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Who Wants Devaluation?

By THOMAS I. PARKINSON*
President, Equitable Life Assurance Society of the U. S.

Life insurance executive points out U. S., in suggesting devaluation of Sterling, is flirting with same situation which led to dollar devaluation in 1934. Says further devaluation of dollar would be far more serious than at that time and would be highly inflationary.

The British Treasury has announced that it will not at present devalue the pound, and this in spite of the "shortage of dollars" from which the British economy is considered to be suffering. Indeed, our own Treasury officials are said to have suggested to the British that they could cure their "shortage of dollars" by devaluation of their own currency.

T. I. Parkinson

What is this "shortage of dollars"? Actually, the phrase is just a tag which means various things to various people. Britain's real

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*A statement by Mr. Parkinson distributed by the Continental Press Syndicate, Brightwaters, N. Y.

Fourth Round of Wage Increases Not Justified

By HERMAN W. STEINKRAUS*
President, Chamber of Commerce of the United States

Denying greater "purchasing power" would result from fourth round of wage increases, industrial spokesman attacks recent Report of Robert R. Nathan that wages can be further increased and prices reduced. Points out current price declines are of universal benefit, whereas wage increases benefit only limited number of workers and add to unemployment. Advocates wages be held steady while price reductions should be made as rapidly as possible.

That the American economy stands at a critical point today is evidenced by the issuance of two reports prepared for the CIO by Robert R. Nathan, and the report of President Truman to Congress and the people on the economic problems of the country. Are we experiencing a healthy price adjustment which has long been needed, or are we at the beginning of a long downward spiral, with strike-caused unemployment because of wage demands, and shut-downs? It is important that a sound diagnosis be made at the present time so that correct action can be taken. Grave mistakes could be made if leaders in government, labor, and business make the wrong analysis and recommend the wrong remedies.

H. W. Steinkraus

In his report for the CIO, Mr. Nathan states in effect that what we need most is greater purchasing power, and that this is best accomplished by a vigorous drive

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*Summary of statement by Mr. Steinkraus at a press conference at Washington, D. C., July 18, 1949.

Sound Factors Bolstering Recession

By PETER V. MOULDER*
Executive Vice-President, International Harvester Company

Prominent industrial executive, noting prompt steps taken by business to make adjustments to meet changed conditions, foresees a reversal of the recession. Points out possible weakness in our highly developed economy, and holds adjustment in commodity prices is needed as factor in generating upturn in business. Analyzes current business situation.

There has been a general disposition on the part of business people to shorten commitments, reduce inventories, and wait for lower prices. Business and people in general have been well forewarned regarding the imminence of an economic downturn and, consequently, are taking prompt steps to make adjustments in their particular sphere of activity. This general recognition of the probability of a broad downturn should tend to modify the depth of the decline and to shorten the duration of the recession.

P. V. Moulder

Curtailments Are Reaching Back

We are seeing signs currently which indicate that the curtailments which began at the consumers' level are beginning to

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*Excerpts from address by Mr. Moulder before the Truck-Trailer Manufacturers Association, Chicago, Ill., July 22, 1949.

EDITORIAL

As We See It

Another Real Crisis—and Churchill

Two weeks ago in these columns we analyzed the dollar shortage soothing syrup upon which the British people have been fed faithfully for a good while past. We found that it was a shortage of goods and services that afflicted the British, not a shortage of dollars. We concluded that unless and until the British had a will and a way to provide themselves with the things they wanted and could provide for themselves directly or indirectly, and made up their mind to do without the others, their road was likely to be a hard one. The only alternative for them was to persuade us to carry them on a sort of "civil list" for the rest of time—if they could and we could.

Mr. Churchill and Mr. Churchill's party, neither of which is wholly without responsibility for the present state of affairs, but neither of which are under some of the peculiar delusions of the so-called Labor Government in that sad land, now come forth with a broadly similar diagnosis, although both make a number of concessions which are not logically consistent with their general position. It may be said simply and with full truth, however, that Winston

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Depression and Devaluation

By PROFESSOR MENTOR BOUNIATIAN
Doctor of Political Science, University of Moscow
Attached to French Ministry of Foreign Affairs

International political economist points to experience since 1931 in England, Belgium, Czechoslovakia, and France, as indicating inevitability of injury to public finance and fresh devaluations resulting from first devaluation. Maintains currency devaluation neither restores equilibrium nor causes general price rise. Warning of using it as panacea to reverse depression, he asserts profits not prices, direct economic activity.

PARIS, FRANCE.—The reversal of the rising trend of prices, which had been in progress since the outbreak of the war, has caused widespread fears of an impending depression. Quite naturally, economic thought has become preoccupied with the means of averting severe crisis.

Mentor Bouniatian

Among the various recommended devices, those dealing with prices and financial policies are particularly prominent. In effect, prices seem to be the regulators of economic activity. The period of expansion is almost always accompanied by a progressive rise in prices; whilst the period of contraction is characterized by their progressive fall. Hence the idea that if we could control the course of prices, we could at the same time direct economic activity, represents but a step. It is presumed that by thus maintaining prices we would safeguard the profits of the producers and permit them to produce. And as a means of maintaining prices, the expansion of credit or the devaluation of money are recommended.

With respect to the expansion of credit, experience has adequately shown that it is an inoperative process. In order that the banks may enlarge their credits, it is first of all necessary that the manufacturers and middlemen request more of such credits. At the beginning of a crisis, they can resort to this means in order to maintain their stocks. However such an attitude on their part can only slow down the fall and aggravate it later when they will have exhausted the credits at their disposal or will have realized the danger they are running. But in such a situation middlemen will ask for no more credits to increase their stocks nor will industrialists look to credit to continue producing at a loss. This caused an English economist to say, during the depression which followed the crisis of 1929, that the only way to increase the means of payment in these conditions would be a mass distribution of banknotes to the population by throwing them out of airplanes. . . .

Devaluation in the 1930s

The idea that we could maintain prices and so avoid a depression by increasing the official price of gold, in other words, by devaluing the money, was the main idea on which the monetary policy of Great Britain was based in 1931. The Roosevelt Administration likewise experimented with it in 1933, and it was afterwards followed by a number of other countries. These experiments everywhere proved deceptive. Nevertheless, devaluation, as a remedy for depression, has always numerous advocates.

First, let us note that the devaluation of money does not cause an immediate and general rise in prices. It is usually believed that by devaluing money, say 20%, the amount of the means of payment is at the same time proportionately increased and that a general rise in prices of 20% must thereby immediately result. In reality, the adjustment of prices to the reduced standard of value is a slow and irregular process. Several months go by before prices begin to react to this measure. Products imported from abroad after devaluation adapt themselves first to the new standard of value; exported products then follow them; and, according to the calculations of Irving Fisher, about 33 months elapse before all prices come approximately into line with the new value of money. Therefore such a remedy cannot ward off the crisis and stop the decline of prices: it can only act as a brake on the latter.

But can this slowing down of the fall in nominal prices have a beneficial effect on economic activity? Can it markedly slow down the progressive reduction of production and the correlative increase of unemployment? Those who support devaluation delude themselves about it.

Profits, Not Prices, Effective

They first of all forget that it is not prices themselves that direct economic activity, but profits. Let us suppose that prices of goods as well as those of services were free and rose uniformly and proportionately with the decrease of the value of money; then nothing would be changed in the conditions of production. It is evident that the manufacturer would have no advantage in the rise of prices of his products, if prices of raw materials and wages of labor were to rise in an equal proportion. There would then be a change in the nominal prices and in the bookkeeping figures but nothing else. The adjustment of prices to the new value of money being accomplished, the decline of prices would be resumed and would become more pronounced. For the raising of the nominal prices not only would not have improved the economic situation, but would have aggravated it.

An economic crisis is, indeed, a symptom of a lack of equilibrium in economic life which cannot be eliminated by artifices, but must find a natural solution. This lack of equilibrium is brought about by several years of intense economic activity, which finds an expression in growing investments and production and is generally accompanied by a progressive rise in prices. Such activity leads after four or five years to a lack of proportion between the capacity of production of consumer goods on the one hand, and the purchasing power of consumers on the other hand; in other terms it causes what is called an overproduction. The fall of prices is the result of this situation. It is the mechanism of restoring the balance between the purchasing power of the consumers and the capacity of production of industry through a depreciation of the stocks of goods and of industrial equipment, thus making it possible to dispose of the increased production of goods.

Devaluation Impedes Equilibrium

Devaluation of the currency not only fails to make a useful contribution to the restoration of equilibrium but in fact impedes it. Actually the devaluation of money brings about a concentration of fortunes which favors saving and reduces consumption. Thus devaluation diminishes the assets and the incomes of the creditors to the advantage of the debtors. But the number of creditors, chiefly composed of holders of small savings, is far more considerable than the number of debtors. Devaluation therefore hits in particular the consumer classes having fixed incomes: civil servants, employees, the liberal professions, recipients of pensions, people living on incomes from investments, etc. And at the moment when the economic situation demands increased consumption to meet increased production, a situation is created that produces the opposite effect. The result of such a remedy in reverse—and of a morality more than doubtful—can be but a renewed and sharper decline of prices.

It might be thought that devaluation, by diminishing the indebtedness of the manufacturers, would reduce the cost of manufactured goods and stimulate production. But such a conclusion would be faulty. In reality, in a buyers' market the production is only determined by the current expenses of production. For the latter, only the working capital matters but not the rate of interest on old debts incurred for the establishment of plants and for the constitution of stocks of raw

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Market Position Requires Caution

By LEWIS HANEY
Professor of Economics, New York University

Dr. Haney, in review of the stock market, sees opposing forces operating for and against continuation of recent upswing, and concludes, that considering extent of recovery, position of market should be regarded with caution.

Stocks, as anticipated, turned in another small gain last week. This was notable as registering new highs for the current intermediate rise. At the same time, the movement showed some signs of faltering. Thus the position should be examined carefully. On the one hand, it may be agreed that (1) as a result of business recession, the tendency at Washington has become more favorable to business. Also Congress on the whole has proved to be relatively conservative.


Lewis Haney

To this basically favorable condition, may be added two main factors: (2) the easy-money and deficit-financing policy promises renewed inflation, which tends to favor stocks, (3) there is a relatively large short interest, on top of which is to be considered the "sold-out-bull" interest which is now beginning to wonder if it may have "missed the boat."

The amount of idle cash awaiting investment in stocks is probably large.

Thus we come to one of those periods where an important question is: Will something happen that will precipitate short covering and postpone investment buying?

On the other hand, there are certain less favorable points. The general business recession continues, as indicated by factory employment, business loans, freight traffic, and steel production. The condition of England is an unfavorable factor.

Also, the action of the market suggests that the going has become more difficult at the higher levels. The rate of gain has slowed down, and the most active stocks have shown less buoyancy. The railway stocks continue to show little progress.

Considering the extent of the recovery during the last five weeks the position may well be regarded with caution.

* * *

It strikes me that under these circumstances it is well to (1) sell speculative issues on further strength; (2) hold sound investment stocks, and (3) keep about one-third of one's funds in reserve in savings bank or in Government bonds.

The general basis for investment policy should be governed by facts, and these are: We are still in a business recession; the financial policies of the Administration are thoroughly unsound (and there is every reason to suspect that its attitude toward business and stocks would become less favorable if recovery occurred).

But high-grade dividend-paying stocks may be held as long-pull investments; since (a) the outlook favors survival of American industrial democracy, and (b) stock prices certainly seem nearer bottom than top, thus furnishing a good basis for average yields.

* * *

The bull points are as follows:

New highs exceed new lows.

Volume of trading generally parallels price movements. Most active stocks still gain.

Large short account.

Gain in building activity and large auto sales.

Inflation of the currency goes on.

The bear points are:

The rise last week was not in proportion to the increased volume for the week.

The amount of gain, and nearness of important upper resistance suggests a corrective reaction before long.

The business recession appears to be unchecked, and Government stimulants may not bring confidence.

When all is said, it remains true that no indications that any large decline is near can be seen at the moment. Maybe a spell of mere "irregularity" is the answer.

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COMING EVENTS
In Investment Field

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

Sept. 16, 1949 (Cleveland, Ohio)
Bond Club of Cleveland fall party at Sleepy Hollow Country Club.

Sept. 23, 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. 4-9, 1949 (Hollywood, Fla.)
Investment Bankers Association Annual Convention at the Hollywood Beach Hotel.

Dec. 9, 1949 (New York City)
New York Security Dealers Association 24th Annual Dinner at the Hotel Pierre Grand Ballroom

Real Task of ECA Still Lies Ahead

By JAMES J. WADSWORTH*

Special Assistant to Administrator, Economic Cooperation Administration

ECA official, pointing out postwar U. S. export trade has been paid for largely by U. S. taxpayers through gifts of government money abroad, foresees need of more imports to enable foreign countries to balance payments. Decries fears of competitive effects on American industry, and says ultimate object of ECA is establishment of permanent world peace. Lauds cooperation of American industry in ECA program and says small business can participate in its benefits. Warns, despite first year's success, ECA tasks still lie ahead and gains already made should be consolidated and increased.

Over the past few years the words "world trade" have taken on a new significance for many Americans. The course of world events, particularly since the war, has brought realization that economically, as well as politically, no nation, not even ours, stands alone.

James J. Wadsworth

Traditionally, we Americans had thought of ourselves as self-sufficient. We regarded our natural resources as so varied—so abundant—that we assumed we could get along without the rest of the world.

The postwar economic crisis in Europe taught us the fallacy of that theory. Just as the myth of our political isolationism disappeared in the smoke over Pearl Harbor so did this economic fairy tale dissolve before the grim facts presented us by conditions in Europe in 1947.

During the years immediately after the war we provided Europe, primarily on a relief basis, with the elementary necessities of life. It was a costly process. From mid-1945 to the passage of the Economic Cooperation Act in April, 1948, we had made available to Europe in loans, grants and aid to the occupied areas approximately $11,900,000,000. This huge outpouring of funds kept Europe from starving but it gave no promise of putting the nations back on their feet economically. It offered the people little hope for the future and their insecurity bred a political desperation which threatened the survival of the essential characteristics of European civilization—its free institutions and the personal liberties of its citizens.

For the most part, the American export market during this period was kept alive by our relief program. That this arrangement was artificial and dependent upon the tax dollars of the American people was only dimly realized but to those who did understand, it was obvious that it could not continue indefinitely.

At first few persons in the United States appreciated the gravity of the situation. But as conditions worsened, more and more people in this country began to recognize that world peace and our own economic stability depended not merely upon keeping Europe just barely alive but upon her restoration to full economic health and the maintenance of her political independence.

Origin of ECA

Against this background of dawning comprehension, on June 5, 1947, George C. Marshall, the American Secretary of State, made a speech at Harvard University. "Europe," he declared, "must have substantial additional help or face economic, social and political deterioration of a very grave character."

The plan he proposed—later to become the European Recovery Program—told the European people that America had confidence in them. It gave Europe not the promise of an indefinitely continued dole but the foundation of a joint effort in which each partner could work with dignity and self-respect toward permanent peace and prosperity. It gave America a constructive basis upon which she could throw the immense weight of her productive force into the balance of world affairs on the side of peace with freedom. It was a reaffirmation of our faith in a pattern for living developed by the free people of Europe and America over the centuries—men working for themselves, helping themselves and each other, in an atmosphere of freedom and with a community of interest.

At little less than a year later—April 3, 1948—the American Congress put Secretary Marshall's proposal into legislative form—the Economic Cooperation Act. The European Recovery Program was launched at a cost, for that first year, of something over five billion dollars.

What did the American people expect in return?

The answer is simple and obvious. America expected something of even more importance than the economic benefits which we, as well as the rest of the world, will derive from increased European production and the expansion of world trade.

Purpose, To Lay Foundations of Peace

America's over-riding interest is permanent world peace. The theory which underlies the entire recovery program is that a solution of Europe's economic difficulties is the only way to assure that peace and to lay the foundations of a worldwide social structure in which all men can live in decency and dignity and security. Civilization cannot afford another war. It cannot afford the economic instability which breeds war. No matter what present sacrifices we are called upon to make, either as individuals or as a nation, we cannot fail to take every possible means to prevent another war to promote economic stability.

I do not doubt that all of you now present are in complete agreement with that thesis. To those who hesitate I can say only this: consider the alternative. Honest isolationists and half isolationists, political or economic, must ask themselves how their policy would work. They will have to admit that isolationism of any kind would throw us back to the defense of our own frontiers politically and economically to restricted prosperity. I think it can be demonstrated that such a course, laying aside all moral questions, would be far more costly even in dollars and cents than the policy of mutual aid and cooperative effort now being pursued.

However, we cannot expect this policy to succeed unless we accept it wholeheartedly—accept all its implications. Former Secretary of War, Henry Stimson, said last year:

"It would be shriveling timidity for America to refuse to play to the full her present necessary part in the world. The certain penalty for such timidity would be failure."

Mr. Stimson said further:

"I have served as Secretary of War in a time of frightened isolationism and again in a time of brave and generous action. I know the withering effect of limited commitments and I know the regenerative power of full action."

The European Recovery Program was adopted by the American people in a spirit of "brave and generous action." Its regenerative powers have been amply demonstrated in the accomplishments of the program to date. That spirit must be maintained.

Some Repercussions

Admittedly, there will be some unfavorable, if temporary, repercussions. A Europe again prosperous, producing to her full capacity, must have markets for her goods. She must have a market, for one thing, in the United States if she is to earn the dollars she needs to buy here. That she must continue to buy here is obvious. In the first place she needs goods and services available only in the United States. In the second, European markets are important to America's prosperity.

Perhaps it might be well to pause a moment here and examine this European market in its relation to our own economy. Over the years a substantial segment of our national production has been geared to the demands of overseas markets. Millions of our workers have been employed in meeting this demand. Millions have been kept employed because of the needs of these workers. In 1938, for example, and that was a low export year, the Bureau of Labor Statistics has estimated direct employment from our exports at 1,500,000 people. A large number of other workers were employed in supplying this group with food, commodities and services. In the first half of 1947—a high export year—approximately 3,100,000 of our factory workers, miners, railroaders and farmers were kept employed producing and handling exports.

The 1947 exports were, of course, largely maintained by the gifts and loans the United States was making to the European nations. American producers and exporters who look back on 1947 as a "good year" should keep this fact constantly in mind. Those who have benefited from the 1948 export program should likewise be reminded that it was, for the most part, ECA dollars that made those exports possible. Had there been no American gifts or loans in the postwar years—no ECA in 1948—Europe would have been unable to find the dollars to make these purchases no matter how badly she needed them. The American export market would have dwindled to a mere trickle.

I think, perhaps, a little illustration here might be helpful. To date ECA procurement authorizations for the United Kingdom to buy U. S. canned fish have totaled $4,850,000. The authorizations have been used for the purchase of pilchards (California sardines).

The last U. K. purchase of canned fish in the U. S. was from the 1947 season. Due to the U. K.'s lack of dollars it was limited. In 1948—before ECA authorizations went into effect—for the first time

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*An address by Mr. Wadsworth before the First Pacific Coast World Trade & Marketing Conference of Western Management Association, Berkeley, Cal., July 20, 1949.

LETTER TO THE EDITOR:

Stockholders Unions—Objections Considered

Elisha M. Friedman, author of proposal to organize stockholders into unions by companies and industries, evaluates "Chronicle" readers' criticisms.

Misinterpretation of the Critics

Editor, Commercial and Financial Chronicle:

The proposal to organize stockholders unions first by companies, then by industries and finally into a National Federation of Stockholders unions has been attacked by two critics writing in the "Chronicle." One states that "it looks as if this speech had been written from a set of by-laws drawn by a corporation's counsel." **The fear is expressed that the management will control the stockholders union** because the management will select or approve the list of nominees to form the board of the union. The plan is also criticized because one outstanding corporation director is suggested to be chairman or liaison officer of the stockholders union. It is charged further that **such a union will be a front for management** in fighting labor, the taxing authorities and the SEC. Finally, this critic objects to having a Temporary Organizing Committee for this Stockholders Union formed by issuing houses and dealers and brokers who have close contacts with company executives and who should act as trustees for their clients. These are the main criticisms.

Elisha M. Friedman

The answers are obvious. This attack shows that the critic apparently has not read the paper. The present method of voting yes or no for one candidate is a device used by Hitler and Stalin. My proposal is that the stockholders, just as in a political election, elect one-half the total number of candidates to the board of the stockholders union. The defeated candidates will have no status. In time, the method of nomination and election will be improved following the precedent of political elections.

No Reason to Fear Corporation Directors

There is no reason to fear having one outstanding corporation director act as a chairman or liaison officer of the board of the Stockholders Union. The great mutual life insurance companies select distinguished public-spirited citizens to serve on their boards. Several ex-Presidents, from Grover Cleveland to Herbert Hoover, served in that capacity. **No stockholder need fear having as a chairman of a Stockholders Union men like university presidents** Conant of Harvard, Seymour of Yale, Eisenhower of Columbia or Stassen of Pennsylvania. Men of this type would inspire confidence of the stockholders and could, nevertheless, exercise a beneficial influence on management.

When one critic charges that there are no small stockholders "but merely stockholders whose holdings are diversified into small lots," the answer is to be found in the Statistics of Income published annually by the Treasury Department. This shows how many millions of stockholders have dividend income totaling less than $2,000, $3,000, etc. This is not a matter of opinion but simple fact, readily available to anyone who knows where to look.

"In fighting labor and the SEC" and the taxing bodies, **the Stockholders Union is not a front for management but is defending the stockholder himself,** who is the victim of shortsighted policies of labor leaders, legislators and administrators. This "speech" was not written by any corporation lawyer and no corporation managers were even consulted. It is the result of years of free and unpaid work on behalf of the private investor before Congressional committees and in opposition to rulings of government commissions.

Stockholders and management have more interests in common than in conflict. But stockholders have more interests in conflict than in common with labor unions, with regulatory bureaus and with legislative committees on taxation. Look at what the railroad labor unions have done to the railroads. The labor waste on featherbedding rules exceeds vastly, perhaps one hundred fold, the total compensation earned by the railroads' top management. The tax on transportation, a necessity not a luxury, is far greater than the salaries of all the railroad officers. Just see to what a low state the railroads have been brought by the ICC failure to raise rates promptly as wages are increased. Therefore, a Railroad Stockholders Union should concentrate on defense against labor unions' programs, tax legislation and ICC policy. By comparison the conflicts with management are as trifling as a flyspeck.

First Things First

One critic states that "Shareholders are to be vocal only when it comes to government and labor but otherwise are expected to be silent concerning management abuse." The other critic would have stockholders "work with management not just on matters pertaining to government and labor but on all matters pertaining to stockholders interests." The reply is obvious. First things come first. **The rise in the corporation income tax from 24% to 40% diverted substantial sums from the stockholders. By comparison, the question of the size of salaries to officers and directors is microscopically insignificant.** Similarly, a wage increase of 10% or 20% may be equivalent to one or more years dividends and be many times the total of managers' salaries. In fact, some wise corporation executives realizing this, report the percent management compensation to total wages. **Even if the managers got no salaries, a stiff wage increase could bankrupt a company.** This is not a matter of vague impressions but of precise accounting analysis. These critics would adopt a penny-wise and pound foolish policy. They would concentrate on the details and have a blind spot for the big defects.

Besides, it is management which has created American technical progress, the highest wage rate and the resulting highest standard of living in the world. It has well served the consumer and has kept faith with the investor. And management has done so in spite of the obstacles imposed by shortsighted politicians who continually belabor business and by ignorant and anti-social labor leaders who press for evermore featherbedding rules, more restrictions on efficient production,

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The State of Trade and Industry

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

Steel, the nation's key industry, still occupies the front of the stage this week in our business economy. Next Thursday, President Truman's fact-finding board—Messrs. Daugherty, Rosenman and Cole—will meet in New York to conduct open hearings in the wage dispute. Whether their report and recommendations will be based on true and impartial facts and an equitable solution rendered within the 60-day labor-management truce or whether the government's "intervention" will be just another way by which Mr. Truman can pay off his so-called election day debt to Mr. Murray's union remains to be seen and will be watched by management and labor as a forerunner of what we may expect in future industrial labor settlements.

If the settlement is determined on a political basis and not on merit and justice, the country's great and magnificent business enterprises will be in for a sad future, indeed. All lovers of fair play are hopeful that the Board's recommendations will place the country's welfare first and ignore entirely Mr. Truman's political debt to Mr. Murray and his Union in its considerations.

Commenting editorially on the steel situation this week, "Iron Age," national metalworking weekly, says in part:

Like any hypochondriac who must wait weeks for the doctor's report, the steel industry has the jitters. This week it is getting a shot in the arm—a slight pickup in orders. The possibility of lower prices on major steel products has been pushed into a dark corner and steel sales people think it will stay there at least until Fall.

Right now the industry is more uncertain of its immediate future than it has been at any time in the past three years. Several things contribute to this confusion: (1) customer pressure for lower steel prices has about stopped; (2) delivery dates on some products are a little more extended than they were a month ago; (3) incoming order volume is up, and is better than it was a month ago. However quick delivery is still a big factor in determining who books steel business.

The first three factors are due at least in part to the steel labor truce. They show the beginning of buyer uncertainty on steel delivery six weeks or so hence. And as some products get a little harder to get, the buyers begin to stampede—pushing deliveries still further ahead. That some mills are quoting six to seven-week delivery for certain sizes of carbon bars which they have been getting in just a few weeks, is amazing purchasing men. This warehouse field, lethargic for months, has also begun to feel the effects of buyer concern over steel supply. It is still far from the panic state that characterized 1948 markets and there is nothing now to indicate it will approach it.

"Iron Age" further observes that buyer pressure for lower steel prices began to ease off several weeks ago. After July 15 it practically stopped. Steel salesmen report less dickering over prices and more concern with delivery dates. The buyer with an unbalanced inventory is shopping around for the fastest delivery. In some cases he will pay $3 to $4 a ton more to get steel quickly from a more distant mill when the local mill can't meet his delivery needs.

This shows that steel fabricators are beginning to clear up some of their excess inventory. But there is still a lot left. It may be late September before the real status of steel users' inventories is known. In the meantime there will be more of this hand-to-mouth buying by firms whose total steel stocks are fairly large but who are short on specific items.

STEEL OPERATIONS RISE TO BEST LEVEL IN 5 WEEKS

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 81.5% of capacity for the week beginning July 25, 1949, as against 78.3% in the preceding week, or an increase of 4.1%.

