national debt. Perhaps you have wondered how it can ever be paid. A recent book, entitled "Our National Debt—Its History and Meaning Today," suggests what ought to be an obvious answer. It says that "the Number One task of debt reduction is to control the overall total of government spending." I wish to add that governments not only must spend less but also that government spending should not be used to win political support at elections.

Budget and accounting reform, however, are not enough. Governmental tax structures themselves have become terribly confused and overlapping.

The Federal Government is now taking such a large slice out of the total tax dollar that the tax resources of the states and their local governments are being severely restricted. As a consequence, state and local governments have come to look more and more to Washington for grants-in-aid. The growth of these grants is amazing. From a mere $5 million in 1915 they have mushroomed to well over $1 billion in 1947. In other words, Federal grants have increased 200 times in 32 years, and now aggregate $32 for each family of four in this country.

Does it seem strange to you that in a period of the largest per family income in our history, our people are standing like vagrants before the National Treasury? Or can it be that we are witnessing here at home the creeping paralysis of totalitarianism, either of the right or of the left?

The situation in our states is little better. In 1947, the states paid more than $2½ billion in aid to local governments. That was almost $75 for each family of four, and represented exactly one-third of total state revenues excluding unemployment compensation taxes.

These facts explain why our Federal-state-local taxing system has come to look like a crazy-quilt. It explains why we have what the Hoover Commission has called the "problem of duplicating and triplicating taxation." The time has come to tackle this problem in dead earnest. This will require that top officials of our Federal, state and local governments inaugurate a continuing plan of joint study and action. Fortunately, the Secretary of the Treasury called a conference of Federal, state and local officials in Washington last month to discuss inter-governmental problems in taxation and related matters. I attended that conference and I believe that it can mark the beginning of a new era of enlightened Federalism. In addition, the Congress now has before it several bills to establish a National Commission on Intergovernmental Relations. The purpose of such a commission would be to study ways and means of eliminating duplication and overlapping services and establishing a more orderly fiscal relationship among the several levels of government. I strongly urge that legislation to establish such a commission be enacted at once.

In solving our intergovernmental tax problems, I am committed to no specific plan. But I do have some convictions as to principles. I would not confine state and local governments to exclusive reliance on their own tax resources. That would doom certain areas of our land to substandard existence or poverty while other areas live in relative luxury. At the same time, I am opposed to the unbridled extension of governmental subsidies or grants-in-aid. That policy will ultimately destroy local financial independence upon which the integrity and strength of state and local governments are closely dependent. We should have centralization of taxation with subsidies or grants-in-aid where necessary. At the same time, every possible effort should be made, as the Hoover Commission recommended, "to leave to the localities and the states adequate resources from which to raise revenue to meet the duties and responsibilities of local and state governments. Thus we shall maintain strong local self-government, which is the fountain-head of democracy and our republican form of government in America.

### III

### Easing the Tax Burden Through Sound Tax Administration

Finally, I wish to speak directly to the taxpayer. You may have an academic interest in tax structures, but what you most want is substantial tax reduction. Suppose, however, that is not possible now or, being possible, is not accomplished. Can anything else be done for you? I think it can within the field of tax administration.

The one thing that you as taxpayers dislike more than paying taxes is a tax administration that favors some of you and prejudices others. It is in the area of administrative enforcement, however, that we are most tragically deficient in achieving consistency and impartially of treatment among taxpayers. There are persons of naive temperament who believe that tax enforcement is not particularly necessary in a nation with high moral standards such as we believe ours to possess. That is a dangerous misreading of our society and our times. Selfishness and greed are as rampant as ever. Without adequate enforcement of tax laws, substantial segments of our population escape their responsibility to organized society; and that is where tax equality becomes a myth.

I know of only two effective ways in which to cope with this situation. First, there is no substitute for field examinations and audits. There is need, however, for better coordination of audit activities Federal and state agencies, which now exchange information, should try to develop joint audit procedures. These would make possible the maximum utilization of enforcement personnel and also minimize duplication of effort which results in annoyance to taxpayers. We need to remember that the cost of administering a revenue system which Adam Smith emphasized in his fourth maxim of taxation involves not only the outlay by government but also the expense, in time and money, which the taxpayer must meet in complying with the requirements set up by the tax administrator.

The second, and even more needed enforcement program, consists of compliance techniques which will assure the filing of returns and the payment of taxes by all persons liable therefor. Too often tax administrators have been guilty of auditing the same taxpayers year after year without even inquiring whether others are escaping taxation entirely.

There can be no justification whatever for a situation in which one taxpayer is required to pay his taxes while his tax-dodging competitor is permitted to escape his share of the burden. The great majority of people pay taxes honestly and on time. It is highly desirable that we protect their interests as well as those of government by universal enforcement.

Moreover, fairness to the taxpayer requires adequate machinery for impartial review of all tax determinations at the administrative level.

I loathe administrative absolutism. Many persons look upon adminstrative law itself as a Michiavellian distortion of our legal system. I do not agree with that, for administrative law does have an established place in our jurisprudence. The difficulty is not with administrative law but with the way in which it operates. Much of the resentment toward administrative bodies stems from the suspicion that they fail to recognize the priciple, inextricably imbedded in our judicial system, that every man has the right to a full and complete hearing. The late Chief Justice Hughes once described the administrative hearing as an "inexorable safeguard," and said that "it is essential alike to a legal validity of the administrative regulation and to the maintenance of public confidence in the value and soundness of this important governmental process."

I believe that all involuntary tax determinations should be subject to review, in the first instance, by the tax administrator. From his final determination a right of appeal to an appellate board and the courts should be provided. The review of a tax matter, however, should be conducted in a neutral atmosphere. It is unfair to the litigant to require that his tax determination be reviewed by the particular individual who made it. It is unfair to that individual to require him to sit in judgment on his own action. Taxpayers should feel that they are getting a fresh and impartial consideration of their tax problems; and assessing officials should be free to defend their own honest convictions. This is the essence of justice, whether in the courts or before administrative bodies.

### Conclusion

In discussing our growing tax burden and the need for legislative and administrative reforms, I have spoken quite intentionally in a serious mood. I fully realize that on every side there are increasing legitimate demands for additional revenue to provide for the general welfare of our people. Nevertheless, I think we have reached a point where increases in the services of government, no matter how desirable they may be, must be evaluated in terms of the burden upon the taxpayer. There was a time when this was a factor in determining how much governmental service should be bought with public funds. It must be a factor once more. There are powerful lobbies behind the tax spenders. There are very few spokesmen for the taxpayers. Somehow, in our wilderness of taxes, their voices must be heard.

Protect the taxpayer and you protect the revenue.

# First Boston-Blyth Group Offers Central Arizona Lt. & Pwr. Pfd.

The First Boston Corp. and Blyth & Co., Inc. jointly head an underwriting group which offered to the public June 15 a new issue of 80,000 shares of $2.50 cumulative preferred stock, $50 par value, of Central Arizona Light and Power Co. The stock is priced at $50 per share, plus accrued dividends.

Part of the proceeds of the sale will pay off outstanding construction loans and the remainder will be applied to a construction program which is estimated to cost about $19,125,000 during 1949 and 1950. The company is presently installing two new turbo-generators, one of 11,500 kw capacity and the other 60,000 kw capacity.

The stock is redeemable at any time by affirmative vote of the majority of common stockholders at prices ranging from $52.50 through June 1, 1954 to $51.00 after June 1, 1964, plus accrued dividends.

The company supplies electricity and gas chiefly in and around Phoenix, Arizona. During the twelve months ended March 31, 1949, the company received 72% of its revenue from electricity and 28% from gas sales. For that period the company reported total operating revenues of $10,604,312 with net income of $1,537,662.

Giving effect to this financing, the company will have outstanding a total of $15,000,000 of funded debt; 155,945 shares of $1.10 cumulative preferred stock, $25 par value; 80,000 shares of $2.50 cumulative preferred, $50 par value, and 1,140,000 shares of common stock, $5 par value.

## Jones With First Securities

(Special to THE FINANCIAL CHRONICLE)

GREENSBORO, N. C.—George G. Jones has become associated with First Securities Corp., 111 Corcoran Street, Durham, N. C. He was formerly with McDaniel Lewis & Co.

## With Buckley Brothers

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Harry J. Bastion is now connected with Buckley Brothers, 530 West 6th Street. He was formerly with G. Brashears & Co.

## Elected Director

William B. Robbins, of Reynolds & Co., New York City, was elected a director of the Herman Nelson Corp. at the annual meeting of stockholders.

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# Let's Have Equity for Equity Capital

(Continued from page 2)

proprietor of family-owned enterprise, a market such as we are now experiencing means that all capital values must be reduced proportionately. To every group contemplating investment in new enterprise or debating expansion, the question is raised as to what rate of return must be earned to justify the use of funds for unsheltered investment, and the prices of stocks cannot be ignored. Our studies show that, depending on the industry, it takes from $3,000 to $36,000 per worker to provide a job and this figure is an understatement because the worker in going companies is using other assets acquired when the price level was much lower.

### Savings Are Plentiful

Savings, however, we are told are plentiful. The savings figures are brought up every time we bring up this question. Without going into detail, the very size of aggregate savings, in conjunction with the apathy toward ownership, tell the story. Savings, like water, will not run uphill. The flow of savings is largely in the direction of riskless investment and the attainment of a creditor or preferred position.

Until recently, everyone—domestic and foreign observers alike—admired the adventurous spirit of Americans. New products, new businesses, and new jobs—these cannot develop from riskless investment alone. Rather than conclude that Americans have changed, the inference must be that the change in conditions has forced a change in their attitude.

### Faulty Tax Structure

These conditions arise out of the faulty tax structure. Your knowledge of industry and your experience in meeting the various and sundry tax bills undoubtedly have convinced you as to the imperative need for improvements in this structure. I am afraid, however, that revenue requirements in the foreseeable future preclude the thorough revision of the Federal tax structure and the integration of Federal and local taxes and personal and corporate taxes that are urgently necessary. When the best is unattainable, it is good sense to accept the better. It is for that reason we are concentrating, in our new study, "Jobs and Taxes," to be published shortly, on only two phases of Federal taxes. With no loss of revenue to speak of, and a prospect of ultimately increasing revenues, changes at these strategic points made now would turn the tide and help make the jobs without which disappointment and frustration face so many of our young people.

### Dynamic Economy Needs Adequate Capital

Whether you represent consumer goods or capital goods industries, I am sure you are agreed that a dynamic economy is synonymous with adequate capital formation. The high degree of postponability of consumer durable goods accentuates the fluctuations of business activity and employment. Government economists would like to have the public spend more of their income. They will if they are confident about their jobs. High employment goes hand in hand with high expenditures on capital and equipment. In fact, the deficit at the end of the war was so large that in current prices it is estimated it would require nearly a decade of spending on new plant and equipment at recent rates in order merely to erase the accumulated deficit.

To quote from the study to which I have alluded: "In view of the ravages of the past sixteen years on our stock of capital, we would expect to find both capital formation and expenditures for new plant and equipment proceeding at a pace considerably in excess of the average ratio of the years before 1929. Instead, they have been falling behind or, at best, just about equalling these rates. Still more serious, however, in its implications for our future economic growth, is the fact that expenditures for plant and equipment tended to level off during 1948 and threaten to show an absolute decline in 1949.

"While plant and equipment outlays for the four quarters of 1948 were larger than outlays during corresponding periods one year before, the successive percentage increase showed a generally downward trend. Official estimates indicate that expenditures for the second quarter will fall slightly below those of the corresponding period of 1948, and that during the second half of 1949 they will be about 14% below those of the last half of 1948. It is particularly significant that the decline in capital expenditures reflects in part the fact that the growth in the number of business enterprises had virtually ceased before the close of 1948 and that the increase in the number of small firms already in existence was seriously retarded. A continually increasing proportion of expenditures by manufacturing concerns was accounted for by firms with assets of $5 million and over. It is vital that we take steps to create a more favorable climate for investment so that no serious drop in expenditures on new plant and equipment will materialize. We would not indeed be setting our sights too high if we endeavored to maintain such outlays in the future at a rate above 1948 levels."

### Recommendations

To this end I make the following recommendations:

(1) Attack the problem of double taxation of dividends by allowing individuals a credit for dividends received when computing their Federal income liability. The credit should begin with 10% and be increased later as the general budgetary situation permits.

(2) Change the tax treatment of capital gains and losses by reducing the maximum effective rate on capital gains from 25% to 10% and the long-term holding period from six months to three months. Allow individuals to charge a maximum of $5,000 of capital losses against their ordinary income each year.

Given these changes, I visualize a current of renewed vigor running through the economy. This would break the vicious cycle which has caused only a trickle from either the vast pool of stagnant capital or the present accretions of savings to enter the job-making processes. It would enable business to liberalize dividend payments and avoid contractual obligations that necessarily restrict freedom of action and add to economic rigidities that are already too severe.

Earlier this week the monthly report on the labor force was published by the Bureau of the Census. It showed that unemployment had risen again to the highest level since the Spring of 1942. The rise in unemployment was contrary to seasonal expectations, and was partly attributable to the number of young persons of high school and college age seeking work.

We cannot attribute unemployment to speculative excesses or to a weak banking structure; or to the failure of wage rates to keep pace with the cost of living. Certainly, the answer can't be that the government is spending too little. All of the standard arguments fall by the wayside.

### A New Venture Capital Campaign

My message to you is that we should begin at once a new campaign — a venture capital campaign. You and your associates can, out of your unusual experience and knowledge, tell Congress, in specific understandable terms, how much your company has to invest to hire an additional employee, or install an additional machine; how much you or others who might be in a position to assume risks of enterprise would have to receive to make a dividend attractive, after taxes; what your rate of profit on a dollar's additional investment would have to be to pay such a dividend; the change in your debt-net worth ratio and the reasons why you would prefer, under more equitable tax treatment, to obtain permanent ownership funds rather than borrowed capital. And you can tell Congress why capital gains taxes represent a mingling of two different concepts, income and capital, and why the present rate cuts into the willingness to put funds to work to bear the brunt of inevitable economic squalls and storms; tell the story to stockholders and workers, in annual reports and enclosures with dividend checks and in house organs, at social gatherings and in meetings of business men. No story is fraught with greater significance to the country's economic welfare.

What I propose is an all-out attack on a tax structure that is obstructing expansion and throttling incentive and initiative. Squeezed between institutional changes of a deep nature and a hostile tax structure, realistic treatment of ownership savings is demanded. When farmers were injured by forces of a general character in relation to the conditions affecting the rest of the country, farm parity was devised to correct the situation; when legislation lagged behind economic forces and labor was at a disadvantage, labor was granted the equivalent of parity treatment. Ownership, which lies at the base of the whole economic structure, is threatened. The situation must be corrected. What I am striving for, in effect, is merely parity for ownership in so far as the extraordinary fiscal situation will permit. Fortunately, strategic changes can be made that will help activate stagnant pools of existing funds and energize current savings. But these changes cannot wait.

This isn't a fight in behalf of a few imaginary absentee owners of industry; or executives who have already made their place in industry. It is a fight to encourage industry, to remove the basis for the fear that is spreading, to prevent hardening of the economic arteries.

Equity for equity capital is the slogan in this venture capital campaign. I ask you to join with me in the interest of the nation's continued well-being.

## With Marache, Sims & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—Robert C. Klahorst has become affiliated with Marache Sims & Co., 458 South Spring Street, members of the Los Angeles Stock Exchange. He was previously with Morgan & Co. and First California Co.

## Two With Brereton, Rice

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO.—Roy C. Edwards and Richard W. Mitchell have become associated with Brereton, Rice & Co., Inc., First National Bank Building.

# Off The Skids—

## (HOW AND WHEN BUSINESS AND THE STOCK MARKET WILL RECOVER)

(Continued from first page)

consumers have given up hoping for still lower prices, or until prices look as though they could not go much lower—which only happens when goods are selling below costs, and most corporations are making losses.

But men get hurled out of work meanwhile . . . by this Law of the Falling Market.

Meanwhile . . . inventories tend to grow, if anything, instead of being reduced.

It happens under our noses today. Great is the weeping and gnashing of teeth.

Inventories today are $54,000,000,000 . . . or 25% greater than the whole of the national income in 1932; and 50% greater than England's national income today . . . even though these inventories, in proportion to America's national income, are not abnormally large.

But about half of this inventory is held on borrowed money (some $28 bns.); and the borrowers thereof hate holding stocks on a falling market . . . so naturally they try to reduce their inventories . . . even though such a policy is largely self-stultifying.

In effect all they do is to make trade much worse. And if they also voluntarily pay off loans to bankers, or if the nervous bankers call in loans, it also means monetary deflation, unless the bankers re-lend or invest elsewhere . . . which as a rule they do not do, because they also get frightened economically.

Hence the $54,000,000,000 of inventories hangs like a sword of Damocles over business . . . producing scare and fear—and bad trade.

Silly, isn't it? Curious! But sad.

And as men get thrown out of accustomed jobs, they hate The System . . . and vote for Lenin.

* * *

Another point I have often emphasized is that when the producers in an industry lose their bargaining power with consumers—and **it happens whenever inventories get pretty big**—they never regain it until lack of profits has caused them to reduce production until at last it becomes even less than consumption (new purchases), thus gradually reducing inventories once more.

But before this happens the profits of ALL the companies in the industry will be lowered and those of the marginal producers will disappear and turn into losses.

These marginal producers will (must) go through the wringer. For that is the very nature of the profits system . . . which all of us so ardently, on principle, support!

For is it not the duty of price to fluctuate parallel with demand, and to reduce profits until it forces a reduction in production and supply, thus adjusting supply to diminishing demand.

And does it not do so via profits—**and losses?**

### All Slumps Are Only Temporary

Since (however) the prospective fate of almost all companies in almost all industries is to go partially through the wringer as above, the practical stock market question arises as to how their stocks will stand up during this (purely temporary) process.

And I say "purely temporary" because the economic good done by the disappearance of profits is such as eventually to restore bargaining power and profits.

Slumps thus cure themselves in the end, by reducing supply in relation to demand.

### What Stops a Slump

Normally you must expect general slumps to go on until people stop hoarding money either through fear or in the hope of lower prices—which will probably not be until most industries are selling below cost at a loss (which makes further large falls unlikely); or until the banks cease contracting their loans and deflating credit; or until the government counteracts this "natural" deflation, and the "natural" slump, by injecting new money into circulation (by means of lower taxes or unbalanced budgets or by borrowing from the banks for public works).

Such inflation will not only reduce the fear of lower prices but also create the expectation of higher prices . . . thereby probably re-priming the pump and starting general trade upwards once again.

Assuming a government has adopted the policy of ironing out such portions of natural booms and slumps as are due to the MONETARY factor, the art of central banking is to increase the supply of money either when the commercial bankers start contracting the supply of it, or when the public start increasing their so-called store-of-value demand for it, by hoarding.

**The public may hoard money in the HOPE of lower prices. Businesses do so in the FEAR thereof.**

Thus to some extent the money managers can counteract general business mal-confidence by creating less confidence in money—which occurs when you threaten to increase the supply! It sounds rather funny but that is a fact.

I see it around the corner—in America—as in 1935.

The point is that a government can always inflate money, if it wants to, so rapidly, as to inject sufficient new monetary purchasing power into the system, as to turn any such slump around and convert it into a revival.

It might not be wise, but it can be done.

The worse things get, and the faster they get there the sooner and more violently will the government use their 12 cushions and turn on the gas.

Politically they cannot afford to do otherwise for they would be voted out at the next election. Economically it is also probably right to do so, for the existing burden of government debt cannot be supported within America at a price level much lower than that of 1939 (i.e., 40% lower than that of today).

With such a debt, we must have large trade . . . in terms of MONEY. And to get that you must maintain a fairly high general price level. Otherwise you would over-enrich the Rentier . . . at the expense of the worker and the Entrepreneur . . . and probably get a smart revolution.