This week's operating rate is equivalent to 1,502,500 tons of steel ingots and castings for the entire industry, compared to 1,443,500 tons a week ago, 1,473,000 tons, or 79.9% a month ago, and 1,678,100 tons, or 91.3% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, highest prewar year.

The Steel Institute reports that steel production in U. S. has risen to its highest level in past five weeks, or since June 20. This production recovery may represent advance buying by consuming industries to forestall the possibility of a strike in September when the 60-day labor management truce ends.

U. S. STEEL MAKES A HALF YEARLY RECORD

Irving S. Olds, Chairman of the U. S. Steel Corporation, announced last Tuesday that shipments, billings and profits for the first half of 1949 exceeded the Company's boom year of 1929. Production and shipments, however, have fallen sharply during the first twenty days of July when deliveries were only 70.3% of capacity for week ended July 23 and production averaged 80.9% of capacity. For the second quarter, production averaged 99.8% and shipments were close to capacity. Payrolls and employment were maintained in spite of the drop in output from the first quarter level of 101.5%. The corporation's net income amounted to $94,052,265 for the six months ending June 30.

LEADING DEPARTMENT STORE SALES CONTINUE DECLINE

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to July 16, 1949, declined by 11% from the same period last year. In the preceding week a decrease of 11% was registered below the similar week of 1948. For the four weeks ended July 16, 1949, a decrease of 11% was reported under that of last year. For the year to date volume decreased by 7%.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended July 16, 1949, decreased by 9% from the like period of last year and compared with a decrease of 7% in the preceding week. For the four weeks ended

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International Gold Coin Standard Conference

Monetary economists and foreign trade leaders to discuss benefits to trade and investments abroad.

"Steps immediately possible in the direction of international monetary stabilization through adoption by the United States of a thorough-going gold standard at $35 per ounce will be discussed at a conference being arranged by the Economists' National Committee on Monetary Policy in cooperation with leaders in foreign trade for Sept. 8, Thursday, noon and afternoon sessions, at Hotel Roosevelt, New York.


Dr. Walter E. Spahr

"The program," Dr. Walter E. Spahr, Executive Vice-President of the Committee, says, "will cover the following questions":

(1) What is the gold coin standard?

(2) How it would facilitate international trade.

(3) How a gold coin standard would stimulate private investments abroad.

(4) Steps that should be taken immediately in direction of international monetary stabilization.

"Monetary experts and leaders in international trade will speak on the major subjects. Questions and answers will follow.

"Chairman of the Conference will be Dr. James Washington Bell, Chairman of Department of Economics, Northwestern University, and President of the Economists' National Committee on Monetary Policy. Coordinator of Arrangements for the conference will be George F. Bauer, Vice-Chairman of the International Trade Section, New York Board of Trade."

Halsey, Stuart Group Offers La. & Arkansas Ry. Equip. Trust Ctfs.

A banking group headed by Halsey, Stuart & Co. Inc. won the award July 27 of $5,640,000 Louisiana & Arkansas Ry. 2¼% equipment trust certificates, series D. The issue was immediately reoffered, subject to approval of the Interstate Commerce Commission, at prices to yield from 1.10% to 2.50%, according to maturity.

The certificates mature $235,000 semi-annually from Feb. 1, 1950 to Aug. 1, 1961, inclusive.

With Bradley Higbie & Co.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — Joseph E. Burke is with Bradley Higbie & Company, Guardian Building, members of the Detroit Stock Exchange.

J. H. Goddard Co. Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—John F. Hubbard has become associated with J. H. Goddard & Co., Inc., 85 Devonshire Street, members of the Boston Stock Exchange.

Henry Hering Opens

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Henry R. Hering is engaging in a securities business from offices at 111 North Larchmont Boulevard.

Observations . . . .

By A. WILFRED MAY

Obscure Dividend-Declaration and the Investor

To this column, which has been airing possible causes of investors' current qualms, has come a most constructive communication suggesting as a contributing factor the confusion generated in the public by the *non-uniformity* of dividend-disbursement. This point, made by a partner in a large Stock Exchange firm, has nothing to do with the *amount* of dividends related to earnings, nor to any phase of directorial dividend-policy (whose significance have been discussed in this space previously). It is concerned with the obscuration of the amount and regularity, of disbursements.


A. Wilfred May

In addition to the stockholder's feeling of insecurity arising from the irregular pattern of dividend payments, which Mr. Erpf ably explains, there is the confusion implanted in the investor by the differing and obscure ways in which they are reported by the press. For example, the two New York City metropolitan morning and one evening daily report the rate on an *annual* basis calculated on the last quarter's or semi-annual declaration. Unless otherwise noted, special or extra dividends are not included. On the other hand, another of the evening papers reports the amount of dividends actually paid up to the previous market close, with additional special symbols.

The financial dailies likewise differ. One of them reports dividends, unless otherwise specified, in the amount paid or payable within the latest *12-month* period. The other publication in this category reports both the amounts paid in the previous calendar year and to date of publication in the current year.

"The Exchange," a monthly publication of the New York Stock Exchange, in a major article on "Dividend Yields" in its current issue shows for 196 stocks the 5-year average dividend including extras, and for the current estimated cash dividend, a rate based on latest "normal" payment excluding extras.

It would be a most constructive step for American industrial corporations to agree on uniformity in the declaration of dividends to take care of the effects cited below by Mr. Erpf. Presumably this could be effected through the efforts of trade associations. The non-uniformity of press reporting, outlined above, could be corrected by agreement through the Financial Writers Association, or informally by the financial editors.

* * *

MR. ERPF'S COMMUNICATION

Dear Mr. May:

I am certain that one of the impediments in the buying of common stocks today for investment income is the *confusion* concerning dividends. Mind you, this has nothing to do with the question of the proper amount which should be paid out of earnings. The management and directors should determine this and their conservative policy over recent years has had ample justification, whatever the hue and cry may be concerning a particular company.

In the bad old days, when corporate tax rates were less volatile, it used to be the fashion to declare a regular dividend each year out of each year's earnings and to declare a year-end extra when warranted out of that year's earnings. This gave the

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Snyder Optimistic on European Recovery

Secretary of Treasury, in first statement on return from tour of Europe says progress in many respects exceeded earlier expectations. Stresses efforts to increase Europe's dollar earnings and sees International Monetary Fund as appropriate forum for adjusting exchange rates.

In his first statement made since his return from a three week tour of European capitals, Secretary Snyder said on July 25 that the progress of European recovery has in many respects exceeded earlier expectations. Western Europe, he said, had made substantial progress in increasing production and in raising levels of consumption. Europe as a whole, the Secretary said, does not appear to be encountering difficulties in meeting its payments outside the dollar area.


John W. Snyder

But he emphasized that Europe must concentrate its efforts on increasing dollar earnings.

In all of his talks, the Secretary stated that he reaffirmed the importance of the role of the International Monetary Fund as the appropriate forum for the discussion of exchange rates.

The Secretary repeated that, as announced before his departure, the primary purpose of his visit was to consult with U. S. Treasury Representatives, U. S. Diplomatic Representatives, E.C.A. officials, and Foreign Government authorities in order to obtain a first-hand picture of current economic and financial developments in Europe and of the present thinking of European leaders.

With this purpose in mind, Mr. Snyder said he met and talked with responsible financial officials in each capital visited. The Secretary said that the officials with whom he talked assisted him in obtaining a clearer understanding of economic and financial developments.

In connection with his conversations in London, the Secretary stated it was the consensus that the problems raised there required further consideration. It was accordingly agreed that a meeting would be held in Washington in early September to continue these discussions. Canadian financial authorities participated in the London talks and will also participate in the Washington talks.

A Platform for Business

By CHARLES LUCKMAN*
President, Lever Brothers Company, Cambridge, Mass.

Cautioning, as a nation, we cannot afford to become economic hypochondriacs, prominent industrialist urges a still greater job than ever before be done to expand economy and raise American living standards further. Says return of buyers' market should be met by greater advertising and selling efforts, by reduction of costs through improved production and distribution methods, sound wage policies, and lower prices wherever possible. Advocates business willingness to expand.

Fear has won a beachhead in America, and the people of this country, although victorious in history's most devastating wars, are retreating before the shadows of an uneasy peace. Fear, unknown in war, is producing an astonishing paradox in the richest and strongest nation in the world — it is persuading the American people to talk themselves into a depression.

Charles Luckman

A defeatist attitude is encountered on all sides—from boardrooms to barrooms. Whether it's a group of clerks in a cafeteria or a group of corporation big-shots at a banquet, the main dish is likely to be despondency, seasoned with dire rumors and garnished with gloomy statistics.

These dim views of America's economic health have apparently gained wide acceptance, although the facts of America's economic strength are known to everyone. On the radio, in magazines, in our newspapers, the basic soundness of America's economic position has been clearly pointed out. Because they do not fit into the melancholy fashions of the hour, such statements fail to register on the public mind. But they are starting facts and should be repeated again and again. Here they are:

(1) 59 million workers on the job;

(2) $200 billion in liquid savings;

(3) $215 billion personal income for 1949;

(4) High purchasing power—53% greater than prewar.

It would seem preposterous that anyone could manipulate these figures and come up with an answer that equals disaster. Yet, that is precisely what many Americans are doing. By emotional arithmetic, these viewers-with-alarm add two and two and get zero. But the record they scan is their own fever chart—not the record of America's economic health and vigor.

We Cannot Afford Economic Hypochondriacs

Now you and I know that as a nation, we cannot afford to be economic hypochondriacs because a country, like an individual, can worry itself sick.

The sort of emotional arithmetic indulged in by these alarmists is typical of Pravda, in which America as a land of opportunity and promise has long since been written off. The Russians, who according to Pravda, invented the electric light, the airplane, the radio, penicillin — and the safety-pin—also invented the theory that America is headed for the most colossal bust in history. This amiable proposition has appealed to those comrades in the USSR who view Siberia with distaste, and to a small group in the United States which regards "Ol' Man River" as a sleazy capitalist version of the "Volga Boatmen."

The reaction of many Americans to the problems of this postwar period suggests something Thomas Jefferson wrote to John Adams in April, 1816.

Jefferson wrote:

"I think, with you, that is is a good world. . . . There are, indeed, gloomy and hypochondriac minds, disgusted with the present, and despairing of the future; always counting the worst will happen, because it may happen. To these I say: What grief has been caused by the evils that never happened! I steer my bark with Hope in the head, leaving Fear astern. . . ."

Today's counterparts of those gloomy individuals confuse fears with facts. Though knowing, in their hearts the essential health and vitality of our free economy, they yield weakly to the counsels of despair. Seized with the jabber-jitters, they prattle about depression and collapse.

Compromising Our Future

But how can we confuse shadows with realities? With our spiritual heritage, and with vast material resources at our command, how can we compromise our future by a liaison with fear?

The answer is lack of faith—for, only through a lack of faith in America and in ourselves, could we mark down the world's most dynamic economy.

Too many of us have accepted jabber-jitter estimates of what it wrong with America, instead of finding out for ourselves what is right with America.

No one can deny that America faces many grave problems today, both at home and abroad. No one can deny that American business has an ample share of these problems which it must solve itself, if it is to continue its robust tradition of individual competitive enterprise. But I do deny, and most emphatically, that these problems present any logical reason for doubt. I deny that challenge is a cause for fear.

There is all the difference in in the world between being aware of complex problems and being afraid of them. This moment demands a clear-eyed appraisal of the facts—not an emotional concern with shadows.

The history of America is an inspiring saga of great problems superbly overcome; of serious setbacks serving only as new beginnings for even greater achievements. I reject the thought that at the midpoint in this 20th Century, we will reverse the course of that history.

Not as a politician; not as a historian; not as an economist, but as a businessman, I call for a renewal of faith in the vitality of our American way of life.

By faith in America, I do not mean a listless reverence for the past or a mere submission to the present. By faith, I mean a certainty based on the principles for which America stands; by which it has progressed; and through which it will realize its full potential of greatness in the future. Faith in America is not blind acceptance of things as they are—it is the belief that we, in America, can make them better.

A Greater Job Can Be Done

In declaring that today's opportunities can be the basis for magnificent progress and achievement, I am simply expressing a businessman's estimate of what he sees through his own eyes. And what I see today, gives me unlimited confidence in tomorrow. Because for every minor symptom of decline, there are a hundred major elements of economic stability.

Now, of course, nothing in this world is perfect—and the American economy is no exception. But, if we were perfect, there would be nothing left for us to do—and I can assure you that there is a great job to be done.

This may surprise those of us who believe that simply because we have the highest living standard in the world, we have everything we need. Some of us have become complacent through reading statistics about the number of bathtubs and telephones, motor cars, and radios, owned by Americans as compared with Russians.

Such comparisons are significant—yes. But they are phenomenal only by the Communist standard. By American standards they are not nearly good enough. Let's face the cold facts!

27 million Americans have no kitchen sinks

18 million Americans lack washing machines

25 million Americans lack vacuum cleaners

1,000,000 American families need new homes this year

40 million Americans have neither bathtub nor shower

So, let's not talk about what we've got. Let's be more concerned with what we haven't got. We must be concerned for two reasons: First, because these are human needs that should be met; and, second, because these needs provide dramatic illustration of the fact that we haven't finished anything—we're only beginning.

There is enough urgent work on hand for every business now in existence—and for industries yet unborn—to keep busy for generations to come. In common sense we have no excuse for a recession, let alone depression.

The Situation Abroad

So much for the domestic picture. Now, what about the situation abroad?

Solid progress in the rehabilitation of war-wrecked countries is being made through the Marshall Plan—one of the most far-seeing and generous enterprises in human history. The member nations of the Plan have already returned to a prewar level of industrial output. This has taken four years, but a return to a prewar level of production after the First World War took almost seven years.

Our investment in this superb job of salvaging civilization is also beginning to pay dividends in trade. History shows that industrial nations are the best customers for American products. Before the war, for instance, the ERP nations took 38%, or the largest share, of our exports. Thus, only by increasing the living standards of other areas, can we expect to find a wider market for American goods.

And through its economic achievements to date, Marshall Plan has already paid off politically. The tide of Communist chaos that threatened to engulf all Europe has been turned back.

Sound progress abroad, and the stability of our own economic strength are therefore among the cold, practical reasons for having

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*An address by Mr. Luckman before the Los Angeles Chamber of Commerce, Los Angeles, Calif., July 20, 1949.

The Case for 100% Money

By ARTHUR P. BECKER
Chairman, Department of Economics, University of Wisconsin Milwaukee Extension Division

Advocating 100% reserve money, because it would end creation of money in making of bank loans and its destruction through loan repayments, Dr. Becker contends also it would simplify money system and open it to scrutiny of public. Holds full liquidity for demand deposits would thus be created, and commercial banks will be able to safeguard solvency better than under current fractional reserve system. Sees banks able to profit by increase in service charges to depositors and borrowers. Concludes 100% reserves would mitigate booms and depressions.

The traditional attitude of probably a majority of bankers towards an increase in the reserve requirements for demand deposits is one of strenuous objection. Grounds for such objection has varied between general opposition to more government control of any type, especially unnecessary interference, and the possibility that increased reserve requirements would interfere with the making of sound and profitable loans. These arguments cannot be brushed aside with a few simple words if for no other reason than that bankers constitute a responsible and influential group of persons scattered over the nation. Regardless of the final conclusions of bankers concerning higher reserve requirements for demand deposits, it is of utmost importance that these community leaders be fully informed on this matter which so vitally affects both them and the nation. Since no sympathetic explanation of the 100% money has been given to bankers, the author has undertaken to write this article in the hope of filling this void. Let us first of all, look at the immediate effect of 100% reserves for demand deposits.

Dr. Arthur P. Becker

[While the "Chronicle" is glad to publish this able paper on an important controversial question, editorial endorsement of Dr. Becker's conclusions is not to be inferred.—Editor]

I

It is well known by bankers that the system of fractional reserves for demand deposits conveys to the 14,000 odd commercial banks in the United States the authority to create and destroy money in the form of demand deposits. It is also well known that demand deposit money is, in terms of volume, the most important type of money used in the nation. During periods of recovery and prosperity great quantities of demand deposit money are created, while during periods of recession and depression great quantities of demand deposit money are destroyed. When the net amount of demand deposits is increased an inflation characteristically follows. Bankers and business men alike have generally agreed that the war and postwar inflation has been primarily caused by the large increase in the quantity of demand deposits (minus interbank, U. S. Government, and cash items in process of collection) from $39 billion (approximately) at the end of 1941 to $86 billion (approximately) at the end of 1948. The fact that the supply of most products has already caught up with demand and the general price level is merely leveling off seems to indicate that primary responsibility for high prices cannot be placed upon the shortage of goods as some persons would have us believe. While it is also true that an increased turnover or velocity of money may contribute to higher prices, the relative increase in turnover has been less than the increase in prices. Therefore, evidence points to the quantity of money as the primary cause of the inflation. Part of the increase in money was the increase in currency of $17 billion between the end of 1941 and the end of 1948, from $11 billion (approximately) to $28 billion (approximately).

Towards the end of a period of prosperity, the quantity of demand deposits is contracted, which is to say that this form of money disappears. According to the Federal Reserve Bulletin demand deposits (adjusted) contracted from $23 billion (approximately) at the end of 1929 to $14.5 billion (approximately) at the end of 1933. While it is true that the velocity of money decreased considerably in this period, it is obvious that the 1929 price structure could not have been supported in face of this decline in the quantity of money even if the velocity of money had remained the same. Although it is impossible to prove statistically, it is none-the-less a fact that the decline in the velocity of money was caused, to some extent at least, by the destruction of money. There is little doubt that when people have less money they tend to hold onto it longer, especially in the face of falling prices. And it is also true that this very caution in spending will cause a further decline in prices and the quantity of money.

If the fractional reserve system for demand deposits would be abandoned, the making of loans would not involve the creation of money, and the repayment of loans would not cause the destruction of money. All loans would have to be made out of time deposits, which as we shall see later would increase, and that would not involve an increase but merely a transfer of money from the bank to the borrower. Contrariwise, when a loan is repayed the money would not be destroyed but returned to the bank. The money would then be available for the depositor to withdraw and use should he wish. With declining and low prices during recession and depressions it is very likely that a goodly part of this money actually would be withdrawn by the depositor and spent. Under the present system of fractional reserves and the making of loans through demand deposits, once the loan is repayed the money is destroyed. During recessions and depression, there is far less likelihood that consumers will borrow, in fact they are often unable to borrow, or repay a loan, to increase their purchasing power. If, on the other hand, consumers and businessmen had this money available as deposits that they had accumulated, there is no question that they would withdraw and spend some of their deposits to take advantage of low prices and as a result total national expenditures would be greater.

II

Abolition of the fractional reserve system for demand deposits

(Continued on page 24)

From Washington Ahead of the News

By CARLISLE BARGERON

Inasmuch as we long ago went in for personalized government; that is, government by personalities rather than by law, there was considerable interest and drama in the set-to a couple of weeks ago between John Foster Dulles, as a new Senator, and Bob Taft. The principles espoused by the two men were secondary. What we wanted most to see was the tilt between the two men.

Carlisle Bargeron

The build-up for Dulles' appointment had been that he was an international expert and was needed in the Senate to help that other expert, Vandenberg, in these days of international crisis. He was needed to be gotten down here quickly, too, because Taft only a few days before had announced his opposition to the North Atlantic Pact. No telling how many votes he would pull away from it.

The situation being thus fraught, the new Senator was not given time to warm his seat. He was rushed into battle his very first day.

Well, this is to report that it would have perhaps been better for the Internationalists had they let him look around awhile and adjust his spectacles. Because it is now apparent that as a result of his mixing with Taft, they have suffered a sharp setback.

Dulles contended that the pact and the arms implementation program were entirely separate. Pressed by Taft with the fact that the State Department had been saying for months that they were one and the same, that it was widely known that the arms implementation program had already been prepared and was to be sent to Congress as soon as the Pact was out of the way, Dulles professed surprise. He said, in effect, that he could not see how this could be the case because under the Pact, before any arms could be sent a committee of the allied nations had to be set up and it was to determine just what was needed by way of implementation. This was quite a surprise to those in Washington who had long been following the subject.

Well, the Pact was ratified by more than the necessary two-thirds majority and forthwith Mr. Truman sent up a bill to the Hill calling for an appropriation of $1,450,000,000 for arms implementation and providing that he should have the say as to which countries should get the arms and how much.

Mr. Dulles, to support what he told the Senate, must now express horror over such a proposition and say that he can't go along with it, that the best he can support is a greatly reduced interim aid until that mythical committee of which he spoke can get together, make a study and report.

The Pact itself was never in danger. But now the Internationalists have lost a vote for the arms implementation in which they certainly must be more concerned than they are in the Pact itself because it provides for more "international commerce," more international boondoggling. The arms bill is in decided danger.

Dulles, it seems, instead of having assisted Vandenberg, has gotten the latter in the position of having to oppose the arms bill himself. He, too, is for an interim aid bill.

This is a strange upset in the plans of International mice and men and undoubtedly quite a surprise for the Administration. It is countering with just about the rawest piece of propaganda that could be imagined. Our intelligence, we are told, has finally succeeded in penetrating the Iron Curtain and for the first time, learned of Russia's war plans. They and their satellites have got men, guns, planes and submarines to burn. They are armed to the teeth.

It is just a happy coincidence, of course, that our intelligence succeeded in getting this information just at this time.

The purpose of this propaganda is unquestionably to put the heat on Congress to make it pass the arms bill in the precise form in which it has been submitted. It is so rank, so obvious, that you would think it would cause Congress and the country to throw up their hands in disgust. You would think that the American people would conclude that a government that plays so loosely with them should be thrown out of office at the earliest possible moment. But this is not likely to be the case. We have apparently come to the point that rather than resenting such stuff, we swallow it whole hog.

It is dangerous business, this plain and manifest war-mongering on the part of the Administration to attain its ends. And we may fully expect other sensational "exposures" to come.

The American people in their smugness are prone frequently to say what a peaceful world this would be now if it were not for Russia's warlike intentions. They wonder how on earth the Soviet leaders get away with continually harping on our imperialism and aggressiveness and with telling the good Russian people that we plan to attack them. How could they ever say this with a straight face about such a peace-loving nation, one that never harmed anybody in its life; how on earth do the Russian people believe these things when their leaders do tell them. Aren't we spending millions of dollars a year to tell them over the "Voice" the truth?

But it strikes me that Henry Wallace has a point. What would you think if you lived in Russia and viewed these goings-on? It is one thing to say to Russia that if she moves against any of the nations signatory to the Pact she is at war with us, and quite another to arm her neighbors.

What is Russia to think when she considers these war scares in this country? Is the Soviet government to be expected to analyze them as just propaganda and nothing to be alarmed about when our own people do not analyze them that way? Or if they are armed to the teeth as our intelligence reports, aren't they likely to think that the best thing for them to do, in self defense, is to act quick? Fortunately for us, they haven't this great military strength. If they had, our arms implementation program could not stop them from overrunning the countries to whose assistance we have so boldly pledged to come.

Politics Is Everybody's Job

By EARL BUNTING*

Managing Director, National Association of Manufacturers

Stressing interdependence of political and economic life, Mr. Bunting points out American businessman should not divorce himself from politics, but should assume role of personal leadership, as "no corporate organization can or should take our job of good citizenship." Defends NAM non-partisan activities and says it is striving to preserve traditional American freedoms. Upholds two party system, and calls for better government from the local level up.

As you know, American business is in the forefront of the American people's everlasting struggle to advance as free and prospering individuals. Because it is the function of business and industry to lead this long advance in America's greatness, we are the first target for those who are out to scuttle all that the American people have gained or hope to gain. Opposing ideologies have taken over men's minds throughout much of the rest of the world, and we must expect to face heavy attack from them here at home.

Earl Bunting

The best defense I know is to advance—on every front—with all we've got. We are in the forefront. If we lack anything that it takes to lead on—let's lead in producing that too!

There is no water-tight bulkhead between the economic and political life of the American people. These are as different as fore and aft. But they are all parts of the same boat—built and run by a free people. If one part leaks, the other floods, too. And it takes the whole American public to plug the leaks, man the pumps, and get things shipshape again.

The businessmen of America have a very definite responsibility for leadership in America's economic life. So far as it lies within the power of business management to keep our economy shipshape it is an unmatched source of livelihood, opportunity and progress to the entire American public. There will always be improvements as long as there is business management with a hand left free. But the job we have done, are doing and shall keep on doing can stand up under any inspection—has met and will meet any test of management's integrity, competence and devotion.

We, individually, are part of the American public. In the past we have for the most part excused ourselves from political duties, on the ground that politics is not the business of corporate management.

Good Citizenship, the Individual's Task

It is perfectly true that no corporate organization can or should take over your job of good citizenship. But it is also perfectly true that every businessman in America has a good citizen's full responsibility. If things are less than shipshape in America's political life, whose responsibility is it more than ours—man by man—to pitch in and lead the way to shipshape government of and by one of the few free peoples left in a badly stymied world?

American businessmen belong to both political parties. And it will take all that they have to offer our two-party system—at every level—to stop the known leaks and shifting ballast of governmental practices at every level.

Gentlemen—this is our business—our very personal and immediate business. No one else can or will do it for us. No economy can stay in good trim if the political half of the boat we are all in fails to correct serious and obvious defects.

The non-partisan Commission on Organization of the Executive Branch of the Government, headed by Mr. Hoover, has laid bare a monumental number of things that have needed to be done for years—and gone neglected. But I am not speaking of political responsibility as something which spectacularly strikes a lighting rod over the Capitol dome, galvanizes the headlines for one edition, and peters out somewhere short of reaching the American people where they live and work and really go to own.

I am thinking of the kind of responsibility that starts with self-governing individual citizens back home who are ready and willing to build the personal integrity which they possess into our great framework of government of the people, by the people and for the people—from the ground up . . . yes, from all the home towns in America . . . all the rich countrysides . . . the tall cities . . . the farms, factories, offices, shop . . . all the places where the people of this land go about their creative business of using their heads, and hands and hearts, and savings to produce what it takes to get along and get ahead.

In a recent address Henry Ford II said that business and industry "are not politically strong enough for the job they have to do." Government and labor leaders, he pointed out, "are elected because they have political sense." Business leaders are developed to meet economic, rather than political problems.

OK, gentlemen. Mr. Ford put his finger on the trouble. What do we do about it?

Hire a vice-president in charge of the sense God gave us?

Out-promise the professional politicians? Deplore the superior political sense of labor leaders as not quite cricket? Or make it our personal job to help do whatever the American people need to have done in the political half of our boat?

There has been a great deal too much government in business. American life will rest on a much more even keel if we, individually, do what it takes to put some business sense of integrity and basic principles back into government. Some people think that this is not their business, but NAM's business. But it isn't and never has been. We do a job, a

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*An address by Mr. Bunting before the West Virginia Manufacturers Association, White Sulphur Springs, West Virginia, July 22, 1949.

Point IV a Fantastic Utopia!

By HON. SPRUILLE BRADEN*

Former Assistant Secretary of State

Authority on Latin America asserts Truman proposal for international subsidies would heap further taxes on "an already over-spent nation" to finance global panaceas. Insists everything the Point IV Program proposes for the world's undeveloped areas should be done within our own boundaries where a huge job remains. Cites 10 principal unsound features of program.

"It is related that a person of limited intelligence, on being assured that he would certainly one day enjoy an adequate competence if he closely followed the industrious habits of the thrifty bee, spent the greater part of his life in annointing his thighs with the yellow powder which he laboriously collected from the flowers of the field."

Spruille Braden

In plain English, diligence and thrift, admirable as they are in themselves, will be useless or even harmful if misdirected or employed in a futile attempt to reach an unobtainable goal. Just as it is impossible for men economically to perform the essential functions of the busy bee, so the application of the highly industrialized system of the United States to other peoples, in other climes, under widely divergent conditions and influences may be inopportune, abortive and injurious to all concerned.

Certainly, with the world in its presently desperate economic and political straits, this is no time for our government to dash forth in pursuit of Utopias, otherwise to indulge in misguided endeavors or to heap further taxes on an already over-spent nation in order to finance global panaceas. Yet, in effect, that is precisely what the American people from a relatively small beginning may gradually, perhaps unwittingly, slip into doing, led astray by their emotions and by the glittering enticements attributed to the so-called "Bold New Program."

We, Americans, are innately optimistic and, therefore, always ready to try something new, especially if it promises reform or a speedier approach to the millennium. Also we are given to emotional outbursts of all varieties; harmless or explosive, of short or long duration, for good or bad, they sweep the whole country from coast to coast. There were the manias for Mah-Jong, obstacle golf and blowing bubbles. Now our charming ladies, almost without exception and with scant regard to the masculine eye for a well turned ankle and a trim figure, unaesthetically bedeck themselves with the "new look" sloppy flat heeled slippers and slacks. Whole communities, seduced by the hope of getting something for nothing go all out for "pyramid clubs" and radio "give-aways." As opposed to these rather silly exhibitions of mass psychoses on other occasions, with splendid generosity we contribute vast sums to help those all over the earth, who, less fortunate than we, suffer from catastrophies and war, illness and starvation. Or, with equally good intentions and shocked by the evils of alcoholism, we imposed on ourselves the utterly unworkable and demoralizing 18th Amendment.

Speaking of that attempt to enforce virtue by fiat, a former President of the United States said:

> "Our country has deliberately undertaken a great social and economic experiment noble in motive and far-reaching in purpose."

These identical words fit the Point IV Program to a T. The problem is to make this bold new experiment practical, successful and beneficial for ourselves and others. We cannot again afford the improvidence of another gigantic failure such as prohibition. He who thinks he is raising a mound may only in reality be digging a pit into which he may fall exhausted.

Great promises dissipated in subsequently small performance will impair confidence in us and in the world leadership which is ours. Let us remember with John Kible that:

> "Nemesis hangs over men who are overbold in aspiration, whether, like Prometheus, they devise methods and expedients for the alleviation of comon ills, or, as Io, indulge in building castles in the air."

Before waxing "overbold in aspiration" by devising methods and expedients for the alleviation of ills common to all humanity would it not be wise first to cure our own ailments? In this way we might set a good example for others to follow, we could better learn how later on effectively to assist our neighbors, and, after all, charity does begin at home.

This Country Should Be Developed

Everything the Point IV Program proposes to do for the undeveloped areas of the earth should also be done in and for this country. Millions of our fellow citizens need and wish "to realize their aspirations for a better life"; to have more and better food, clothing, housing and "more mechanical power to lighten their burdens"; in short, to "raise substantially their standards of living." Within our own boundaries there is a huge job to be done "for the improvement and growth of undeveloped areas." To do it adequately requires that we "foster capital investment" in unparalleled amounts.

There are such self-evidently undeveloped areas as in Alaska and some of the Western States, where the exploration for and development of mineral wealth and even the equipment and operation of proven deposits has been hindered, reduced or entirely prevented by mischievous and arbitrary governmental regulations and excessive taxes.

There are the disgraceful slums, rural as well as urban, to clean up.

Finally, to cite only one more example; the National Planning Association on June 19 in a report prepared for President Truman's Council of Economic Advisers declared that a capital investment of $4 or $5 billion would be required in any year comparable to 1948 if the South is to catch up with the rest of the country. This document stressed that there must be more industry with higher value of output per worker and an increased productivity and value of Southern agriculture.

Easier Attack at Home

In contrast with the manifold divergencies, obstacles and risks which will be encountered in trying to spread our industrial and scientific techniques abroad, it would be easier first to attack this huge job to be done at home. Here we have a more or less homogenous population, already possessing technical know-how or, at least, a ready adaptability thereto. We enjoy general uniformity of laws, customs and principles and, above all, a firm belief in our "way of life"—in the private competitive enterprise system.

Not only would it be easier, but it would make better sense to put our house in order before presuming to tell others how to fix theirs. Especially would this be true in those instances where our plans and methods were unsuited to foreign conditions and tastes. After all, a nation is not great because of its production statistics for steel, etc., but by reason of the kind of life it furnishes and the type of human being it creates. As Salvador de Madariaga points out the poor Andalusian peasant who, resisting all bribes for his vote, said "in my hunger, I command," had more dignity than hunger and so had a finer sense of the values of our civilization than those Anglo-Saxons who are mainly concerned with getting ham and eggs for breakfast. (sic.)

Conversely, it is not one of our more scintillating evidences of long-headedness to plague and destroy capital at home—an activity in which many foreign governments emulate us by attacking U. S. enterprises in their countries —while simultaneously we implore it to venture abroad.

Rather we should encourage and nurture the accumulation of capital. Only in this way will we make and keep the United States so powerful economically, socially, militarily and in all other ways as to discourage aggression, fortify its security, and entrench and augment the national well-being. Our successful accomplishment of these things will compel respect from all and perhaps, then inspire others to pursue the same course.

Patriotism, Not Isolationism

This is not isolationism. It is simple reason and plain patriotism to gauge everything first from the aspect of whether or not it is best for one's own country. Once we are satisfied on this score, the next logical step is to consider the measure to which any given project may benefit or harm our immediate community, our closest neighbors. Only after this has been done, should we approach the subject from a global aspect.

In my opinion, Canada and the other American republics—not Britain or Western Europe, as some allege—constitute our immediate community. This is true not only by reason of geographical propinquity and the long traditions and on the average the dedication of their peoples to democracy, as we understand the term, but also because in a cooperation with Europe inevitably the United States must give much and receive little in return. In peace or war, Western Europe expects us to supply the strategic materials, the finances, the arms and all else that they may require. Whereas, in this hemisphere there is a mutuality of interest and reciprocal relationship. In return for our financial and technical assistance our neighbors can and do furnish strategic materials and other highly desirable products such as sugar, bananas and coffee.

That we should give priority to the huge job to be done at home in

(Continued on page 22)

*An address by Mr. Braden at the Colgate Conference on American Foreign Policy, July 26, 1949.

Dealer-Broker Investment Recommendations and Literature

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

Banks and Trust Companies of Northern New Jersey—Semi-annual study—Parker and Weissenborn, Inc., 24 Commerce Street, Newark 2, N. J.

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

Colombia-Bolivia — New study of economic and political developments—Zippin & Company, 208 South La Salle Street, Chicago 4, Ill.

Comparative Insurance Stock Prices—Tabulation based on earnings for 12 months ended Dec. 31, 1948—Geyer & Co., Inc., 63 Wall Street, New York 5, N. Y.

Cyclical Type Common Stocks —A background for considering their purchase—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Also available is a memorandum tabulating the yields in **Railroad First Mortgage Bonds.**

Distilling Industry—Analysis—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y. Also available is a brief discussion of the outlook for railroad earnings.

New York Bank Earnings—Comparative tabulation for first half of 1949—New York Hanseatic Corporation 120 Broadway, New York 5, N. Y.

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

Public Utility Preferreds—Circular showing offerings of 12 companies including a study of the capitalization and a comparison of the yields of bonds and preferred stocks, and a comparison of yields on public utility bonds with high grade and medium grade preferred stocks from May 1946 to June 1949 —Harriman Ripley & Co., Inc., 63 Wall Street, New York 5, N. Y.

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Bendix Home Appliance—Analysis—Bruns, Nordeman & Co., 60 Beaver Street, New York 4, N. Y.

Bingham - Herbrand Corp. — Analysis of the company and its subsidiary, **Billings & Spencer Co.** —Wm. J. Mericka & Co., Inc., Union Commerce Building, Cleveland 14, Ohio.

Bulolo — Memorandum — Goodbody & Co., 115 Broadway, New York 6, N. Y. Also available is a memorandum on **Republic Natural Gas.**

Cities Service Company—Summary and opinion—E. F. Hutton & Co., 61 Broadway, New York 6, N. Y.

Conlon-Moore Corp.—Circular—Swift, Henke & Co., 135 South La Salle Street, Chicago 3, Ill.

Also available is a circular on **Goodman Manufacturing Co.**

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

Greyhound Corp. — Circular — Herzfeld & Stern, 30 Broad Street, New York 4, N. Y.

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

Public National Bank & Trust Company — Analytical study — Paine, Webber, Jackson & Curtis, 25 Broad Street, New York 4, N. Y.

Also available are circulars on **General Motors, New York, Chicago & St. Louis** and **Youngstown Sheet & Tube.**

Rockland Power & Light Co.—Memorandum—Amott, Baker & Co., Inc., 150 Broadway, New York 7, N. Y.

Seaboard Air Line Railroad Company—Study—Smith, Barney & Co., 14 Wall Street, New York 5, N. Y.

Also available is a detailed bulletin on **Atchison, Topeka & Santa Fe,** and a detailed tabulation of **Electric Utility Operating Co. Preferred Stocks.**

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

Southern Company — Memorandum—Ralph E. Samuel & Co., 115 Broadway, New York 6, N. Y.

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

West Virginia Water Service Company—Analysis—Cohu & Co., 1 Wall Street, New York 5, N. Y.

Also available is a memorandum on **Richfield Oil.**

White & Wycoff Manufacturing Co.—Circular—May & Gannon, 161 Devonshire Street, Boston 10, Mass.

Zonolite Co.—Circular—Leason & Co., 39 South La Salle Street, Chicago 3, Ill.

Savings Bank Deposits Gained in June

Reported by Mutual Savings Institutions at 21% greater than year ago.

During June deposits of the 530 mutual savings banks of the nation showed a more than seasonal upswing, rising by $141,000,000 to reach a total of $18,944,000,000 on July 1, the National Association of Mutual Savings Banks reported on July 26. As in the case of every month this year except February, the deposit gain exceeded that during the same month last year, when June deposits rose $105,000,000. The gain in regular deposits in June reflects some easing in withdrawals.

Despite the changed economic outlook and the lowered national income, deposits have increased more rapidly this year than last. During the first six months of 1949 deposits rose $544,000,000 or 21% more than the gain of $450,000,000 during the corresponding period last year. Over the half year period, amounts deposited in regular accounts were $50,000,000 greater in 1949 than in 1948, amounts withdrawn $33,000,000 less. Thus about three-fifths of the increased "gap" between amounts deposited and withdrawn was due to greater deposits and two-fifths to lessened withdrawals.

Must Consumer Credit Costs Rise?

By CLYDE WILLIAM PHELPS
Professor of Economics, University of Southern California

Dr. Phelps, pointing out operating costs of finance and other consumer loan companies have risen along with those of other business lines, states there is consequently a need for raising the limit on amount of individual loans from prewar levels so as to permit larger loans to be made, and thus reduce ratio of operating costs of consumer loan companies.

During the marked rise in the cost of living since the prewar period, the prices of some consumers' goods and services, for example, consumer loans, have lagged behind. However, the record indicates that those prices which at first lag in the general upward movement later on tend to catch up. This is because in time they, too, are affected by the increasing costs of labor, materials, and other factors; and the erstwhile lagging prices then tend to keep on rising even after the general movement begins to slow down or level off. Moreover, even with a leveling off of the cost of living, the pressure for wage advances and various other benefits has continued in the direction of increasing labor costs for business enterprisers.

Dr. C. Wm. Phelps

How, then, is it possible to take the position that the cost of consumer credit, which has yet to rise from its prewar levels, may not have to climb upward toward conformity with the prices of other consumer goods and services? The answer is to be found in the possibilities of operating economies and of increasing the size of the loans handled. Both of these possibilities have been wide open to four of the five main types of institutions which are engaged in supplying consumers with loans repayable in instalments, namely, all of the major institutions with the exception of consumer finance companies. These companies are next to the commercial banks in importance in consumer instalment lending; they do about one-half as much business of this kind as the banks, but their business is primarily concerned with a different class of consumers (with regard to risk, accommodations required, etc.) than those served by the personal loan departments of commercial banks.

During the war years the consumer finance companies, operating under State legislation based upon the Uniform Small Loan Law, achieved operating economies in a number of directions. Shortage of personnel and of many supplies brought about the utilization of short cuts and methods previously regarded as impractical or impossible. However, increased wages and office rents, increased prices for supplies, and the general upward movement of other costs have tended since the end of the war to offset the economies achieved in operating procedures. In view of the expectation of permanently higher costs of labor, rents, supplies, and other expenses, the efforts of the companies to streamline their operations and increase efficiency at every turn may be insufficient to prevent a rising tendency in the charges which must be made in order to cover the costs of lending to the class of consumers they serve.

Importance of Loan Size

But there is another trend developing which should make it possible to hold down operating cost ratios and, therefore, charges to consumers. This is the movement toward increasing the average size of the loan. Any progressive retail storekeeper knows that one important way to reduce his ratio of operating costs is to increase the size of his average sale. The average loan of the consumer finance companies has been very low.

This is not merely because they make so many loans of from $20 to $100. Still more important is the fact that the maximum loan permitted in many States is only $300. That maximum figure is traceable to the original recommendation of the Russell Sage Foundation, which was embodied in the Uniform Small Loan Law of 1916. A loan of $300 may have been adequate for most consumers a generation ago in times of low wages and low cost of living, but it is far below present-day needs. The prices of things that consumers buy, as indicated by the cost of living index, average more than double what they were back in 1916; and consumers today need to buy a larger variety and a greater total amount of goods and services to sustain modern standards of living. It is generally recognized that $500 doesn't go as far today as $300 did formerly, even just a few years ago in the period before World War II.

It should have been realized long ago, when social agencies, legislators, and lenders were searching for methods to reduce small loan charges, that the one outstanding remedy would be to increase the maximum loan permitted, so that the making of some large loans in addition to the small ones would raise the average loan handled. It is obvious that when the largest loan an institution can make is only $300, and when many loans are for less than $100 the average loan inevitably must be extremely low—which means that the rate charged will have to be high.

Banks with personal loan departments are aware of the problem of rising costs and of the importance of increasing the size of the average loan—and fortunately they are not handicapped by out-of-date legal limitations to the size of loans (the recently amended banking legislation of the various States permits consumer instalment loans up to amounts ranging from $2,500 to $5,000 or more). It is pointed out in "Banking," the official journal of the American Bankers Association, that "Rising costs present the chief problem to consumer credit operations," and attention is called to the fact that securing a "larger average size of loans is one factor offsetting the higher costs."

Recent Developments

This principle of holding down operating cost ratios by increasing the average size of loans is also being applied in a number of States where consumer finance companies are now being permitted to make loans up to a maximum of $500, and lower rates are being prescribed accordingly. In such States, the consumer finance companies make just as large a proportion of their total loans in the small sizes of $20 to $100 as they do in the States where they still operate under the old $300 maximum. But they are able to hold down their operating cost ratios and their rates of charge

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A Post-ERP Program

By REP. JACOB K. JAVITS*
Member House of Representatives (Rep.-Lib., N. Y.)

Alleging the relatively limited scope of our ERP and International Bank and Fund operations, and Europe's prospective inability to stand on its own feet at its 1952 expiration, Congressman Javits advocates joint Government-Private Enterprise for post-ERP recovery as follows: (1) Extension of technological assistance to underdeveloped areas belonging to free world; (2) government guarantees for American private investors of capital, interest rate, and dollar-convertibility; (3) creation of great world financing organization or economic development corporation with U. S. Government capital of $10 billion; and (4) reenactment of reciprocal-trade agreements program.

On Jan. 20, 1949, the President said: "We must embark on a bold, new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas." He continued by urging "that we should make available to peace-loving peoples the benefits of our store of technical knowledge in order to help them realize their aspirations for a better life. And, in cooperation with other nations, we should foster capital investment in areas needing development." The President estimated that "more than half the people of the world are living in conditions approaching misery." The President then invited the cooperation "of business, private capital, agriculture, and labor in this country" in this monumental effort. And in his message of June 24, 1949, on the point IV program the President said of the underdeveloped areas: "They must create a firm economic base for the democratic aspirations of their citizens."

Hon. Jacob K. Javits

Point IV

Much soul searching and many questions have been asked about the now-famous point IV announced by the President, and interest in it has been quickened by the fear of a domestic depression. President Murray of the CIO said on June 26, last, that the time has come for "immediate action" to "stem the tide of growing unemployment." Unemployment is up and there are predictions that it may rise to as much as 5 million in the next fiscal year; and the Federal deficit for fiscal 1949 of $1.8 billion is not reassuring on this point.

First, let us be clear about the President's finding as to the underdeveloped character of the world's economy. It has been authoritatively estimated that the average per capita income in the world is in the area of $70 per year in terms of United States 1946 dollars compared with which the United States enjoyed a per capita income in 1946 of about $1,200. The general average even of highly industrialized countries like Great Britain and France is in the area of $300 to $400 per year. Successful agricultural countries like Argentina enjoy substantially the same annual per capita income, while countries like Mexico, Italy, and Chile enjoy annual per capita incomes of about $200 per year, with China, India, and some of the Middle Eastern countries coming at the bottom of the scale with annual per capita incomes as low as $40 a year.

The United Nations Department of Economic Affairs, in a report published early this year, said that industrial output in most war-devastated countries was approaching or had already exceeded prewar levels, but this was only because existing plant and manpower resources were being utilized at near capacity. Yet we all know that shortages, austerity, and difficulties are still harassing most of the world other than a few areas in North and South America and Oceania.

Western Europe, 1952

We hear, too, authoritative predictions that by 1952, when the ERP was expected to have adequately put western Europe on the road to ability to stand on its own economic feet, it will still be suffering a dollar deficit of between $1 and $3 billion with the latter more nearly accurate; and even the latter demanding what the London "Economist" calls prodigious effort—an increase of 40% above the present level of visible exports and the turning of an unfavorable deficit of $750 million of invisible exports in 1947 into a favorable balance of $1.3 billion in 1952. The current or rather recurrent British financial crisis due to the continued draining away of her dollar and gold reserves is certainly not reassuring either.

The "Economist" gives three alternatives as to how this problem can be dealt with. First, the development of sources of supply, in nondollar areas, of the articles now imported from dollar areas; namely, essential raw materials and machinery. Second, greater exports by Europe to the United States directly or indirectly; and, third, reduction of the level of Europe's imports. The last is a repetition of the British austerity plan for the whole of Europe. Apart from the inability of most of Europe to stand this strain, it is highly doubtful that even Britain can do more than remain alive, but starved, under such a plan and certainly cannot attain the robust economic health essential to her own and the world's security.

The evidence seems to be clear on all sides that if we are to make the European recovery program succeed and if we are to answer the Communist challenge in the world in the overriding terms of economic well-being, we must have a plan to succeed the Euro-

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*Abstract of a speech of Rep. Javits before House of Representatives, July 14, 1949.

Mutual Funds

By HENRY HUNT

First Half Sales Up; Liquidations Down

During the first half of '49, gross sales of mutual funds amounted to $160,517,000 as compared with $139,330,000 during the same period last year, according to figures compiled by the National Association of Investment Companies. At the same time, liquidations declined from $66,750,000 a year ago to $45,707,000; resulting in net sales of $114,810,000 for the first six months of '49, up 51% over '48's first half total. In sharp contrast, volume of trading on the "Big Board" during the first half declined 33% from a year ago.

The fact that mutual fund sales continue to show progress, despite generally stagnant securities markets, is only partly a reflection of the growing recognition of the advantages that mutual funds offer. It is more the result of hard and intelligent work on the part of sponsors, wholesale men, dealers and, last but not least, retail salesmen.

It requires modern merchandising methods plus plenty of leg work and door bell ringing to sell securities today. Many Stock Exchange firms that are waging a losing battle against "old man overhead" either do not or will not admit that the securities business has changed vastly during the past 25 years. Many registered representatives, or customer's men as they used to be called, still think that a glib "line" over the telephone to their disillusioned clientele is all they need to be successful. As a friend of ours recently commented, "If they don't go to work pretty quick, they won't be eating much longer."

"Common Stocks vs. Cash" Popular

Copies of an article called "Owning Common Stocks vs. Cash" by Henry Ward Abbot which appeared in this column recently have been popular with dealers. Distributed by Vance, Sanders, Lord, Abbett and Keystone, nearly 200,000 copies have been used to date.

Axe-Houghton Sees Business Upswing in Late 1949 Or First Half of 1950

In a report to stockholders dated July 19 Emerson W. Axe, President, Axe-Houghton Funds, said in part:

"When the next real business upswing sets in, whether it be late in 1949 or during the first half of 1950, the effect upon investment sentiment and upon the general level of security prices is likely to be great.

"If and when this change in investment psychology occurs, very much higher price-earnings and price-assets ratios may be expected.

"It is the belief of the Management of your Fund that the events of the past few quarters have been highly constructive from a longer-range standpoint and that the *basis* is being laid for a much more healthy investment situation. Whether the change takes only a few months more or considerably longer is a matter of relatively little consequence to a long-range investor who selects securities on the basis of real value."

Symposium

In times like these when almost everybody is expressing a different view as to the economic outlook, it is often difficult to form an intelligent opinion as to where we are heading and what is in store for American business enterprise.

The last issue of the magazine "Trusts and Estates" contains a symposium of some of the observations recently made by a group of economic leaders; and with the thought that they might be of interest to our readers, we are listing a few of these views below:

Charles Sawyer, Secretary of Commerce: "By any normal standard historic comparison our situation is good. We have come down from the dizzy heights of inflationary pressures, we have met the demand for goods which a year ago were in critically short supply—we are, in short, on a lower level, but we are not in the valley."

Sumner Slichter, Harvard economist: "Despite the present readjustment, the nation's economy is in a remarkably strong position. Debts are low in relation to incomes; the rate of spending is low in relation to holdings of cash and demand deposits; inventories are low in relation to sales; only limited progress has been made in catching up on the accumulated demand for housing."

Howard C. Sheppard, President of the National City Bank of New York: "The general welfare is not going to be hurt, but helped, by a return of competition which will make people work harder. For the result will be that goods will be turned out better and cheaper, and that is the way this country has grown."

Dr. Marcus Nadler, Professor of Finance at New York University: "'Readjustment' is a better word to describe the situation than deflation or depression. By readjustment is meant the conversion of a sellers' into a buyers' market, which is usually accompanied by an increase in competition, a decline in prices and profits, and an increase in unemployment. The readjustment is wholesome, and while painful to many, is probably one of the best things that could have happened."

C. S. Young, President of the Federal Reserve Bank of Chicago: "If we are entering a period of disinflation, recession, or depression, it will be the best financed of any like period in our economic history."

Benjamin F. Fairless, President of United States Steel Corporation: "America's plants are the best equipped in the world, America's workers excel in skill. America's operation supervisors, engineers, research technologists, merchandising experts and business executives are of top quality. America, above all, is dynamic. It has the will to accomplish. These are great assets and are bound to make themselves felt. Short-term developments may for a time confuse us, as they confused Andrew Carnegie 60 years ago, but I am confident that marked progress lies ahead for our nation."

—from "Brevits," published by Vance, Sanders.

The Political Scene

The most disturbing factors now seem to be political, both here and abroad. Is Washington going to take sides in the various labor negotiations now going on? And, is the administration likely to press for authority to do disturbing things? No one knows, but it begins to look as though Congress was going to do comparatively little, until it buckles down to the serious job of preparing for next year's elections.

The political front which seems most ominous today is found in England. There, the Labor Government seems unwilling to face realities. This country has given to England many millions since the end of the war. Yet, it demands still more in order to survive. They claim that if they do not get more money they will have to change their standard of living. This is probably true, and also probably inevitable. A comparable situation is the case of a man, who in his younger days made a lot of money and raised his standard of living accordingly. Later, as he became older, troubles beset him and he lost a large part of his wealth. Meanwhile he had had a son who refused to stay in the old family business. Instead, he struck out for himself, and prospered greatly. He realized the plight of the older man and made advances to him. However, after a time the younger man began to feel that the old gentleman should reduce his standard of living to his present earning power, and no longer expect to be supported. The older man considered this attitude most unreasonable.

Transfer this parable to the case of England and the U. S. A., and consider the standard of living as akin to the value of the pound sterling. It seems to us that sterling should be allowed to seek its own level in a free and open market. When this is done it will be upsetting to our British friends, and undoubtedly there will be repercussions in this country. However, is it not inevitable; and if it is inevitable, why not do it soon and get it over with. It seems to us that some change in the value of the pound will have to be made. Doubt as to what it will be and when is disturbing, and is contributing to the general feeling of uncertainty.

We do not mean to minimize or to ignore the problems and uncertainties confronting business and the investor today. At the same time we do not intend to be overwhelmed either by the uncertainties or by the expressions of pessimism that are always so prevalent at a time like this. We will continue to keep our feet on the ground and steer a reasonable and sensible middle course.

—from The George Putnam Fund's Quarterly Report.