**Hence the politician will come to the rescue of the bull . . . sooner or later . . . for that is our system.**

And since an election occurs in November, 1950, I expect the "gas" six months before that date, say in the spring of 1950 or about a year from today, or earlier.

### How About the Stock Market?

What however we speculative investors will want to know is

(Continued on page 38)

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## *Tomorrow's Markets Walter Whyte Says—*

By WALTER WHYTE

**Sharp break brings equally sharp rally closer. New "buys" being prepared.**

To say that I told you so will hardly give anybody satisfaction. It is nice, of course, to point to the record with pride, bowing in all directions to the expected applause.

* * *

My guess, however, is that there'll be no applause and instead of compliments I'll get letters telling me in effect that I'm a dirty soandso.

* * *

Last week's column, a rambling dissertation on stock market philosophy, was written from Chicago. This one is being pounded out in New York. But the picture is the same. However, you're not interested in a rehash on what has already passed, except where such a melange will give you an idea of the future.

* * *

That the averages broke to a low since August 1945 is no longer a secret. If you're long of any stocks you're aware of it. How painfully, depends on what your activities have been in recent weeks. If you're a follower of the Dow theory you already know you're still in a bear market. But no theory—at least none I know of—will tell you when a bear market is over; at least not soon enough to profit realistically. For that you will have to depend on your own intelligence plus a knowledge of tape activity.

* * *

A few issues back when I warned that a sharp break was indicated I also wrote that the break itself had within it the seeds of a rally that could develop considerable proportions. Despite the sharp reaction of Monday this week, this opinion hasn't changed. Some signs of its nearby approach was evident Tuesday when the down march of the previous day was halted. There is now a topheavy short interest in existence. Once it starts to run to cover, it can bring about a sharp reversal in opinion, no matter how unwarranted.

* * *

I have deliberately avoided suggestions to add to the two stocks we held as of last week. I don't know about future earnings or how the present wage demands by various unions will affect them. All I know is that just as weeks ago a reaction was signalled, so today the signs of a market recovery are starting to crop up.

* * *

One more week of the kind of market we saw Tuesday and I'll start thinking of adding more stocks to the list. As of this writing, Dresser, bought at 21½, was stopped out when it broke 20. This leaves you with one stock — Newport, bought at 10 with a stop at 8½.

* * *

So long as you are in that kind of position the current gyrations of the stock market need not concern you too much. Perhaps, next week I'll have a new list for you to consider.

More next Thursday.

—Walter Whyte.

*[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]*

**Pacific Coast Securities**

**Orders Executed on Pacific Coast Exchanges**

**Schwabacher & Co.**

*Members*
*New York Stock Exchange*
*New York Curb Exchange (Associate)*
*San Francisco Stock Exchange*
*Chicago Board of Trade*

14 Wall Street New York 5, N. Y.
COrtlandt 7-4150 Teletype NY 1-928

*Private Wires to Principal Offices*

San Francisco—Santa Barbara
Monterey—Oakland—Sacramento
Fresno—Santa Rosa

# Off The Skids—

(Continued from page 37)

how far stocks will fall as profits decline, or disappear.

Will they fall faster, or slower, that profits or what?

### How Low the Dow?

Another question to ask ourselves is the level to which an individual stock like Chrysler, or stocks in general like the Dow Index are likely to fall, even if their profits disappear and they run at a loss for a while.

My own guess is that even if Chrysler made losses of $5.00 per share in 1950, they would not fall much below 40 . . . for a loss of $5.00 per share would only mean a loss of about $50 million on their 8,702,264 common stocks; and their net quick assets today are about $26 per share—namely $226,000,000.

If the Dow Index itself were to make a loss instead of a profit —in 1948 the profit was $22.00— I agree it might fall to well under 90.

But a loss for the companies in the Dow **as a whole** is almost unheard of. Many of the shares in the Dow Index are of a relatively stable nature like Telephone and the food stocks. They rarely make actual losses. The Average earned thirty-one cents, and paid four dollars, even in 1932.

Moreover, the 30 Dow stocks are not marginal companies.

### Marginal Producers . . . Or Not?

Earlier in this essay it has been suggested that going through the wringer, and making losses cyclically is inevitable. That is broadly true . . . but it is NOT true for quite ALL the companies in every industry.

Several industries may even escape . . . as may several companies within each industry.

Essentially it is the "marginal" or highest-cost companies which habitually make the losses. And it is mainly they who totally close down, and assist in reducing supply.

Admittedly, whenever profit margins are sharply reduced, ALL the companies in any industry will make smaller profits and **partially** reduce their production . . . this also helping adjust supply to demand. But only a fourth will close down.

My point is that it is the MARGINAL companies which chiefly adjust supply to demand in any one given industry.

The 30 giant stocks in the Dow Industrial average are not marginal companies. Their profits thus tend to disappear less quickly than those of their rivals. Indeed, even in the crash of 1938 the Dow Average was still earning $6 . . . and paying $5 in Dividends. (The index fell to 98.)

A better approach might be to ask yourself at what price each company in the Dow would sell if its profits fell 66% from recent highest . . . with the Dow earning $7.

Personally I do not think the Dow will fall much below 150 . . . and that if it does the government will turn on the gas very rapidly . . . although of course I might be wrong on both counts!

There is also the "Asset" question to consider.

### Higher Plateau Probable

Remember that our bank money has been increased three times since the war began and that most of this increase will remain permanent so that there is a cushion against prices falling over the next few years to the levels that they stood at in 1939. The monetary factor should bolster them up on a semi-permanent higher plateau.

And since the market prices of the Dow Index are measured in today's depreciated dollars, you ought, I guess, to add about 33% to your prewar idea as to what was a "normal" level for the Dow.

Add 33% to a prewar figure of say 120. The resultant figure is 160.

I know this is guessing, but that is my guess. And I make it even though I am aware that cyclical slumps land companies with losses, even if a postwar plateau is 50 times higher than prewar. The point is that costs also rise with prices, and narrow profit margins may be easily wiped out.

The fact however that plant cannot be replaced at anything like prewar dollar figures is, and ought to be, an elevating factor.

In other words, although highly pessimistic for trade over the near future; and although expecting an enormous number of companies to make losses within the next 12 months, I am not so very pessimistic on stocks, partly because they never rose parallel with earnings, partly because they have already fallen enormously in many cases, partly because the government will eventually interfere, and partly because the dollar itself has been depreciated.

My broad policy therefore remains one of being about 50% in cash and 50% in securities . . . temporarily lowering one's percentage in common stocks to only 25% of total capital, if the charts are giving unfavorable readings, as today.

### Wild Guesses

After the event it normally proves rash for any economist to say in advance how far he thinks a slump or boom will go, or to give any dates which might help his readers. Experience shows it is safer to hedge in order to "protect" one's reputation. **But this is yellow.**

In case they might possibly help my readers, I append some wild guesses as follows.

| | Lowest Expected | Today's Figure | 1946-9 Highest | Next Cyclical High (Within 10 Years) |
|---|---|---|---|---|
| Dow Industrials | 140-50 | 161 | 213 | 250 |
| Wholesale Commodities (B.L.S. Index) | 135 | 158 | 170 | 150 |
| Farm | 145 | 170 | 210 | 150 |
| Other than Farm and Food | 130 | 150 | 156 | 150 |
| Ind'l Production (F.R. Index) | 140 | 182 | 245 | 250 |

I do not guarantee the above various movements; and even if they turn out right, I do not expect them to get there in a straight line . . . but to zig-zag.

* * *

### Summary of My Views

(1) All slumps are only temporary.

(2) We are eventually headed for another Bull Market, both in trade and stocks.

(3) Stocks should, I think, be bought long—over a year—before trade reaches its nadir. (My new theory of superdiscounting. See Digest 220.) Perhaps before mid-1950.

(4) The speed with which trade continues to slump, and begins to revive, will largely depend upon government policy.

(5) Since a **Congressional** election is ahead in November, 1950 the White House will probably act six months before then . . . unless its policy is to keep the reflationary ammunition up its sleeve until the next **Presidential** election in 1952.

(6) Pump priming however usually needs about nine months to "catch." I expect it in the spring of 1950 . . . or earlier.

(7) I certainly do not expect general trade to revive within 12 months, and probably not for 20.

(8) Stocks however might well revive a year or two in advance of trade.

(9) At present they look to me like going lower, despite their low prices, for industrial fear is now rapidly spreading. The situation contains some of the ingredients of a panic.

(10) For the moment I prefer cash to stocks; and the so-called defensives to the Cyclicals.

(11) Henceforth my chief job will be to prepare my readers, in advance, to buy heavily at a time when you (will) feel that it is totally wrong, illogical and crazy . . . and "clearly" much too soon, and "obviously" no hurry.

(12) If the panic continues to minus about 4 points below the Dow theory "get out" signal of 162 . . . namely to about 158 . . . I would wade in blindly and buy another quarter.

Thereafter I would (probably) wait until the chart again gave a bullish pattern, before buying any more.

# Can We Maintain a High Level Economy?

(Continued from page 10)

threatens the progressiveness and freedom of the system.

### Reasons for Confidence

However, I should like to state briefly my reasons for confidence in our capacity to maintain high employment and point out what seem to me the chief question marks remaining in this area. I may list some of the main changes in institutions, policies and know-how of the past 20 years which have increased our capacity to avoid serious depression in the foreseeable future:

(1) Our monetary system has been strengthened since 1929. In part, this is a result of steps taken during the depression, such as the insurance of bank deposits and the extension of the power of the Federal Reserve to provide liquidity to the banking system. In part, it is the by-product of war finance, which left us with a money supply largely based upon government debt, rather than upon private debt. It is unlikely that a business contraction under presently existing conditions would bring with it a large shrinkage of the money supply as a consequence of the contraction of business debt. Let me make it perfectly clear that I am not advocating that a large national debt is a blessing, nor do I wish these remarks to be construed that if a large debt is good, a larger one will be better. Not at all. But it is important to recognize that two horribly costly wars and one devastating depression have left us with this large existing debt. It is an actual fact, not something to theorize about, and its existence does warrant the conclusion which has been drawn, namely, that a business contraction just now would not likely be accompanied by a large shrinkage of the money supply. In part, too, the strengthening of our monetary system reflects the accumulation of experience on the part of our monetary authorities. As evidence of this, I would point to the well-timed and delicate action of the Federal Reserve during the past six months. I think one may now say with confidence that we shall not have another great monetary collapse such as the one which accompanied and greatly intensified the depression of the '30s.

(2) We have, mainly as a legacy of the War but partly as a result of domestic social policy, a Federal budget which is very large in relation to our national income. Now there is no doubt that the size of the Federal budget raises a serious problem for the progressiveness of the economy. But from the standpoint of the stability of the economy, there is doubtless advantage in having so large a part of the demand for goods underwritten by the Federal Government. Here again I should certainly not wish these remarks to be construed that a large national budget is a blessing. Nor do I wish to imply that if a big budget is good, a bigger one is better. But force of circumstances which need not be detailed here has brought us to the position where a large budget seems to be, for the present and near future at least, an inescapable fact. And a natural concomitant of that fact of a large budget is the control of a large amount of expenditures by Government. I would remind you again that we are not at the moment considering the effect upon the progressiveness or dynamic quality of the

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economic system. We are considering the effect so far as stability is concerned.

**Our Tax System Praised**

(3) Our present tax system is better designed to contribute to economic stability than the tax system of twenty years ago. We now rely much more heavily on income taxes—personal and corporate—than we did in the twenties and we now have pay-as-you-go. As a result, in a depression the amount of taxes collected would fall off very sharply. The amount of income left in the hands of individuals and businesses to spend would be larger than would have been the case with the kinds of taxes we used to have. This can be a major force tending to cushion a business decline and on the up-swing can be a major force tending to restrain inflation.

(4) By unemployment compensation and our agricultural price policy, we have provided partial supports for an important part of the nation's income. Again I think a qualifying statement is in order. Probably there are few thoughtful persons who do not approve in principle, unemployment compensation and agricultural price support, providing they are recognized for what they should be: stabilizers, cushions or props, but not sufficiently high to weaken personal incentive.

(5) There is a very great and very widespread determination to avoid another major depression. This determination means that we shall be receptive to and eager for measures that may help correct any serious depression. This receptivity and eagerness may however be undiscriminating, in which case we may take such ill-advised action in the name of security that our entire free economy may be put in jeopardy. But if well-focused, the determination to avoid another depression can be helpful in preventing it.

(6) We have learned some things about the way in which the economy operates. Some of the important things we have learned relate to the handling of our Federal budget in a way that will contribute to the stability and to the reduction of the debt. We know that a Federal deficit, if well timed and if achieved by means that do not undermine the prospect for profitable business operation, can be a major factor for recovery and that a large Federal surplus can be an important bulwark against inflation. This kind of adaptation of the budget to economic conditions holds out more promise of long run debt reduction than the policy of giving away surpluses in prosperity by tax cuts and expenditures boosts and then trying to raise taxes in a depression.

**Difficulties in Dealing With Depressions**

No one can say with certainty that the progress we have made to date is enough. Probably we can be reasonably confident that if we had had in 1929 the institutions, policies and knowledge we now have, the history of 1929-39 would have been quite different. But we can also be confident that the conditions we shall meet in the future will be different from the conditions of 1929. How we shall handle conditions we cannot now foresee is uncertain. However, I should like to call attention to two kinds of difficulties which may be important in dealing with a future depression.

First, there is a general tendency for each group in the society to believe that the best way to cure a depression is to do more of what that group wanted all the time, depression or not. Those who think that the government ought to be in the steel business any way will be certain that the way to get out of a depression or inflation — and they don't care which—is for the government to build steel plants. A lot of Southerners will be sure that the proper remedy is a higher price for cotton. The businessman will be sure that the thing to do is to cut taxes. Labor will insist upon maintenance of high wage scales "to keep up purchasing power."

Now I do not want to say at this point which of these remedies are wrong and which are right, although, of course, I have my own opinion. These divergent remedies reflect not only group interests, but also divergent views of the desirable character of our social system. Given time and discussion, I believe that we could do much to reconcile these differences. The danger, as I see it, is that these differences will impede agreement on an effective course of action for getting out of a depression. The institutional fluidity of an economic crisis may be seized upon as an opportunity to advance sectional or group causes. And the common effort to meet the crisis may bog down in a fight among conflicting interests and theories.

Second, we are organized as never before into groups, in business, labor and agriculture, seeking to increase their own incomes by means outside the competitive process—by political or economic pressure. Each of these groups is convinced that an increase in its own income is not only good for it, but also good for the country. I do not want to enter here into a discussion of the proper distribution of the national income. I want to stick to one elementary fact. The shares of the national income cannot add up to more than 100%. The economy cannot work if the shares demanded by the various organized groups add up to more than 100% of the national income. It may be possible for a time by inflation to give everyone the feeling that his share is increasing. But this is at best a temporary solution and even as a temporary solution not very good. Our efforts toward stabilization will fail unless the various segments in our economy are willing to work together to increase production without insisting on wage returns and profit margins that involve perpetual inflation or perpetual conflict.

I do not bring up these difficulties in order to cast doubt on our capacity to maintain a high level economy. I mention them only to indicate the kind of obstacles that must be overcome or avoided if the goal is to be achieved. These difficulties suggest, what should be clear any way, that reasonable self-restraint in the pursuit of group or sectional interests is a necessary condition for satisfying our common interest in high employment.

**Our Capacity to Keep Economy Progressive and Dynamic**

Let me turn now to the question of our capacity to keep our economy progressive and dynamic, to keep productivity rising rapidly. As I have already pointed out, our high national income gives us a great capacity for saving and so for increasing our supply of capital goods. Also we have the scientific knowledge, techniques, personnel and facilities to produce a rapid improvement of technology. The basis would seem to exist for a rate of economic progress at least as rapid as the rate we experienced in the past. But there are a number of questions which suggest that this result will not be achieved automatically, but only as a result of conscious and vigorous effort. These questions have grown in importance in the past two decades, particularly in the past few years. In part these questions are intensified by the international situation in which we find ourselves.

(1) **Will an adequate proportion of our total savings be available for financing risky, progressive investment?** A large part of our total savings is made by persons whose total assets are small and whose experience with the investment process is limited and who therefore tend to avoid the riskier forms of investment. Our heavy tax burden rests with particular weight upon those kinds of saving that flow most readily into risk investment—the savings of corporations and of upper-income individuals. In addition, the experience of depression, war and institutional change may create an exaggerated fear about the future of private enterprise and a reluctance to assume investment risks. For these and other reasons there is danger that despite a large flow of savings available for investment in government bonds, bank accounts and life insurance policies the supply of venture capital is inadequate for rapid economic progress.

(2) **Will there be strong incentives for the use of funds and talent in ways that contribute most to economic progress?** Continued economic progress requires that the potential rewards for economic venturesomeness and effort appear sufficiently great to offset the prospects for loss. This situation has prevailed in the United States in the past. There is now a serious question how far our present tax burden has altered that situation and how grave the consequences will be.

(3) **Will the increasingly strong organization of labor be an instrument for resisting technological progress or will it contribute to greater productivity?**

(4) **Will businesses act to slow down the rate at which new processes and methods are introduced, perhaps influenced by increasing security-consciousness in an uncertain world?**

(5) **Will exaggerated confidence in direct government controls as a cure for economic ills stultify the process of economic growth?** In the past three years we have seen direct government control of prices and production seriously advocated as the remedy for almost every kind of real or alleged economic problem. I am convinced that under any such regime of controls the direction and techniques of production would be frozen and the economy would stagnate. That the good sense of the American people has so far withstood the pleas for controls is encouraging, but not conclusive for the future.

These are, in my opinion, some of the main question marks about the capacity of the United States to maintain a high-level, high-energy, high-opportunity economy. They all come down to one question: Do we have the necessary intelligence and will? I believe that we do. It is the basic premise of democracy that out of the process of free inquiry and debate will emerge a recognition of common interests and an agreement on ways to pursue those interests. I have seen this premise tested and I know that it works. I have observed the process most closely in the Committee for Economic Development. I have seen it in discussion groups and forums across the country. I am convinced that if we will stick to this democratic process we can achieve our basic goals.

## With Boardman, Freeman

(Special to THE FINANCIAL CHRONICLE)

FREEDOM, N. H.—George C. Weeks is now associated with Boardman, Freeman & Co. of Boston, Mass. Mr. Weeks was formerly with R. H. Johnson & Co. and Clyde F. Frost & Co.

## Rejoins Bache & Co.

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA.—Sam V. Silsbee has rejoined the staff of Bache & Co., 96 Northeast Second Avenue. He has recently been with Frank D. Newman & Co.

# Observations

(Continued from page 5)

that Wall Street is now being repaid by Main Street. Main Street, correctly, expected its investment counsellors, investment trusts and brokerage advisors not to sit in a downtown office all day, but to establish direct and continued contact with management and openly to raise the standard of revolt when management policies appeared unfair to the investors, Wall Street's true clients.

Instead Wall Street seemed to think the only reason for its having contact with management was for the purpose of getting secret or advance information and therefor management must not be antagonized. At most, if the going really got rough, the investment managers would simply retire from the situation, selling out. This was a cowardly affair at best and something which really accomplished nothing constructive, since the abuses merely continued unchecked, giving the Communists more fodder than all the Union Square agitators and subversive elements could have thought up if they had been on the job 24 hours a day.

Similar short sighted policies on the part of Threadneedle Street and the Place de La Bourse simply brought the ruin of the old system there. In this country a growing number of independent public stockholders do not intend to let it continue to happen here and are taking steps in their self-defense, with or without the assistance of Wall Street.

LEWIS D. GILBERT.

1165 Park Avenue,
New York, N. Y.
June 14, 1949

* * * *

**FROM MR. BUCK**

*We follow with a communication from Mr. Carl Buck—particularly interesting because, as a comparatively theoretical and serious follower of investment, Mr. Buck brings a fresh viewpoint to the problem.*

Dear Mr. May:

I have read your column with ever increasing interest. In my opinion your latest is of real importance. The stockholder-management problem seems to be coming to a head to some degree lately with a resulting increase in publicity. The "Herald-Tribune" financial column of Sunday, June 5 carried two articles on the subject and the financial editor of the "Sun" prints letters from indignant stockholders in his daily column ever so often. Undoubtedly the "Chronicle" can do much to keep the agitation moving.