Cecil J. Downs With Bache & Co. in Chicago

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Cecil J. Downs has become associated with Bache & Co., 135 South La Salle Street. Mr. Downs was formerly Manager of the trading department for Bartling & Co. in Los Angeles and was with Marache, Sims & Co.

Three With King Merritt

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — L. Drake Forbes, John Macbeth and Roger E. Wilson are now with King Merritt & Co., Inc., Chamber of Commerce Building. Mr. Macbeth was previously with C. E. Abbett & Co.

Revel Miller Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Sylvester J. Small, Jr., has joined the staff of Revel Miller & Co., 650 South Spring Street, members of the Los Angeles Stock Exchange. Mr. Small was previously with Morgan & Co.

Rutter With Cent. Republic

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—James D. Rutter has become associated with Central Republic Co., 209 South La Salle Street. He was formerly for many years with Halsey, Stuart & Co.

With Bache & Co.

(Special to THE FINANCIAL CHRONICLE)

NEW HAVEN, CONN.—Thomas C. Parker is with Bache & Co., 205 Church Street.

Truman Outlines Arms Aid Plan

Submits to Congress message in which he advocates approximately $1\frac{1}{2}$ billion be appropriated for military aid, mostly to Western Europe. Says it will enable U. S. to move quickly without loss of momentum in case of attack. Blames Russia for creating fear of aggression.

President Harry S. Truman, immediately following the placing of his signature to the North Atlantic Pact on July 25, submitted a message to Congress, in which he recommended an appropriation of $1,450,000,000 for direct military aid to European nations threatened by Russian aggression, as well as similar assistance to Greece, Iran, Korea and the Philippines. Almost simultaneously with the transmission of the President's message, the State Department released the text of a bill to carry out the President's proposals.

President Truman

The text of the President's message follows:

To the Congress of the United States:

To continue and strengthen our program for world peace and national security, I recommend that the Congress enact legislation authorizing military aid to free nations to enable them to protect themselves against the threat of aggression and contribute more effectively to the collective defense of world peace.

Such legislation is an essential part of our efforts to create an international structure capable of maintaining law and order among nations. Our prosperity and security, as well as that of other free nations, depend upon our success in establishing conditions of international order. Increased assurances against the danger of aggression are needed to support our international economic program and in particular the European Recovery Program, which is so vital to the building of a stable world.

Under the Charter of the United Nations, each member nation is bound to settle international differences by peaceful means and to refrain from the threat, or use, of force against the territory of any country. Thus, in joining the United Nations, the nations have given their assent to the basic principles of international peace and security.

We have, however, learned the unfortunate truth that this obligation, by itself, is not sufficient at the present time to eliminate the fear of aggression and international violence. The record of world events since 1945 offers us no certainty that all members of the United Nations will uphold these principles of peace in actual practice. Indeed, there is proof to the contrary, proof that in the pursuit of selfish ends some nations have resorted and may again resort to the threat, or use, of force. The fear created by this experience haunts the world and creates conditions of insecurity and instability which stand in the way of economic and social progress.

Steps to Reinforce UN Charter Obligations

To reduce this danger and to allay these fears we have taken additional steps to reinforce the obligations of the Charter. Under the pact of Rio de Janeiro and in the North Atlantic Treaty, we are creating a framework of mutual obligation to prevent international violence in the Western Hemisphere and in the North Atlantic area. These treaties provide support for the principles of the Charter of the United Nations.

Furthermore, even in the absence of such compacts, we have refused to tolerate assaults on the integrity of peace-loving nations whose conduct conforms to the principles of the Charter. We have given military, as well as diplomatic, aid directly to nations threatened by aggression. Through our aid to Greece and Turkey, we have recognized the fact that, if the principles of international peace are to prevail, free nations must have the means as well as the will to resist aggression.

So long as the danger of aggression exists, it is necessary to think in terms of the forces required to prevent it. It is unfortunate that this is true. We cannot, however, achieve our goal of permanent peace by ignoring the difficult and unpleasant tasks that lie in the way. We need to show the same firmness and resolution in defending the principles of peace that we have shown in enunciating them. The better prepared the free nations are to resist aggression, the less likelihood there is that they will have to use the forces they have prepared. The policemen in our communities seldom have to use their weapons, but public peace would be greatly endangered if they did not have them.

The preparation of the military means for keeping the peace is necessary not only to the security of the United States but also to building a safe and prosperous world society.

An Obligation of U. S. Leadership

Helping free nations to acquire the means of defending themselves is an obligation of the leadership we have assumed in world affairs. Within the practical limits of our resources, we must strive to act with foresight and precision, so that our strength and collective strength of the free peoples associated with us will be most effective.

To be effective, the aid which we supply to other nations for defending themselves must be planned ahead. It must not be wasted. It must be carefully allocated to meet the realities of our own security. Above all, it is urgent to initiate a program of aid promptly if we are not to lose the momentum already gained toward recovery and political stability.

These general requirements are given sharp emphasis by consideration of the specific cases where aid is needed. Many anxious governments have requested our military assistance. Among these requests, there can be no more meaningful appeals than those which have come from the countries of Western Europe. It is entirely logical that these governments should turn to us and that we should help them. Their defense is our defense and is of deep concern to us. Twice in one generation we have found that we had to join with them in fighting against aggressor nations in order to preserve our freedom and the freedom of other democratic countries.

The principal task of the free nations of Western Europe in the last four years has been to restore their war-shattered economies. The inherent difficulties of this task have been aggravated by the foreign policy of the Soviet Union, which has done its utmost to pre-

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Unsettled Questions in Antitrust Law Revision

By A. A. BERLE, JR.*

Former Assistant Secretary of State

Former "New Deal" official, holding some preliminary questions should be settled before antitrust laws can be intelligently revised, discusses concentration in industry in recent years. Says big business has been strengthened by corporations withholding earnings from stockholders and thus becoming independent of investment bankers. Criticizes Justice Department policy of restraining industries to one line of business, and contends government buying policy in certain fields creates monopolies and restrains trade. Asserts "big business" is essential in some lines to get maximum efficient production at lowest cost, and suggests that these concerns be regulated as public utilities. Foresees need of government aid to small business in obtaining risk capital.

Introduction

There can be no intelligent revision of the antitrust laws until some preliminary questions are settled. What result is wanted from the antitrust laws? That is the first problem.

Are there areas in which the antitrust theory does not apply? If so, what are they?

Adolph A. Berle, Jr.

Are the antitrust laws designed to prevent bigness as such? Or are they designed to maintain competition? You can have bigness with competition; if you want competition, without bigness, you have to have something. Do you really want unlimited competition—for instance, selling below cost? Or do you want the antitrust laws to set up rules for competition?

Finally, can there not be some clear-cut definition of the rules of the road, so that business, big or little, knows clearly what is expected of it and can handle itself accordingly.

This memorandum deals with some of these questions.

I

"Bigness" and Concentration

When the antitrust laws were passed in 1890 and again in 1914, the emphasis was on mounting competition. The problem of bigness—of concentration in industry—had not reached a point at which clear policy was set out. It was beginning, of course, and there were men like Louis Brandeis who foresaw the problem with great clarity. There were those who thought that the Sherman law and the Clayton law were adequate to prevent concentration as they stood. But, as a practical matter, for 30 years the trend towards concentration has continued; a study made by Mr. Gardiner Means and myself, published in 1933 (The Modern Corporation and Private Property), brought the situation up to date at that time. Its findings have never been seriously challenged. Then it was clear that

(1) the large corporations were growing between two and three times as fast as all other corporations—except financial corporations like the big insurance companies;

(2) concentration was greatest in the industrial field, and growing, both in amount and rate. In 1929, 200 big corporations accounted for about 22% of the total wealth of the country, and about 38% of the business wealth (that is, excluding farms, homes, etc.). Later studies of the Federal Trade Commission indicated that this concentration has been continuing without serious interruption. As will presently appear, under existing circumstances concentration is almost forced to continue by reason of the flow of capital.

This means bigness. It does not necessarily mean monopoly. Actually, monopoly is a relatively rare phenomenon, and it is tending to diminish. The pattern appears to be emergence in most of the major industrial fields of a few huge units capable of competing with each other—and incidentally as a result of such competition capable of putting out of business the smaller enterprises.

Economists call this "imperfect competition," meaning that big concerns do not generally fight each other to the death. Indeed, if they did, the result would be more and not less concentration. They do not compete beyond a certain point. Sometimes this is due to illegal agreement in violation of the antitrust laws—but more often it is due to simple self-interest of the corporate managers. Nobody wants to reduce prices below a substantial profit margin. You get, from concentrated industry, without violation of the antitrust laws, many of the effects which are produced by monopoly or by illegal price-fixing agreements.

This is not to say that, except in time of stress like the last three years, prices have been unduly high. No doubt they could have been lower; but concentrated industry, contrary to the popular theory, has been afraid to go into mere price gouging. General Motors, Ford, General Electric and other large companies established list prices lower than those which they could have collected from the general public. More often than not it was the middleman who bought from them and profiteered against the general public—as anybody who bought a car during the last two years knows to his cost.

There is a real question as to whether concentration of industry does not mean too high prices to

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*A statement by Mr. Berle before the Judiciary Committee of the House of Representatives Washington, D. C., July 20, 1949.

Canadian Securities

By WILLIAM J. McKAY

The crisis of the pound sterling did not develop overnight. Perhaps it can rather be said that it is somewhat in the nature of a miracle that from time to time the pound has been given an illusory air of respectability at its pegged level of $4.03. This has been possible not in anyway as a result of fundamental strength of the British economy itself but purely as a consequence of enormous foreign gifts, loans and the freezing of past indebtedness. In other words, since the war the pound has been artificially maintained by external support alone.

To large degree this continuous aid has served to create within Britain an atmosphere of illusory wellbeing and dangerous complacency. Without such extraneous assistance it would long ago have been necessary to give urgent consideration to a thorough overhaul of British finances. Luxuries in the shape of glorified socialization schemes and nationalization of industry would have been out of the question. It would also otherwise have been necessary to have adopted a sterner attitude towards Britain's blocked sterling creditors. Instead, over-generous treatment has been accorded to this category of debt which Britain is in no justifiable position to afford. Above all it has enabled the United Kingdom to avoid devaluation of sterling to a realistic level and to maintain an elaborate system of exchange controls whereby the pound's artificial standing has been protected.

Fortunately there are now indications from enlightened British sources that the weak tendency of sterling and the present economic troubles are recognized as symptoms of a chronic disorder in the domestic economy. Hitherto there had been a disposition to place the blame for the apparently sudden British crisis on the recent economic recession in this country. There are now also incipient signs of a change of attitude with regard to the question of sterling devaluation. Previously as far as public discussion was concerned it was considered almost an act of unpatriotism to suggest the lowering of the value of the pound; the general psychology was such that British prestige was staked on the maintenance of the $4.03 level of the national currency. Now with growing realization of the gravity of the situation a courageous handling of the currency situation might very well prove to be the British Dunkerque on the economic front—a dictated retreat that would mark the end of a period of unrealism and the commencement of a uphill struggle towards reconstruction by independent effort.

In Canada to judge by recent official pronouncements on currency matters there would also appear to be an inclination to make a fetish of the present parity of the Canadian dollar. Similarly as in Britain until the end of the seller's market, it could truly be said that the level of the Canadian dollar in no way impeded the Dominion's export trade. Now however, with increasing competition for world markets and the probability of eventual currency adjustments elsewhere, the correctness of this assertion is likely to become highly debatable. Canada moreover is at a stage of development where it is indispensable to attract a steady flow of foreign capital any doubts concerning the valuation of the Canadian dollar would deter if not halt this essential influx. In this event the customary diplomatic denials of intent to make any currency changes would tend rather to incite than to allay the suspicions of nervous investors. Recent events have demonstrated also the undesirability of official commitment to any particular exchange level. Lack of flexibility in exchange policy induced by unwillingness for political reasons to reverse previous decisions invariably paves the way for restrictions on foreign trade and the tightening of exchange controls. In order to avoid economic retrogression of this kind it is essential to preserve an open mind on all matters pertaining to the exchanges.

* * *

During the week the external section of the market was dull and inactive but the internals were quoted fractionally higher. On the other hand free funds after initial firmness developed a weaker tone and the corporate-arbitrage rate also declined. Stocks were generally stronger but the recent rally on the Toronto board has not been so pronounced as that in New York. Demand for gold issues again provided the leading feature of the market and the base-metals were also prominent following further price-increases.

Chas. G. Rodgers, V.-P. of Rambo, Close Co.

PHILADELPHIA, PA.—Rambo, Close & Kerner, 1518 Locust Street, announced that Charles G. Rodgers has become associated with the firm as a Vice-President. He was formerly a partner of Butcher & Sherrerd.

With Edward D. Jones

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Peter W. Stavros has been added to the staff of Edward D. Jones & Co., 300 North Fourth Street, members of the New York and St. Louis Stock Exchanges.

Joins Harvey, Klein Staff

(Special to THE FINANCIAL CHRONICLE)

ST LOUIS, MO.—William C. Clippinger has been added to the staff of Harvey, Klein & Co., Inc., 320 North Fourth Street, members of the St. Louis Stock Exchange.

Deficit Spending Dangerous!

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

Asserting President Truman has committed a terrible blunder in urging a return to deficit spending, Republican leader says sound course is to reduce government costs. Defends tax relief granted by 80th Congress and denies public debt has been reduced by $28 billion.

The top news in Washington tonight, the President has committed a terrible blunder. It vitally affects every one of you. It will have repercussions all over the world. Your freedoms, your jobs, your plants, your mines, your factories, mills, and farms, your life-time savings, all are at stake. They are in jeopardy because the President has thrown away all pretense of being for sound government financial policies and freedom of enterprise.

Sen. K. S. Wherry

He has tossed overboard, the sound prudent, wise policy of having the government spend with its income, on a pay-as-you-go basis.

He is asking us, the Congress, the American people, to go deeper and deeper into red-ink spending, to borrow and borrow, to spend and spend, in another futile attempt at pump-priming. It is another destructive demand to plunge America into a government-controlled economy a Socialistic state.

Fellow Americans, this is not a fairy tale. This is not a broadcast from the moon. It is happening right here in our beloved America. The President has set the wheels in motion to do all of these things to create a totalitarian state.

These very proposals were broadcast last Wednesday night by the President, when all of the nation's radio and television equipment were mustered and placed at his disposal, to make an official economic report. But, what the American people heard, was part fact, part fancy, **but in all,** a political speech.

Sugar-Coated Proposals

Oh, yes, the President sugar-coated his shocking proposals with high-sounding words such as security, prosperity, peace and contentment. But, as usual, **it was noticeable** he shied away from the cost.

Why, even before the President got steamed up, for this latest raid upon your pocketbooks, calling for new and additional spending of public money, he had already submitted to the present Congress, requests under the label of social welfare, costing over a period of 50 years, one trillion, 250 billion dollars. That much money in silver dollars would make seven stacks reaching to the moon.

Fantastic? Yet, but it is true. Up to the moment of his broadcast, the President demanded a $4 billion increase in taxes. His constant demand that this be done, created confusion in business, in labor, and in all segments of our economy.

The tax burden already has reached the saturation point. Today, 33 cents out of every dollar you spend goes for Federal, state, and local government. In our declining economy, an increase in taxes could only speed the downward spiral.

Compelled to Change Course

Mr. Truman was **compelled** to change his course. He abandoned higher taxes in the face of overwhelming opposition by Congress, and the people.

This left two courses open. One, the sound, sensible course of reducing the cost of government, bringing outgo within income. And the other, deficit-spending. He chose the latter course, **deficit spending** the easy way out for himself but the disastrous route for the nation. What a cruel delusion.

All of this deficit-spending adds to the mountain of national debt. It is a mortgage upon present and future generations but there will be a judgment day. The debt must be paid, it can only be paid out of the hard-earned dollars of the people.

Fellow Citizens, the President, like a schoolmaster, spoke to you as though you were little children. He said: "If we were in a depression, I would be the first person to tell you. . . ."

Why just think of it! Do you think the President needs to tell farmers—that farm prices have fallen sharply since last November? Do you think that a man out of work needs to be told, he is out of a job? Do you think a manufacturer who is running only three days a week, needs to be told that business has fallen off? Oh has it come to this, that you have to wait until Mr. Truman tells you so.

Well, he is six months behind the times and won't help you much. He has been so all along ever since he has been in the White House. When the war ended he predicted hard times and asked Congress for billions to cushion his expected depression.

Last Winter after his election, prices crashed because of the fear of adoption of his radical socialistic, spendthrift proposals. But even as prices continued to fall he was still saying everything was fine, just what we want. Yet, at the same time, he was demanding from Congress power to control inflation.

He also demanded from Congress the power to build steel mills and other industrial plants in competition with private enterprise, factories to produce anything he desired. And yet, within 60 days, however, the steel mills were operating at 85% capacity because of surpluses.

President Confused and Perplexed

The President is confused, bewildered and perplexed and caught in a mass of contradictions. In another effort to alibi for his own failures, he blames tax relief voted by the Republican Congress for the Treasury deficit of the last fiscal year.

That tax relief has cushioned the blow of the Truman business decline, and production would still be lower and unemployment still greater, if this tax reduction had not been made.

With the air of a magician, who has just astounded his audience, Mr. Truman boasts, he has cut the national debt more, than all other Presidents put together.

He told you he reduced the debt $28 billion.

Now, where did he get the $28 billion. Twenty-one billion came from the sales of bonds to patriotic Americans in a victory drive, immediately after the war. The funds were idle in the Treasury. The money was borrowed with one hand and paid back with the other.

The remaining $7 billion came from the $8 billion, 400 million surplus, accumulated in the fiscal year 1948 under the stewardship of the Republican 80th Congress. So you see, like all sleight-of-hand performances, when you know the trick, there is no mystery, and the act falls flat.

The President asked for a $300 billion national income. Of course we are all for a higher national income, provided it is based on increased productivity and a stable dollar. But the course the President has chosen, is the road to inflationary rubber dollars without increased productivity. He could just as easily set his sights for a $400 billion or even a trillion dollar national income.

Danger of Deficit Spending

Deficit spending is the doorway to printing press money.

What value is increased national income, if a loaf of bread costs a wheelbarrowful of money?

You know what has happened in Germany and Italy. You know what has happened in China. History is strewn with countries that have collapsed on that treacherous highway.

The only sane course the President should pursue—is to cut the outrageously high cost of government. This can be done on appropriations for both foreign aid and domestic affairs.

Since the end of hostilities we have poured $25 billion in cash and goods into Europe—in a hit or miss fashion. It all stems from the betrayals at the Yalta Conference—at which many countries, including China, were delivered to Soviet Russia.

Certainly any further contributions made—by the taxpayers of this country, ought to be based upon a sound foreign policy that will insure peace.

On the home front—Mr. Truman protests that our military establishments cannot get along with less money. It should be obvious to everybody by this time, that the waste and inefficiency in the Armed Forces is costing the taxpayers billions of dollars.

All the bickering, back-biting and refusal to cooperate by all branches of the military is due to temporizing by the Commander-in-Chief. Forthright orders by him—to the ranking Admirals and Generals to get on with the job of unification would be applauded by every citizen of this country.

The President and his associates should back up the Senate Appropriations Committee—which yesterday cut the military budget a billion and a half.

He and his associates should back up the Senate Appropriations Committee in its cut of ECA of about three-quarters of a billion dollars.

The President and his associates should back up the McClellan-Wheery Resolution to cut other appropriations in whatever amount is necessary to balance the budget.

It must be done to preserve the solvency of our own country.

The President should cooperate with the Members of Congress who are bending every effort to place this country on a pay-as-you-go basis. But he has made them the ready target of escape from his own failures.

Like knights of old in armor and flashing sword, Mr. Truman slashes right and left at "selfish interests." Indeed, according to him, there are among us craven persons who would rather see the country prostrate, millions out of

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*A broadcast by Senator Wherry over the Columbia Broadcasting System, July 16, 1949.

Is There a Crisis in Britain?

By PAUL EINZIG

Although stating it is difficult to discover outward symptoms of crisis in Britain, Dr. Einzig holds that accelerated fall in British gold reserve is good cause for alarm. Sees in Sir Stafford Cripps' statements a tangle of inconsistencies, and asserts official quarters in Britain have failed to grasp basic considerations bearing on present situation.

LONDON, ENGLAND—One of the objects of Mr. Snyder's London visit was to ascertain if, and to what extent, there is justification for the belief that Britain is in a state of crisis. In quarters which were in close touch with him during his stay in London, it is believed that his conclusion was that there was no crisis. This is what he is expected to report to President Truman. It is in conformity with the public statement made by Mr. Dean Acheson early in July.

Dr. Paul Einzig

It is indeed difficult to discover any outward symptoms of a crisis. The proportion of unemployment is still quite negligible. Production is still on the increase. Even though the public is not spending nearly as freely as it did a year ago, there is nothing approaching a consumers' strike in evidence. Business is less satisfactory, but there is no wave of insolvencies. There is no slump of prices, and after its recent weakness the Stock Exchange is now reasonably steady. The banks are not calling in credits on a large scale.

As far as it is possible to ascertain, the only symptom which gives rise to a crisis-like atmosphere is the accelerated fall in the gold reserve. Even that is not really dramatic. An outflow of £65 million in three months is in itself no major disaster. During the gold standard crisis of 1931, and during the convertibility crisis of 1947, such an amount was lost in a matter of days. At the present rate the remaining gold reserve of £406 million would last nearly two years.

Nevertheless, there is indeed good cause for alarm. For it would be unwarranted optimism to assume that the pace of the gold outflow would not become accelerated. Any aggravation of the trade recession in the United States would produce that result, and so would a cut of Marshall aid allocation by Congress. The British Government is entirely justified in taking drastic steps to check the outflow. If it is open to criticism it is on the ground that the cuts in dollar imports announced by Sir Stafford Cripps on July 14 were not drastic enough. And since the reductions in rations necessitated by these cuts were more or less offset by increases in the rations of goods imported from outside the Dollar Area, the measures were certainly not calculated to make the British workers realize the full gravity of the situation. And in his speech Sir Stafford Cripps is much more concerned with claiming credit for the Government's achievements than for impressing the workers with the need for efforts and sacrifices in order to avert disaster.

Both the Chancellor's speech and the statement issued at the end of his conversations with Mr. Snyder are a tangle of inconsistencies. The reaffirmation of determination to proceed towards multilateral trading is accompanied by a disclaimer to have as much as mentioned the devaluation of sterling. Now if it had been stated that progress towards multilateralism would be accompanied by a devaluation, or that sterling would be sought to be maintained at its present level with the aid of a further extension of bilateralism, both solutions would have had the merit of consistency. But to advocate multilateralism while excluding the means by which multilateralism could be made to work seems to indicate that official quarters have failed to grasp some elementary considerations bearing on the situation.

Likewise, Sir Stafford Cripps candidly admits that the diversion of British purchases from the Dollar Area to non-dollar countries tends to lower prices in the former and raise them in the latter. The logical conclusion from this admission should be that, taking the long view, the vicious spiral thus initiated would tend to accentuate further sterling-dollar disequilibrium. For the rise in non-dollar prices and the simultaneous fall in dollar prices tends to reduce exports to the Dollar Area, which again tends to accentuate the scarcity of dollars, and more purchases have to be diverted to the non-dollar area, resulting in a further increase of non-dollar prices and a further fall of dollar prices.

Sir Stafford Cripps strongly insinuated that Britain's present troubles are due to non-compliance by other countries—foremost among them the United States—of the clause of the International Trade Organization Charter providing for full employment in member countries. There can be no doubt that he will insist on this during the coming Washington negotiations. The Government's line is that Britain has got out of equilibrium not because of the British policy of full employment, resulting in high and rigid costs, but because of the absence of such policy in the United States, resulting in more elastic cost and price structure. The argument is used both for domestic consumption and for American consumption. Since, however, it is difficult to imagine that the United States would adopt a policy of full employment, the fact of the disequilibrium is likely to remain one of the fundamental facts of the situation.

Great Lakes Pipe Co. Sells Debs. Privately—Morgan Stanley Agent

The Great Lakes Pipe Line Co., it was announced July 22, has placed privately through Morgan Stanley & Co., $55 million 20-year sinking fund 3⅛% debentures, dated July 1, 1949, due July 1, 1969. The issue was purchased by eight institutional investors including New York Life Insurance Co.

The proceeds will be used to install new facilities which will approximately double company's daily capacity. The company transports refined petroleum products from refineries in Oklahoma and Kansas to distributing locations in Kansas, Nebraska, the Dakotas, Iowa, Minnesota and Illinois. New lines to be laid along existing routes will total 1,298 miles of 12-inch and 150 miles of 8-inch pipe. Tankage and loading facilities at terminals will also be expanded.

The Impartial Chairman and Labor Difficulties

By DR. A. L. GITLOW
New York University

Although conceding its over-all achievements toward industrial harmony, labor expert cites flaws in growingly popular impartial chairmanship system. Asserts actually chairman is not impartial, his real purpose being to strengthen the union. Cites difficulties labor leader has with rank-and-file to secure acceptance of decisions.

The impartial chairmanship system has been attracting more than usual attention this year, as a possible cure for difficulties in labor relations. Many have pleaded for its more widespread adoption.[1] However, the proponents of the system have emphasized and advocated two points, in particular, necessary to successful adoption on a wide scale. *First, it is maintained that mediation is an elemental ingredient of successful grievance arbitration. Second, there is emphasis on the concept that grievance arbitration requires mutual acceptability of the impartial chairman's decisions.*[2] Evidently, it is believed that such mutual acceptability is vital if we are to avoid two dangers. They are: work stoppages, and the piling-up of grievances, which would ultimately complicate and endanger collective bargaining.

Abraham L. Gitlow

This widespread talk in favor of the impartial chairmanship system presents three questions of great importance. First, "impartial" chairmanships are advocated. How "impartial" are impartial chairmen? Second, mutual acceptability of decisions is held up as a basic criterion of the sound development of grievance arbitration. What are some implications of the concept of mutual acceptability? Third, mediation is presented as a basic ingredient of grievance arbitration. Does this represent a sound principle?