However, the question is—what to do? The average investor with holdings diversified among a half dozen or more industries, cannot hope to acquire the technical, legal and accounting knowledge necessary to criticize management intelligently. Further, only a small percentage are able to attend annual meetings and those who do, it has been my observation at the few I have attended, seem subconsciously to identify themselves with management and become quite indignant at the few critics of the powers that be.

One hesitates to advocate more governmental intervention in business but the review of the results of the Holding Company Act in the utility field by the SEC's Chairman Hanrahan in the current "Chronicle" was most persuasive. (Incidently rebuttal by utility management would make interesting reading.) If a substantial number of publicly-held corporations foresaw any need for equity financing the threat of interference with capital structure might bring management to the point of giving more attention to the causes of stockholder antagonism.

My individual solution has been to make the whole question of dividend record and director-management stock holding, salary and bonus and pension expense an important part of my analysis of each security. I have switched from companies with unsatisfactory records. The recent market drop brought a number of stocks down to prices I am willing to pay. I have chosen to make new purchases in just two—Deere & Co. and Texas Gulf Producing Co. Top management in both cases is a family affair—holding large stock interests. I feel that in situations such as these the family eggs are mostly in one basket and are carefully watched for signs of decay. In both these companies all the directors have fair to substantial stock holdings. Top management is paid a comparatively nominal salary with bonuses based reasonably on profit increases. Pension plans are fair, it seems to me, to all concerned. The Texas Gulf plan involves officer as well as company contributions. Deere's dividend record is good though conservative and in spite of the company's past cyclical record I think it is a good commitment. Texas Gulf is a small company showing considerable growth, has paid out ⅓ to ½ of earnings in dividends each year since 1928 despite restrictive stipulations in connection with bank loans. This year a 5% stock dividend was paid with 25 cents in cash to maintain cash reserves in case business fell off badly. All in all stockholder interests seem to be considered by both companies. Incidentally these companies send out a simple and economically produced annual report.

Sharon Steel, Studebaker and Philip Morris also seem to show progressive management and satisfactory stockholder treatment. I was interested, when reading Mr. Benjamin Graham's new book, to note his remarks on Philip Morris about a 10-year comparison of Philip Morris vs. competitor results. The items he criticized show considerable improvement in the latest annual report.

**The necessary information to judge management is readily available and for the present can be used. It seems to me that if security analysts connected with brokerage houses, investment trusts, banks and advisory services would definitely advocate withdrawal from and advise against purchasing into companies with records of management abuse, the resulting impact on stockholder lists and possibly even the market position of individual stocks would cause management to realize that the worm can turn.**

I close with the hope that your article will start the ball rolling and arouse interest and that the resulting correspondence and exchange of ideas will be productive of a constructive line of action that may straighten some of the many angles involved in the stockholder-management relationship situation.

CARL BUCK

461 Eighth Avenue,
New York 1, N. Y.,
June 12, 1949.

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# Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available (dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date):

| | | Latest Week | Previous Week | Month Ago | Year Ago |
|---|---|---|---|---|---|
| **AMERICAN IRON AND STEEL INSTITUTE:** | | | | | |
| Indicated steel operations (percent of capacity) | June 19 | 86.7 | 89.1 | 95.6 | 96.0 |
| Equivalent to— | | | | | |
| Steel ingots and castings (net tons) | June 19 | 1,598,300 | 1,642,600 | 1,762,400 | 1,730,400 |
| **AMERICAN PETROLEUM INSTITUTE:** | | | | | |
| Crude oil output—daily average (bbls. of 42 gallons each) | June 4 | 4,889,150 | 4,897,000 | 4,896,750 | 5,475,800 |
| Crude runs to stills—daily average (bbls.) | June 4 | ¶5,341,000 | 5,297,000 | 5,172,000 | §5,736,000 |
| Gasoline output (bbls.) | June 4 | 18,244,000 | 18,324,000 | 17,530,000 | §17,787,000 |
| Kerosene output (bbls.) | June 4 | 1,722,000 | 1,550,000 | 1,831,000 | §2,224,000 |
| Gas oil and distillate fuel oil output (bbls. | June 4 | 5,959,000 | 5,943,000 | 5,955,000 | §7,249,000 |
| Residual fuel oil output (bbls.) | June 4 | 7,827,000 | 8,144,000 | 7,895,000 | §9,354,000 |
| Stocks at refineries, at bulk terminals, in transit and in pipe lines — | | | | | |
| Finished and unfinished gasoline (bbls.) at | June 4 | 119,106,000 | 120,661,000 | 123,400,000 | §107,278,000 |
| Kerosene (bbls.) at | June 4 | 21,858,000 | 20,953,000 | 19,178,000 | §15,783,000 |
| Gas oil and distillate fuel oil (bbls.) at | June 4 | 58,597,000 | 55,971,000 | 51,373,000 | §41,063,000 |
| Residual fuel oil (bbls.) at | June 4 | 64,063,000 | *63,168,000 | 61,024,000 | §56,030,000 |
| **ASSOCIATION OF AMERICAN RAILROADS:** | | | | | |
| Revenue freight loaded (number of cars) | June 4 | 698,824 | 784,824 | 768,337 | 821,206 |
| Revenue freight received from connections (number of cars) | June 4 | 564,192 | 616,995 | 621,801 | 662,202 |
| **CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:** | | | | | |
| Total U. S. construction | June 9 | $226,161,000 | $123,055,000 | $130,991,000 | $174,146,000 |
| Private construction | June 9 | 137,222,000 | 46,779,000 | 57,863,000 | 75,329,000 |
| Public construction | June 9 | 88,939,000 | 76,276,000 | 73,128,000 | 98,817,000 |
| State and municipal | June 9 | 64,455,000 | 66,170,000 | 63,148,000 | 64,962,000 |
| Federal | June 9 | 24,484,000 | 10,106,000 | 9,980,000 | 33,855,000 |
| **COAL OUTPUT (U. S. BUREAU OF MINES):** | | | | | |
| Bituminous coal and lignite (tons) | June 4 | 10,050,000 | *11,285,000 | 11,200,000 | 12,985,000 |
| Pennsylvania anthracite (tons) | June 4 | 964,000 | 1,179,000 | 982,000 | 1,011,000 |
| Beehive coke (tons) | June 4 | 103,800 | *121,400 | 137,200 | 134,600 |
| **DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100** | June 4 | 259 | *275 | 334 | 282 |
| **EDISON ELECTRIC INSTITUTE:** | | | | | |
| Electric output (in 000 kwh.) | June 11 | 5,300,091 | 5,018,270 | 5,256,976 | 5,131,811 |
| **FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.** | June 9 | 174 | 165 | 171 | 110 |
| **IRON AGE COMPOSITE PRICES:** | | | | | |
| Finished steel (per lb.) | June 7 | ‡3.705c | ‡3.705c | 3.705c | 3.211c |
| Pig iron (per gross ton) | June 7 | $45.91 | $45.91 | $45.91 | $40.51 |
| Scrap steel (per gross ton) | June 7 | $21.67 | $21.75 | $22.75 | $40.66 |
| **METAL PRICES (E. & M. J. QUOTATIONS):** | | | | | |
| Electrolytic copper— | | | | | |
| Domestic refinery at | June 8 | 17.325c | 17.325c | 18.200c | 21.200c |
| Export refinery at | June 8 | 17.250c | 17.550c | 18.425c | 21.925c |
| Straits tin (New York) at | June 8 | 103.000c | 103.000c | 103.000c | 103.000c |
| Lead (New York) at | June 8 | 12.000c | 12.000c | 14.000c | 17.500c |
| Lead (St. Louis) at | June 8 | 11.850c | 11.850c | 13.850c | 17.300c |
| Zinc (East St. Louis) at | June 8 | 10.000c | 11.000c | 12.500c | 12.000c |
| **MOODY'S BOND PRICES DAILY AVERAGES:** | | | | | |
| U. S. Government Bonds | June 14 | 101.63 | 101.61 | 101.60 | 101.28 |
| Average corporate | June 14 | 113.12 | 113.12 | 113.12 | 113.31 |
| Aaa | June 14 | 118.80 | 118.80 | 118.80 | 118.00 |
| Aa | June 14 | 117.40 | 117.40 | 117.40 | 116.02 |
| A | June 14 | 112.31 | 112.37 | 112.37 | 112.56 |
| Baa | June 14 | 104.66 | 104.83 | 105.00 | 106.92 |
| Railroad Group | June 14 | 107.80 | 107.98 | 108.34 | 108.88 |
| Public Utilities Group | June 14 | 114.27 | 114.27 | 114.08 | 113.89 |
| Industrials Group | June 14 | 117.20 | 117.40 | 117.40 | 117.20 |
| **MOODY'S BOND YIELD DAILY AVERAGES:** | | | | | |
| U. S. Government Bonds | June 14 | 2.38 | 2.38 | 2.38 | 2.41 |
| Average corporate | June 14 | 3.00 | 3.00 | 3.00 | 2.99 |
| Aaa | June 14 | 2.71 | 2.71 | 2.71 | 2.75 |
| Aa | June 14 | 2.78 | 2.78 | 2.78 | 2.85 |
| A | June 14 | 3.04 | 3.04 | 3.04 | 3.03 |
| Baa | June 14 | 3.47 | 3.46 | 3.45 | 3.34 |
| Railroad Group | June 14 | 3.29 | 3.28 | 3.26 | 3.23 |
| Public Utilities Group | June 14 | 2.94 | 2.94 | 2.95 | 2.96 |
| Industrials Group | June 14 | 2.79 | 2.78 | 2.78 | 2.79 |
| **MOODY'S COMMODITY INDEX** | June 14 | 338.8 | 339.1 | 344.1 | 427.6 |
| **NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:** | | | | | |
| Foods | June 11 | 218.0 | 219.7 | 214.3 | 239.5 |
| Fats and oils | June 11 | 135.6 | 141.2 | 147.8 | 297.9 |
| Farm products | June 11 | 233.0 | 233.7 | 229.7 | 268.8 |
| Cotton | June 11 | 312.9 | 309.1 | 312.8 | 353.0 |
| Grains | June 11 | 199.1 | 188.0 | 204.3 | 261.3 |
| Livestock | June 11 | 231.2 | 236.3 | 224.0 | 263.6 |
| Fuels | June 11 | 213.1 | 213.1 | 222.7 | 231.4 |
| Miscellaneous commodities | June 11 | 160.3 | 162.4 | 163.9 | 176.1 |
| Textiles | June 11 | 185.5 | 185.2 | 187.4 | 209.1 |
| Metals | June 11 | 169.6 | 169.7 | 172.1 | 165.9 |
| Building materials | June 11 | 212.8 | 212.4 | 212.8 | 229.9 |
| Chemicals and drugs | June 11 | 137.6 | 137.6 | 139.2 | 158.6 |
| Fertilizer materials | June 11 | 141.1 | 141.1 | 142.9 | 134.2 |
| Fertilizers | June 11 | 150.5 | 150.5 | 150.5 | 143.8 |
| Farm machinery | June 11 | 155.8 | 155.8 | 153.1 | 139.4 |
| All groups combined | June 11 | 202.6 | 203.6 | 203.3 | 224.3 |
| **NATIONAL PAPERBOARD ASSOCIATION:** | | | | | |
| Orders received (tons) | June 4 | 183,749 | 149,534 | 188,227 | 222,226 |
| Production (tons) | June 4 | 137,521 | 157,613 | 160,923 | 168,802 |
| Percentage of activity | June 4 | 65 | 77 | 78 | 87 |
| Unfilled orders (tons) at | June 4 | 283,585 | 238,745 | 289,481 | 402,625 |
| **OIL, PAINT AND DRUG REPORTER PRICE INDEX — 1926-36 AVERAGE=100** | June 10 | 128.0 | 129.4 | 131.1 | 147.8 |
| **WHOLESALE PRICES NEW SERIES—U. S. DEPT. OF LABOR—1926=100:** | | | | | |
| All commodities | June 7 | 156.1 | 156.1 | 155.9 | 165.2 |
| Farm products | June 7 | 173.9 | 173.7 | 171.6 | 193.4 |
| Foods | June 7 | 166.9 | 165.9 | 163.4 | 179.6 |
| All commodities other than farm and foods | June 7 | 145.3 | 145.8 | 146.9 | 149.3 |
| Textile products | June 7 | 135.3 | 135.5 | 138.9 | 150.2 |
| Fuel and lighting materials | June 7 | 130.5 | 130.5 | 130.6 | 132.9 |
| Metals and metal products | June 7 | 167.2 | 167.3 | 168.1 | 158.1 |
| Building materials | June 7 | 191.6 | 192.2 | 195.3 | 196.1 |
| All other | June 7 | 127.6 | 128.7 | 129.3 | 135.4 |
| Special indexes— | | | | | |
| Grains | June 7 | 154.8 | 149.9 | 162.1 | 210.3 |
| Livestock | June 7 | 222.3 | 224.3 | 199.6 | 251.0 |
| Meats | June 7 | 243.9 | 239.3 | 220.4 | 269.5 |
| Hides and skins | June 7 | 190.5 | 189.6 | 186.4 | 211.8 |

*Revised figure. ¶Includes 425,000 barrels of foreign crude runs. §Not comparable with other periods which are on new basis of reporting in California. Principal changes exclude cracking stock from distillate and residual fuel oils. ‡The weighted finished steel composite was revised for the years 1941 to date. The weights used are based on the average product shipments for the 7 years 1937 to 1940 inclusive and 1946 to 1948 inclusive. The composite under the old method this week would have been 3.73330c per pound.

| | Latest Month | Previous Month | Year Ago |
|---|---|---|---|
| **BANK DEBITS — BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—** | | | |
| Month of May (in thousands) | $99,336,000 | $99,697,000 | $97,603,000 |
| **BUILDING CONSTRUCTION PERMIT VALUATION IN URBAN AREAS OF THE U. S. — U. S. DEPT. OF LABOR** — Month of March (000's omitted): | | | |
| All building construction | $609,774 | *$337,181 | $630,958 |
| New residential | 338,892 | *178,658 | 322,984 |
| New nonresidential | 191,212 | *147,725 | 224,611 |
| Additions, alterations, etc. | 79,670 | *60,798 | 83,363 |
| **CIVIL ENGINEERING CONSTRUCTION—ENGINEERING NEWS-RECORD** — Month of May: | | | |
| Total U. S. construction | $611,709,000 | $589,693,000 | $535,184,000 |
| Private construction | 263,959,000 | 274,021,000 | 247,018,000 |
| Public construction | 347,750,000 | 315,672,000 | 288,166,000 |
| State and Municipal | 276,465,000 | 266,003,000 | 223,644,000 |
| Federal | 71,285,000 | 49,669,000 | 64,522,000 |
| **COMMERCIAL PAPER OUTSTANDING—FEDERAL RESERVE BANK OF NEW YORK—** | | | |
| As of May 31 (000's omitted) | $218,000 | $249,000 | $254,000 |
| **GRAY IRON CASTINGS (DEPT. OF COMMERCE)**—Month of March: | | | |
| Shipments (short tons) | 1,074,704 | 986,591 | 1,169,085 |
| For sale (short tons) | 567,041 | 535,163 | 659,821 |
| For producers' own use (short tons) | 507,663 | 451,428 | 509,264 |
| Unfilled orders for sale at end of month (short tons) | 1,639,465 | 1,857,403 | 2,726,415 |
| **HOUSEHOLD WASHERS AND IRONERS — STANDARD SIZE (AMERICAN WASHER AND IRONER MANUFACTURERS' ASSOCIATION)**—Month of April: | | | |
| Factory sales of washers (units) | 194,900 | 254,300 | 402,257 |
| Factory sales of ironers (units) | 17,800 | 23,500 | 47,319 |
| **LIFE INSURANCE—BENEFIT PAYMENTS TO POLICYHOLDERS—INSTITUTE OF LIFE INSURANCE**—Month of April: | | | |
| Death benefits | $124,889,000 | $143,484,000 | $123,590,000 |
| Matured endowments | 37,960,000 | 44,426,000 | 36,706,000 |
| Disability payments | 8,013,000 | 8,142,000 | 7,963,000 |
| Annuity payments | 19,256,000 | 20,500,000 | 19,881,000 |
| Surrender values | 48,837,000 | 50,587,000 | 40,498,000 |
| Policy dividends | 46,348,000 | 58,889,000 | 44,446,000 |
| Total | $285,303,000 | $326,028,000 | $273,084,000 |
| **MOODY'S WEIGHTED AVERAGE YIELD OF 200 COMMON STOCKS**—Month of May: | | | |
| Industrials (125) | 7.29 | 7.02 | 5.28 |
| Railroads (25) | 8.91 | 8.63 | 5.21 |
| Utilities (25) | 6.26 | 6.11 | 5.65 |
| Banks (15) | 4.75 | 4.71 | 4.43 |
| Insurance (10) | 3.38 | 3.34 | 3.09 |
| Average yield (200) | 7.04 | 6.81 | 5.26 |
| **MOTOR VEHICLE FACTORY SALES FROM PLANTS IN U. S. (AUTOMOBILE MANUFACTURERS' ASSOC.)** — Month of April: | | | |
| Total number of vehicles | 543,118 | 518,118 | 438,090 |
| Number of passenger cars | 436,392 | 402,402 | 308,071 |
| Number of motor trucks | 106,212 | 115,171 | 128,963 |
| Number of motor coaches | 514 | 545 | 1,056 |
| **NEW CAPITAL ISSUES IN GREAT BRITAIN—** | | | |
| Midland Bank, Ltd.—Month of May | £15,683,000 | £4,648,000 | £13,480,000 |
| **NON-FERROUS CASTINGS (DEPT. OF COMMERCE)**—Shipments, month of March: | | | |
| Aluminum (thousands of pounds) | 27,478 | 27,228 | 41,794 |
| Copper (thousands of pounds) | 70,173 | 68,776 | 96,344 |
| Magnesium (thousands of pounds) | 879 | 813 | 704 |
| Zinc (thousands of pounds) | 28,721 | 28,238 | 41,521 |
| Lead die (thousands of pounds) | 418 | 705 | 1,482 |
| **PERSONAL INCOME IN THE UNITED STATES (DEPARTMENT OF COMMERCE)**—Month of April (in billions): | | | |
| Total personal income | 213.7 | 214.6 | 208.6 |
| Wage and salary receipts, total | 133.2 | 132.7 | 126.8 |
| Total employer disbursements | 135.3 | 134.9 | 128.8 |
| Commodity producing industries | 59.1 | 59.5 | 57.3 |
| Distributive industries | 39.7 | 38.9 | 37.8 |
| Service industries | 16.7 | 16.7 | 15.9 |
| Government | 19.8 | 19.8 | 17.8 |
| Less employee contributions for social insurance | 2.1 | 2.2 | 2.0 |
| Other labor income | 2.1 | 2.1 | 2.0 |
| Proprietors' and rental income | 48.0 | 49.1 | 51.2 |
| Personal interest income and dividends | 18.2 | 18.3 | 16.7 |
| Total transfer payments | 12.2 | 12.4 | 11.9 |
| Total nonagricultural income | 193.3 | 193.1 | 185.3 |
| Total agricultural income | 20.4 | 21.5 | 23.3 |
| **SOFTWOOD PLYWOOD (DEPT. OF COMMERCE)**—Month of March: | | | |
| Production (M sq. ft. 3/8-in. equivalent) | 175,714 | 143,180 | 185,716 |
| Shipments and consumption (M sq. feet, 3/8-in. equivalent) | 178,897 | 133,192 | 184,443 |
| Stocks (M sq. ft. 3/8-in. equivalent) at end of month | 81,573 | 84,534 | 39,879 |
| Consumption of logs (M ft., log scale) | 83,259 | 70,595 | 77,543 |
| Stocks (M ft., log scale) at end of month | 217,614 | 254,138 | 150,190 |
| **U. S. GOVT. STATUTORY DEBT LIMITATION** —As of May 31 (000's omitted): | | | |
| Total face amount that may be outstanding at any one time | $275,000,000 | $275,000,000 | $275,000,000 |
| Outstanding— | | | |
| Total gross public debt | 251,889,420 | 251,530,468 | 252,236,480 |
| Guaranteed obligations not owned by the Treasury | 23,061 | 22,851 | 74,596 |
| Total gross public debt and guaranteed obligations | $251,912,480 | $251,553,319 | $252,311,077 |
| Deduct—Other outstanding publis debt obligations not subject to debt limitation | 772,761 | 776,684 | 828,043 |
| Grand total outstanding | $251,139,718 | $250,776,635 | $251,483,033 |
| Balance face amount of obligation issuable under above authority | 23,860,281 | 24,223,364 | 23,516,966 |
| **UNITED STATES EXPORTS AND IMPORTS—BUREAU OF CENSUS**—Month of April (000's omitted): | | | |
| Exports | $1,147,600 | $1,154,400 | $1,120,500 |
| Imports | 534,000 | 631,900 | 528,037 |
| **UNITED STATES GROSS DEBT DIRECT AND GUARANTEED**—(000's omitted): | | | |
| As of May 31 | $251,912,480 | $251,553,319 | $252,311,077 |
| General fund balance | 3,162,635 | 3,995,156 | 4,946,292 |
| Net debt | $248,749,845 | $247,558,163 | $247,364,785 |
| Computed annual interest rate | 2.234% | 2.235% | 2.174% |

*Revised figure.