(1) **Impartiality.** An examination of the concept of the impartial chairman system held by its early proponents appears in order. Sidney Hillman was an important figure in developing impartial chairmanships as a regular feature of collective bargaining agreements in the United States. In the early years of his use of this system in the clothing industry, the leading impartial chairman with whom he worked was J. E. Williams. In 1913, Williams testified before the Industrial Relations Commission in Washington. His testimony included the following significant passages:[3]

"*It goes without saying, of course, that if an arbitrator is endeavoring to administer mediation he has to be a thorough believer in unionism. In that sense, he is not at all disinterested or impartial.* He must see that his decisions and the measures that he takes are calculated to strengthen the organization and make it, as such, more efficient. The workers must believe that the mediator is going to further their purposes by giving them a strong union. Without a strong union the process of mediation will amount to nothing, because we need a strong union to enforce the decisions. *A weak union, or a man who is at the head of a lot of guerillas, is unable to make the undisciplined workers do what they do not want to do. But if you give the leader a strong union he can always bring the small group to terms.* The first consideration, therefore, must be that the *arbitrator* is their friend, who, as such, will *see that the union is protected and strengthened.*"

This statement of Williams' throws a glaring light on the impartial chairmanship. *The chairman is not impartial in the conventional sense of the term at all.* He has a basic purpose, and it is to protect and strengthen the union. This involves him giving the leader a strong union, which will enable the latter to bring small opposition groups to "terms." In turn, the union becomes responsible and the primary agency for enforcing the decisions of the impartial chairman. This system has proved its effectiveness as an agency for industrial peace, and that is probably why so many advocate its extension. Though it is of tremendous usefulness, it must be understood.

It may be in order to direct attention now to the obviously vital political aspects of the impartial chairmanship. The impartial chairman must give the labor leader a "strong union." This involves making the labor leader's control over small opposition groups effective. Hardly anything one can think of could possibly have as much efficacy as a tool for the continued dominance of a labor leader in his union, and his continued occupancy of his office. The impartial chairmanship is a political device of first caliber and importance in the armory of the labor leader. As a consequence, advocacy of the impartial chairmanship system brings up issues of union democracy and civil liberties.

(2) **Mutual Acceptability.** If we accept the criterion of mutual acceptability, we must inquire: mutually acceptable to whom? The answer is not as simple as might appear at first glance. Thus, the tendency is to reply: mutually acceptable to management and labor. The problem arises when one seeks to define labor. Does this mean the labor leader, or the rank and file membership of the union? There is a difference between the two. Consequently, it is perfectly possible to conceive of a decision which will be acceptable to the labor leader, but not to the rank and file membership, or vice versa. As a matter of fact, the possibility of rank and file displeasure is clearly recognized in Williams' statement. He cites is as one of the reasons why the impartial chairman must give the labor leader a strong union, over which the latter can exercise effective discipline.

Some of the basic reasons for distinguishing between the labor leader and the rank and file are: (1) he becomes more conservative as a consequence of the sobering effects of responsibility; (2) he realizes the power of the employers, and the limitations which they face in meeting rank and file demands; and, (3) his environment becomes more like that of the employers', than like that of the

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1 New York "Times," June 5, 1949, p. 1.

2 George W. Taylor, "Effectuating the Labor Contract through Arbitration," The Bureau of National Affairs, p. 2.

3 George Soule, "Sidney Hillman," Macmillan Co., N. Y., 1939. Italics added pages 48, 49.

Death of a Business Recession

By FRANKLIN ESCHER

Partner, Dresser & Escher

The current "slide," now slowed down to a walk, Mr. Escher argues, was never really anything but a much needed readjustment in certain lines. As to the price of stocks, "It's one thing to have everyone wondering if we are running into a depression; it's something entirely different to have everyone figuring how near to the inevitable upturn we may be."

Business has been sliding down from the fantastic peaks reached while the war shortages were being made up, and, so, we are told, we are in the midst of something called a "Recession."

That no tree grows to heaven, that what is happening was just bound to happen, is something we are being asked to forget. That the country's industrial production, after six months of "Recession," is off only 13% from its absolute "high" reached last December—that right now the country's industrial production is 1⅔ times what it was in 1935-1939 — is something to which little or no attention is being paid. Things are headed the wrong way, say the newspaper and radio commentators, and nobody knows where it's all going to stop. It's only a "Recession" now, we are being told, but how does anybody know that it won't turn into a real "Depression?"

(For the same reason, we should say, that that summer cold you've got, if you take any care of it, won't run into a case of pneumonia.)

Let's be a little realistic about this thing. Let's leave it to the commentators and the professors to guess how long the "Recession" is going to last and how far it's going to go. Let's take a good look at what is actually happening, and, after we've taken a good look, let's make up our own minds as to whether what's actually happening isn't just a **readjustment** in a condition that very much needed readjustment, or whether we are up against some mysterious set of circumstances bound to land us back where we were in 1932 and 1933.

Well, about the first thing we'll see if we take that good look is that the slide-off in business is very uneven in character, that it is very much more pronounced in some businesses than in others. In some industries, textiles for example, where scarcities made it possible to gouge the public with unconscionably high prices and where over-production came as a perfectly natural result, there has been very severe shrinkage. In other lines just as basic, steel for example, only a moderate shrinkage in business has taken place. All over the face of the business pattern we find the same thing—too many automobile tires, for instance, being produced; while, at the same time, production of automobiles remains at the highest point ever reached. (Ask the man from Fall River or Lowell how his business is and he'll give you a very different answer than will the man from Pittsburgh or Detroit.)

This "Recession" in business, in other words, is by no means general. In some directions it's very pronounced. In others it's being felt hardly at all.

That being the case, the inference is a fair one, it seems to us, that what we are seeing is more in the nature of a readjustment, admittedly in a number of important lines of business, than a general slide in business as a whole. True, the importance of the lines of business in which drastic readjustment is taking place is such that it makes it seem almost as though all business was on the chutes, but the figures show that that just isn't the case. Take, for instance, department store sales: Surely, if this "Recession" was as general as many people think it is, department store sales would be away down. How far are they actually down? Perhaps 5%, in dollar value, from their extreme "high." Which, considering that prices generally down, means that in the physical volume of goods being sold to the consuming public there has probably been little or no decline at all!

The last thing we want to do is to create the impression that we are using a lot of figures to prove that nothing yet has really happened and that business is as good as it was, say six months ago. That isn't true—but, on the other hand, neither is it true that the country's business is in some sort of a tailspin and headed for goodness knows where. A lot of businesses which during the past three or four years ballooned their sales to three or four times their normal amount have seen the balloon settle back gently (not always too gently) to earth; but, on the other hand, an awful lot of other businesses whose operations never went haywire have just continued the even tenor of their way. Taken as a whole the hum of industrial activity, while definitely at a lower pitch, is still a good loud healthy hum.

Business depressions, let us remember, don't just "happen"—they come from very positive and well-defined causes—from overspeculation in commodities and securities, from piled up inventories of goods that can't be taken care of. Where in the business picture as it spreads before us today are any of these things to be found?

Overspeculation? — that horse laugh you hear comes from the broker over there who heard you ask the question. Piled up inventories, excessive bank loans?—ask your banker friends whose specialty these days is to lie awake nights thinking up ways to get the customers of the bank to come in and borrow a little money!

Next time you hear someone say that the current recession in business "is liable to run into a real depression," ask him to give you one single factual reason as to why it should.

Signs are not lacking, as a matter of fact, that the readjustment we have been having (that's just what it is, a **readjustment**) has already pretty well run its course. Copper and other metal prices already again turning upward, automobile production at a new record "high"—these and any number of other things that might be mentioned indicate that the much advertised "Recession" is losing rather than gaining momentum, and that it may not be so long now before the business tide actually turns and again starts running the other way.

Just when that is going to happen we don't know and don't profess to know; nor, to us, does it seem a matter of great importance. The important thing, it would seem, is that the slide-off, which at one time looked as though it might go fast and far, has slowed down to a point where in many important lines of business it is hardly perceptible at all. It's one thing to have everybody wondering whether we are running into a Depression. It's something very different to have everyone figuring how close now we have come to the end of the current "Recession," and how soon the inevitable upturn is bound to come.

What, then, about the price of stocks?

Stocks today, good stocks, are selling at only seven times their current earnings. Why? Because, with signs of business recession on every hand, people had come to feel that current earnings couldn't possibly be maintained. "Break-even points," you heard it argued, are high; with volume running off as it is, earnings are bound to suffer and suffer badly. "Times earnings," under such circumstances, don't mean a thing.

All very well as long as the tide of business was running swiftly out. But how about it now, now that the most cursory examination of the figures shows that that **is no longer the case?**

Follow Me!

I'm heading for the NSTA Convention at the Broadmoor Hotel, Colorado Springs, Colo., Oct. 5-Oct. 9. What a treat is in store for you. For train schedules and other information pertaining to the Convention, see report under NSTA NOTES on the adjoining page.

Two With Fahnestock

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Alvin E. Griffin and Ray H. Schwerdtfeger have become affiliated with Fahnestock & Co., 135 South La Salle Street. Mr. Griffin was previously with Bache & Co., Mr. Schwerdtfeger with Paul H. Davis & Co.

With Cruttenden & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Robert J. Woodrick has been added to the staff of Cruttenden & Co., 209 South La Salle Street, members of the New York and Chicago Stock Exchanges.

With Robert Showers

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Charles P. Winters is now with Robert Showers, 10 South La Salle Street. Mr. Winters in the past was with Crane, McMahon & Co. and Hemphill, Noyes & Co.

With Boardman & Freeman

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Ira G. Jones, Jr., is now with Boardman & Freeman, Inc., 75 Federal Street. He was formerly with F. L. Putnam & Co., Inc.

Public Utility Securities

By OWEN ELY

Southern Company's Subsidiaries

Two weeks ago this department contained a sketch of Southern Company, the new holding company representing the southern half of the Commonwealth & Southern System. In view of the current market interest in the new stock (currently traded "when delivered" over-counter around 9) further details on the company's subsidiaries may be of interest. Net income available for common stock in the 12 months ended June 30 was as follows:

	—12 Months Ended—	
	June, 1949	June, 1948
Alabama Power	$6,491,000	$4,704,000
Georgia	5,617,000	3,139,000
Mississippi	1,197,000	1,226,000
Gulf Power	928,000	1,054,000
Total	$14,233,000	$10,123,000
Southern Company	13,573,000	------

Georgia Power Company had its beginnings in Atlanta, where its predecessor was formed in 1902 by merger of a group of street railways and the electric light company. Seeking additional power, a chain of six large hydro-plants were completed during 1912-26. During the 1920's service was extended to a number of other cities and during the 1930's many smaller towns and rural areas were taken over. Today 584 communities are served, covering a large part of the state. Because of the company's low rates many municipalities and REA's which have their own distribution lines buy their power from the company, and only a negligible amount of industrial power is produced independently in the company's area.

Until a generation ago, Georgia was almost entirely agricultural, industries being small and few in number. Agriculture was based almost entirely on cotton, which not only supported the farmers but the local merchants as well. In the 1920's a general migration of the cotton textile industry to the Southeast took place and Georgia came in for an ample share of this development. At about the same time, diversification of agriculture began. Livestock raising, peanuts, tobacco, fruit and truck crops were undertaken. This diversification has continued on an increasing scale. Diversification of industry was given a powerful impetus by the needs of national defense and post-war periods and is continuing rapidly at present. While Georgia is still largely agricultural, the value of manufactured products has outstripped the value of farm products.

The company has benefited in 1949 by a rate increase (also a fare increase for its transit lines), excellent hydro conditions, and use of natural gas for boiler fuel on an interruptible supply basis. The management feels that, since Georgia is sparsely populated and is still largely undeveloped industrially "the possibilities for future growth and development are practically limitless." With confidence in the near-term future and to replace power currently being purchased from TVA, the company is planning to increase its generating capacity by 30% (all steam) to 951,000 kw. by the end of 1951. It is hopeful of obtaining a firm supply of natural gas to substitute for coal (brought from Kentucky), which would reduce operating costs, when additional pipeline facilities are available. Residential rates are exceptionally low, the recent average being 2.14c per kwh.

Alabama Power serves a substantial area of that state with a population of 1,750,000. Service is directly supplied to 575 municipalities and indirectly to 227; 88,500 rural customers are also served. Power is sold at wholesale to Birmingham Electric, which distributes electricity in that city. Alabama Power currently has 415,000 kw. of hydro capacity and 285,000 kw. steam. The picture is quite similar to Georgia Power, except that the amounts of steam and hydro are reversed. The company plans a 40% increase during 1949-51, most of the new plants being steam. A company brochure states "Alabama is in the heart of the southeast, one of the fast-growing regions of the United States. With its great natural resources, its moderate climate, its water, its native-born workers, its cultural background, its recreational facilities, Alabama is rapidly becoming better known as a good place to work and live. . . . Among the major industries are coal, cement, ore-mining, heavy steel, metal-fabrication, rubber, textile, ceramics, paper, shipbuilding, chemicals, marble, lumber and food products. . . . Important agricultural products include timber, cotton, poultry farming and the production of beef cattle have become major and rapidly growing agricultural activities."

Alabama's residential rates are very low—about 2.2c compared with the 3c national average; and usage is around 2,100 compared with 1,550 for the U. S. The company estimates that residential usage may increase to around 2,700 by 1957, based on anticipated increased usage by the 50,000 new customers connected since the end of the war—increased use of lighting and small appliances, particularly laundry equipment, and a moderate increase in major appliances such as refrigerators, ranges and water-heaters.

Mississippi Power has benefited from the state's rapid growth. The state has been advertising its high percentage of native-born peanuts, corn, peaches, sweet potatoes and truck crops. Dairying, citizens and the special encouragement given to industries locating there (it is the only state which permits municipal bond issues to finance sites and buildings for desirable industries). Reflecting better-balanced farming, income from dairy products in 1947 was 319% over 1940 and livestock and poultry gained 378%.

The state has excellent transportation with 4,000 miles of paved highways, 22 railroads, airline services, barge lines and deep-water ports. It is a leading producer of hardwood and woodpulp, turpentine and resin, etc. It is now the ninth ranking oil state with production gaining 30% in 1948. It has estimated reserves of 3 trillion cubic feet of natural gas and five pipe lines (two more under construction). It has large deposits of salt, limestone, clay and gravel, etc. During the past decade, the state's gains as measured by various indices such as bank deposits have been much faster than for the U. S. as a whole. If this growth continues, as appears likely, Mississippi Power should benefit. The company is planning to almost triple its steam-generating capacity over the 1948 amount.

Gulf Power, smallest of the subsidiaries, is nevertheless the most profitable in that it can carry down a larger proportion of gross for net income and dividends. The company serves 68 cities in northwest Florida, including the gulf area. The growth in the company's area in the past eight years has been steady and stable, greater than for Florida as a whole and three times the average increase for the U. S. Gulf is planning to double its capacity, although the 1951 figure will be only about 2% of the Southern System total.

NSTA Notes

NATIONAL SECURITY TRADERS ASSOCIATION

The National Security Traders Association has announced the following train schedules for those attending the 16th Annual Convention to be held in Colorado Springs October 5th-9th:




Larry A. Higgins Harold B. Smith Herbert H. Blizzard John E. Sullivan, Jr.

SCHEDULE

Oct. 2	11:00 a.m.	Lv. Boston	New Haven RR.
	6:40 p.m.	Lv. New York	Penna. RR.
	8:09 p.m.	Lv. North Philadelphia	Penna. RR.
Oct. 3	10:40 a.m.	Ar. Chicago	Penna. RR.
Oct. 3	12:50 p.m.	Lv. Chicago	Milwaukee RR.
	11:20 p.m.	Ar. Omaha	Milwaukee RR.
	11:50 p.m.	Lv. Omaha	Union Pacific RR
Oct. 4	9:20 a.m.	Ar. Denver	Union Pacific RR.

Pullmans Parked for Occupancy Denver Union Station

Oct. 5	12:30 p.m.	Lv. Denver	D. & R. G. W. RR.
	2:30 p.m.	Ar. Colorado Springs	D. & R. G. W. RR.

Returning

Oct. 9	3:00 p.m.	Lv. Colorado Springs	D. & R. G. W. RR.
	4:45 p.m.	Ar. Denver	D. & R. G. W. RR.
	5:15 p.m.	Lv. Denver	Union Pacific RR.
Oct. 10	4:45 a.m.	Ar. Omaha	Union Pacific RR.
	5:15 a.m.	Lv. Omaha	Milwaukee RR.
	3:45 p.m.	Ar. Chicago	Milwaukee RR.
	6:15 p.m.	Lv. Chicago	Penna. RR.
Oct. 11	3:30 a.m.	Ar. Pittsburgh	Penna. RR.
	10:15 a.m.	Ar. North Philadelphia	Penna. RR.
	11:50 a.m.	Ar. New York	Penna. RR.
	2:00 p.m.	Lv. New York	New Haven RR.
	6:45 p.m.	Ar. Boston	New Haven RR.

The Special Train will consist of the usual Club and Recreation cars, all room cars with drawing rooms, compartments, bedrooms, and roomettes, and will be completely air-conditioned.

The Bond Club of Denver will be hosts for a day in Denver, which will include a trip through the Rocky Mountain Parks, a visit to Lookout Mountain and Buffalo Bill's grave, a luncheon in the mountains and a cocktail party and banquet Tuesday night at the Brown Palace Hotel.

The Special Train will be parked for occupancy at the Union Station while in Denver.

The All-Expense Tour Costs

FROM—	Two in Bedroom Each	One in Roomette	Two in Compartment Each	Two in Drawing room Each
Boston	$248.78	$260.28	$260.58	$281.64
Chicago	131.06	137.42	137.60	150.62
New York . . .	235.53	246.33	246.85	266.99
Philadelphia . .	226.79	237.19	237.65	257.39

For Reservations and Additional Information Communicate With

LARRY A. HIGGINS, *Hulberd, Warren & Chandler*, Chicago
HAROLD B. SMITH, *Pershing & Company*, New York
HERBERT H. BLIZZARD, *Herbert H. Blizzard & Co.*, Phila.
JOHN E. SULLIVAN, Jr., *F. L. Putnam & Co., Inc.*, Boston

"In a Recession, but Not Depression": Sawyer

In symposium on business outlook, Commerce Secretary, along with Senator Paul H. Douglas and Theodore O. Yntema, now Vice-President of Ford Motor Company, decry fears of sharp slump.

In the course of a radio symposium, conducted on Sunday, July 24, by the University of Chicago Round Table, in which Senator Paul H. Douglas, former Professor of Economics and recently elected Democrat to the Senate from Illinois; Theodore O. Yntema, formerly Research Director of the Committee for Economic Development and now Vice-President of Ford Motor Company; and Secretary of Commerce, Charles Sawyer participated, it was generally agreed by these experts that though a "recession" is on, there is no immediate danger of a serious depression or a severe business slump. In speaking of the current situation, Secretary Sawyer stated:

Charles Sawyer

Today—or at least when the most recent figures were available, which was in June—there are over 59 million people employed in this country. Personal income is running at the rate of $212 billion, which is $3 billion more than the rate at which it was running a year ago and only slightly below the top rate of December, 1948. We should also bear in mind the fact that retail sales in this country are off only fractionally from what they were at the very highest point. In other words, those bits of information indicate pretty clearly that, although there has been a letdown, our economy is still operating at top level.

In considering the question presented to us today and the possibility that business may go off further, we should have clearly in mind that it is highly unlikely that we shall have any serious depression. Some of the reasons why I make that statement and feel that way are these: In the first place, the stock market has certainly had most of the water squeezed out of it. Credit today is not overextended. There are at this moment over $200,000,000,000 of liquid savings in the hands of our citizens. We have a farm price-support program which once in early 1948 demonstrated the fact that it does prevent a serious collapse in farm prices. We have, today, unemployment benefits which will pay out during this current year approximately (even at the present levels of payment) $2½ billion. On top of that, we will pay out approximately $1½ billion in connection with old-age pensions. Federal public works already undertaken will run to almost $3 billion during the year 1949 and 1950; and non-Federal works (state, municipalities, and so forth) will run to approximately $3.7 billion. So that there will be a total of public works of considerably over $6 billion.

It is interesting to note in that connection that the year during the Roosevelt Administration when the greatest benefits were put out in the way of pump-priming or making employment, the highest payment was less than $2½ billion. In other words, this year unemployment insurance alone will pour back into the hands of our citizens for expenditures more than was given in the top year of the thirties, when times were not quite so good. And, in addition to that, the government is carefully watching the situation and prepared, if it becomes necessary, to take whatever action government can take to remedy a situation if it gets worse.

I would like to add one further thought. In spite of the material factors which I think argue against any serious depression, I must recognize and so must anyone else that there is a psychological factor which is of the very greatest importance. I can illustrate that by an experience which I had a few days ago. I stopped in a small town to have gasoline put in my automobile tank, and the man at the filling station got into conversation with me. I said, "How is business?"

He said, "Business is fine."

I said, "How does it compare with a year ago?"

He said, "It's even better than a year ago." And then, after a moment's hesitation, he said: "Of course, I don't know how long it will last, because I hear that times are not going to be very good."

That is a perfect illustration of what I mean. In other words, business, so far as that man knew, was good, but he was a little scared, because he had heard stories that it was going to get very bad. The same thing, of course, applies to men who are in business on a much larger scale. I made a speech in New York, last December, in which I tried to point out to the National Association of Manufacturers that the thing most to be feared was that businessmen would get scared and in their fear would shut down their businesses or begin very rapidly to reduce their inventories. I pointed out that that would have a cumulative and deflationary effect which might be harmful.

Bache & Co. Wins Softball Championship

The Wall Street Athletic Association Softball League Championship was decided Wednesday night when Bache & Co., winners of the "Longs" Division, defeated DeCoppet & Doremus, winners of the "Shorts" Division by a score of 2-1.

Bache & Co. plan to challenge the winners of the Bank League when that circuit finishes its season for the championship of the Financial District.

Bache got its two runs in the second inning when Luginsland singled, Radtke doubled and both scored on long flies to the outfield. DeCoppet's score came in the first when Fleming, who had walked and advanced to third on Dickson's single, scored on Knight's single.

Winning pitcher was Clark, who allowed seven hits, and Roberts was the loser.

With King & Co.

(Special to THE FINANCIAL CHRONICLE)

GRAND RAPIDS, MICH. — Clarence P. Anderson is with King & Co., Michigan National Bank Building.

J. Vander Moere Adds

(Special to THE FINANCIAL CHRONICLE)

GRAND RAPIDS, MICH. — Leonard Vanden Berg is now with J. Vander Moere & Co., Peoples National Bank Building.

Deficit Financing— An Inflationary Threat

By EDWIN J. SCHLESINGER

Investment Counsel, New York City

Mr Schlesinger critizes President Truman's support of deficit financing and outlines measures to prevent a real depression.

President Truman's mid-year economic report to Congress, submitted July 11 and followed by his radio message of July 13, served to center further attention on the recession through which the country is now passing. As everyone knows conditions now are not as good as 12 months ago. This, however, does not mean that we must have a situation comparable to either 1920 or 1929. What seems more likely is that we will experience a falling off of business more on the order of 1937.

Edwin J. Schlesinger

The President in his report to Congress states:

"We can achieve within a few years a national output well above $300 billion, valued at current prices."

Since present prices are so highly inflated, they most certainly should not serve as a foundation on which to build an enlarged inflated structure. Had the President stated that the plan is to maintain the present dollar volume but greatly increase the unit volume a basic point of prime importance would have been stressed.

If the current business, financial and economic situations are to be viewed realistically (that is through non-political eyes), it is hard to see how the great importance of stressing a much larger unit production could have been avoided.

There is no purpose in closing our eyes to the fact that many important segments of the country's business, agricultural, financial and labor elements would welcome an inflationary upsurge. The thing to do, however, is to center and direct attention on what is good for the country from the standpoint of a healthy economic growth. Such an unbiased and non-partisan policy doubtless would be stepping on some toes and curbing certain aspirations, but it would seem that what is best for the country's further normal development should receive first consideration.

When the President in his radio address of July 13, says, "The very heart of sound government finance is to make the expenditures that are necessary to help achieve prosperity and peace," an unsound proposal is placed before the American people. Instead, a note of economy should have been sounded.

The following measures are advanced as a partial program to prevent business from sliding into a real depression and to gradually bring conditions to the point where it may be reasonably anticipated that employment and unit production will steadily increase and where business will enjoy a reasonable profit, provided proper methods are followed and honest merchandise produced at fair prices:

(1) Balance the budget

(2) Put all segments of the population on a basis of equality

(3) Let interest rates reach their true level

(4) Reduce the number of people employed by the government (in other words demand an honest day's work for a fair wage)

(5) Let the government interfere as little as possible with the control of business, finance, agriculture, organized labor, etc., but instead let the government regulate in the interest of all

(6) Encourage imports but not at the expense of bringing about unemployment

(7) In our treatment of other nations be continuously mindful of the fact that every move should be made solely in the light of what is best for the long-term future and prosperity of America.

Should the government insist upon using artificial means to stem what should be considered a normal and healthy reaction, very serious harm may be done. Deficit financing should be ruled out by both political parties; and everything else of an inflationary nature should be strenuously checked. In short, the call is for courageous action free from the taint of politics and favoritism.

Securities Salesman's Corner

By JOHN DUTTON

During the past week I had an opportunity of observing four different salesmen, all of whom were attempting to sell me the same service, namely moving a sizable collection of household furniture to another location. It is quite a lesson in salesmanship—to anlyze just why I selected one above the rest. There was a definite reason for so doing even though price and overall charges were about the same for all four. The one who made the sale thought of one deciding point which the others missed. Here is what happened.

If you have ever moved any household furniture you will understand that you are first forewarned by friends to look out, to procure all estimates and prices in writing, to make sure of the extent and responsibility of your insurance coverage, etc., etc. It is quite an education in itself. You look up several companies and they send their representatives. One estimates your furniture at 4,000 pounds, another at 5,000, another at six. One charges you extra for moving your piano, and another says it is a needless charge because you can avoid moving down the steps by use of an elevator which is available in your apartment house. So you talk to at least four of these salesmen as I did and then you try and compare rates and charges which you find out are just about the same for all, since they are based upon Interstate Commerce Commission tariffs. Next you ask them all to put their proposition in writing and the letters start to come in.

Now watch this sale unfold and see why one company got the business and the others failed. The first point that impressed me about the winning bidder was the way his letter was written. It was polite, concise and specific. It took one page to tell the story—the others from one and a half to two pages. The letterhead was neat and the impression was favorable. The second point came up when the salesman called back on the telephone. He was informed and he did not knock his competitors. He explained why his costs were a bit higher in some respects and showed that his total bill would be about in line with the others. His was **not** the lowest estimate as to the weight of our shipment but he was in the middle. However, when he made the estimate he looked in all our clothes closets and did a thorough job. This impressed us favorably. When it came to deciding who should receive the contract it was between his firm and one other.