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# Sound Currency and Banking Means Sound Economy

(Continued from first page)

ity of the Reserve banks—that is, Federal Reserve notes—or such non-reserve cash as the Reserve banks may have. The Federal Reserve notes are an irredeemable currency, and the non-reserve cash which the Reserve banks have in hand is generally a very small item. For example, on Feb. 23, it was only $355,250,000. This amounted to 1.6% of the deposits of the Federal Reserve banks, and 0.3% of the deposits of the member banks.

On Dec. 31, 1948, all member banks held $1,486,000,000 of non-reserve cash in their vaults against their deposits of $120,190,000,000—a ratio of 1.2%. Their non-reserve cash plus that of the Federal Reserve banks was slightly over 1.2% of the deposits of Federal Reserve and member banks.

The member banks as of Feb. 23 could have converted their surplus reserves of $683,000,000 into Federal Reserve notes which, added to their other non-reserve cash, would have given them $2,169,000,000 of non-reserve cash against their deposits—a ratio of 1.8%.

In brief, all our money, except silver certificates, is irredeemable; and all of it is irredeemable for domestic use in so far as gold is concerned.

Besides the fact that the so-called "reserve" of Federal Reserve banks is a frozen asset in so far as domestic use is concerned, the largest earning asset of our Federal Reserve and other banks is United States government obligations. In the member banks of the Federal Reserve System, such obligations constituted, on Feb. 23, 55% of their total loans and investments, and, in the Federal Reserve banks, they constituted 98% of total Federal Reserve bank credit outstanding—that in a system created to accommodate commerce, agriculture, and industry.

Having accepted the concept of frozen assets as reserves in the Federal Reserve banks, and of irredeemable reserves for member banks, the Board of Governors has in the recent years gone so far as to propose that government securities, held by member banks, be converted into frozen assets and be called a special reserve.

The ratio of the banks' capital accounts to total assets, or to "risk assets," or to total deposits, depending upon what it is one wishes to know, has dropped sharply during the last fifteen years. For example, the ratio of total capital accounts of all insured commercial banks to total assets was only 6.7% on Dec. 31, 1948, as compared with approximately 14% in 1934, and even that low ratio of 1948 is not the lowest one we have had in recent years.

Then there is the fact that, on Dec. 31, 1948, the assets of the Federal Deposit Insurance Corporation ($1,072,027,102.06) amounted to only 1.3% of the estimated $76 billion of bank deposits insured on that date. And of these assets, over 99% ($1,066,056,021.46) represented government obligations and accrued interest.

### A Remarkable Picture

Our banking structure thus presents a remarkable picture. The deposits of our banks rest upon frozen reserves in Federal Reserve banks; and the only asset cash that the Reserve banks could have paid out on Feb. 23 amounted to only 0.3% of the deposits of the member banks. Our banks are now dealing in liability currency. Even most of the non-reserve cash which the banks could pay out against their deposits—1.8% on Feb. 23—is an irredeemable liability currency of the Federal Reserve banks and Treasury; and our ultimate reserves in the Federal Reserve banks are a frozen asset in so far as domestic use is concerned.

Had this country's money been on a redeemable basis on Feb. 23, the Federal Reserve banks would have had $23,045,620,000 of gold reserve to pay out against their $23,527,511,000 of Federal Reserve notes and $22,225,406,000 of deposits—a ratio of 50.4%—assuming that the Reserve banks would pay out all reserves under the graduated tax penalties that are applicable when reserves fall below the minimum legal limit. The only asset cash the Reserve banks could have paid out on that date was the $355,250,000 of non-reserve cash which equaled less than 0.8% of the $45,752,917,000 of Federal Reserve note and deposit liabilities. In other words, the Reserve banks would have had approximately 65 times as much asset cash to pay out. Or, assuming that the Reserve banks would have paid out only their surplus reserves, they could have paid out on that date $11,607,390,250 in gold—approximately 33 times the amount held in non-reserve asset cash.

Yet, when it is proposed that we return to a redeemable currency in this country, under which the Reserve banks would normally have from 65 to 100 times more asset cash than they now have to pay out against their note and deposit liabilities, a widespread protest is heard that "there is not enough gold to go around." Nothing, apparently, is said by the protestors about the fact that the only asset cash that the Reserve banks ordinarily have to pay out amounts to only 1/65 to 1/100 of the cash which they insist would not be enough.

It seems reasonable to suppose that such protestors either do not have their facts in hand or they prefer that our country run on an irredeemable liability currency. Since the latter type of currency is a dishonest money in nature, the question arises as to what has happened to the people of the United States that so many of them accept and defend an irredeemable currency and are opposed to requiring our Treasury and Federal Reserve banks to redeem in gold their promises to pay on demand.

Is it a fact, as Harold G. Moulton asserted in 1920, that one of the effects of the issuance of an irredeemable paper money is the "unsettling [of] the customary ethical concepts which lie at the very basis of modern commercial life"? ("The Financial Organization of Society," The University of Chicago Press, 1920, p. 93.) As one observes the arguments offered today by those who are defending our irredeemable currency system, and considers who is offering them and why, there would seem to be no valid conclusion other than the fact that the customary ethical concepts of those able to understand the differences between a redeemable and irredeemable money have not only become badly unsettled but have practically disappeared.

The basic factor of the dishonesty involved in the issuance of an irredeemable paper money is in general not faced. We evade it. We do not wish to discuss it. Instead, we resort to a wide variety of arguments that will not withstand competent analysis.

Let us face the fact that our acceptance of an irredeemable currency means that we think promises to pay which will not be redeemed are preferable to promises to pay that could and should be redeemed.

### Floating With the Tide

We people of the United States are in the main floating with the tide which is carrying us into a system under which we and our economy are to be managed by government. Principle and the welfare of this nation are in high degree being sacrificed to immediate gains.

Perhaps no single thing gives a government as much power to control a people as does an irredeemable paper money. It touches every person and transaction in which money is employed. It is a subtle device not widely understood. Instead of being the great facilitating instrument in production, trade, saving, investment, and employment that a good money is supposed to be, it becomes a weapon of government control, of confiscation, and of destruction.

With the practically unlimited power which an irredeemable money gives a government over a nation's people and institutions, it is easy for the government to take control of, and to reduce to the level of subjects, all important institutions and their officers through which the irredeemable currency system operates. The result can be, and in high degree has been, the spread from on high down through the various echelons of our official, managerial, and other occupational groups and professions of both a great silence regarding the evils of an irredeemable currency and a positive defense of it. A scrutiny of the list of large and important associations and groups which, in 1933 and 1934, protected against the adoption of an irredeemable currency, and observation of their silence on the issue now, should provide some measure of what has taken place in this country.

Fortunately there are some important and very encouraging exceptions to this generalized picture. There are officers of banks, of insurance companies, of industries, and people in other occupations, who have been and are deeply concerned over this trend of events in this country and who are ready at any time to stand up in opposition to our dishonest currency and our persistent march into Socialism. The same exception also applies to a very important minority in Congress.

These exceptional people in and out of Congress are fighting, as best they can, but in a disorganized fashion, our irredeemable currency, our profligate spending, and our drift toward a governmentally-managed economy and people.

A need today is for a national organization in which they can combine their strength. It is on these people, and on such an organization, which may in the near future be formed, that the salvation of this nation probably will be found to rest.

It is an old story in world history, observable in European countries in recent decades, that, when a government embarks upon a program designed to deprive people of their freedom and to manage them and their economy, the central banking system, large banks, insurance companies, and large industrial enterprises, like the mass of people, tend to go along with the tide of events without offering any important opposition.

The consequences are also a familiar story: When a government is of a type that causes reactions of that kind, it is also of the type that will gobble up, when the time is ripe, those who fawn upon it. All that a government of that variety can understand, and will respect, apparently, is an opposition that will bark right back at it and let it understand that the government is an agent of the people, not their master. Such a government, if not stopped, becomes in the end and in nature merely gangsterism on a large scale—a great band of robbers on the loose. Men and groups who trade their birthright for the mess of pottage offered by such a government often, perhaps generally, sooner or later pay severely for such barter.

It is, of course, to be hoped that we in the United States can profit from the tragic experiences of other people in matters of this kind and save ourselves from our present tendency to drift with a dangerous tide and from the unfortunate consequences which seem uniformly to engulf a people who follow such a course.

No one single thing could match in importance a return to a redeemable currency as a means of bringing to an end our march into the Death Valley of Socialism. Those who prize freedom for themselves and others in the United States would do well to ponder this issue and to decide whether or not they are going to be docile floaters-with-the-tide or whether they will become members of a group of determined men and women who are prepared to make the sacrifice necessary to rescue this nation from what otherwise promises to be a day of reckoning.

### The General Public Does Not Understand

It is useless to expect the mass of people to understand the evils of an irredeemable currency, particularly our hybrid system, or the fact that it is probably the most insidious, yet effective, instrument a government can employ, aside from war, to enslave a people.

Most people, apparently, confuse the convenience of paper money with the inconvenience of gold as a medium of exchange, and they make their decision on that basis. They do not understand the various other vitally important functions performed by gold. They do not realize that its function as a medium of exchange is probably the least important of those it performs.

Any intelligent adult would prefer paper money or bank deposits to gold as a matter of convenience in exchange. But, unfortunately, the answer does not stop there, although obviously that given by the great mass of people seems to rest chiefly upon the simple matter of convenience.

The people in this and in other countries have, for the most part, apparently been advocates of paper money, preferably irredeemable paper money, as against gold and silver. Bryan's speech, "Crucified on the Cross of Gold" struck a responsive chord among our people, and the thought involved is, apparently, a deep-seated popular conviction in this country.

If our people are to be saved from the evils of an irredeemable currency and the exercise of the powers it automatically gives our Federal Government, it will apparently be done because a nationwide organization, composed of understanding and responsible citizens, will finally persuade Congress and the Administration to pass a law making our currency redeemable in the international monetary standard—gold.

### The Evils of Our Irredeemable Currency System

All thoughtful and responsible citizens who wish to be of service to our country need to understand the evils in our irredeemable currency system.

(1) Perhaps the most important is that it has deprived our people of control over the government's use of their public purse. Since individuals cannot demand redemption of these promises to pay, the Treasury and the Reserve banks can issue many more promises, and the government can spend much more money, than otherwise would be possible.

A result is that the control of the people's purse has passed to pressure groups, both domestic and foreign, whose good will the majority of Congress endeavors constantly to buy. Congress, in turn, controls the Treasury, and the Treasury controls the Federal Reserve Banks. Congress can bow to, and attempt to buy the support of, vote-delivering pressure groups because it is easy for it to require the Treasury and Reserve banks to issue additional promises to pay since they are irredeemable and since the people can place no restraints on such issuance by demands for redemption.

The loss by our people of a redeemable currency has made possible the subsequent orgy of governmental spending, profligate waste of our national patrimony, heavy and destructive taxation, and huge Federal debt. There is no reason to suppose that this can be ended unless we make our currency redeemable.

(2) Another evil is the fact that an irredeemable currency has made possible the rapid depreciation in the purchasing power of the dollar in recent years. The value of people's savings, of their income from bonds, annuities, and insurance policies, has declined sharply in a relatively short period of time. Billions upon billions of dollars of purchasing power have been destroyed by this depreciation of our currency.

When rising costs catch up with rising prices at various points, complaints spread rapidly, a spotty recession sets in, unemployment rises, hardships spread quickly because people, cut off from income, soon exhaust their savings at the prevailing high prices. Tragedy soon begins to stalk the land and a strong drive for more government spending soon appears; and, because the currency is irredeemable, it is easy for the government to embark on a new and further stage of spending, currency depreciation, rising costs, new distortions, and a new series of hardships. The common course is sawtooth in type with each upswing bringing temporary relief and encouragement, followed by another period of stress and strain and another drop with its distress and tragedies. In time, if that course is continued, a general collapse is experienced. Once the poison of irredeemable currency begins to diffuse itself throughout a nation a deadly disease holds it within its grip.

This disease is particularly insidious because, at its outset, there is generally a feeling of increased well-being; and, remembering this when later stages of the disease reveal distresses, the common practice is to demand more doses of the same intoxicant, in larger and larger amounts and with greater and greater frequency, until the patient collapses.

Our government and the great mass of our people have acted as though they think we are immune to this natural cycle of events. Proof that we are not is already showing itself. For example, on May 5 and 6, hearings were held by the Senate Banking and Currency Committee on the McCarran-Engle-Johnson bills which are designed to depreciate our dollar further, and which point to its further devaluation ultimately—all because high costs have reduced sharply or eliminated profits in gold mining.

Should existing distortions between costs and selling prices become more severe and should unemployment become widespread and severe, we can look forward to programs for further depreciation of our currency. Then we may find ourselves keeping close company with other countries of the world which have been suffering so much from the evils of so-called "managed" irredeemable currencies.

But there will be a difference: There will be no other important nation willing to dissipate its real wealth for our benefit. The idea that it is sound practice for any

(Continued on page 42)

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# Sound Currency and Banking Means Sound Economy

(Continued from page 41)

country to engage in such an undertaking is apparently peculiar to the United States. It is a part of the new Economics which is blighting this nation like a pestilential visitation. The aid we have extended foreign countries since the beginning of World War I and to June, 1950, without repayment, was estimated on April 27 to be over 92 billions of dollars.

(3) An irredeemable currency constitutes a moral, economic, and political rot that eats into practically every fiber of strength of a nation. It is a case of planting a deadly germ in the bloodstream of a nation's economy. This is not obvious to the general public. It requires time for them to perceive the fact that their vitality is being undermined, that their savings are slowly disappearing and are becoming a hollow shell, that a cancerous growth is eating deeply into the economic, social, and political fabric of the nation.

Probably the greatest step thus far taken to rob the people of the United States of their appropriate liberties was that which deprived them of the gold coin standard and system. The easy way, as Lenin pointed out, for a government to get control of a people is to debauch their currency. And there is no more effective way known to debauch a currency than to make it irredeemable.

(4) Because private individuals cannot freely get and hold gold, there cannot be, under our system of a restricted international gold bullion standard, a free flow of gold across our international boundary lines. As a consequence, foreign trade, exchange, and investments come under, and are under, government control. The result is government management of international economic relations with its distortions, artificialities, and stagnation in the natural channels of foreign trade, while private enterprise depends upon and responds chiefly to the orders placed by governments.

Only eight little countries do not today require import or export permits — Cuba, Dominican Republic, El Salvador, Guatemala, Haiti, the Commonwealth of the Philippines, Saudi Arabia, and Tangier.

(5) Because private enterprises cannot obtain gold with which to carry on international trade and investment freely, currency stabilization and recovery in foreign countries have been retarded. They will continue to be retarded until we return to a thorough-going gold standard with private enterprise free from improper government restraints in international trade, and with people free to take gold where they will when they will. We should lead the way; but we are not doing so, and we cannot do so until we free ourselves from the restrictions in an irredeemable currency.

(6) Under our system, only central banks can convert their non-gold dollars into gold at our standard rate of $35 per fine ounce. Private holders of non-gold dollars do not have this privilege. Domestically we cannot convert at that rate except through Federal Reserve banks for purposes of foreign exchange. Private holders of non-gold dollars abroad cannot conveniently convert them into gold at par; as a consequence, they sometimes sell them at a discount in terms of gold in foreign markets.

There is no valid reason why private holders of non-gold dollars should not be able to redeem them at par as do foreign central banks. Our discriminatory system has given rise to various gold prices for our dollar, and that has even crept into our domestic system as revealed in the premium prices paid for raw gold. Such differences in prices for a nation's currency are uneconomic and harmful; they are a characteristic of most European currencies. The question arises as to whether our government, which permits the depreciation of our non-gold dollars in terms of gold, is violating the parity clause of the Gold Reserve Act of 1934 which requires the Secretary of the Treasury "to maintain the equal purchasing power of every kind of currency of the United States."

(7) Our irredeemable currency arises from the fact that we have fallen into the European type of thinking to the effect that the easy way to solve economic problems is to manipulate our money. But the simple fact of the matter is that if problems of production, scarcities, costs, prices, and of unemployment could be solved by manipulating monetary standards and by issuing irredeemable money, such problems surely would have been solved long ago. We know nothing of importance about currency manipulation that people of many generations ago did not know. What our generation does not seem to have learned from the experiences of the past are the virtues of a fixed monetary standard and of a redeemable currency and the deadly evils inherent in an irredeemable currency and in manipulated monetary standards.

One of the peculiar aspects of our thinking, which is evident when we wish to create more dollars by the process of devaluation, is that we do not contend that we should increase the number of grains in an ounce of gold in order to make it yield more dollars of 13.714 grains. A grain is a grain and an ounce is an ounce to us; we accept them as fixed standards of weight and we do not urge that they be altered. But with the utmost inconsistency we do not accept a gold dollar of 13.714 grains fine as a fixed unit of measurement, and we do not hesitate to urge that this standard be altered when economic conditions do not suit us.

If our apple crop should fail, we would not consider reducing the size of our bushel basket in order to have more bushels of apples. We expect our established bushel to measure the fluctuations in our supply of apples. But if our costs and selling prices do not suit us, we seem ready to manipulate our monetary standard.

An irredeemable currency contributes to this type of thinking in subtle ways and invites repeated manipulation.

### The Benefits That a Redeemable Currency Should Bring

A return to a redeemable currency should bring the following benefits:

(1) It would provide our people with an honest money, and it should aid greatly in restoring standards of honesty in the administration of our money and credit system and in minimizing that wide variety of dishonesties among people which an irredeemable currency invites. It should discourage agitation for further manipulation of our monetary standard and currency.

(2) A return by the United States to a redeemable currency would restore to the people of this country direct control in high degree over their public purse and would enable them to put a brake on the public spending and further depreciation in the value of our money.

There seems to be no other hope to end our profligate government spending, which, apparently, is definitely out of control. This also seems to be the case with our Federal bureaucracy. A greatly concerned minority in Congress have been, and are, fighting with their backs to the wall; and there is at present no good reason to suppose that they can stop our mad orgy of spending.

Since the only real prospect for their success, and for saving the United States from the disaster into which it is being led, lies in making our currency redeemable, the immediate and urgent task is to make that fact sufficiently clear to enough people so that a nationwide movement can force our government to provide our nation with such a currency.

The great virility in our private enterprise system has been demonstrated by its ability to withstand so well the great abuse to which it has been subjected in recent years; but there is, apparently, no good reason for supposing that it cannot in the end be ruined if we continue on the course we are now pursuing.

Our people clearly do not understand that, next to war, mankind apparently has never devised an instrument more destructive of human welfare than is an irredeemable currency; and they apparently do not believe such a contention to be accurate. The fact that our system is hybrid in nature makes the evils involved less obvious and the manner in which the disease operates much more difficult to explain than probably would be the case if our system were the simpler and more thorough-going variety of irredeemable currency—that is, irredeemable both domestically and internationally.

The basic fact that this system has deprived our people of their proper direct control over their public purse is one that relatively few understand. At the same time it is perhaps the most fundamental reason why we should adopt a redeemable currency as quickly as possible.

For over a decade groups and individuals, both in and out of Congress, have been lecturing and warning one another about the dangerous course we are pursuing in our spending orgy. All these admonitions have been, and will continue to be, futile. The people can do nothing, and Congress will not respond, until control over the public purse is returned to the people. That can be done only by providing them with a redeemable currency. That fact had better be understood in this country; and Congress must take that step quickly if we are not to be led into serious trouble.

Possessed with a redeemable currency, every individual could exercise some pressure on the banks and Treasury. He would not find it necessary, today, to join with others in organized but futile protests; he could and would act directly. The flying of the red flags of demands for redemption across this country would soon halt Congress in its waste of the people's substance; and Congress would send home empty handed the multitude of pressure groups that now try to get their so-called share of the loot taken from our people by means of our system of irredeemable currency.

Let us face the fact: There are no real prospects that we can get economy in government while we have what people believe to be the "blessings" and "benefits" of an irredeemable currency. When efforts at economy are a prelude to a return to a redeemable currency, that sequence of events comes, ordinarily, at a much later and far-advanced stage in currency depreciation—when a nation is prostrate and is attempting to rise from the depths of destruction in which it has been plunged by such a currency and perhaps by related evils.

We have the choice: We can either bring our waste to a halt by ridding ourselves of our irredeemable currency, or we can attempt to rise from prostration at a later date by the economies enforced by such a catastrophe, after which we doubtless would try to build a currency system based upon redeemability.

We should not have to learn that old and oft-repeated lesson the hard way; but if is clearly an open question whether we realize either the benefits of a redeemable currency or of the institutions of freedom.

(3) Provision for a redeemable currency would provide the Federal Reserve banks with from 65 to 100 times more asset cash than they ordinarily have to pay out against their note and deposit liabilities.

An aspect of this situation, which justifies further attention, is that when it is suggested that we return to a redeemable currency and require the Federal Reserve banks to pay out their reserves to meet their note and deposit liabilities, it is promptly and vigorously urged that we do not have enough gold to go around. This protest is made in the face of the fact, either not understood or ignored, that the only asset cash that the Federal banks can pay out against their notes and deposits ranges ordinarily from 1/65 to 1/100 of what they would have to pay out if we were on a gold coin standard.

Since the argument that there is not enough gold to go around is so common, its fallacies should be understood. Briefly, it is indefensible for the following reasons:

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

Second, the ratio of our gold stock to non-gold money and deposits is relatively high. It was, on April 23, approximately 14% as compared with an average of roughly 8% for the years 1915-1932, during which time our country and our Federal Reserve System operated on a gold coin standard. Moreover, the reserve ratio required of our Federal Reserve banks today is only 25% against Federal Reserve notes and deposits as compared with 35% against Federal Reserve notes and 40% against deposits in those earlier years.

Perhaps it should be pointed out that, when in the years 1939 to 1942, inclusive, the ratio of our gold stock to money and deposits ranged from approximately 22 to 25%, those opposing redemption were not satisfied with that ratio —the highest on record since 1915. Then, the common contention was that the prospects for war, and war, made redemption inadvisable. The fact that we went through World War I without suspension of gold payments on a ratio of gold stock to money and deposits, ranging from only 8 to 11%, was not regarded as proof that we could redeem at a ratio of 22 to 25% during the years 1939-1942. In short, our people in high degree apparently are not interested in factual data of this type, just as they apparently are not interested in the issue of dishonesty inherent in an irredeemable currency.

Third, in answer to those who add government securities, payable on demand, to deposits in an effort to prove that we cannot and should not have a redeemable currency, it should be pointed out that the ratio of gold to money, deposits, and such securities would still be approximately 11% as compared with the average of 8% for 1915-1932, and without counting in any cashable government securities for those years.

If one is to attempt to compute what could be converted into cash and thus become a potential demand for gold, there is no valid reason for confining one's self to government securities payable on demand. All wealth can be regarded as a potential demand for gold, and, in so far as the sale of any wealth can give rise to borrowings by purchasers and an expansion in deposit currency, the load on gold can be increased. If that type of argument is to be pursued to its logical conclusion we can never have, and never should have had, a redeemable currency.

Fourth, it needs to be understood that a redeemable currency tends to bring gold out of hoards and to cause it to flow into the banks and Treasury of a nation. When we resumed specie payment in 1879, more gold was turned in for paper than there was paper turned in for gold in that year.

When our government officials, and others, express a fear of hoarding in this country, should our currency be made redeemable in gold, they are simply saying that there are good reasons why our people would not have confidence in our paper money despite its redeemability. That sort of contention is proof that the people of this country should force redeemability promptly and, if our paper currency, when made redeemable, does not command public confidence, we should know that fact and the reasons for it. A government that foists upon the people of this country a currency that does not command their confidence should be removed from power as quickly as possible.

Fifth, to those who say that redeemability might cause a heavy outflow of gold, it should be pointed out that, for the year 1948, the net inflow of gold into this country was $1,680,404,000, and for 1947, it was $1,866,348,000. This heavy inflow was at the rate of $35 per fine ounce of gold which the agitators for a higher dollar price for gold insist is too low. Furthermore, this inflow took place while our dollars were, and are, redeemable at par in gold in so far as central banks and governments are concerned. They are free, and have been free for sixteen years, to convert their dollars into gold at $35 per fine ounce and to withdraw it as they choose.

It would be a fine thing if gold in the hands of private individuals could and would flow out of the United States. That would help to open up trade; it should aid other nations to get gold and thus hasten redeemability for them; and, if our gold reserves should fall sufficiently, perhaps it would bring to an end the profligate casting of our wealth to the four winds of the world.

(4) Because we would have a redeemable and a sound currency, savings, investment, long-time commitments, and production should be encouraged. Resumption of specie payments is often, probably usually, followed by business recovery and expansion.

But it needs to be emphasized that no monetary system devised by man can prevent business booms or recessions. The important point, however, is that an irredeemable currency causes more trouble than any other monetary system thus far known. It is particularly vulnerable to shocks.

We would not, ordinarily, one may suppose, blame a fine automobile for an accident caused by a reckless driver and, as a consequence and matter of principle, adopt cheap automobiles on the theory that they are safer than the most expensive ones. But we do something analogous to that in respect to monetary standards. Because a gold standard holds people in check and applies strong

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brakes when we attempt to go to extremes in our use of credit, we blame the gold standard for the results flowing from our abuses of credit. For example, the gold standard has been criticized because it did not prevent, or because it "caused" so it is said, the depression beginning in 1929. The facts are that the gold standard did not cause the recession and depression following 1929, and of course it could not prevent them. We have been as irrational on that point as would be a person who would blame a fine automobile for an accident caused by an unreliable driver.

Since the notion seems widespread today that an irredeemable currency provides some sort of guarantee against business recessions, it needs to be emphasized that there is no factual basis for that assumption. Our very severe and prolonged business depression of 1873-1878 came during the period, 1862-1878, when we had an irredeemable currency. The recession of 1937-1938 came under our present system of irredeemable money; and the drop in the index of industrial production for the period involved in those years was sharper than for any corresponding period during the years 1929-1933. (The high was 118 for May, 1937; the low was 76 for May, 1938, a drop of 36%. In 1929, the high was 125 for June; in June, 1930, the index was 98, a drop of 21%.) Although the current widespread fear of a depression now would seem to reveal that at least many people do not really have the confidence in an irredeemable currency that is so widely professed, the great majority nevertheless continue to whistle in the dark and to allege that our irredeemable currency has more virtues than does a redeemable money.

Important facts we need to understand clearly are that no type of currency can prevent booms or recessions; that booms and recessions have many causes and correctives; and that we are on untenable ground if we assume that there is a single cause or a single cure, monetary or otherwise. The most severe upheavals from which humanity has suffered are not those experienced under redeemable currencies but rather those caused by wars, totalitarian governments, and irredeemable currencies.

Basic considerations for us now are the facts that, because of the infliction upon us of an irredeemable currency, our people have lost control over their public purse, our national patrimony is being dissipated in a prodigal and frightful manner, and we are being led steadily and persistently down the path into the inferno of Socialism.

(5) Should our currency be made redeemable, private enterprise would be able to obtain and to use gold in foreign trade. As a consequence, there should be a healthy and proper type of expansion in foreign exchange, trade, and investments of all kinds, and foreign countries should be able, sooner than otherwise would be the case, to stabilize their currencies in terms of gold and to increase their production.

It is sometimes alleged that we cannot return to a gold coin system until currencies abroad are stabilized. This is a case of putting the cart before the horse; we should lead the way, and this leadership should make it much easier for other countries to reconstruct their currencies and to open up foreign trade.

(6) Perhaps above all, provision for a redeemable currency at our present rate of $35 per ounce of fine gold would be the most potent force at our disposal to end our march towards Socialism or toward more and more government management of our economy and people in some other form.

Our present rate of $35 per fine ounce of gold should not be altered since fixity is a basic requisite of a good monetary standard and since we have had the benefits of such fixity during the last 16 years. There are no valid arguments in behalf of an alteration in the weight or fineness of our standard monetary unit, considering the high ratio of our gold stock to our non-gold money and deposits.

Next to war, an irredeemable currency provides a government with what is apparently the most effective means of obtaining control over a people that has thus far been discovered. It provides a remarkably easy means of regimentation. It is a subtle device by which people's savings and their enterprise can be impaired or destroyed. It is an open gate to Socialism. So long as we are without a redeemable currency, we are keeping wide open this particular gate to Socialism.

Although a redeemable currency is apparently the best single guarantee a people can have against Socialism or a governmentally-managed economy in some other form, we are waiving that guarantee. And, unless the responsible citizens of this country realize that fact and organize to bring it home to Congress, the press, and other influential people and agencies, there seems to be no good reason for supposing that our march into the tortures and miseries of Socialism will be arrested.

It needs to be emphasized today, and with urgency, that no man or woman may properly assume for one moment that he or she is fighting Socialism or a governmentally-managed economy, or for a return to the people of some direct control over their public purse, or for economy and honesty in government, or for private enterprise, or for the opening up of foreign trade to private ingenuity if he or she is not fighting against our irredeemable paper money.

**What We Need to Do and to Do Promptly**

Representative Daniel A. Reed of New York has introduced a bill, H.R. 3262, designed to give the United States a redeemable currency at the present rate of $35 per fine ounce. Individuals and every important organization of this country should give Representative Reed and his bill the support they deserve and need. That support should be given promptly. Every proposal for a delay involves an argument for a continuation of, rather than a prompt halt to, our parade into Socialism and the attendant destruction of our economy, people and nation.

The banking fraternity has a great responsibility in this matter. Riding with the tide is definitely not the correct course to pursue, although bankers, perhaps above all groups, find that type of inaction inviting. Sound currency, sound banking, and a sound economy go together. The nature of their reserves, and the nature of their principal assets are matters that have far-reaching implications. Banking, because of present characteristics, becomes an important agency in the drift of our government and economy. The bankers should be the first to insist that their product be good.

An irredeemable currency provides an easy way for banks to avoid many of the problems inherent in the fractional reserve system, but it does not provide the proper answer to those problems. There is no valid defense for a system in which we permit our Treasury and Federal Reserve banks to issue promises to pay which they do not intend to redeem and do not redeem.

Private enterprise and freedom are not protected nor fostered by a system of irredeemable promises to pay. We need, and need badly, honesty and integrity in both our currency and our government. Their lack has diffused itself throughout our nation. It is part of our drift from the basic principles that gave our people the greatest degree of independence and the highest standard of living that the world has ever seen.

The issue before us here is not one for the conventional and casual type of discussion and for the usual dismissal and subsequent inaction. It is an issue reaching to the heart of the well-being of this country. An irredeemable currency leads either to redeemability or to thoroughgoing government dictatorship. The sequence of events in which the use of irredeemable paper currencies is followed by dictators has repeated itself too often in this world to permit any responsible person to assume that we in the United States will not provide another illustration of it. It was a man on horseback—Napoleon—who rode into power on the heels of the French irredeemable currency of approximately 160 years ago.

Government dictatorship in the United States could mean the end of the United States as we have known it. It could turn back for a century or more mankind's search for, and progress toward, freedom.

The correct answer does not lie in waiting to see whether or not we get a dictatorial government in this country; it lies in closing the gate quickly and securely against that possibility. The most immediate, simple, and far-reaching way to do that is to eliminate our irredeemable currency.

The American heritage was not given to this generation to squander. It was entrusted to us as custodians. Today we are showing ourselves to be irresponsible and prodigal dissipators of our national patrimony and of our freedom and achievements. The immediate question is whether we will change our course, be faithful to the trust imposed upon us, and make ourselves worthy of both our ancestors and our posterity.

# Curb Floor Clerks Announce Outing

Daniel Hannafin, of J. A. McManus & Co., President of the New York Curg Exchange Floor Clerks Association, announced that his organization's annual outing and games would be held this Saturday, June 18, 1949, at "The Neighbors," in Pleasant Plains, Staten Island.

The program, which includes a variety of sporting events in addition to food and refreshment, is to be highlighted by two softball matches. The opening game of the twin-bill will find Wally Gardner leading the New York Curb Floor Clerks team against a contingent representing the New York Curb Exchange regular members. Bob Dowling, of Pulis, Dowling & Co., is slated to head the brokers.

The nightcap will find Jimmy Clare sparking the New York Curb Floor Clerks against Jimmy McIntyre's New York Stock Exchange Floor Clerks group.

Jack Negri, of William I. Rosenfeld & Co., Vice-President of the organization, is aiding Arthur Courtin, of Merrill Lynch, Pierce, Fenner & Beane, who is Chairman of the general arrangements committee.

# The Economic Outlook: Short-Term and Long-Term

(Continued from page 8)

nomic ills of the country and again offer the people security. This fell by the same wayside as the others. There came a point in Roman history when fear of technological unemployment became so great that inventors of labor-displacing machinery were put to death.

*301 A. D.:* Progressive depreciation of the Roman sesterce, caused by the profligacy of the Government, continued to the point where the same Government would not accept its own coins in payment of taxes. It then became necessary for Diocletian in 301 to issue his famous Tariff of Prices, which fixed ceilings on the price of everything in the Roman Empire. This was of course done to insure security for the people. Eventually, the ultimate in planned economies was reached when Government relief became hereditary. The net result of the price-fixing law was failure and it had to be repealed because of the economic stagnation it brought upon the Empire.

I could continue indefinitely. There isn't one single economic panacea we have attempted in the past 17 years that wasn't a failure before the birth of Christ. History records that man has yet to taste a single dish of hasenpfeffer made from the white rabbits pulled out of the hat by a long list of economic magicians.

Despite an unmarred historical record of utter failure, I believe we will continue to move swiftly toward a totalitarian State while giving lip service to the "American way of life." Of course, we won't call the end product "socialism," but probably some new kind of a streamlined version of American democracy.

In our progress down the primrose path toward the welfare state, we must answer the demands of our various pressure blocs such as the farm group, the veterans' group, the social do-gooders, etc. Billions upon billions will be spent and huge Government deficits will be amassed. These deficits, as in the past, will become money and we will continue to inflate an already highly inflated inconvertible paper dollar.

**Meaning of Inflation**

It is unfortunate that our citizens do not understand the function of money or the meaning of inflation—if they could only be made to understand that a rise in prices is not inflation but the result of inflation. Once again we refer to Webster, who thus defines "inflation": "Disproportionate or relatively sharp and sudden increase in the quantity of money or credit or both, relative to the amount of exchange business. Inflation always produces a rise in the price level."

From now on, as government deficits are created to finance our economic bubble dance, our supply of money will increase and I am afraid that in the long run it will increase much faster than our supply of goods. The monetary supply (total demand and time deposits and currency outside banks) at the Bank Holiday was $41,680,000,000 and today it is $170,000,000,000, an increase of 308%. As a result of continuously monetizing the debt and inflating our money supply, I believe one of our big problems between 1952 and 1960 will be rapidly advancing rather than declining prices.

However, I do not look for sensational price rises such as resulted from the European currency inflations. No, as in the past, the government will be successful in blaming Wall Street; that ambiguous thing called industry in general; the food manufacturer in particular; and everyone except itself. As always, under such conditions, another OPA will be established. Price controls, however, will continue to be as unsuccessful as they have been for four thousand years.

With or without a war with Russia, I look for the Federal Government to ultimately control and direct our economic and social activities. With this will come the stifling of individual initiative and economic stagnation. Can this be avoided? I don't think so unless there is a complete reversal in what appears to me to be a moral distintegration on the part of our people.

I hope I am wrong, but I cannot help but feel there are too many of us wildly and thoughtlessly seeking economic security at the hands of the Federal Government. I would like to quote from a letter George Washington wrote to Lafayette in 1788. In speaking of our limited constitutional form of government with its system of checks and balances, he said:

"These powers are so distributed among the legislative, executive and judicial branches into which the general government is arranged that it can never be in danger of degenerating into a monarchy, an oligarchy, an aristocracy or any other despotic or oppressive form, so long as there shall remain any virtue in the body of the people."

It is my personal belief that with the voting masses today there is no longer any "virtue in the body of the people." I might cite the agricultural pressure group as a case in point.

The Grocery Manufacturers Association recently made an excellent survey of the agricultural areas that I would advise all of you to examine. Highly significant to me was the fact that out of 735 answers to the question, "Do you favor Federal price supports?" 88% voted "yes"; 7% were undecided; and only 5% voted "no"—but to the question, "Do you wish to farm always under a system of Federal price supports provided this involves acreage controls and marketing quotas?" 64% voted "no"; 10% were undecided and only 26% voted "yes."

Here is proof that our farmer is willing to let just the head of the socialist camel into the tent. Like the Arab, I am afraid he will find the camel in control of the tent.

**The Brannan Farm Scheme**

I am not sure the Brannan farm scheme is a dead duck. I believe some variation of it will ultimately be passed, because this scheme, when measured by the yardstick of political expedience, is an amazing plan, practically a political miracle. It would reconcile the two largest voting groups whose financial interests are diametrically opposed. It promises an abundance of cheap food for the housewife of the voting laborer on the one hand and a high income for the voting farmer, brought about by a subsidy designed to keep his farm income at the desired political level, on the other. From what I can see, I believe too many of our farmers think Patrick Henry cried, "Give me $1.59 for potatoes and $4.22 for milk or give me death."

Such a program is not creeping socialism, but galloping socialism.

How many people, I wonder, realize that the greatest myth in the history of man is that government can offer economic security. A planned economy, with fixed prices or price ceilings, is the old-

(Continued on page 44)

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# The Economic Outlook: Short-Term and Long-Term

(Continued from page 43)

est type of economy in the world. A prerequisite to planning is a static unchanging economy. As the body economic is dynamic and ever-changing in all ages (because of inventions and technological improvements) a planned economy is at loggerheads with the realities of life. Many of our social dreamers (most of whom have both feet firmly planted in the air and are constantly shuffling their social idealism with historic and economic facts) feel that while government-planned economic security has failed in other countries and civilizations, it could succeed here. Why do they think that? Well, mostly because we are we—superior, more intelligent, etc.