THE REASON HE MADE THE SALE WAS THAT HE HAD THE SALES PRESENCE TO GIVE US TWO GOOD REFERENCES. He saved these references for our third conversation (over the telephone). We called these two companies, both of national scope, and they recommended the services of his company highly. Thy told us they had used his firm many times and were entirely pleased. HE GOT THE ORDER.

This last salesman did everything well. He made a good first impression. His letter was presentable. He followed up and he had a clincher which gave him the order. The others failed on all counts but especially the last one. If the other company had also given us good references we might have taken their contract.

There is a lesson here. Use references wherever you can do so. Ask for recommendations. Lead off of satisfied customers. And if you are selling mutual funds one of the best sales convincers is the fact that certain colleges, universities, trust funds, banks, or insurance companies own the shares of the fund. We are all like sheep. We have a natural distrust of anything new (including a new face, a new idea, or a new company). But we all agree that a satisfied customer is the best recommendation for anything.

Davids Elected V.-P. Of Lester & Co.

LOS ANGELES, CALIF.—Mark Davids has been elected Executive Vice-President of Lester & Co., 621 South Spring Street, members of the Los Angeles Stock Exchange, and has been appointed head of the Buying Department. Mr. Davids has been with the firm for many years.

Business Man's Bookshelf

Automotive Transportation Trends and Problems — Wilfred Owen—The Brookings Institution 722 Jackson Place, Washington 6, D. C.—cloth—$2.00.

Life Insurance Fact Book 1949—Institute of Life Insurance, 60 E 42nd Street, New York 17, N. Y—paper.

Monetary Management—Dr. E A. Goldenweiser — McGraw - Hill Book Co., Inc., New York, N. Y. —cloth—$2.75.

U. S. A.—Measure of A Nation —Thomas R. Carskadon and Rudolf Modley — The Macmillan Company, 60 Fifth Avenue, New York, N. Y.—paper—$1.00.

Western Reserve, The — The Story of New Connecticut in Ohio —Harlan Hatcher—Bobbs-Merrill Co., New York City—cloth—$4.00.

Snyder Reveals Results Of Past Year's Budget

Secretary of the Treasury John W. Snyder announced on July 1 that expenditures of the United States Government exceeded receipts by $1,811 million during the fiscal year ended June 30, 1949. This deficit takes into account expenditures of $3 billion which were charged against the Foreign Economic Cooperation Trust Fund. The Secretary pointed out that this deficit was a reversal of the trend of the two previous fiscal years when there were budget surpluses of $754 million in 1947, and $8,419 million in 1948.

John W. Snyder

Net budget receipts (after deducting employment taxes appropriated to the Federal Old-Age and Survivors' Insurance Trust Fund and refunds of taxes) amounted to $38,246 million, a reduction of $3,965 million compared with the previous fiscal year. This reduction is accounted for mainly by decreases in withheld taxes of $1,595 million, in proceeds from sales of surplus property of $1,340 million, and in other miscellaneous receipts of $397 million. Another factor was an increase of $566 million in the deduction from gross receipts due to refunds of taxes. Net receipts of $38,246 million in the year just completed were approximately 3½% below the estimate of $39,580 million in the President's Budget of January, 1949.

The accompanying table shows a summary of budget results for the fiscal year 1949 with a comparison for 1948.

BUDGET RECEIPTS AND EXPENDITURES

(Figures in Millions)

	Fiscal Year 1949	Fiscal Year 1948	Change, 1949 Compared With 1948
Net receipts	$38,246	$42,211	— $3,965
Expenditures	*40,057	†33,791	+ 6,266
Surplus (+) or deficit (—)	—$1,811	+$8,419	—$10,231

*Includes Foreign Economic Cooperation Trust Fund expenditures of $3 billion.
†Excludes transfer to Foreign Economic Cooperation Trust Fund of $3 billion.
NOTE: All figures are rounded; therefore, details may not add to totals.

Budget expenditures in the year just ended amounted to $40,057 million, an increase over the fiscal year 1948 of $6,266 million. This is accounted for principally by increases under Economic Cooperation Administration of $4,041 million (including $3 billion expended from Foreign Economic Cooperation Trust Fund); National Military Establishment, $1,886 million; Commodity Credit Corporation, $1,789 million; and Veterans' Administration, $409 million. The increases were partially offset by decreases in expenditures, principally $1,700 million under the credit to the United Kingdom, and $525 million under the Export-Import Bank. Total budget expenditures of $40,057 million were about 3 tenths of 1% lower than the January Budget estimate of $40,180 million.

Public Debt

The gross public debt amounted to $252,770 million on June 30, 1949, an increase of $478 million during the year. A summary of the changes during the fiscal year 1949 in the various classes of the public debt, with comparisons for the previous fiscal year, is indicated as follows:

CHANGES IN PUBLIC DEBT

(In Millions of Dollars)

	Fiscal Year 1949	Fiscal Year 1948
Public Issues—		
Marketable obligations:		
Certificates of indebtedness	+ 6,837	— 2,725
Treasury bills	— 2,211	— 2,018
Treasury bonds	— 2,086	— 6,806
Treasury notes	— 7,782	+ 3,221
Other	— 3	— 3
Total marketable obligations	— 5,245	— 8,330
Nonmarketable obligations:		
Armed forces leave bonds	— 164	— 1,229
Special notes (International Bank and Fund)	— 123	— 913
Treasury bonds, investment series	— 5	+ 959
Treasury tax and savings notes	+ 463	— 1,159
U. S. savings bonds	+ 3,000	+ 1,926
Other	+ 39	— 35
Total nonmarketable obligations	+ 3,210	— 450
Total public issues	— 2,035	— 8,781
Special issues	+ 2,564	+ 2,845
Other obligations	— 52	— 58
Total	+ 478	— 5,994

As shown in the table above the marketable debt was reduced $5,245,000,000 during the year. This was made possible largely through net sales of savings bonds amounting to $3,000,000,000 and the use of the proceeds of sales of special securities to trust accounts amounting to $2,564,000,000.

The refinancing of marketable debt (excluding Treasury bills) which matured during the fiscal year 1949 is shown in the attached table.

The following table shows a reconciliation of the budget deficit with the change in the public debt for the fiscal year 1949 (in millions):

*Budget deficit	$1,811
†Excess of expenditures in trust accounts, etc.	128
Sub-total	1,939
Decrease in General Fund balance	1,461
Increase in gross public debt	478

*Takes into acount expenditures from Foreign Economic Cooperation Trust Fund.
†Takes into account the clearing account for outstanding checks and telegraphic reports from Federal Reserve Banks.

Parkinson Asks—Who Wants Devaluation?

(Continued from first page)

shortage is of goods which she can sell in our markets in an amount equal to the cost of the goods which she wants to buy from our markets. Her problem, therefore, is really a shortage of production and an excessive cost of what she does produce.

It may be that her present government has something to do with her lack of production and her heavy costs; but it may be too that Britain's lack of plants, machine tools and American methods of mass production has something to do with her inability to produce enough exportable goods at a cost which would enable her to buy in dollar markets what the British must import.

That phrase, "shortage of dollars," is not the only one which has been thrown around lately in the discussion of international trade problems. "Devaluation" is another tag which camouflages a lot of difficult financial problems. If Britain devalues the pound from $4 to $3, it might be that we would buy more British goods, provided they were still sold at the present pound prices.

That might for a while delude the British people into thinking that they had solved their present problem of shortages of goods needed from other countries, including the United States; but it would not be long before the British people realized that they would be paying more in their own currency for all goods purchased abroad with their devalued pounds. And it would not be long before our own exporters realized the advantage which British industry would enjoy in competition in other countries because of the decreased cost of goods sold for British pounds as compared with goods sold for American dollars. Would we then be talking of further devaluation of the dollar in order to meet this competition in foreign markets?

Well, let's look at the record. When President Roosevelt by proclamation on Jan. 31, 1934 "devalued" the dollar by increasing the price of gold from $20 an ounce to $35 an ounce, he gave as his reason that "the foreign commerce of the United States is adversely affected by reason of the depreciation in the value of the currencies of other governments . . . and that in order to stabilize domestic prices and to protect the foreign commerce against the adverse affect of depreciated foreign currencies it is necessary" to change the gold content of the dollar, that is, "devalue" it.

Are we now in our suggestion of devaluation of the British pound and our participation in conferences with the French and others regarding stabilization of currencies, flirting with a similar proclamation further devaluing the dollar for the very same reasons? Indeed, it was reported from Paris that the French Treasury had actually suggested that it was time to devalue the American dollar.

The possible reasons for devaluation of our dollar are not, however, confined to the international situation. There are important domestic reasons too which might make it politically expedient. The President's power to devalue the dollar no longer exists; the Act of Congress providing for it finally expired June 30, 1943, but domestic and financial pressures might easily develop to the point where Congress would feel compelled to revive the power.

Yet further to increase the price of gold, that is to devalue the dollar, would be far more serious now than it was in 1934. It would directly and violently inflate a present $165 billion money supply compared with a mere $40 billion in 1934. Moreover, an increase in the price of gold would affect not merely gold bought in the future, but would be applicable at once to the $24 billion of gold presently held by the United States Treasury and mostly buried in Fort Knox. An increase of $10 an ounce in the price of gold would increase the value of the Treasury's present gold holdings by about $7 billion. But it would not merely increase the value of the Treasury gold, it would actually under existings Acts of Congress give the Treasury immediately that $7 billion in spendable funds.

It would give the Treasury $7 billion of spending money just as an increase in taxation or sale of government bonds might provide it. The difference, of course, is—and this is what we mean by political expediency—that this $7 billion of spending money in the Treasury would be accomplished without the political onus of higher taxes or the sale of bonds.

It would directly inflate the money supply, and as the Treasury paid it out in the course of its transactions, it would increase bank deposits and bank reserves, resulting in a further cumulative increase of our adulterated money supply. So far there has been no discussion of this inflationary danger, and it would appear that our public officials' position in the matter is totally without the benefit of public opinion, especially banker opinion with respect to the good or detriment likely to result from flirtation with devaluation.

All of which suggests—what are the advantages and who would be the beneficiaries of devaluation? Certainly, not the average American citizen.

Halsey, Stuart Offers Kansas City Equips.

A group headed by Halsey, Stuart & Co., Inc. won the award July 20 of $3,990,000 the Kansas City Southern Railway Equipment Trust, Series I, 2½% equipment trust certificates, maturing $133,000 semi-annually Feb. 1, 1950 to Aug. 1, 1964, inclusive. The certificates, issued under the Philadelphia plan, were immediately reoffered, subject to authorization by the Interstate Commerce Commission at prices to yield from 1.10% to 2.675%, according to maturity. Other members of the offering group are A. G. Becker & Co., Inc.; First of Michigan Corp.; McMaster Hutchinson & Co.; Otis & Co.; Mullaney, Wells & Co.; and Wm. E. Pollock & Co.

The certificates will be secured by standard-gauge railroad equipment consisting of 100 covered hopper cars and 1,194 box cars. The 100 covered hopper cars will cost approximately $700,000; while the 1,194 box cars, which were completed in April, 1948, have a depreciated value of $4,704,222.

Record Outlays for Gas and Electric Utilities

Elmer L. Lindseth of Edison Electric Institute says $2 billion expenditure of electric companies will be record-breaking, and American Gas Association survey foresees $3½ billion expended for construction in period 1948-52 inclusive.

Confidence that the nation will regain higher levels of business and employment, and require ever-increasing amounts of electricity, is reflected in the record-breaking expenditure of $2 billion this year by the country's electric light and power companies, Elmer L. Lindseth, President of the Edison Electric Institute and of the Cleveland Electric Illuminating Co., said in a recent statement.

Elmer L. Lindseth

In commenting on President Truman's recent statement that all of us should work for higher production and employment, Mr. Lindseth said, "electric light and power companies are installing more generating capacity and transmission facilities than in any previous year."

Mr. Lindseth said the electric utility companies are engaged in a construction program that will total almost $5.5 billion for this year, 1950 and 1951. This expansion, he explained, is part of a program which was started right after the war and totals about $9 billion.

"We are providing the great bulk of electric power for industry, the home and the farm," Mr. Lindseth said. "All of these will be using more electricity in future, and we are expanding our facilities now to meet those increased requirements.

"This construction program is providing many thousands of jobs, and when this additional generating equipment goes into service, industry will have still more power available to bring costs down and increase production—thereby putting more people on payrolls.

"This year the investor-owned electric utility companies will put approximately 5,660,000 kilowatts of new generating capacity into operation. This is 70% more than was put into service last year, and is nearly twice as much as was installed in any prewar year."

The new generating facilities going into operation this year will increase capacity by more than 12%, Mr. Lindseth said. National production of electricity during the first six months of this year increased 4.5% over the same period of last year. Thus the electric industry is making extraordinary progress in building up reserve generating capacity, Mr. Lindseth stated, and by 1951 will have normal reserves.

Referring to Mr. Truman's call for more river valley development, Mr. Lindseth said that the electric companies favor sound projects for soil conservation, flood control, irrigation and navigation, accompanied by development of water power where economical. Where power is generated as a by-product of river development, Mr. Lindseth said, it should be distributed without duplication of existing facilities, and sold without discrimination against any consumer. He added that the electric light and power companies are willing and able, if given the opportunity, to meet the economic needs of the nation for electric service, at present or in the future.

In line with the same optimism the American Gas Association, the sponsorship of the Committee on Economics, has just completed a resurvey of the Construction Program of the Gas Utility Industry which indicates estimated ure is slightly higher than the $3⅓ gross construction expenditures of $3½ billion for the five year period 1948-1952, inclusive. This figbillion estimate released by the Committee in October, 1948, and indicates that the expansion and modernization plans of this industry have not abated and have actually increased slightly at a time when several other major industries have either completed their postwar programs or have recently curtailed them. This further expansion in the gas industry is in response to the continuing consumer demand for its services, particularly for natural gas. Total capital requirements of the industry are about $100 million greater because of the need for additional internal funds for purposes other than construction.

Of the $3½ billion, $770 million was spent in 1948 and it is expected that the 1949 expenditures of $943 million will exceed last year's peak with $1.8 billion to be spent during the last three years covered by this survey. This latter figure is in all probability an underestimate of the ultimate expenditure, as no allowance has been made for pipeline construction for which certificate applications were pending but not yet approved by the Federal Power Commission as of June 1, 1949. Undoubtedly, a number of such projects will be approved and will increase these estimates, particularly for the latter part of this period, and this gives strong indication that the construction program of the gas utility industry will remain at high levels throughout the five-year period.

These estimates include sums to be spent for modernization and replacements, but the great bulk represents expenditures for additional facilities. The magnitude of this program can be partially realized by comparing this $3½ billion estimate with the total gas utility plant of approximately $5.6 billion in existence at the end of 1947. The manufactured and mixed gas utilities expect to spend $500 million during the five years, almost equally divided between distribution and production facilities. The natural gas utility expenditures are expected to be $3.0 billion, with transmission facilities alone accounting for approximately $1.8 billion, or 52% of total estimated expenditures by the entire gas industry.

Six Join Staff of Blair F. Claybaugh Co.

Blair F. Claybaugh & Co. have announced the following additions to their staff:

William M. Wood, formerly Vice-President Colonial Bond & Share Corp., Baltimore, is now associated with the Harrisburg, Pa., office.

Joseph A. Rayvis until recently with Gerstley, Sunstein & Co., Philadelphia, is now associated with the Miami office.

Walter Manning, James Duffy and Jerome LaDue have joined the retail sales department of Claybaugh & Co. in their New York City office. These men were formerly with Brady & Co., New York City.

Al. G. Christy, of Reynoldsville, Pa., is now a member of the Pittsburgh office retail sales department.

Sound Factors Bolstering Recession

(Continued from first page)

reach back into the basic industries and, as a result, business activity is beginning to suffer in varying degrees.

Recession Spiral and Reversal

A business recession which is chiefly attributable to a catching up process has in itself the elements of spiral because a drop in buying leads to industry curtailment, reduced employment and loss in purchasing power. However, a recession of this kind also supplies its own brake to such a spiral, for the decline in production inevitably **exceeds** the drop in ultimate consumption and in due course will reverse itself. Reduction in inventory is at present making fast headway and it is hard to see how commitments can be shortened much further. Available figures indicate that processors and distributors are cutting stocks drastically. Eventually, business entities will have to start buying what they use.

Supports for Weak Spots

Every business decline holds elements of danger more severe than inventory correction. Falling prices and falling property values have a depressing impact. In examining this aspect of the present situation, we find the visible factors to be fairly reassuring. **In 1920** farm land speculation based on debt was a weak spot. Excessive inventory accumulation on borrowed money was another. Neither of these is present in dangerous degree today. **In 1929** stock market debt was one of the complicating factors. This is not present today. Urban mortgage debt inflation, which was an element in 1929, has occurred again this time, but with two considerable differences. One difference is that a substantial part of the debt is guaranteed by Federal agencies, and another is that it is subject to regular amortization. Federal guarantees will not protect borrowers who become unable to carry their property through falling markets, but they will protect and support lending institutions, which means savings depositors and insurance policyholders. Over and above government guarantees, the banking system has a strength and liquidity which gives strong assurance against distrust and paralysis of credit and liquidation due to fear, which dominated the depression of the 1930's.

In the past another source of trouble has been the decline in the liquidity of business and individuals, resulting from increases in debt, but cash and cash equivalent assets of the economy now are much larger than before the war and have grown much more than personal and business debts have grown. Farm price supports, unemployment compensation insurance, and Federal support of exports are additional cushions and props.

While the indexes of price and production reached their postwar peaks in the latter half of 1948, adjustments in some industries occurred considerably earlier. The fact that this took place while other industries were still operating at capacity levels would seem to lessen the possibility of a contraction of the degree that would have occurred had all declined at about the same time.

Possible Weaknesses

One of the most important weaknesses in the present situation is that of living in a **highly developed economy.** In an economy of this kind, the **will to spend** vastly affects demand and it takes on an increasing influence as the standards of living rises far above subsistence levels; people are able to time their buying at their pleasure. A substantial percentage of consumer spending is for durable goods. Demand for durable goods can be postponed. Many more people today have a choice between spending now, or waiting, than has ever before been the case in history.

A **second** element of concern is the face that a considerable number of people have entered business during the postwar years without the necessary capital, experience or ability to make a success. Many of these may not survive.

Price Adjustment

Fundamental to the present decline is the need for an adjustment in commodity prices. It is characteristic during periods of war that prices undergo serious maladjustments. These maladjustments are normally eliminated in the process of a postwar decline in business. People are inclined not to buy goods unless they feel that the merchandise represents acceptable value in terms of individual income. Such price adjustments are currently taking place at a rapid rate. There are some areas still, however, where price adjustments have not taken place. It is entirely probable that new price alignments which will ultimately prevail will be an important factor in generating an upturn in business.

It may be interesting to examine the current situation in relation to some of the more important factors in the economy.

Employment

Unemployment in June increased to 3,778,000—the highest it has been for seven years. It is probable that the unemployment situation is somewhat worse than the figures given would indicate for some of those counted as employed are involuntarily working short hours. The unemployed were 6% of the labor force in June, compared with 3.4% in June of last year.

For purposes of comparison, it may be interesting to note that in **1940**, a fairly good business year, estimates showed 8 million unemployed. In 1941, our year of highest productive activity prior to the war, unemployment was about 5.6 million.

Wages

Average weekly earnings of production workers in manufacturing in May were $53.08. This compared with a peak of $55.01 in December of 1948. The reduction in weekly earnings is primarily the result of a shortening in the length of the work week.

Personal Income

The decline in personal income which began in the first quarter continued in the second quarter

Railroad Securities

One of the roads that has been doing exceptionally well so far this year is Chicago, Rock Island & Pacific. In particular, the management has continued to exercise a strict control over the important transportation costs. This is a difficult job when business is falling off. Nevertheless, in Rock Island's case the transportation ratio in each of the first five months of the current year has been below that of the like 1948 period. For the five months there was a cumulative cut of 2.6 points—from 42.0% to 39.4%. Practically the same rate of decline carried into the final month of the period when the ratio dropped 2.4 points—from 40.1% to 37.7%.

Gross revenues have held up fairly well so far. For the interim through May they were off only $2,247,748, or approximately 3%. This was slightly better than the industry as a whole, as was the performance for the month of May alone when gross was down 5.8%. The five months' loss in revenues was more than offset by the cut of $2,884,091 of transportation expenses. As is true throughout most of the industry maintenance outlays, particularly in the most recent months, have been accelerated. This increased maintenance in the face of declining traffic is presumably due, at least in considerable degree, to the desire to get as much work as possible completed before the 40-hour week goes into effect on Sept. 1, 1949.

Even with heavier accruals for maintenance of way the road reported a modest increase in net operating income for the first five months. This gain was augmented by a material drop in contingent interest charges, reflecting heavy Income bond retirements last year. As a result, net income before sinking and other reserve funds rose from $4,391,856 to $5,012,141. Earnings on the common stock amounted to $2.51 a share in the 1949 period compared with $2.07 a share a year earlier. This is hardly a record that would support the popular thesis that the railroads, individually and collectively, must fall to pieces in any kind of recession.

Chicago, Rock Island & Pacific has a particularly conservative capital structure. In the first place, the Interstate Commerce Commission in setting up its reorganization plan imposed about the most drastic cut in fixed interest debt that was imposed on any major carrier. On top of that, the management has followed an aggressive debt retirement program since consummation of the reorganization little more than a year ago. By the end of last year fixed interest non-equipment debt had been reduced to $25,772,850. Contingent interest debt was down to $34,488,543. This was less than half the Income bonds originally issued.

Another strong aspect of the Rock Island picture is the extensive property rehabilitation program undertaken during the trusteeship period and still going on. Curves and grades were reduced substantially as part of the program. Also, a large amount of new equipment, including new and efficient motive power, was installed. This program has found reflection in the sharp improvement in the road's operating performance, an improvement that has continued into the current year.

Even the equipment was largely financed with treasury cash. As of the end of last year equipment obligations were outstanding in the amount of only $16,880,665. In connection with equipment debt it is an added element of strength in the overall picture that equipment depreciation is sufficient to cover equipment trust principal maturities, all fixed charges, and 75% of contingent interest.

Last year earnings on Rock Island common amounted to $10.30 a share. Earnings in early future months are likely to run behind those of a year ago. Nevertheless, with the good start the road made in 1949 it seems reasonable to look for full year results of around $8.00 at least. Certainly the $3.00 dividend rate, which affords a return of around 10.7%, is well protected. Even the road's income bonds are viewed as having investment characteristics and in the opinion of most railroad analysts the common stock has very interesting price potentialities over the intermediate term.

of 1949. At an annual rate of $211 billion, it was 4% below the peak in the fourth quarter of 1948. The major factors contributing to lower personal income were declines which have taken place in wage and salary payments and lower farm income.

Personal Consumption Expenditures

Consumers' spending for goods and services declined again in the second quarter of 1949. Expenditures at an annual rate of $175 billion were 3% lower than in the first quarter of 1948.

Private Investment

Private domestic investment, which is one of the more fundamental factors in determining the course of business in general, was 26% lower in the second quarter of 1949 than in the peak final quarter of 1948. Most of the decline occurred as the result of a shift from accumulation of liquidation of inventories.

The value of new non-farm residential construction was about 12% lower during the first half of 1949 than in the comparable period a year ago. Expenditures for other phases of private construction (other than residential) were slightly higher in the aggregate than a year ago. Expenditures by gas and electric utilities have increased sufficiently to offset lower construction activity by manufacturing concerns.

Expenditures for producers' durable goods during the first six months of the year exceeded those in the comparable 1948 period by 7%, but were 2% lower than in the final half of 1948.

International Transactions

Further expansion in merchandise exports to Western Europe, together with reduced imports, caused a further expansion in the surplus of exports over imports of goods and services in the second quarter of 1949. The increase from an annual rate of $6 billion in the final quarter of 1948 to $7 billion in the most recent quarter reflected the increasing government aid in financing exports and a decline in imports apparently resulting from the downward trend of domestic business activity.

Government Expenditures

Government expenditures for goods and services continued to expand in the second quarter of 1949. The annual rate of expenditures, amounting to $42 billion, compared with $41 billion in the first quarter, and $34 billion in the second quarter a year ago. The increase was evident at the State and local and Federal levels.

Forecast of Wholesale Commodity Prices

Since the end of the first quarter of 1949, wholesale prices dropped about 2%. The **most significant change** in the major commodity groups took place in the prices of **commodities other than** farm and food. Price reductions in this category which heretofore had been small were quite substantial. The overall decline of 2% may be accounted for by principal commodity categories as follows:

Farm Products	—0.1%
Foods	+0.1%
All Commodities other than Farm and Food	—3.6%

For the past two months farm commodity prices as a group have not changed materially. Grain prices have moved somewhat lower, while livestock prices have risen seasonally. There was little change in overall food prices during the second quarter.

Since the end of March there have been sharp reductions in some metal products prices. On June 17 lead had declined 44% from the high point; copper 30%; zinc 47%; steel scrap 51%. More recently there has been a slight firming in some of these prices.

NYSE to Survey Public Relations Program

Special Committee, headed by William K. Beckers, asks members' views and statements of their public relations activities.

The Special Committee on Public Relations appointed at a meeting of the Board of Governors of the New York Stock Exchange on June 23, and whose Chairman is William K. Beckers, has addressed a letter to members and allied members of the Exchange, requesting that they submit to E. B. Peterson, Assistant Secretary of the New York Stock Exchange, statements of their activities as well as their views regarding improvement and promotion of the Exchange's public relations.

William K. Beckers

It is the feeling of the Committee that this survey is of great importance to every member, allied member and member firm, and therefore they are earnestly requested to submit, as soon as conveniently possible, opinions and comments on any or all phases of the Exchange's public relations activities, namely the advertising program, publication of the magazine, "The Exchange," showing of the motion picture, "Money at Work," reception of visitors in the gallery, distribution of literature, forums conducted by member firms and addresses by representatives of the Exchange to various clubs and organizations.

The Committee is also interested in knowing of the public relations activities of member firms which might be adopted by the Exchange or used in conjunction with the promotion of the objectives of the Exchange's public relations program.