Personally, I have been fortunate enough never to have lived under a so-called "welfare" state, but I am fairly familiar with and shudder at the history of one branch of my family which did. This ancestor's land was invaded by a foreign power. After fierce resistance for a time, he put down his arms and signed a treaty which promised him full economic security from the womb to the tomb in exchange for the loss of a certain amount of freedom. As time went on, he found himself the object of considerable racial and religious prejudice. His people found that the treaties made and the promises they had received were soon broken.

It wasn't until last year when the story broke in our press that many of our citizens heard of their own national disgrace and shame. They learned that their government's promise of a happy hunting ground and economic security to the American Indian had been fulfilled by a concentration camp, disease, starvation and death.

I am most grateful that my great-grandmother married one of the conquerors and that I did not have to grow up with a feather in my hair enjoying economic security in a U. S. concentration camp. This leads to the obvious question—since the Indian's plight was brought about by the same people who now want the whole nation to enjoy the delights of economic security, might not the whole nation end up in exactly the same condition as the Indian?

I have felt this way about our "long-term" economic outlook for many years. Over 13 years ago, on May 12, 1936, in a talk given in New Jersey, I stated:

"After examining various governmental results with popular present-day economic panaceas, we must conclude that many of the ancient civilizations, especially the Roman Empire, disintegrated because the people, morally declining, heeded the siren call of the demagogue and gave up what individual liberty they possessed in exchange for a mess of pottage labeled 'Economic Security.'

"At the risk of being termed an alarmist, I must confess that the present-day lack of popular interest in governmental affairs disturbs me. Interest in government today is apparently confined mainly as to how governmental activities can help directly or indirectly the individual's monetary position, and little or no thought is given to the underlying principles of government. Our present attitude is comparable to that period in Roman history when hundreds of Roman citizens sat in the amphitheatre munching their dole bread and watching the gladitorial combats provided for them by an over - paternalistic bureaucracy. To these people, the "bread and circus" was the important thing. The fact that their own moral decline and subsequent disintegration of their government brought the Goths and Vandals to their doors was to them of no importance.

"You are all concerned with the present-day physical welfare of your children. Take interest also in government for the preservation of their future happiness and liberty. Question those who offer you ancient planned economy theories with new names. Ask those who advocate the various totalitarian states and collectivist doctrines such as Communism and Socialism if they have not merely modernized and streamlined the ancient policies and names of tyranny, despotism and oligarchy."

I will bring my remarks to a close by reminding you that for 156 years under the Constitution of the United States, which purposely and definitely limited the powers of the Federal Government, the people of this nation have prospered more than mankind did in 4,000 years of "planned economies" under over-paternalistic bureaucracies guided by so-called "master minds."

The great fear of our constitutional fathers was that the growth of the Federal Government would be jeopardized. It is ironic, indeed, that Thomas Jefferson, the father of the Democratic Party, said:

"It is not by the consolidation or concentration of powers, but by their distribution, that good government is effected. Were not this great country already divided into states, that division must be made, that each might do for itself what concerns itself directly, and what it can do much better than a distant authority. Every state is divided into counties, each to take care of what lies within its local bounds; each county again into townships or wards, to manage minuter details; and every ward into farms, to be governed each by its individual proprietor. Were we directed from Washington when to sow and when to reap we should soon want bread."

# Securities Now in Registration

**• INDICATES ADDITIONS SINCE PREVIOUS ISSUE**

**Alps Mining & Milling Co., Missoula, Mont.**
June 2 (letter of notification) 100,000 shares (5¢ par) common. **Price**—50¢ per share. **Underwriter**—Hachez & Brown, Spokane, Wash. To complete mill, purchase equipment and carry on development work. Office, P. O. Box 745, Missoula, Mont.

**American Fork Consolidated Mines, Salt Lake City, Utah**
May 9 (letter of notification) 400,000 shares of capital stock. Price 25 cents per share. **Underwriter**—Cromer Brokerage Co., Salt Lake City. For mining development.

**American Light & Traction Co.**
May 13 filed 634,667 shares of common stock (par $25). **Offering**—United Light & Railways Co. (parent), is offering to its stockholders of record June 1 the right to subscribe for the 634,667 shares of American at $12 per share on a 1-for-5 ratio. Rights will expire July 1. **Underwriter**—None. The proposed sale is to conform with SEC order under the Holding Company Act which calls for United's sale of American Light stock holdings.

**American Telephone & Telegraph Co.**
April 21 filed between $393,000,000 and $400,000,000 ten-year 3⅛% convertible debentures, due June 20, 1959. **Offering**—Offered for subscription by stockholders of record May 6 at the rate of $100 debenture for each six shares of capital stock held at par (flat). Rights expire June 20. **Underwriting**—None. **Proceeds**—For advances to subsidiary and associated companies; for the purchase of stock offered for subscription by such companies; for extensions, additions and improvements to its own telephone plant; and for general corporate purposes.

**• Anaconda Lead & Silver Co., Denver, Colo.**
June 9 (letter of notification) 60,000 shares of capital stock (par $1). No underwriters. For payment of lease rentals, purchase options on timber, for prospecting, core-drilling, prospecting machinery and equipment and other expenses. Office, 1509 Marion Street, Denver, Colorado.

**• Associated Grocers' Co., St. Louis, Mo.**
June 3 (letter of notification) 3,000 shares of common. Price, $100 per share. No underwriter. To increase the buying power of the company. Office: 814-824 Spruce Street, St. Louis, Mo.

**Bradshaw Mining Co., Tonopah, Nev.**
Oct. 8 (letter of notification) 1,500,000 shares (5c par) common stock. **Price**—20 cents per share. **Underwriter**—Batkin & Co., New York. To repair and renovate mine of company and to exercise option to purchase processing mill and move and erect such mill on the company's property and for working capital.

**Carnegie Mines Ltd., Montreal, Canada**
April 27 filed 500,000 shares of common. **Price**—60 cents per share. **Underwriters** — Name by amendment. **Proceeds** — For working capital, exploration, development and other purposes.

**Central Fibre Products Co., Inc.**
May 6 (letter of notification) 3,000 shares of non-voting common ($5 par). Price, $22 per share. **Underwriter**—Bosworth, Sullivan & Co., Denver, Colo. Proceeds to selling stockholders.

**• Citizens Credit Corp., Washington, D. C.**
June 16 (letter of notification) 2,000 shares ($12.50 par) class A common and 1,500 shares of (25c par) class B common. Price, class A, $15 per share and class B 50c per share. **Underwriter**—Emory S. Warren & Co., Washington, D. C. For general business purposes. Office: Woodward Building, Washington, D. C.

**Clarostat Mfg. Co., Inc., Brooklyn, N. Y.**
Aug. 26 (letter of notification) 37,400 shares of 50¢ cumulative convertible preferred stock. **Underwriter**—Cantor, Fitzgerald & Co., Inc., New York. **Price**—$8 per share. Working capital, etc.

**• Clary Multiplier Corp., Los Angeles, Calif.**
June 9 (letter of notification) 60,000 shares ($5 par) preferred. **Underwriter**—Walston, Hoffman & Goodwin, Los Angeles. To repay current bank loans and for general corporate purposes.

**Colorado Central Power Co.**
May 26 filed 21,429 shares ($10 par) common. **Offering**—Offered to stockholders of record June 10, 1949, at rate of 1-for-2½, at $23.25 per share. Rights expire June 28. **Underwriters**—The First Boston Corp., Dean Witter & Co., Bosworth, Sullivan & Co.; Boettcher & Co. and Woodcock, Hess & Co., Inc. **Proceeds**—For construction. Expected June 16.

**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.

**Consolidated Caribou Silver Mines, Inc.**
March 30 filed 376,250 shares (no par) common stock. **Price**—$2.50 per share. An additional 50,000 shares will be sold to the underwriter at $1 per share for investment. **Underwriter**—William L. Burton & Co., New York. **Proceeds**—To develop mining properties. Offering expected later in June.

**Consolidated Engineering Corp., Pasadena, California**
June 3 (letter of notification) 300 shares ($1 par) common. Price, market. **Underwriter**—Hopkins, Harbach & Co., Los Angeles. Working capital.

**• Cornell Oil & Gas Corp., Houston, Texas**
June 7 (letter of notification) 600,000 shares (1c par) common. Price, 50 cents per share. **Underwriter**—N. R. Real & Co., New York. For drilling and equipping six wells, for working capital and organizational expense.

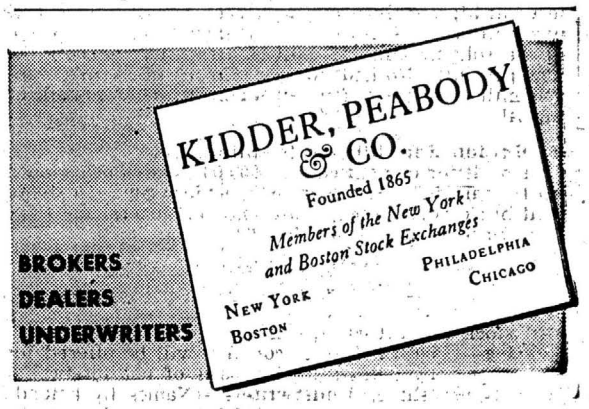
**• Crooke's Laboratories, Inc., New York**
June 7 (letter of notification) 13,863 shares of capital stock (par $1). **Price**—$3.50 per share. Offered for subscription by stockholders of record June 14 in a 1-for-6 ratio. Rights expire July 14. **Underwriting**—None. Pay promissory note, working capital. Office, 305 E. 45th Street, New York.

**• Delaware Power & Light Co. (7/12)**
June 8 filed $10,000,000 first mortgage and collateral trust bonds, due 1979, and 50,000 shares of preferred ($100 par) cumulative stock. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc. (bonds); The First Boston Corp. and Blyth & Co., Inc. (jointly); Shields & Co. and White, Weld & Co. (jointly); Morgan Stanley & Co.; Otis & Co. (stock); W. C. Langley & Co.; Union Securities Corp. (bonds); Lehman Brothers; Salomon Bros. & Hutzler (bonds); Merrill Lynch, Pierce, Fenner & Beane, and Union Securities Corp. (jointly on stock). **Proceeds**—For construction for company and its two subsidiaries. Expected July 12.

**• Delta Petroleum Co., Inc., New Orleans**
June 6 (letter of notification) 5,000 shares of common to be offered at $10 per share and 900 shares of preferred to be offered at $100 per share. No underwriter. For additional working capital. Office: Box 7335, New Orleans, La.

**• Dow Chemical Co.**
June 15 filed 75,000 shares of common stock (par $15). **Underwriter**—Smith, Barney & Co. **Proceeds**—Company will receive no part of the proceeds as these shares represent a portion of the holdings of the estate of the late Willard S. Dow and the late Martha L. Dow who were killed in an airplane accident on March 31, 1949.

**Emerson Radio & Phonograph Corp. (6/27)**
June 7 filed 235,000 shares of capital stock. **Underwriter**—F. Eberstadt & Co., Inc. The terms and price of the offering have not yet been determined, but the stock will not be sold below the market price on the New York Stock Exchange at the time of the offering. **Proceeds**—The shares to be sold are from holdings of Mrs. Benjamin Abrams, Mrs. Max Abrams and Mrs. Louis Abrams, wives of principal officers and directors of the company, and do not involve new financing by the company. Following sale of the shares, the Abrams family will own approximately 25% of the company's 800,000 shares of common stock. Expected June 27.





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## NEW ISSUE CALENDAR

**June 17, 1949**
Sky Harbor ---------- Common
Staten Island Edison Co. ---------- Preferred

**June 20, 1949**
Illinois Power Co., 11:30 a.m. (EDT) ---------- Common
Kansas Gas & Electric Co. ---------- Common
Public Service Co. of New Hampshire Noon (EDT) ---------- Bonds
Tennessee Gas Transmission Co. 11:30 a.m. (EDT) ---------- Bonds

**June 21, 1949**
Baltimore & Ohio RR. ---------- Equip. Trust Ctfs.
Florida Power & Light Co. ---------- Bonds

**June 22, 1949**
Southern Pacific Co., noon (EDT) ---------- Eqp. Trust Ctfs.
Pacific Western Oil Corp. ---------- Debentures

**June 23, 1949**
Portland General Electric Co. ---------- Common

**June 27, 1949**
Pennsylvania Power & Light Co. ---------- Common
Wisconsin Electric Power Co. ---------- Preferred

**June 28, 1949**
Michigan Consolidated Gas Co. ---------- Debentures
Pacific Gas & Electric Co. ---------- Bonds

**July 1, 1949**
Messenger Corp. ---------- Preferred
Mutual Telephone Co. ---------- Preferred

**July 5, 1949**
San Jose Water Works ---------- Preferred
Seagram (Joseph E.) & Sons, Inc. ---------- Debentures

**July 7, 1949**
Atlantic Coast Line RR. ---------- Equip. Trust Ctfs.

**July 12, 1949**
Delaware Power & Light Co. ---------- Bonds and Preferred

**July 13, 1949**
New England Power Co. ---------- Bonds
New Jersey Power & Light Co. ---------- Bonds & Preferred

**July 19, 1949**
St. Joseph Light & Power Co. ---------- Bonds

● **Engel Oil Corp., Ft. Stockton, Texas**
June 3 (letter of notification) 100,000 shares of common stock (par $1). Price, par. No underwriter. To purchase and acquire oil leases and for drilling of a test well for oil and gas on said leases. Office: P. O. Box 1414 Ft. Stockton, Texas.

**Fenimore Mines Ltd., Toronto, Canada**
May 24 filed 2,000,000 shares ($1 par) capital stock. **Underwriter**—Tellier & Co., New York. Price, 25 cents per share (U. S. funds). **Proceeds**—To explore for iron ore deposits.

**Florida Power & Light Co. (6/21)**
May 20 filed $10,000,000 first mortgage bonds, due June 1, 1979. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Harriman Ripley & Co.; Halsey, Stuart & Co. Inc.; White, Weld & Co.; Lehman Bros.; The First Boston Corp.; Carl M. Loeb; Rhoades & Co. and Bear, Stearns & Co. (jointly); Shields & Co. **Proceeds**—To pay off $3,200,000 of short-term borrowings from Central Hanover Bank & Trust Co. and for construction and other corporate purposes. Expected about June 21.

● **Gas-Ice Corp., Seattle, Wash.**
June 8 (letter of notification) $150,000 4½% debenture bonds due Oct. 1, 1954-1959. No underwriter. For working capital and an expansion program.

**Gauley Mountain Coal Co., New York**
Jan. 19, filed 10,666 shares of capital stock, of which 1,381 shares will be sold in behalf of the company and 9,285 shares will be sold by Norgreen Associates Inc. and others. Price at market. **Underwriting**—None. **Proceeds**—Company will use its proceeds for additional working capital.

● **Gold Back Consolidated Mines, Inc., Murray, Idaho**
June 2 (letter of notification) 600,000 shares of common nonassessable stock and 600 notes. Stock is being offered at 25¢ per share and with each sale of 1,000 shares one note will be issued at no extra cost to investor. To be sold in units of 1,000 shares plus one note for $250 per unit. No underwriter. To acquire a mill, mine and mill equipment; for development; and for working capital.

● **Golden Seal Mining & Milling Co.**
June 6 (letter of notification) 200,000 shares of common stock (par 25c). Price, par. No underwriter. To build road bunk house, cook house and for general development work. Office: P. O. Box 2307 Boise, Idaho.

**Gulf Atlantic Transportation Co., Jacksonville, Florida**
May 31 filed 620,000 shares of class A participating ($1 par) stock and 270,000 shares (25c par) common stock. **Offering**—135,000 shares of common will be offered for subscription by holders on the basis of one-for-two at 25 cents per share. **Underwriters**—(Names by amendment) will buy the remaining 135,000 shares plus unsubscribed shares of the new common. Offering price of class A $5. **Proceeds**—To complete an ocean ferry, to finance dock and terminal facilities, to pay current obligations, and to provide working capital.

**Heidelberg Sports Enterprises, Inc., Pittsburgh, Pa.**
June 25 filed 5,000 shares of class B common stock (par $100). **Price**—$100 per share. **Underwriter**—None. **Proceeds**—$600,000 to be used for spectator grandstand and balance for related purposes.

● **Helicopter Air Service, Inc., Chicago**
June 9 filed 80,000 shares of convertible class A stock (par $4). **Underwriter**—Cruttenden & Co. **Proceeds**—To defray the cost of acquiring operating equipment, landing site installations and to provide working capital.

**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.

**Houston Lighting & Power Co.**
May 31 filed an alternative to issue $15,360,450 2¾% convertible debentures, due June 30, 1964 or 307,209 shares (no par) common. **Offering**—Common stockholders of record June 22 will be entitled to subscribe to either one share of common at $40 per share for each four shares held or to $50 principal amount of debentures for cash at 100 of principal amount for each four shares held. Rights expire July 11. **Underwriter**—Kidder, Peabody & Co. **Proceeds**—To repay short-term bank loans of about $4,000,000 made or to be made from The National Bank of Commerce of Houston and to finance construction.

**Idaho-Montana Pulp & Paper Co., Polson, Mont.**
Nov. 23 (by amendment) 180,000 shares ($10 par) common stock to be offered at $10 per share and 20,020 shares to be issued in exchange for $170,200 first mortgage bonds. **Underwriter**—Tom G. Taylor & Co., Missoula, Mont. **Proceeds**—To erect and operate a bleached sulphate pulp mill with a 200-ton per day capacity.

**Independent Plow, Inc., Neodesha, Kan.**
May 31 (letter of notification) 1,000 shares of preferred (par $100) and 25,360 shares ($1 par) common. **Underwriter**—McDonald, Evans & Co., Kansas City, Mo. For working capital.

**Indianapolis (Ind.) Public Loan Co., Inc.**
May 25 (letter of notification) $170,000 of 5% sinking fund debentures, 1964 series. **Underwriter**—City Securities Corp., Indianapolis, Ind. To reduce the amount of notes payable to bank.

● **Inland Chemical Corp., Little Rock, Ark.**
June 6 (letter of notification) 1,000 shares of 6% preferred. Price, $100 per share. No underwriter. To purchase land for plant site, plant equipment and a stock pile of managanese ore—remainder for working capital.

**Kaman Aircraft Corp., Windsor, Locks, Conn.**
May 23 filed 170,456 shares of class A non-voting common stock (10c per share non-cumulative dividend) and 11,362 shares of class B voting common stock. Price, $5.50 per share. **Underwriter**—None. **Purpose**—To acquire machinery, tools and equipment; to buy land and buildings; to produce 30 helicopters and accessories; to complete engineering changes; to setup sales and service departments; and to train service personnel.

**Kansas Gas & Electric Co. (6/20)**
May 16 filed 550,000 shares of common stock (no par) of which American Power & Light Co. (parent) will sell 450,000 shares. **Underwriters**—Blyth & Co., Inc., and The First Boston Corp. **Proceeds**—Kansas Gas will use proceeds of 100,000 shares to pay for part of its construction program and to repay short-term bank loans from Guaranty Trust Co. of New York and eight Kansas banks.

**Keller Motors Corp., Huntsville, Ala.**
May 10 filed 5,000,000 shares (3¢ par) common. **Underwriter**—Greenfield, Lax & Co., Inc., New York. **Price**—$1 per share. **Proceeds**—For plant facilities, equipment and working capital to manufacture a low-priced, medium-sized station wagon.

**Liquid Carbonic Corp., Chicago.**
June 2 (letter of notification) 2,000 shares of common stock. **Price**—$15 per share. **Underwriter**—Walston, Hoffman & Goodwin. Proceeds to selling stockholder.

● **Logan (Ohio) Home Telephone Co.**
June 9 (letter of notification) $150,000 20-year 3½% first mortgage bonds, series A, due May 1, 1969. **Underwriter**—The Ohio Co., Columbus, O. For installation of automatic equipment and to provide working capital.

**Maumee Oil Corp., Toledo, Ohio**
May 12 filed 8,000 shares (no par) common, of which only about 2,614 shares will be offered publicly at $100 per share. No underwriter. For general working capital. SEC held hearing June 6 to determine whether a stop order should be issued suspending the effectiveness of the registration statement.

● **Mercer Hicks Corp., New York**
June 10 (letter of notification) 30,000 shares 50¢ cumulative preferred stock (par $1) and 30,000 shares of common stock (par 10¢). **Price**—$10 per unit of one share of each. **Underwriting**—None. Provide capital for conduct of securities business.

**Messenger Corp., Auburn, Ind. (7/1)**
May 25 (letter of notification) 6,000 shares of 6% cumulative convertible preferred (par $25). Price, par. Convertible into common stock at $10 per share. **Underwriters**—The First Trust Co. of Lincoln, Neb., and Cruttenden & Co., Chicago.

**Michigan Consolidated Gas Co. (6/28)**
June 1 filed $25,000,000 sinking fund debentures, due July 1, 1967. **Underwriters** — Names to be determined through competitive bidding. Probable bidders: White, Weld & Co. and Lehman Brothers (jointly); Halsey, Stuart & Co. Inc.; Harriman Ripley & Co., Inc.; Smith, Barney & Co. **Proceeds**—For payment of $3,500,000 of promissory notes, payment of the redemption price of 40,000 shares of outstanding 4¾% cumulative preferred, payment of principal and premium of about $7,300,000 of promissory notes of its subsidiary (Austin Field Pipe Line Co.) and for construction. Expected about June 28.

**Missouri Utilities Co., Cape Girardeau, Mo.**
May 26 filed 51,184 shares ($1 par) common. **Offering**—To be offered to stockholders on one-for-four basis. **Underwriter**—Edward D. Jones & Co., St. Louis, Mo. **Proceeds**—For construction.

● **Moen Ladder Co., Inc., Spokane, Wash.**
June 2 (letter of notification) about 900,000 shares of common. Price to public 10 cents per share. No underwriter. To buy materials, pay for labor and carry on the manufacture and sale of Moen Extension Ladders. Office: 927 Main Avenue, Spokane, Wash.

● **Montag Brothers, Inc., Atlanta, Ga.**
June 10 (letter of notification) up to 5,000 shares of class B common. Price, about $5.99 below book value. No underwriter. For general corporate purposes.

**Mutual Telephone Co. (Hawaii) (7/1)**
June 7 filed 150,000 shares ($10 par) convertible preferred stock, series B. **Offering**—To be offered initially to holders of the common stock, in the ratio of one preferred share for each five of common held. **Underwriter**—Kidder, Peabody & Co. **Proceeds** — Proceeds will be used for construction and expansion which in 1949 will involve expenditure of about $4,340,500. Expected July 1.

● **Myler Plastics Corp., Jersey City, N. J.**
June 8 (letter of notification) not exceeding 10,000 shares of common stock (no par). Price, market, estimated at 50¢ per share. **Underwriter**—Goodbody & Co. Proceeds to selling stockholder.

● **National Screen Door Co., Inc.**
June 7 (letter of notification) 1,500 shares of common stock (par $100). Price, par. No underwriter. For additional operating capital and to pay outstanding indebtedness. Office: Torrington Road, Montgomery, Ala.

**New England Power Co., Boston (7/13)**
June 3 filed $5,000,000 of series C bonds due July 1, 1979. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co. and White, Weld & Co. (jointly); Equitable Securities Corp.; Otis & Co.; Union Securities Corp. and Salomon Bros. & Hutzler (jointly); Colfin & Burr; Carl M. Loeb, Rhoades & Co.; Merrill Lynch, Pierce, Fenner & Beane and Lee Higginson Corp. (jointly) and Harriman Ripley & Co. Company also plans to sell 160,000 shares of common ($20 par) to its parent, New England Electric System, at $25 per share. **Proceeds**—Proceeds of the bond and stock sale will be used to pay off $5,324,700 of bank loans obtained for construction and to provide money for construction expenditures expected to be made. Bidding expected July 13.

● **New Jersey Power & Light Co. (7/13)**
June 9 filed $3,500,000 of first mortgage bonds, series due 1979, and 20,000 shares ($100 par) cumulative preferred stock. **Underwriters**—To be determined through competitive bidding. Probable bidders for bonds: Halsey, Stuart & Co. Inc.: Equitable Securities Corp.; Union Securities Corp.; Carl M. Loeb, Rhoades & Co.; Otis & Co.; Kidder Peabody & Co.; Salomon Bros. & Hutzler. For preferred: Kidder, Peabody & Co.; Smith, Barney & Co.; W. C. Langley & Co.; Lehman Brothers. **Proceeds**—Will be applied to the payment of the cost of, or in reimbursement of payments made for, construction of additions and betterments subsequent to April 30, 1949. Expected July 13.

**Nielsen Television Corp., New York**
Feb. 24 (letter of notification) 4,000 share of 6% cumulative non-convertible preferred stock (par $25) and 10,000 shares of common stock (par 25¢). **Underwriter**—Charles H. Drew & Co., New York. **Offering**—To be offered in units of one preferred share and 2½ common shares at $25.625 per unit. Capital requirements. Present plans will be revised.

**Pacific Gas & Electric Co. (6/28)**
May 31 filed $80,000,000 first and refunding mortgage bonds, series S, due June 1, 1983. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Blyth & Co., Inc. **Proceeds**—For construction. Bidding expected June 28.

**Pacific Western Oil Corp. (6/22)**
May 20 filed $15,000,000 15-year debentures, due June 1, 1964. **Underwriter**—Eastman, Dillon & Co. **Proceeds**—To repay a $10,500,000 note held by Guaranty Trust Co. of New York, to repay Guaranty Trust Co. balance due

(Continued on page 46)

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(Continued from page 45)

on certain advances made under a credit agreement to acquire from Labouchere & Co. shares of Tide Water Associated Oil Co. common stock and for development purposes.

**Pay Rock Oil, Inc., Tulsa, Okla.**
May 3 (letter of notification) 900,000 shares of common stock. Price, 30 cents per share. **Underwriter**—Security Royalties, Inc. For the repurchase of stock of the corporation under offer of rescission and for operating expenses.

**Pennsylvania Power & Light Co. (6/27)**
June 7 filed 415,983 shares (no par) common. **Offering**—To be offered to common stockholders of record June 27, at the rate of one for seven shares held. Employees will be allowed to buy unsubscribed shares, up to not more than 150 shares each. **Underwriters**—Drexel & Co. and The First Boston Corp. head a group who will purchase stock not otherwise acquired by stockholders or employees. **Proceeds**—For construction.

**Portland (Ore.) General Electric Co. (6/23)**
June 3 filed 251,033 shares of common stock (no par). **Underwriter**—Blyth & Co., Inc. **Proceeds**—To finance in part company's construction program. Expected about June 23.

**Power Petroleum Ltd., Toronto Canada**
April 25 filed 1,150,000 shares ($1 par) common of which 1,000,000 on behalf of company and 150,000 by New York Co., Ltd. **Price**—50 cents per share. **Underwriters**—To be named by amendment. **Proceeds**—For administration expenses and drilling.

**Public Service Co. of New Hampshire (6/20)**
May 18 filed $4,000,000 first mortgage bonds, series E, due 1979. **Underwriters** — Names to be determined through competitive bidding. Probable bidders: 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). **Proceeds**—For construction, including repayment of short-term borrowings for such purposes. **Bids**—Bids for purchase of bonds will be received at company's office, 1087 Elm Street, Manchester, N. H., up to noon (EDT), June 20.

**Renaissance Films Distribution, Inc., Montreal, Que.**
Oct. 29 filed 40,000 shares (par $25) 5% cumulative convertible class B preferred stock and 10,000 shares of C stock (no par). **Underwriting**—None. **Offering**—Class B preferred will be offered at $25 per share with one share of class C given as a bonus with each 4 shares of class B purchased. **Proceeds**—To pay balance of current liabilities and working capital.

● **St. Joseph (Mo.) Light & Power Co. (7/19)**
June 10 filed $4,750,000 of first mortgage bonds, series due 1979. **Underwriters** — Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Otis & Co.; Equitable Securities Corp.; Kidder, Peabody & Co.; White, Weld & Co.; Harriman Ripley & Co.; Salomon Bros. & Hutzler; Carl M. Loeb, Rhoades & Co. **Proceeds**—For property additions. Expected about July 19.

● **San Jose (Calif.) Water Works (7/5)**
June 7 filed 39,000 shares ($25 par) cumulative convertible preferred stock series B. **Underwriter**—Dean Witter & Co.; Blyth & Co., Inc.; Elworthy & Co., and Schwabacher & Co., San Francisco. **Proceeds**—To restore working capital used for property additions and improvements and of defraying a portion of the cost of future expenditures for such purpose.

**Sandy Hill Iron & Brass Works, Hudson Falls, N. Y.**
May 18 (letter of notification) 50,000 shares class A participating preferred stock, nonconvertible (par $4). **Price**—$5 per share. **Underwriter**—Office of John L. Nolan, Inc., Glen Falls, N. Y. Working capital, etc.

● **Seagram (Joseph E.) & Sons, Inc., New York, N. Y. (7/5)**
June 13 filed $50,000,000 25-year debentures, due June 1, 1974. **Underwriter**—Harriman Ripley & Co., Inc. **Proceeds**—Company will use proceeds with other funds to prepay outstanding bank notes.

● **Sealy, Inc., Chicago**
June 3 (letter of notification) 611 shares of common. Price, $100 per share to licensees of Sealy, Inc. No underwriter. For general corporate purposes. Office: 666 Lake Shore Drive, Chicago, Ill.

● **Sky Harbor, Carlstadt, N. J. (6/17)**
June 10 (letter of notification) 299,000 shares of common stock (par 10¢). **Price**—$1 per share. **Underwriter**—G. F. Hulsebosch & Co., New York. Pay expense of financing, pay accounts payable and balance of mortgage, purchase of planes, land, etc.

● **Southern College of Commerce, Wilmington, Delaware**
June 8 (letter of notification) 6,000 shares of 6% cumulative participating preferred (par $100). Price, par. No underwriter. For working capital, to expand facilities, to sponsor and finance a graphic arts institute in Fort Worth, Texas, and to acquire interest in other schools whose operation may work into the company's program. Office, North American Bldg., Wilmington, Del.

**Southern Natural Gas Co., Birmingham, Ala.**
May 13 filed 141,853 shares ($7.50 par) common stock. **Offering**—Stockholders of record June 6 are given the right to subscribe for the stock on a 1-for-10 basis at $26 per share. Rights expire June 28. **Underwriter**—None. **Proceeds**—For construction and for additional common stock investment in Southern's subsidiary, Alabama Gas Corp.

**Southern New England Telephone Co.**
June 2 filed 400,000 shares of capital stock. **Offering**—To be offered for subscription by stockholders of record June 21 at rate of 1-for-6 held at $25 per share. **Underwriting**—None. **Proceeds**—To repay about $4,500,000 in advances from American Telephone & Telegraph Co. with the balance to be added to general funds for construction.

**Southern Union Gas Co., Dallas Texas**
May 9 filed $3,679,464 3½% sinking fund debentures, due July 1, 1964, and 306,622 shares $1 cumulative preference common stock (par $1) under a proposal to merge with Texas Public Service Co. Stockholders of the latter company will receive $12 of debentures and one share of preference for each share of Texas Public Service common. Of the preference being registered 18,378 shares will be offered at $18 per share, the proceeds to be used by Southern Union to pay for expenses of merger. **Underwriter**—E. H. Rollins & Sons, Inc.

**Southwest Lumber Mills, Inc., McNary, Ariz.**
May 31 (letter of notification) $300,000 of 5% convertible subordinated 10-year notes. **Underwriter**—E. W. Thomas & Co., 135 S. La Salle Street, Chicago, has agreed to purchase at a discount of 3½% all securities not taken by the stockholders or this group (directors and stockholders) up to a maximum of $100,000 of the securities to be issued. **Proceeds**—To restore working capital.

● **Soya Corp. of America, New York**
June 9 (letter of notification) 400,000 shares of common stock (par 1¢). **Price**—50¢ per share. **Underwriting**—None. To pay preferred nonassenting creditors ($60,000), working capital ($140,000). Office, 30 Rockefeller Plaza, New York.

**Staten Island (N. Y.) Edison Corp. (6/17)**
May 9 filed 40,000 shares ($100 par) cumulative preferred stock. **Underwriter**—W. C. Langley & Co. was awarded issue June 15 on bid of 100.30 for dividend of $4.90. **Proceeds**—To pay off short-term notes and for construction. Offering expected June 17 at $103.25 per share.

**Suburban Gas Service, Inc., Ontario, Calif.**
March 31 (letter of notification) 4,000 shares ($25 par) series B preferred and 20,000 shares ($1 par) common—issuable upon conversion of preferred. **Price**—Preferred $25 per share. **Underwriters**—Wagenseller & Durst, Inc., and Lester & Co. To buy Antelope Liquid Gas Co.

**Sudore Gold Mines Ltd., Toronto, Canada**
June 7 filed 375,000 shares of common stock. **Price**—$1 per share (U. S. funds). **Underwriting**—None. **Proceeds**—Funds will be applied to the purchase of equipment, road construction, exploration and development.

● **Superior Paper Products Co., Pittsburgh**
June 10 (letter of notification) 4,035 common shares (no par). **Price**—$20 per share. To be offered for subscription by common stockholders of record June 1 on a 1-for-6 ratio. Rights expire July 1. **Underwriting**—None. General corporate purposes. Office, P. O. Box 4449, Pittsburgh 5, Pa.

**Tennessee Gas Transmission Co. (6/20)**
May 24 filed $50,000,000 first mortgage pipeline bonds, due 1969. **Underwriters** — Names to be determined through competitive bidding. Probable bidders: White, Weld & Co. and Stone & Webster Securities Corp. (jointly); Halsey, Stuart & Co. Inc. **Proceeds**—To be used from time to time, along with other cash resources, for expansion of company's natural gas pipeline system. **Bids**—Bids for purchase of the bonds will be received at office of Messrs. Cahill, Gordon, Zachry & Reindel, 63 Wall St., New York, up to 11:30 a.m. (EDT) June 20.

**Trenton Chemical Co., Detroit, Mich.**
March 30 filed 131,841 shares 6% cumulative convertible class B preference ($2 par). **Underwriters**—Straus & Blosser, Chicago; Carr & Co., Detroit, and Lester & Co., Los Angeles. **Proceeds**—To build chemical plant and to replace working capital used for capital additions.

**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.

**Upper Peninsula Power Co.**
Sept. 28 filed 200,000 shares of common stock (par $9) **Underwriters** — Names to be determined through competitive bidding. Probable bidders include Kidder, Peabody & Co., Merrill Lynch, Pierce, Fenner & Beane and Paine, Webber, Jackson & Curtis (jointly). **Proceeds**—Will go to selling stockholders. Consolidated Electric & Gas Co. and Middle West Corp. will sell 120,000 shares and 34,000 shares, respectively; Copper Range Co., 34,000 shares and several individual owners 11,200 shares.

● **Virginia Dare Stores Corp., New York**
June 7 (letter of notification) 20,000 shares of common stock, class A. **Price**—$5 per share. **Underwriter**—Gearhart, Kinnard & Otis, Inc. Working capital and general corporate purposes.

**Western American Life Insurance Co., Reno**
March 30 filed 12,500 shares ($10 par) common stock. **Price**—$40 each. **Underwriter**—To be named by amendment. **Proceeds**—To qualify the company to sell life insurance in any state.

**Western Oil Fields, Inc., Denver, Colo.**
May 19 (letter of notification) 800,000 shares of common capital. Price, 25¢ per share. **Underwriter**—John G. Perry & Co., Denver, Colo. For working capital and drilling of wells.

● **Whitmayer Laboratories, Inc., Myerstown, Pa.**
June 8 (letter of notification) 5,500 shares of class A preferred stock (par $50). Price, par. **Underwriting**—None. Working capital. Office, 19 N. Railroad Street, Myerstown, Pa.

**Wichman Philippine Mindanao Development Co., Cebu City, Philippine Islands**
Jan. 5 filed 2,000,000 shares of voting capital stock, one centavo par value. **Price**—25 cents per share (U. S. currency). **Underwriter**—F. T. Andrews & Co. **Proceeds**—To provide funds for plant construction, diamond drilling, exploration and repayment of loans.

**Wiegand (Edwin L.) Co., Pittsburgh**
Sept. 28 filed 200,000 shares (no par) common stock. **Underwriter**—Hemphill, Noyes & Co., New York. Price, by amendment. **Proceeds**—Will go to selling stockholders. Offering postponed.

**Willcox & Gibbs Sewing Machine Co., New York.**
June 6 (letter of notification) 6,000 shares of 5% cumulative convertible preferred stock, series B (par $50). To be offered for subscription by common stockholders of record June 28 at $50 per share in ratio of one preferred for each 25 common shares held. Rights expire 5 p.m. (EDT) July 15. **Underwriting**—None. Subscriptions payable to Central Hanover Bank & Trust Co., 70 Broadway, New York. To pay bank loans ($250,000), working capital.

● **Worcester (Mass.) County Electric Co.**
June 10 filed $5,500,000 of first mortgage bonds, series A, due July 1, 1979. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce, Fenner & Beane, and Salomon Bros. & Hutzler (jointly); Kidder, Peabody & Co.; The First Boston Corp.; Otis & Co. **Proceeds**—To be applied to payment of bank borrowings ($4,950,000) and for construction or to reimburse company for previous construction outlays.

# Prospective Offerings

**Akron Union Passenger Depot Co.**
May 27 reported company plans sale of $2,000,000 bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Drexel & Co.; Otis & Co.; Salomon Bros. & Hutzler; R. W. Pressprich & Co.; W. C. Langley & Co.

**Atlantic Coast Fisheries Co.**
June 20 stockholders will vote on approving an additional issue of 92,744 shares of common stock to be offered to present holders on the basis of one new share for four present shares held. The company has 370,977 shares outstanding.

**Atlantic Coast Line RR. (7/7)**
May 24 reported company plans the sale July 7 of $8,685,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; The First Boston Corp.; Harriman Ripley & Co. and Lehman Brothers (jointly); Harris, Hall & Co. (Inc.).

● **Baltimore & Ohio RR. (6/21)**
Company will receive bid on June 21 for the sale of $4,440,000 equipment trust certificates, series AA, dated July 1, 1949, and maturing in 15 equal instalments of $296,000 each, on July 1, 1950-1964. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; The First Boston Corp.; Harriman Ripley & Co. and Lehman Brothers (jointly).

● **Illinois Power Co. (6/20)**
The SEC has approved the application of North American Light & Power Co. and North American Co. to sell competitively 242,785 shares (12.67%) of the outstanding common stock (no par) of Illinois Power Co. Of the stock to be sold, 72,785 shares are held by North American and 170,000 shares by Light & Power. Probable bidders: White, Weld & Co.; Kidder, Peabody & Co. and Lee Higginson Corp. (jointly); Goldman, Sachs & Co.; Hornblower & Weeks and Paine, Webber, Jackson & Curtis (jointly); The First Boston Corp. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Blyth & Co. Inc.; Smith, Barney & Co.; Lehman Brothers and Harriman Ripley & Co. (jointly). Bids for purchase of the stock will be received by North American Co. and North American Light & Power Co. at Room 1901, 60 Broadway, New York 4, N.Y., up to 11:30 a.m. (EDT), on June 20.

**Iowa Power & Light Co.**
May 12 reported company may be in the market this year with $7,500,000 first mortgage bonds and $3,000,000 common stock, the latter to be sold to United Light & Rys. Co. (parent). Bidders for bonds may include Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Kidder, Peabody & Co.; Lehman Brothers; Blyth & Co., Inc.; W. C. Langley & Co., and Union Securities Corp.

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(jointly); The First Boston Corp.; Glore, Forgan & Co., and A. G. Becker & Co. (jointly); Harriman Ripley & Co.

● **Maracaibo Oil Exploration Corp.**
June 15 reported corporation is planning to offer its stockholders the right to subscribe to 49,500 shares of capital stock in ratio of one new share of capital stock for each eight shares held. Funds will be used by the company for oil development and possible acquisition of additional leases.