In furnishing members with a resume of public relations activities already taken by the New York Stock Exchange, it is noted that in 1939 Elmo Roper was retained to conduct a nationwide survey of the public's opinion of the Exchange and revealed in his report a lack of general and widespread interest in the Exchange as well as a lack of knowledge of its activities, resulting in many people favoring more governmental regulation.

In 1944, a further survey was made for the Exchange by Opinion Research Corporation. This survey revealed:

(a) There was a decided improvement in the public position of the Exchange as compared with the attitude disclosed in the Elmo Roper report;

(b) the public's increased respect for, and confidence in the Exchange was attributed largely to Federal regulation rather than to the Exchange's own self-regulation; and

(c) the public relations problem which this survey highlighted was the need to have the public understand the Exchange's own sense of responsibility and the policies and measures which had been adopted in the public interest.

The report states:

"The Number One problem of the Exchange is to improve its moral stature in the eyes of the public by making clear that it is doing the major part of its own policing; that it does not want its facilities used by the ignorant, the uninformed, the irresponsible, or the mirage-seekers of quick and easy riches; that the Exchange, in short, has a very lively and sensitive social conscience."

The broad objectives of the Exchange's present public relations program are stated as:

(1) To arouse, among people who have not, thus far, formed investment habits, a desire to own income-producing stocks, thus broadening the investor base of American industry;

(2) to create new sources of equity capital;

(3) to encourage investors and potential investors to use the facilities of member firms of the Exchange; and

(4) to stimulate appropriate activities of members and member firms of the Exchange toward the accomplishment of these objectives.

The President of the Exchange has, since taking office on July 1, 1941, carried on a country-wide campaign of information with a two-fold purpose: (1) to enlarge the public's understanding of the Exchange's functions and of its essential economic usefulness, and (2) to bring about improvements in the tax laws that will recognize vital services of the investor and create the incentives that facilitate the flow of equity capital. This intensive campaign has been conducted by means of public addresses before important audiences and forums in all sections of the country; by statements and testimony before Committees of Congress; through personal contacts with leaders in business, in the field of education, in agriculture, in government and among civic and professional groups; and by the development of closer relations with the officials of listed companies. The President's work in presenting to the American people the truth about the Stock Exchange as a necessary and integral factor in the American economy and in the processes by which business and industry are financed; in combating misconceptions and fallacies with respect to the Exchange's functions; in making the public aware of the Exchange's standards of business probity and of its sense of public responsibility, has been widely reported and commented upon in the press. His speeches have received prominent attention in hundreds of newspapers, resulting in a large quantity of favorable editorial comment and a friendlier and more informed public attitude toward the institution. It is deemed appropriate to draw the community's attention to this phase of the Exchange's public relations activities.

As part of the campaign to remove tax impediments to the flow of equity capital and to enhance public respect for the invested dollar, special tax studies have been prepared which reveal the obstructive character of the capital gains and losses provisions of the tax laws and of the double taxation on dividends. These studies have been placed and will be placed in the hands of members of both Houses of Congress, policy-making officials in the Federal government, tax groups of various kinds which are carrying on programs for the improvement of the tax structure, and others who have taken a leadership position in tax matters.

Randolph & Agnew Formed in Conn.

GREENWICH, CONN. — Randolph & Agnew has been formed with offices in the Smith Building to conduct a securities business. Partners are A. Gifford Agnew and Peyton A. Randolph. Mr. Randolph was formerly with J. W. Davis & Co. and Randolph & Co.

"Great Harm" Still Flows From It

"It began with the declaration at Casablanca of unconditional surrender on which the British Cabinet, or any other Cabinet, never had a chance to say a word. But it did leave us a Germany without a law, without a Constitution, and without a single person to deal with, and without a single institution to grapple with the problems. We have had to build absolutely from the bottom with nothing at all. We have had to build a State with 20,000,000 displaced persons scattered about the whole show."—Foreign Secretary Bevin.

Ernest Bevin

Winston Churchill

* * *

"The first time I heard that phrase [unconditional surrender] used was from the lips of President Roosevelt. . . . It was made by President Roosevelt without consultation with me. I was there on the spot and I had rapidly to consider whether our condition in the world would justify me in not giving support to him.

"It was made by President Roosevelt without consultation with me. I was there on the spot and I had rapidly to consider whether our condition in the world would justify me in not giving support to him.

"I did give support but it was not the idea I had formed in my own mind. If the British Cabinet had considered these words around the table they would have advised against it. But working in a great alliance and with friends from across the ocean we had to accommodate ourselves. But I cannot think that great harm came from that particular phrase." —Winston Churchill.

Who invented the phrase is, perhaps, at this juncture of no great importance, but we think there can be no doubt that "great harm" did come from it and the general philosophy which prompted it—and still flows from them.

Cleveland Exchange Joins Midwest Merger

St. Louis and Chicago stock exchanges also formally pledged to participate in merger organization.

Clemens E. Gunn, President of the Cleveland Stock Exchange, announced on July 21 the signing of a formal contract by authorization of the Board of Governors of the Exchange for the formation of a new Midwest stock exchange.

Mr. Gunn stated that the St. Louis and Chicago Stock Exchanges had already signed the contract and that, except for deciding upon the name, this was the final step in the consummation of the new exchange. He reported that Cincinnati, Minneapolis-St. Paul and the New Orleans Stock Exchanges were expected to complete their balloting within the next two weeks. There will be approximately 400 members in the new exchange, situated in the key cities throughout the Midwest as well as in the Southwest, Pacific and East Coast areas. This broad membership, who will be able to earn commissions in Cleveland local stocks for the first time, should provide a strong base for broadening markets in Cleveland securities.

The Cleveland division of the Midwest stock exchange will be maintained in the present quarters at 410 Union Commerce Building. Complete files will be available on local corporations, giving up-to-date earnings reports and other statistical information and these will be available to the public, to bankers, brokers and attorneys.

William J. Perry, who has been with the Exchange since 1933 and Secretary since 1940, will continue as General Manager of the Cleveland Division of the new exchange.

A special listing committee set up by the Exchange to contact local corporations to secure their approval for listing on the new exchange has met with excellent results. The Committee has reported to Mr. Gunn that a substantial number of corporations have already applied for listing and others are expected to report as soon as their board of directors meet.

"We are convinced," Mr. Gunn stated, "that by building a strong financial market for the Midwest we will in turn be building and strengthening our commercial markets."

New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following firm changes:

Transfer of the Exchange membership of the late E. Coe Kerr to John N. Bleibtrea will be considered by the Exchange on Aug. 4.

Benjamin R. Nichols will retire from partnership in Lehmann & Verace on July 30.

Shaskan to Admit

Meyer Buchman will become a partner in Shaskan & Co., 40 Exchange Place, New York City, members of the New York Stock Exchange.

Young Businessmen

By ROGER W. BABSON

Asserting young businessmen today are optimistic and are thoroughly sold on nation's advantages and opportunities, Mr. Babson states though this attitude cannot overcome the business cycle, it can delay it and make it less severe. Expresses faith in present-day young businessmen.

During the past month I have talked with a number of graduates from my three colleges—Babson Institute for Men in Massachusetts, Webber College for Women in Florida, and Utopia College in the center of the United States at Eureka, Kansas. I find all of these graduates optimistic and "crazy to go." They do not complain of the New Deal because they never knew anything about the Old Deal! They assume that a Democratic Administration at Washington is a normal condition and that the Republican Party has passed into history! Many of these men have seen war service in Europe, Asia and Africa and are thoroughly sold on the resources, advantages and opportunities of the United States.

Roger W. Babson

Sons Versus Fathers

The young businessmen of today are in a very much different mood from their fathers who were brought up in truly free-enterprise system but who now are discontented with government regulations, high taxation and labor domination. When I talk with the fathers of these young men, I return home discouraged and pessimistic; but when I talk with the sons of these same fathers I am hopeful and optimistic.

Of course, neither fathers nor sons can eliminate the business cycle. Someday we shall have another business depression with much lower prices and considerable unemployment. On the other hand, I feel that if more fathers would turn their business over to their sons, the present prosperity would last longer and the next depression would not be so severe.

Forecasting the Future

A prominent investment banker recently asked me what I thought would happen to the railroads, telephone companies and other public utilities during the next thirty years? Knowing that he has three children who have recently graduated from college, I replied: "Don't ask me. I am over seventy years old. Get together your children and ask them what is to happen. They are the ones who will decide whether the government will take over the railroads and utilities. In case you think your children would merely reflect your own opinions, have them consult acquaintances whose families hold no investments today. I am sure that the opinion of an honest cross section of young people would be far more valuable than the opinion of mature bankers, engineers or even political leaders."

When discussing with students the business outlook, they insist that conditions are very different today than in 1929. They show how in 1929 interest rates were very high and money was scarce; while today interest rates are abnormally low and bank loans may easily be secured. They explain how the farmers in 1929 were burdened with debt and today are almost free from debt and that, in a general way, this applies also to other industries. They claim that everyone was speculating in 1929 on very thin margins; while today there is only a little speculation with margins averaging over 70%.

Babson Institute Round Tables

These students are proud of the fact that the government has become such a large purchaser of certain goods, crops and building materials and hence can largely stabilize these industries. They recognize that unemployment will increase; but that unemployment insurance, pensions, etc., should still give these unemployed people money with which to pay their rent and buy their food. This they claim will make retail trade less dependent of fluctuation in industrial production.

These students show that not only is the farmer now largely out of debt, but that he can indefinitely depend upon a fair system of price supports, the same as the manufacturer depends upon a reasonable tariff and the same as the wageworker depends upon reasonable immigration restrictions. They point to the fact that there was no bank deposit insurance in 1929; while today every bank account up to $5,000 is insured and this means insurance protection for 95% of all individual depositors. Finally, they believe that the unsatisfied demand for homes and consumer durable goods can —if necessary—be paid for by the large savings deposits which people can draw upon for such useful products. Yes, I have great faith in the young businessman of character — who will work hard and keep out of debt.

Halsey Stuart Offers New Eng. Pwr. Bonds

Halsey, Stuart & Co. Inc., on July 21, publicly offered $5,000,000 New England Power Co. first mortgage bonds, Series C, 2¾%, due 1979 at 100½% and accrued interest. The firm was awarded the bonds at competitive sale on a bid of 100.11.

Proceeds from the sale of bonds, together with funds from the sale of common stock to New England Electric System, parent company, will be used to pay off $5,324,700 in bank loans and the balance will be used to reimburse the company's treasury for construction expenditures or to pay for future construction work.

The new bonds are redeemable at prices scaled from 103½% to 100% and at special redemption prices ranging from 100.62% to 100%.

The company's business is that of generation, transmission, purchase and sale of electricity for light, heat, power, resale and other purposes. Direct sales of electricity to ultimate customers are made only to large users.

J. Streicher & Co. to Be Stock Exchange Member

Jack L. Streicher will acquire the New York Stock Exchange membership of the late Fred L. Richards, and J. Streicher & Co., 19 Rector Street, New York City, will become members of the New York Stock Exchange. The firm holds membership in the New York Curb Exchange.

A Platform for Business

(Continued from page 6)

a vigorous faith in the future. These are the only reasons that have any substance, and only by such realistic appraisal can we prevent frustration and ulcers.

We Now Have a Buyers' Market

It is at this point that we must face the fact that customers are not as eager to buy as they used to be. They tend to shop around and to hold back for lower prices. They are in a mood to make the salesman really sell. What we are witnessing today is the transformation of a sellers' market into a buyers' market. And that is as it should be; for in the free economy to which we all give lip-service, a sellers' market is a reversal of the natural order of things. And in the long run it is an abomination to business itself.

A sellers' market promotes habits of sloth and lethargy, of shoddy goods and sloppy service. It is destructive of business methods. It turns salesmanship into a lazy routine, whereas selling should be a dynamic and creative force.

A buyers' market, on the other hand, challenges the best that is in us. It makes robust demands upon our sense of quality, our sense of service, our competitive instincts and sales talents — in short, upon all the elements that sparkplug a free enterprise business system.

Furthermore, the mechanics of a buyers' market underline the concept of equal opportunity from which American life deprives its essential vitality. This same concept fosters the competition which gives American life its zest. Each man born in America has a chance to reach the top, but no man is automatically guaranteed success by the mere fact of his birth in these United States. The sweat and effort that produce success must be his own.

More Salesmanship in Order

Without a doubt, a lot of companies and individuals who rode the gravy trains of easy prosperity will be reduced to walking the rails again in the sterner, tougher, more demanding days ahead. And that, too, may be all for the best. Hordes of people blundered into business through the accidents of a strange business era. It is not their natural habitat. Only the alert and able, those with a keen sense of responsibility to the consuming public, are likely to survive and prosper.

Facing these facts, business must take a conscientious inventory of its own men and methods. It must unfreeze its brains and unfetter its energies. It must relearn the science of fighting for orders, instead of waiting for them behind polished mahogany desks.

How long has it been since any of us rang a doorbell? How many years has it been since we complained of fallen arches?

I am afraid there is too much ivory-tower, remote-control salesmanship today. Sales managers, vice-presidents, and presidents have shiny pants from hatching profits on cushioned chairs. At the very least, we should inflict as much wear and tear on the soles of our shoes, as we do on the seats of our pants! Let's get out and sell goods!

And our sales forces, too, need basic new training in the most efficient, hard-hitting methods of meeting today's changed conditions. Sending untrained salesmen into today's market, is like sending raw recruits into modern battle—they haven't got a chance!

To meet conditions imposed by today's buyers' market, business must not only refurbish its selling methods, it must also revitalize its advertising techniques. It must make them an integral part of its selling plans. Too frequently today, advertising sells everything but the product it advertises.

Too often we forget that advertising must function so as to give dynamic power to our free enterprise system. During the war, we put advertising into uniform, and it performed a magnificent service for the war effort. Today, however, it is time to demobilize advertising and put it back to its civilian job of selling goods—but hard!

Many deeply sincere and patriotic groups have devised programs for selling the free enterprise system to the American people. I concur wholeheartedly with the objectives of these programs—but I have serious doubts about the methods.

Role of Advertising

Our job, I venture to suggest, is not to sell the enterprise system, but to put some enterprise into the selling system. We cannot sell the American system merely by telling people how good it is. The proof of any product is in its performance. The only way to convince people that the American system is good, is to make it work for them.

As their standard of living continues to rise, so will their estimation of the system which made it possible. Advertising, therefore, can be a far more vital aid to our economy by selling the fine products and services available to the American people, than it can ever be as an outlet for statements on the American system.

So since the function of advertising is selling—selling products—advertising tools and techniques must be re-examined and, if necessary, redesigned to meet today's problems and opportunities.

This process may not be easy, for there is an an occupational disease in advertising circles that might be called the blight of cautious imitation. Once in a great while, someone comes up with a truly new idea or technique. It is hailed with cheers—especially if it sells goods. Then, everybody in the business imitates it to death until, after an indefinite period, somebody else get a new idea—and the blight takes hold again.

This procedure may have sufficed for the past, but is not good enough for the future. The bright young men, who produce advertising's bright ideas, must make themselves a great deal brighter.

Now, of course, it is obvious that if we are to sell the goods, we must have the goods to sell. Where, then, are the postwar products we all dreamed about? Where are the miracles of America's laboratories predicted and presented in Technicolor by industry itself?

The answer, I think, is that in the last few years we have been too busy to make these dreams come true. Necessarily, we concentrated on filling the backlog of postponed demand built up during the years of conflict. But that job has, in large measure, been completed. There is no longer any valid excuse for not making good on our promissory notes to the American consumer.

Meeting Demand for Goods

Our customers need, and should have, the newest, most modern products American industry is capable of developing. There is a vigorous demand for these goods—a demand that underlines America's faith in industry's vast resources of technical skills. How is this demand to be met?

First, by clearing the way to the marketplace for new goods; second, by removing the roadblocks of inventory if it is high priced—for we are never going to get these high prices in the nearby future.

This suggestion will undoubtedly prompt some plain and fancy breast-beating, for it involves facing up immediately to inventory losses. My only reply is, that if inventory losses are involved in the pricing policies necessary to stimulate sales, these losses should be taken. Such losses are inevitable—so let's take them now!

If business is to do its share in revitalizing America's faith in the vigor our our economy, there is the corollary necessity for reducing costs through careful study of production and distribution methods and procedures. The first objective of such a study should be to increase the output of the plants we now have—in other words, to increase productivity. The second, to eliminate procedures which do not contribute to the quality of the product, or to its efficient distribution, salability, and use.

With increased productivity, our economy will be able to meet the three-fold demand for foreign aid, national defense, and continuing consumer needs. A greater output from present facilities will also result in that which we need so desperately—more and better products, at lower prices, for more people.

Greater productivity necessarily depends upon the mutual and ungrudging participation of both Labor and Management. Labor and Management must progress together, and, as they advance to new standards of mutual achievement, so the nation will go forward with them. And America must go forward!

What happens in America today will affect the lives of men everywhere. What remains of the free world leans upon our strength. If we permit ourselves to be confused by the present process of economic readjustment, the one certainty is that our friends among the nations of the world will follow us swiftly into the Valley of Despair! If we fail to maintain our own systems, our mantle of leadership will become a shroud for the hopes of men.

With firm resolution, therefore, we must strive to realize the full potential of our physical and spiritual resources. The world watches to see how we will use our great material assets. The destiny of a major portion of this world depends upon our success in directing our physical effort by the spiritual compass of wisdom, courage, and faith.

The winds of doctrine swirl about us and the tides of change are at the full. I am convinced, however, that America will stand fast. I know it will continue to plan with wisdom, to act with courage, and to go forward with the faith that has made it the rock of freedom.

The great and inspiring fact about America is that its citizens can plan and work together for the common good, their horizons of hope unlimited by the cold ambitions of the state. It is within their power to build the future of their choice—and, if they build on faith in themselves, and in their country, neither the hazards of postwar change, nor Communist greed, can stay them from their goals.

The opportunity we enjoy in America today belongs to us all—it is not the exclusive property of any class or segment of society. This opportunity is ours in trust. There is only one way by which we can discharge this trusteeship with the honor and integrity that will make it proof against the tides of change now sweeping the world. That way is through the sincere co-operation of Government, Labor, Business and Agriculture to sustain our way of life and to develop its magnificent promise of the future.

This is a four-way partnership in which each one has a vital role to play. As I see it, the role of business is:

(1) To lower prices wherever possible

(2) To continue sound wage policies

(3) To increase productivity in co-operation with Labor

(4) To develop new products; new methods; new services

(5) To have an eagerness for enterprise; a willingness to expand; and a revitalized initiative.

This is the platform on which we can build, if we abandon our foxholes of fear and regain the faith that made America—faith in ourselves, faith in our ability, and faith in our future.

As Woodrow Wilson once said, "America is not anything, if it consists of each of us. It is something only if it consists of all of us; and it can consist of all of us only when our spirits are banded together in a common enterprise."

Today, our common enterprise is clear—let us go forward together, and, by bold action, reaffirm our faith in America and in ourselves—we, the people, who are America.

Report on English Gold And Silver Markets

We reprint below the quarterly bullion letter of Samuel Montagu & Co., London, written under date of July 1.

Gold

The amount of gold held in the Issue Department of the Bank of England was unaltered at £247,833.

The Bank of England's buying price for gold remained unchanged at 172s. 3d. per fine ounce, at which figure the above amount was calculated.

It was announced by the Royal Mint that a small coinage of not more than 100,000 sovereigns is being undertaken in order that it can preserve the inherited knowledge and craftsmanship of gold coining, which requires a different technique from coining in other metals and greater precision in workmanship.

The coins will be struck from existing dies and will consequently not be distinguishable in date or design from earlier issues. Further small mintings may take place from time to time for the same purpose. There is no question of issuing these sovereigns for circulation; they will remain part of the gold reserves.

The gold output of the Transvaal for the months of March, April and May, 1949, is shown below, together with figures for the corresponding months of 1948 for the purpose of comparison:

	1949 Fine ozs.	1948 Fine ozs.
March	985,316	980,349
April	956,103	978,617
May	978,908	977,878

Silver

Throughout the second quarter of the year the official price in the London market was 43½d. per ounce .999 fine for both cash and two months' delivery, at which figure it has ruled unaltered since Feb. 16 last. The New York market quotation, on which the London price is based, also remained unaltered at 71½c per ounce.

Demand for silver for use in essential industries, although slightly larger than during the first quarter, continued on a moderate scale. With the exception of a small amount of internal silver sold for essential purposes during April, supplies were provided from official stocks.

The main feature of the market in "free exportable" silver was a demand from the Far East. Some business has been done and shipments made, but operations have been hampered to some extent by the difficulty of obtaining suitable supplies.

Real Task of ECA Still Lies Ahead

(Continued from page 4)

in 70 years the U. K. was unable to buy canned fish from American packers.

On a five-year average in prewar seasons, the U. S. shipped salmon to the U. K. at the rate of 808,000 cases annually. That was 11% of all salmon packed in the U. S. and, at current prices, would be valued at about $20 million. The prewar export of canned sardines to the U. K. ran at about 122,000 cases annually and represented about 5% of the U. S. pack.

This canned fish is, of course, important chiefly to the U. S. canners and the U. K. consumers. To go into broader fields, in times past, as high as 50% of all our cotton, 40% of all our tobacco, 30% of all our wheat, 35% of all our sewing machines, 30% of all our lubricating oil, 15% of all our farm equipment was sold abroad. To the cotton, tobacco and wheat producers, etc., the export market is highly important. Its loss would be nothing short of catastrophic. But it cannot be maintained indefinitely by artificial methods.

Must Increase Our Imports

The point I am trying to stress is, of course, that the American export market is living today and has lived for some time on dollars shelled out by American taxpayers. In 1948, just to give you a few figures, our exports to the ERP countries totaled approximately $4.183 billion. Our imports from those same countries were about $979 million — a ratio, in other words, of about four to one. This situation cannot continue. It would, in fact, be most unhealthy if it did. The only way out is for the European nations to earn the dollars they need to buy here. They can earn them—and I repeat—only by selling here. America must learn—even if the lesson is painful to certain segments of our economy—that he who would sell must buy.

It is equally true that a fully productive Europe must sell in other areas — competing, admittedly, with American exports. But that again is something we must accept as the price of world economic stability. And, let me ask, how long has American business found the word "competition" so unpalatable? Traditionally, we have accepted the theory that competition was one of the great reasons — perhaps the greatest — for the vigor of the American economy. Translated into world terms it should promise, just as surely, a vigorous world economy.

Actually, in my opinion, it will be a long time before European production efficiency will have reached a level where it offers any serious competition to American producers. The Europeans themselves realize this and it will be one of ECA's principal chores during the remaining years of the program to show them the way to higher productivity through increased efficiency. The difference between the efficiency of European production and that in the United States is generally admitted. In the U. S. for example, it takes about 600 man-hours to produce an automobile but in France about 3,000 man-hours are required. Four French miners produce four tons of coal per day. In the U. S. one miner alone produces the same amount.

The explanation of Europe's low productivity involves a long story —too long for me to discuss in detail this afternoon. Part of it can be attributed to the war, the physical destruction, the isolation of European industry during the war years—and so forth and so forth. A great part, no doubt, goes back to a condition prevailing over a long period—the reluctance of European industrial leaders and workers to adopt new methods. But whatever the reason, increased production is essential to European recovery—it has become an increasingly important part of the recovery program.

In writing the original Economic Cooperation Act, Congress specified technical assistance as a definite part of the program. In interpreting Congress' instruction in this field, ECA has seen such assistance as something more than just merely the introduction of new and more efficient machinery. The technical assistance program, which is now well under way, has been translated into terms of people and a steady stream of what we call productivity teams has for some months been flowing both ways across the Atlantic. European management personnel and workers are coming here to see for themselves how America has accomplished its production miracles and American technicians are visiting the ERP countries in person to explain and demonstrate new methods.

Aim of Technical Assistance

In general, the aim of technical assistance is to enable the ERP countries to achieve more effective results from the use of their own resources and from ECA-financed goods and services. As it is developing it promises, we have found, to produce still further benefits. These visitors from overseas are having a good look at America. In the factories, fields and laboratories they are meeting and talking with Americans. The bond of friendship and understanding that is being cemented will have incalculable value in terms of human relationships. On the other side, of course, the Americans who are acting as hosts to these visitors and as guides in their journeyings are learning to know and understand something of the problems the Europeans are facing. It is a two-way street of international understanding from which both will benefit.

American Industry Has Cooperated

American industry, both management and labor, has been most cooperative in helping make the technical assistance program a success. Without the support of both it would be, of course, a dismal failure.

I think I should say here that the splendid cooperation given ERP generally by American industry has been most helpful. I use the term "generally" advisedly because many industries all over the country and individual businessmen have created one of our major domestic problems through a relentless lobby campaign for the inclusion of their particular product in the program or the expansion of their present participation.

Understand me—no one at ECA blames these individuals or concerns for attempting to expand their businesses or for the vigorous prosecution of their interests with Congress and with us. They have, however, based their demands on a theory with which we cannot agree and which, in our opinion, presents a grave danger to the program. Briefly, they contend that since American taxpayers are putting up the dollars for ERP the program should be directed exclusively to the purchase of American goods. At first glance this seems to be a fairly reasonable request and many Senators and members of the House have taken up the cudgels in its defense.

However, let us examine this theory for a moment. In the first place, there are only a limited number of ECA dollars and we are enjoined by the Economic Cooperation Act, as well as common sense, to make each dollar stretch to its utmost limit. If the price for a certain product in the United States is higher than that elsewhere, we must purchase it where it will consume the fewest ECA dollars. Furthermore, if the product is available in some other country where the use of dollars is not necessary then we must insist that it be bought there.

To spend one unnecessary ECA dollar means just that much additional burden to the American taxpayers. The goal is to put the ERP nations back on their feet as rapidly as possible—to reestablish them as customers, paying their own way. The limited group who might profit from a "buy American" policy now would pay themselves in the long run through the drain on the U. S. Treasury and, perhaps, the permanent loss of European markets.

It is, therefore, apparent that a policy of forcing the ERP countries to buy unnecessarily in the United States would prove a serious economic boomerang. Also, I need hardly remind you that the adoption of such a policy would be giving the Kremlin, for free, a most effective propaganda weapon. The Communists have, as you know, charged that the recovery program was designed, among other things, to afford the United States an outlet for its surplus products and to prevent a major U. S. depression. Our operations have successfully combatted that charge. To change now would be dangerous not only economically but politically.