**Middle South Utilities, Inc.**
June 3 reported Electric Bond & Share Co. plans sale at competitive bidding of 803,230 shares of common stock (no par) which it will receive upon dissolution of Electric Power & Light Corp. Probable bidders: Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly); Blyth & Co., Inc.; Dillon, Read & Co. Inc.

**Montana-Wyoming Gas Pipe Line Co.**
May 23 this company is being organized and will be publicly financed, to build a pipe line costing $3,000,000, to bring gas from the Worland (Wyo.) Unit Area, being developed by Pine Oil Co., into markets now being served by Montana-Dakota Utilities Co. in eastern Montana, western North Dakota and the Black Hills region of western South Dakota. Montana-Dakota Utilities Co. will lease and operate the facilities. Probable underwriters: Blyth & Co., Inc.; Merrill Lynch, Pierce, Fenner & Beane.

**New York New Haven & Hartford RR.**
April 13 stockholders authorized issuance of not exceeding $3,500,000 of equipment obligations. Probable bidders: Harris, Hall & Co. (Inc.); Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler, Lehman Brothers and Bear, Stearns & Co. (jointly); Lee Higginson Corp.

● **Northern States Power Co. of Minnesota**
June 11 reported company planning the sale at competitive bidding, possibly by early August, of $15,000,000 in new bonds. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co., Inc.; Lehman Brothers; Blyth & Co., Inc.; Equitable Securities Corp.

● **Philadelphia Electric Co.**
June 13 company announced that it will soon file with the SEC a registration statement covering 972,624 common shares which will be offered to common stockholders at the rate of one new share for each ten held on or about July 8. Rights will not be given to holders of the $1 dividend preference common stock.

**Southern Pacific Co. (6/22)**
The company is inviting bids for the purchase of $12,480,000 equipment trust certificates, series BB, to mature in 15 equal annual instalments. All bids must be received at the office of J. A. Simpson, Treasurer, Room 2117, 165 Broadway, New York, at or before noon (EDT) on June 22. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co. and Lehman Brothers; The First Boston Corp.; Salomon Bros. & Hutzler.

**Wisconsin Electric Power Co. (6/27)**
June 2 the SEC approved North American Co.'s plan to sell competitively 13,494 shares of its holdings of Wisconsin Electric Power Co. ($100 par) 6% preferred capital stock. Probable bidders: Union Securities Corp.; The First Boston Corp.; Lehman Brothers and Robert W. Baird & Co. (jointly). Bids expected June 27.

# *Our Reporter's Report*

Two large new corporate financing projects came into sight this week, but only one was of a nature to arouse interest in banking and distributing circles, and then only if you happened to be identified with the business.

**Joseph E. Seagram & Sons, Inc., went into registration with the Securities and Exchange Commission for $50,000,000 of new 25-year debentures. But since this is a negotiated undertaking, interest naturally was limited to those in the business.**

Nevertheless the Street will be interested in watching for the price and terms as time for actual public offering of this big one rolls around. The sale will put the issuing corporation in funds to prepay $45,000,000 of notes maturing serially through 1952 and an additional $5,000,000 of ninety-day notes.

**The second large deal, an equity proposition, involving 972,624 shares additional of Philadelphia Electric Co.'s common stock aroused even less interest in underwriting circles.**

At current prices for the stock this operation has an overall indicated value at the moment of around $22,000,000, and accordingly is one that bankers would like to sponsor.

But the offering is to be made direct to the company's present common stockholders on the basis of one new share for each ten, excluding, however, holders of the $1 dividend preference stock.

**Amer. Tel. & Tel. 3⅛s**

Institutional investors who have been standing by awaiting the opportunity to pick up substantial lots of American Telephone & Telegraph Co.'s new 3⅛% debentures on an investment basis haven't made much progress up to this point.

**Not even the current shakeout in the stock market has done much to provide such opportunity. Quite to the contrary there appears to have been some sizable buying of the "rights."**

The debentures dipped momentarily to around 106⅜ a week or so ago, where the yield was about 2.40% to the buyer, but they snapped back quickly to current levels just above 107 to yield about 2.32%. Potential buyers would like to pick them up on a 2.50-45 basis, somewhere around 105. Perhaps the approach of the expiration date for the "rights" may have some effect.

**New Issues Slow**

New issues up for bids this week were relatively few and at the same time small in dimensions. Two small bond offerings, plus two preferred and one of common, all for utilities, made up the bill of fare.

And naturally the competition was keen again and the issuers could hardly have found anything to disturb them in the results. The largest of these deals, $4,500,000 of Southwestern Gas & Electric Co. first mortgage bonds, brought out a total of seven bids, best of which was 102.03991 for a 3% rate.

On reoffering at 102½ to yield 2.875%, the issue was reported moving but hardly to be classed as an "out-the-window" proposition.

**South Dakota to Take Stock**

South Dakota will be in the market along toward the end of the month with an issue of $10,000,000 of its veteran bonus bonds.

The State has a total of $30,000,000 authorized, but does not intend to market the balance until it has a better line on actual receipts from new tax levies imposed to retire the issue.

The portion to be put up for sale will mature in four equal instalments, from July 15, 1950 to 1953. Prospective bidders have been advised of the State's intention not to offer additional bonds pending greater light on revenues involved. The taxes are expected to yield some $6,800,000 annually.

## Sees Socialism Paralysis Spreading

(Continued from page 5)

the Soviet Administration of Religious Cults has taken over control of the only Roman Catholic Church in Moscow, and it has demanded and has received the keys of same. Get that—The Soviet Administration of Religious Cults. There is freedom for you.

**We Have Been Inoculated With Virus**

"Now let us look at America. Have we been inoculated with the virus of this creeping paralysis? Is it possible that the United States, the greatest and most prosperous country of all times, the one country which is trying to alleviate the suffering of those other countries which have been stricken with this dread disease, is beginning to show the symptoms of the same disease? Indeed it is possible. The germs are being incubated right now. In our administration halls attempts are being made to jam socialized medicine down our throats. Hints have been made as to the desirability of government control of some of our large industries. Our courts of law are already held up to ridicule at the communist trials. We are permitting schools to harbor communistic theories and allowing foreign destructive ideologies to mold the plastic minds of our youth. These same ideologies have followed their usual pattern by invading some of the ranks of labor. The usual effects are being manifested and masses of people are following the ridiculous preachings of false gods as sheep follow a bellwether, and if this growth continues, these unfortunate sheep as they reach the fold, will find their shepherds are savage drooling wolves.

"The time for action has come. The problem which confronts true Americans is not a pink tea-party, it is the last battle, the battle of 'Armageddon'. All real Americans must hang together in order that our great republic may be maintained and preserved. We must remember our national motto, 'E Pluribus Unum', because if we succumb to the infection of this creeping paralysis, we would have to adopt a new motto, 'Ora Pro Nobis'."


## DIVIDEND NOTICES

Dividend Notice

THE ARUNDEL CORPORATION BALTIMORE MARYLAND

The Board of Directors of The Arundel Corporation has this day declared 25 cents per share as the regular quarterly dividend, on the no par value stock of the corporation issued and outstanding, payable on and after July 1, 1949, to the stockholders of record on the corporation's books at the close of business June 21, 1949.

MARSHALL G. NORRIS, *Secretary*

June 14, 1949.

Exide BATTERIES

**THE ELECTRIC STORAGE BATTERY COMPANY**

*195th Consecutive Quarterly Dividend*

The Directors have declared from the Accumulated Surplus of the Company a dividend of fifty cents ($.50) per share on the Common Stock, payable June 30, 1949, to stockholders of record at the close of business on June 13, 1949. Checks will be mailed.

H. C. ALLAN, *Secretary and Treasurer*

*Philadelphia 32, June 3, 1949*

## DIVIDEND NOTICES

**New England Gas and Electric Association**

NEW ENGLAND GAS AND ELECTRIC ASSOCIATION NEGEA

PREFERRED DIVIDEND NO. 9

The Trustees have declared a quarterly dividend of $1.12½ per share on the 4½% cumulative convertible preferred shares of the Association payable July 1, 1949 to shareholders of record at the close of business June 15, 1949.

H. C. MOORE, JR., *Treasurer*

*June 9, 1949.*

DIVIDEND NOTICES

**DEBENTURE:** The regular quarterly dividend of $2.00 per share on the Debenture Stock will be paid Aug. 1, 1949, to stockholders of record July 25, 1949.

**"A" COMMON and VOTING COMMON:** A quarterly dividend of 25 cents per share on the "A" Common and Voting Common Stocks will be paid Aug. 15, 1949, to stockholders of record July 25, 1949.

A. B. Newhall, *Treasurer*

**Dennison Manufacturing Co.**

Framingham, Mass.

105TH YEAR

## DIVIDEND NOTICES

**United Shoe Machinery Corporation**

The Directors of this Corporation have declared a dividend of 37½c per share on the Preferred capital stock. They have also declared a dividend of 62½c per share on the Common capital stock. The dividends on both Preferred and Common stock are payable July 5, 1949, to stockholders of record at the close of business June 15, 1949.

WALLACE M. KEMP, Treasurer

**WESTERN TABLET & STATIONERY CORPORATION**

Notice is hereby given that a dividend at the rate of $.50 per share on the issued and outstanding shares without par value of the Common Stock of Western Tablet & Stationery Corporation has been declared payable on July 11, 1949 to holders of record of such shares at the close of business on June 23.

E. H. BACH, Treasurer.

OldTown

**OLD TOWN RIBBON & CARBON COMPANY, INC.**

DIVIDEND No. 27

The Board of Directors has declared a dividend of 30 cents per share on the Common Stock of the Company, payable on July 1, 1949 to stockholders of record at the close of business on June 24, 1949.

JEROME A. EATON, *Treasurer*

June 14, 1949

**Safeway Stores, Incorporated**

**Preferred and Common Stock Dividends**

The Board of Directors of Safeway Stores, Incorporated, on June 10, 1949 declared quarterly dividends on the Company's $5 Par Value Common and 5% Preferred Stocks.

The dividend on the Common Stock is at the rate of 30c per share and is payable July 1, 1949 to stockholders of record at the close of business June 21, 1949.

The dividend on the 5% Preferred Stock is at the rate of $1.25 per share and is payable July 1, 1949 to stockholders of record at the close of business June 21, 1949.

MILTON L. SELBY, *Secretary.*

*June 10, 1949.*

## DIVIDEND NOTICES

**LION OIL COMPANY**

LION

A regular quarterly dividend of 37½¢ per share has been declared on the Capital Stock of this Company, payable July 15, 1949, to stockholders of record June 30, 1949. The stock transfer books will remain open.

E. W. ATKINSON, *Treasurer*

*June 7, 1949.*

**THE TEXAS COMPANY**

TEXACO

187th Consecutive Dividend paid by The Texas Company and its predecessor.

A dividend of 75¢ per share or three per cent (3%) on par value of the shares of The Texas Company has been declared this day, payable on July 1, 1949, to stockholders of record as shown by the books of the company at the close of business on June 10, 1949. The stock transfer books will remain open.

L. H. LINDEMAN, *Treasurer*

*May 27, 1949*

New York, N. Y. June 14, 1949

**Philip Morris & Co. Ltd., Inc.**

The regular quarterly dividend of $1.00 per share on the Cumulative Preferred Stock, 4% Series, and the regular quarterly dividend of 90¢ per share on the Cumulative Preferred Stock, 3.60% Series have been declared payable August 1, 1949 to holders of Preferred Stock of the respective series of record at the close of business on July 14, 1949.

There has also been declared a quarterly dividend of 50¢ per share on the Common Stock, ($5 Par), payable July 15, 1949 to holders of Common Stock of record at the close of business on June 30, 1949.

Pursuant to a resolution adopted at the Stockholders' Meeting held on July 10, 1945, no Certificate representing a share or shares of Common Stock of the par value of $10 each is recognized, for any purpose, until surrendered, and a Certificate or Certificates for new Common Stock of the par value of $5 each shall have been issued therefor. Holders of Certificates for shares of Common Stock of the par value of $10 each are, therefore, urged to exchange such Certificates, for Certificates for new Common Stock of the par value of $5 per share, on the basis of two shares of new Common Stock $5 par value, for each share of Common Stock of the par value of $10.

L. G. HANSON, Treasurer.


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# Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—From now on it is a good idea to take a second, cautious look at all Washington date-lined articles in popular publications which express the view from the capital city that the outlook for business is very black indeed.

It is a good idea to beware of such stories in principle, for very many of them are likely to be inspired by the lefties within the Truman Administration. The lefties, according to report, have decided to go all out in a propaganda campaign to sell the Congress the President, and the country on the idea that American business is going to the dogs.

**Then, maybe if everybody realizes that business is going to the dogs, there will be some takers for the "Economic Expansion Act of 1949." The idea is that the lefties see the situation very simply. Enact the Expansion Act and these eager, left-wing economists will be put in charge of running the American economy. They will rescue business before the dogs can snap their hungry fangs upon the economic fabric and tear it to pieces. The prospect of being put in charge of the American economy is not repugnant to the lefties. They seem able to bear up at the thought that many of them might be placed in charge of large bureaus, with hundreds of personnel, and that maybe they will be driven around in government cars.**

That the lefties already have started on this campaign has aroused no small amount of irritation. The Census Bureau, which is pretty free of trying to grind left or right-wing political axes, is annoyed at what they saw as a planted story that certain gentlemen allegedly close to the President, were finding fault with their statistical reports on unemployment.

* * *

This prospect of the lefties inspiring the pessimistic outlook stories makes it tough on the lay observer outside the capital city who is really trying to find out what is the score. However, there are a couple of rough rules which will help.

In general the lefties will shun publicity for themselves in their own names although they may be forced to come out in the open in desperation. If one of the lefties lets his name be used, you can spot the story for the source. What the lefties seem disposed to do is to "plant" or "inspire" stories, or putting words and views in other peoples' mouths, or attributing them to other sources. The economic staff of the Council of Economic Advisers, for instance, did not, according to the CEA itself, complain that census estimates of unemployment underestimated the situation.

**Another rule to follow is that for the present you can expect that in general, high Federal officials are not going to let their names be used in quotations that the business situation is one of pessimism. The dominant thinking of the more responsible Administration observers is that it looks like the country is in for a readjustment, that the readjustment will get worse before it gets better, but that anything like the nose-dive of the '30s is not yet in sight.**

The more responsible Administration officials may not be expected to lend themselves to the double-bad pessimistic quotes until (1) the business situation actually gets far worse than anyone expects, or (2) the White House buys the left-wing merchandise, in which case they may have to go along.

Incidentally, almost none of the government statistics will be distorted for this left-wing drive. Interpreters may distort the interpretation of the statistics, but not the agencies which issue the actual figures of business activity in its many ramifications.

* * *

That $40 million for the "shelf of public works" to be trotted out come D for Depression day, is money for planning public works. This means that the Public Works Administration, long crying at the way it has been ignored since Mr. Roosevelt got interested in a war, will now be able to loan and or spend $40 billion planning "useful public works."

**This money will be used to actually draw up plans for public works on the sites on which they would be located, so that if the money went out in large green streams, these projects could be made the subject of contracts and actual construction work.**

Even a small shelf of public works, however, won't be ready for another 12 months.

* * *

Should the Senate go along with its Expenditures Committee and adopt a 5-to-10% cut in administrative expenses, the outlook for final approval of this scheme still looks dim. The boys on the public payroll, have quite a faculty for screaming when a few jobs are abolished, and with the Administration still committed to spending, adoption of this small cut would probably build as much of a fire under the conservatives as a cut which actually would forestall a Budgetary deficit. There is no one in the top leadership of the House Democrats who will back it, as yet.

**Of course, if the White House were to get interested in economy, that would be different, but such a revolution is not yet even a hopeful dream.**

* * *

It's now a toss-up still as to whether foreign aid really will or will not be cut. The House nominally "cut" the appropriation but allowed the President to spend the money in enough shorter a period so that he can spend as much per month, and Congress probably will have to make money available earlier next year.

**Senate boys are now insisting, however, that either ECA will be made subject to the 5-to-10% cut in appropriations, or if this fails, a separate reduction will be made in ECA allowances.**

Best guess is that the Senate finally may be able to achieve a cut of something less than $500 million, and this will be diluted further in conference with the House.

**An appropriation for foreign arms aid, however, will have tough going. Unless the amount is pared down to a very small sum and the appropriations are nominal; i.e., to compensate the Army and Navy for removal of existing, surplus war equipment, miltary aid will have only a small chance of getting by this year.**

You are "invited" to a typical "conference on foreign policy," or an "orientation conference" of the military, two variations of one of the newest propaganda stunts now being used frequently by the Armed Forces and the State department.

Here is who comes: Anyone who represents an organization with a name and a mailing list. You are a leader of public opinion thereby. You are entitled "to share the responsibilities" of government policy. You are taken behind the scenes (or so you are told) and given the low-down on foreign policy or military policy, or what have you. You are encouraged to ask questions—and, think of it! Make suggestions.

**Say it is the State department. A big-named gentleman with a horse-guard's moustache and a very polished university accent regales you with the latest official propaganda on what the State department is doing and why. Or if it is the military, you rub elbows with the admirals in their pretty uniforms or the big-named generals and their ever so well-mannered aides. If it is the military you are likely to get a free ride in an airplane or an aircraft carrier and, just perhaps, a free drink or two.**

It is beside the point that what the Secretary or the General or the Admiral tells you has been shouted from the house tops by officials and quoted, in radio talks, in formal speeches, in press releases, or in open committee hearings. The point is that even the most studious persons have insufficient time to follow consistently the outpourings of one big Federal department.

But you must remember that what you hear is for your ears alone. It is strictly off the record. You mustn't say the Secretary or the so and so said it. You just go back to the League of Women Voters of California and address them favorably toward the government, and look knowing and instructible, after an introduction saying you have been hearing the words of wisdom from the very highest.

**Officials know that most people don't know what has been said and what has not been said. Hence they know that well-worn merchandise can be polished off and presented as brand new.**

Officials also know that an almost universal failing of people is to be impressed by basking in the smiles of the great and mighty.

It is not at all hard on the customers, of course. To be sure, they have to pay their own passage to and from propaganda sessions. If they can nick their organizations for the freight, they have a free good time, perhaps get away from scolding wives or humdrum jobs, and a chance to feel important for a change.

* * *

There is thought to be little significance to the decision of the White House, as recently reported, to skip asking Congress to pass a standby War Mobilization Act, to be put into operation in case of war or a Congressional declaration of war.

**The proposed War Mobilization Act would deliver the control of the country's economy into the hands of government, come war. It is now beyond the dreams of fantasy to expect Congress to pass such a bill this year.**

## BUSINESS BUZZ

**"I know you're new here, Miss Kelly, but that's NOT how we put a ribbon on a typewriter!"**

## Business Man's Bookshelf

**Middle Way Out, The—Civitas Humana**—Wilhelm Ropke—William Hodge and Co. Limited, 86 Hatton Garden, London, E. C. 1, England—Price, 21s net; postage, 9d.

## Kuhn, Loeb Offers New York State Elec. & Gas Preferred

Kuhn, Loeb & Co. is offering to the public today 40,000 shares of 4½% cumulative preferred stock (series 1949) of New York State Electric & Gas Corp. at $101.75 a share, to yield about 4.42%. Bidding alone, Kuhn, Loeb & Co. was awarded the shares at competitive sale on June 14.

Proceeds from the sale of these shares, together with funds received from the sale of 73,333 shares of common stock offered to common stockholders last month, will be applied by the company to payment of presently outstanding $4,000,000 short-term notes. The balance will be used for new construction. It is estimated that expenditures for new construction for the three-year period, 1949 through 1951, will aggregate $52,800,000.

*Trading Markets:*
Ralston Steel Car
*Oregon Portland Cement
Riverside Cement A & B
Spokane Portland Cement
*Latest Figures Available
LERNER & CO.
*Investment Securities*
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