Small Business to Participate

Under amendments to the Act passed by Congress this year, ECA is instructed to give small business a helping hand in securing ECA-financed orders. That, of course, will be a part of our program in the coming year. I think I should remind you here, however, that this amendment in no way alters ECA's methods of doing business. In other words, we remain primarily a financing agency. We do not buy and the ECA nations will continue to make their purchases through the normal channels of trade.

This, of course, presents problems to the small manufacturer or would-be exporter, most of whom lack facilities for contacting European customers. Admittedly, that is a serious obstacle to doing business with the ECA nations. Small business concerns should give it thoughtful consideration before launching campaigns to secure ECA-financed orders.

If the small businessman has no previous export experience of any kind he is almost certain in for some rough going. I do not need remind this group that it is a very specialized field of merchandising and that the technical details are numerous.

At ECA, we are most sympathetic with the small businessman's natural desire to increase his sales outlets and we intend to do everything possible to achieve the objectives of the Small Business Amendment. In the United States there are approximately 320,000 manufacturers. It is estimated that of these about 99% can be classed as small. These furnish 65% of all manufacturing employment (two out of every three jobs) and produce 62% of all our total industrial output. They form the hard core of American free enterprise.

What we are doing for the small businessman at ECA is this. As instructed by Congress we are preparing to employ a special assistant to the Administrator whose job will be to promote and foster the aims of the Amendment. We have retained two consultants who are familiar with the problems of small business. With the assistance of our staff of experts all of the problems are being studied and on the basis of their findings a program will be developed. At the present time, one of the consultants is in Europe discussing with members of Ambassador Harriman's staff in Paris, the mission heads in the participating countries, and importers and representatives of ultimate European purchasers generally, the advantages of using small suppliers in the United States to meet their needs.

In the final analysis, however, the small businessman who wants the business is going to have to go after it himself. Just as he must exert sales effort at home, he must exert it abroad if he expects to share in the export market. He will have to develop his foreign outlets largely through his own initiative just as he did his domestic outlets. ECA will not be able to get the business for him although we will do everything in our power to help him help himself.

Actually, the small businessman has not done too badly under the European Recovery Program without the special help we are seeking to give him. Preliminary figures indicate that in terms of volume small business has obtained some 75% of all ECA-financed orders and, in terms of dollars, has sold about 25% of the total. This compares favorably with the record of our own government procurement agencies who are also, charged with responsibility for aiding this segment of our economy.

ECA's first year has been generally conceded a success. We are, however, very conscious that it was only the beginning. The real test lies ahead—and it lies immediately ahead. In this coming year the gains already made must be consolidated and other and more serious problems must be met and solved. The world-wide shift from a sellers to a buyers market, although not unexpected, has not minimized our task.

At ECA we are convinced, however, that we are starting this second year of the program on firm ground. If we can maintain that "brave and generous spirit" in which the program was launched and avoid the "shriveling timidity" of which Mr. Stimson spoke, we are confident of ultimate success.

Cleveland Bond Club Fall Outing Announced

CLEVELAND, OHIO — The Bond Club of Cleveland will hold it Annual Fall Outing on Sept. 16

Russell J. Olderman Guy W. Prosser

at Sleepy Hollow Country Club. The party will be in the form of a clambake, and will feature some novelties this year. Guy W. Prosser, Merrill Lynch, Pierce, Fenner & Beane, is Chairman of Arrangements; Russell J. Olderman, McDonald & Co., is Chairman of Golf.

Tobey & Kirk to Admit

Robert S. Gordon will be admitted to partnership in Tobey & Kirk, 52 Wall Street, New York City, members of the New York Stock Exchange on Aug. 4. Allen Tobey retired from the firm on July 18.

As We See It

(Continued from first page)

Churchill has in a sense once again stepped forward in a crisis in which hardly less than the life of the United Kingdom is at stake.

Now under ordinary circumstances all this would be interesting to the citizen of the United States, but he would feel, and rightly feel, it to be none of his business. It is still necessary to concede that it is the right of the British to choose what form of government and what form of economic and social life they prefer to have. It is their right to do so even should they choose socialism —as they apparently have done in substantial part. Such would be their right if they chose to set up a Hitler or a Mussolini or a Stalin forthwith. We can concede no less, for we should very keenly and vigorously resent any effort of Britain or anyone else to estop us from doing any of these things were we so minded.

Can Not Leave It There

But in the existing circumstances the matter can not be left there—or so it seems to us. We have just entered into a pact, which, contrary to all our tradition and quite the opposite of what we have always regarded as wisdom on our part, casts our lot in very substantial measure with those of a number of powers of western Europe. Among these latter conspicuously stands the United Kingdom. The Administration has launched upon a program involving the expenditure of huge sums of money to help these countries to rearm for defense. In all this Britain is a key figure, and in all this the central idea is to build up an area, a sort of *cordon sanitaire*, between us and the Kremlin. And nothing has of late years been more clearly demonstrated than the simple fact that a country which is economically moribund constitutes a liability rather than an asset in modern warfare.

We have, moreover, for several years, indeed ever since the end of hostilities, been supplying Britain with vast quantities of goods and of funds in the thought, or at least the hope, that in so doing we were aiding the sorely distressed people of that land to get back on their economic feet, as it were, preparatory to the reassumption of an economically independent status. The time is almost at hand when we must decide as to the amount of such aid we are to continue to furnish, and from all present appearances we shall have about the same problem to face a year, and quite possibly five or even ten years hence.

Britain's Attitude Suspect

In these circumstances we must certainly be excused if we ask, indeed we must be expected to ask: Is Britain with its grandiose schemes of "socialization," its "free" services which even in this country we have not yet felt that we could afford, and all the rest of it—whether in these circumstances Britain is really "playing the game." There are those who feel that she is not, indeed that she really is "playing us for suckers." To put the matter very bluntly, it seems to us that the British people, particularly the British Government is acting not in the least as if it realized that the nation was living at the expense of another people which can not by any stretch of the imagination be regarded as owing it any such generosity. It behaves not in the least as if it wished to be free at the earliest possible moment of the continuing acceptance of this sort of largesse, or that it is really determined in a practical way to get back as quickly as possible on its economic feet.

From this distance it appears that Mr. Churchill is fully warranted in saying, as he did say, last week, that the Labor Government had "brought Britain low alike in prosperity and reputation both at home and abroad," and had no effective plan for stemming impending insolvency. It has had the benefit of perfectly enormous sums of money from this country and from Canada, but has "dissipated" every foreign asset it could get its hands upon. The lack of unemployment about which many boasts are heard is, as Mr. Churchill says, a result simply and solely of the grants in aid. Moreover, he added, foreign reserves of gold and dollars are now running low and once these sources are dried up, widespread unemployment and more privations are inevitable. This is a dark picture, but certainly has the earmarks of reality viewed from this distance. It, moreover, does not suggest recuperation of strength to a point where the nation once again is ready and able to defend itself even with the almost limitless help from across the Atlantic.

U. S. Must Share the Blame

It is doubtless in part this picture which gives a number of our legislators pause when more billions are asked for Britain. It is no wonder that it gives them troubled minds. The situation in which we find ourselves is not an enviable one. Without doubt, it is in part at least of our own making. We should have foreseen a good deal that has developed, and asked in advance what could or should be done to prevent its rise. We should, in our judgment, have considered the matter much more carefully before we committed ourselves to the present extent in all this. It may even be that we shall find it impossible not to reconsider a good portion of our policies in all these respects.

But even when allowance is made for all such considerations, the fact remains that precipitous withdrawal from this situation at this time might well bring serious complications. Yet, unless the objectives we seek are being reached, we must in the end, in any event, find ourselves disappointed—or worse.

Point IV a Fantastic Utopia!

(Continued from page 8)

no way precludes our proceeding simultaneously to increase friendship and cooperation with our neighbors to the South. Our maximum efforts in these particulars should be concentrated in this hemisphere. There is no other region where the Point IV program can be essayed under more propitious circumstances. Its success or failure in the New World should indicate what might be done elsewhere.

The "Bold New Program"

Let us pause to contemplate just what the expression "bold new program" means.

Presumably it may be *bold* to the extent it breaks precedents, overreaches our abilities or becomes foolhardy. None of these alternatives are necessarily commendable, hence, the word, although actually meaningless, might have been injected because it was sonorously inspiring. Such literary flights make a poor defense against hard economic facts.

Manifestly, there is nothing *new* about the underlying intent of this program. U. S. business and private capital actively and successfully have been carrying out the purposes of the President's Point IV all over the earth for more than half a century. In the most constructive fashion possible, they have carried our scientific advances, industrial and agricultural progress, and technical knowledge to the remotest corners of the globe, and in so doing they have materially raised living standards and promoted the achievement of peace, plenty and freedom. All this they have done with substantial benefits for everyone concerned—especially for the peoples and governments of the countries where they have operated.

Certainly, mistakes, even a few serious ones, have been made. But we erred just as grievously in our domestic affairs and have paid dearly in all cases; the many innocent suffering with the bunglers or the guilty. Our practices, even so, were usually superior to the mores of the times and it should be recognized that business ethics and procedures have steadily improved so that today our industrialists, merchants, and bankers operating abroad, excepting for the few chiselers who are encountered in all walks of life, are of the highest integrity and public spirit.

If conditions for foreign investment and enterprise in the underdeveloped areas of the earth are made satisfactory so that capital can go abroad with a sense of security and assurances of reasonable profits which can be brought home, business will gladly continue in even greater measure the splendid job it has been doing for so many years. Fair treatment by the foreign countries and adequate and just protection of our legitimate interests from the U. S. Government is all, I repeat all, that is needed.

The dictionary defines a program as "a pre-arranged plan or course of proceedings." Yet, five months after the President's pronouncement, we are told officially that "all the agencies of government having experience in the fields of international technical cooperation and economic development have been hard at work examining ways and means for U. S. participation in the Point IV Program." In other words, there was no program to begin with and, judging by what has thus far emerged from Washington, it still remains pretty sketchy for what Mr. Truman says "has become one of the major elements of our foreign policy."

The plan, so far developed, appears in the President's special message and two bills recently presented to Congress. Separated from the usual pious platitudes and alluring abstractions it is admitted to be "experimental" and "only tthe first steps." It divides into two categories: (1) Technical aid by the United States Government and the U. N.; (2) Encouragement to private enterprise to go abroad through the negotiation of protecting investment and trade treaties and by the Export Import Bank guaranteeing capital against losses. It is recognized that the "major effort must be local" i.e. via self-help.

The cost of these experimental first steps during the initial year will be $45 million for technical aid and an unknown amount on the guarantee account. Such startling estimates may cause those to shudder who have observed the manner in which truly insignificant acorns of expenditure in Washington quickly grow into gigantic spending oaks.

Technical Aid to Latin America Already Given

During the last decade the U. S. Government has actively been giving technical cooperation throughout Latin America, expending large sums in the process. Its success has been relatively unimportant, excepting for the Institute of Inter-American Affairs work in education, health and agriculture. ILAA projects were carried on jointly with the respective national authorities and U. S. contributions steadily decreased as the local share rose.

For some time to come it would be advisable to restrict U. S. Government activities under Point IV to this type of endeavor.

Even so there will be complicating factors. What is to be done when techniques so improve health and other conditions as to increase greatly the population in a country, which even under optimum foodstuff production can now barely sustain a smaller number of people? Wisecracks about birth control and making it retroactive don't give the answer. Or, to take a simpler case, if by the use of modern tools a worker produces twice as much, it may require quite an educational campaign plus the generation of many incentives to dissuade him from working half as long.

It is pertinent to observe tha American enterprises cannot afford to give away their scientifi and industrial knowledge, experience and techniques for nothing payment must be made for patent and "know-how." Nor can they permit these things to be misuse by reason of ignorance or for improper ends.

On the other hand, the U. S Government mostly does not possess these things and, therefore cannot supply them. To the exten that foreigners, unaware of thi fact, are disappointed in thei expectations, they will accus Washington of bad faith. However, this probably wont stop th bureaucrats, since no governmen organ I ever heard of has ye abstained from any function because it acknowledged itself to b ignorant or incompetent.

Capital Requirements Enormous

Therefore, unless Congress rigidly circumscribes governmenta operations under Point IV, ther is grave danger that the capita requirements of the program within a surprisingly short time will become enormous. Frequently they will be of a speculativ nature. To employ U. S. taxpayers' money in such undertakings would be wrong in principl and practive; it would be counte to our democratic-capitalistic tenets; it would involve us in th worst form of dollar diplomacy; i would turn over the investmen of our savings to bureaucrats, ill equipped for the task and whos responsibilities for the errors the may commit would be nebulous and it would deprive our citizen of their fundamental right t choose their own investments.

No officialdom, irrespective c how carefully selected or wise i may be, is competent to maste and direct all the intricate an powerful economic forces of thi nation—and still less of the whol world.

To prosecute more than a smal part of this program through governmental vehicles, disbursing th taxpayers' money in government-to-government loans or grant would render it bold to the poin of foolhardiness. The recipients c governmental loans or largess acquire a distaste for private capital. Moreover, governmental cred its receive exchange priorities an other preferences, thus further injuring private interests.

Even worse than developing thi program through U. S. Governmental instrumentalities would b to put it under the less experienced U. N. and the latter's specialized agencies. This natio would continue to make the majo financial and technical contributions, yet, the direction and control thereof in most cases woul be vested in those organization where our single vote would b overwhelmed by those of th plan's beneficiaries. The U. N like all bureaucracies, seems ambitious to expand its activities and at best to be only grudgingly tolerant of private enterprise. To coordinate its operations with thos of private organizations would b a Sisyphean task. The evils c the Statism and bureaucracy from which we already suffer withi our own country would be expanded into an infinitely mor dangerous international super statism and hegemonic bureaucracy.

The ineptitude of both the U. N and OAS Ecosocs in these matter has already been demonstrated. True, the International Bank has a competent administration, but such agencies as this may change for the worse and cannot be counted upon as being permanent. Therefore, for the long pull the prospects of using the U. N. are not auspicious, even in respect of such preliminary work as preparation of studies and surveys. This particular aspect of the program requires the most careful scrutiny, especially as it may be expected that both the UN and OAS, together with the many so-called "experts" in Washington will attempt to grap the ball and run off with it in every direction. To the extent they succeed it will mean more government in business more proliferation of bureaucratic structure and more extravagance and inefficiency. All of which will spell the defeat of the ends the President seeks.

The negotiation of bilateral treaties to encourage U. S. capital to go abroad is desirable, always providing that we first, after exhaustive study, formulate and make public in a unilateral declaration our economic policies especially on the protection of the U. S. private investments. Only in this manner can we make effective the leadership which is expected of us. It is essential that other nations know that the U. S. Government and its diplomatic missions will give genuine and full support to our legitimate enterprises abroad, rather than, as heretofore, what often, at best, has been merely lip service.

During recent years we have witnessed the menacing and ever increasing tumefaction of a variety of grants-in-aid to the several states and of Federal subsidies to sundry groups, who may possess convincing electoral influence. All of this undermines self-confidence and individual initiative and makes men supine under a Welfare State.

Use of Taxpayers' Money Shocking

Still, it comes as a shock to learn that we have advanced so far down the easy path of lethargic submission that it is now proposed to use the taxpayers' money as a guarantee to induce private capital to invest abroad in undertakings in which, based on sound business judgment, it would not dare hazard its own funds.

According to the President's message to Congress, private investors are to be insured against the dangers of inconvertibility of their capital and profits into dollars, expropriations, unfair and discriminatory treatment by foreign governments, and the destruction of their enterprises through war or rebellion.

Unsound Features

While this proposal, as yet, is too nebulous and complicated to permit of detailed analysis, certain generalizations are applicable, irrespective of the nature of the loss which the guarantees are supposed to cover. The suggested procedure would be unsound because:

(a) Any guarantees such as are contemplated should be given by the country where the investment may be made, and under no circumstances by the country supplying the capital.

(b) It would appear unfairly to discriminate against older investments, i.e., precisely against those who have demonstrated the initiative, enterprise, and courage to go abroad on their own, without governmental assistance.

On the other hand, were the guarantees to be extended to existing investments, the risk might be an undue burden on the U. S. Treasury; while simultaneously the premiums might too greatly augment operating costs of the beneficiaries. Either alternative would be bad.

(c) In many cases, it simply would not work. It would be impossible to insure against the speculative risks of exploration for minerals, timber cruising, etc., or to guarantee the value of mineral reserves.

(d) To use the taxpayers' money in such an undertaking would be wrong in principle and often unwise in practice. A governmental official in my opinion, must act as a trustee on behalf of the taxpayers. He has absolutely no right by taxation to seize their savings and invest them in a motley lot of businesses scattered far and wide over the earth. Similarly, I question the propriety of that official employing the taxpayers' money to underwrite or guarantee risks, which the private investor would otherwise reject as unsafe. Under this system the private investors would get the profits, if any; whereas, the taxpayers, for certain as yet indeterminate premiums which will never reach their pockets would wind up absorbing the losses.

(e) Not only would it weaken the disposition of underdeveloped areas to create an atmosphere attractive for private investment, but to the extent losses result from the actions of foreign governments, it might even increase the number of expropriations and other abuses, on the theory that after all, "Uncle Sam will pay the bill any way."

(f) It would increase the already dangerous measure of governmental supervision and interference in business. It would involve registration of capital, profits, and other data, thus giving the unfriendly or unscrupulous a potent weapon wherewith to harass and injure our investors.

(g) Since the guarantees would have to be available to every citizen, it could be employed by the chiselers, fly-by-night and crooked promoters to the disadvantages of every one concerned, excepting only themselves, thus giving United States business—and government—a bad name abroad. A sort of Greshams law might result; bad investments driving out the good.

(h) The Export Import Bank in due course might be forced to make good some of its guarantees and therefore to take over the private investors' position, often including large blocks of nearly worthless foreign currencies. The U. S. Government would then find itself in one or more bad pieces of business which would be the subject of acrimonious debate with the local authorities. Such a situation would be embarrassing or humiliating and might lead to disagreeable charges that we were exercising a new species of dollar diplomacy.

(i) For the aforegiven reasons, it would discourage rather than encourage private investment.

(j) Lastly and worst of all, it would establish a precedent in subsidizing business that could be seized upon, both at home and abroad for their own gain by pressure groups—labor, agriculture, business, and of every variety—to raid the public purse. It would be represented by communists and others as proof positive that private enterprise cannot operate on its own, but must be supported by the taxpayers' money. It would undermine the fundamental concepts of our democratic, self-reliant system.

Business Leaders Not to Be Led Astray

It is my belief that the majority of American business leaders still have too much virility and self-reliance to be led astray by the debilitating paternalism of government guarantees. ECA experience with its somewhat similar insurance scheme would seem to confirm this opinion.

Obligation of the Foreign Governments

Since, the President Truman cogently observed, the major effort must be local, it behooves the governments, who seek developmental capital and "know how" for their areas, to learn and adjust themselves to the true and basic economic facts of life; to enact and honestly administer proper laws and regulations which will encourage private enterprise; to abandon legislation and practices which discriminate against foreigners; in short to create that intangible but all essential "atmosphere" which will attract investment. If they will do these things, they will find U. S. capital anxious to venture abroad, as it has in the past, on a scale and in a manner which will bring large profits to everyone involved.

Among the conditions where there can only be improvement if there be self-help, are the following:

(1) A major impediment to recovery and better living conditions in almost every country is their failure to balance their economies and budgets. Only in this way can they stabilize their currencies at honest values and create free exchanges therefore.

(2) Multiple and arbitrarily imposed exchange rates usually are discriminatory, are tantamount to increased taxation, and hinder both foreign investment and trade.

(Parenthetically it should be observed that the elimination of managed currencies merits early attention. The International Monetary Fund could and should help in this by applying its rules rigidly rather than indulgently. However, as the McMillen Committee declared in 1931: "There is, perhaps, no more important object within the field of human technique than that the world as a whole, should achieve a sound and scientific monetary system . . . starting from the historic gold standard. In keeping with this wise counsel, the United States might well take the lead towards returning to an international gold standard at $35 per ounce.")

(3) Nations with second or third-rate economies must stop extravagant spending, taxing and otherwise pretending to be first-class economies.

(4) Excessive military establishments, where not needed, as in Latin America, must be eliminated.

(5) The inefficiencies and extravagances of governmental ownership, operations, controls and interferences must be eradicated.

(6) Funds must not be misspent on unsound projects, such as the steel mills to which Secretary Acheson has referred.

(7) Similarly, diversions of capital from much needed developments to less urgent although perhaps more spectacular ones should cease.

(8) Corruption and similar abuses, which are widespread and deepseated must be eradicated. Such venality exists in some countries that honest enterprises are severely handicapped, if not forced out of business, and the security of U. S. investments is seriously menaced and even in some instances destroyed.

(9) So-called advanced social legislation should be viable as well as idealistic. Too often it is impractical and thus fails genuinely to improve the workers' lot, only benefits the demagogues, increases operating costs to a point where they may become non-competitive, and generally is a deterrent to national progress.

(10) Already established foreign investments and enterprises must be accorded the same equitable treatment as is offered to new capital.

(11) Foreign investors must be secured against threats of both direct and indirect confiscations, expropriations and nationalizations. If for justifiable reasons of public policy a property is taken over there should be effective and prior compensation in an amount adequate to cover the value including goodwill and other intangibles, such as ore reserves.

(12) Sound industrialization will not result from special privileges being granted to a favored few, as for instance by giving high tariff protection to those already making exorbitant profits.

When it comes to customs and trade restrictions we too are sinners. The world's—and, incidentally, our own — economic problems would be greatly eased if the American people could be induced to accept a "favorable balance" of imports over exports, in the realization that those of quality entering at the right price increase our store of wealth. Probably such a development is too much to hope for, but it alone would go a long way toward helping the undeveloped areas.

(13) It will be impossible to proceed with the Truman program at all, unless our enterprises are permitted freely to bring in technical and administrative employees.

It is pertinent to observe that under the vast array of overlapping laws, regulations, and taxes existing both in the United States and Latin America, it would be utterly impossible presently to initiate the vitally important enterprises, which have so hugely benefited those peoples and their governments raised their living standards and given us the strategic materials without which we could not have won the recent war. In other words, unless the impediments, I have described, can be removed not even a start can be made constructively on the bold new program.

No Quick Cure

It has been reiterated that Point IV is a long program, yet there are those who would now present it as a quick cure for recession, disinflation, or whatever one wants to call our present economic difficulties. To correlate it with any short-range problem will only cause confusion. Since it will require decades and generations, patience and persistence will have to be exercised by all.

In the devolpment of the Truman program, it is imperative at all times to bear certain fundamental facts in mind:

(a) It is dangerous to generalize. Each country and area must be studied separately and plans adjusted to the specific conditions prevailing therein, before an attempt is made to formulate a coordinated general plan.

(b) It is a common error to attribute unlimited resources to so-called undeveloped areas, as for instance Latin America, when actually extensive investigations in each country have already proven that the alleged riches are not readily at hand.

(c) Our scientific advances and industrial or technical procedures are not universally applicable. A small mine in the Andes may be worked profitably by local methods; whereas it would be a losing proposition for American operators.

(d) The exploration, development and working of such large natural resources as do exist can be performed successfully only by private enterprise. Government, and still more international government, is incapable of doing the job.

(e) As previously noted, no attempts should be made to industrialize areas which are unsuitable by reason of scarcity of raw materials, inadequate or incompetent labor, meagre markets, or other adverse conditions.

(f) Such international accords as those approved at the Bogota Conference in 1948, in respect of the "Grau Doctrine," expropriation, and in other particulars must be rescinded or they will block the entire program.

(g) Any positive program to succeed must be premised on the proposition that private property rights are human rights and if they are lost all freedoms will perish.

The President's Inaugural statement was dramatic and caught the public eye. This makes all the more regrettable the unhappy misinterpretations which have been given to his reference to "the old imperialism—exploitation for foreign profit."

U. S. private enterprise, in foreign land, with very few exceptions—and those mostly in the distant past—has indulged in neither imperialism nor exploitation, in the selfish sense of the word. On the contrary, profits generally have been reasonable and often far smaller than the risks would justify. In full measure, there has been democratic fair-dealing by our corporations and citizens.

Therefore, the critical implications, which may be drawn from the President's statement, are unwarranted. Abroad, they add force to the attacks on U. S. enterprises and are likely to encourage the attitude of "gimme" on a government-to-government basis. At home, his declaration may incite the "do-gooders," bureaucrats and demagogues to expand their activities and extravagances. Care also must be exercised against the chiselers who will try to get a free ride at Uncle Sam's expense.

Ladies and gentlemen, if I have sounded several notes of caution, it is precisely, because President Truman's idea—his ultimate objective—is so splendid that we must not, like the person laboriously gathering yellow pollen from the flowers of the field, fail by being "overbold in aspiration" or "building castles in the air." Nothing can be so foolish as empty boldness—the child of ignorance, and nothing so futile as day-dreaming.

Whatever happens, the strength of the United States must be preserved. Destroy this root of world stability and the branches everywhere will wither.

More Than Fancy Phrases Needed

We want to help our fellow men, but to do so in fact and not merely to feed them fancy phrases. With this ambition and in this spirit, I am convinced that the job cannot be done by our government alone or in combination with the U. N. The only sound and feasible method of attaining the objectives sought by the Point IV Program boils down to the proposition of such conditions being created at home and abroad as will induce our investors and enterprises again to enter the foreign field.

The most inspiring incentive which can be given towards forwarding this program would be for the United States itself to stop the insidious drift towards a collectivist economy which now threatens to smother the "American way of life"; to put our own house in order; to restrict government to its proper functions; and to return to the free private competitive enterprise system which respects economic rights and rewards honesty, hard work and intelligence with profits, higher standards of living, and general well-being.

The Case for 100% Money

(Continued from page 6)

would simplify the money system in the United States and open it to the scrutiny and for the criticism of the public. The determination of a monetary system would be placed into the hands of Congress where the Constitution of the United States requires that this power reside. Upon a moment of thoughtful reflection one would agree that Congress, for a number of reasons, is a safe body in which monetary authority can be entrusted. Inasmuch as Congress represents the will of the majority of the electorate this legislative body will take care that it observes the desires or at the very least avoids the displeasure of the voters. The attitude of the voters with respect to monetary problems is most encouraging. The masses of the American people are fully aware of the dangers of both inflation and deflation. Moreover, the average citizen also knows that these dangers of inflation and deflation are closely related with changes in the quantity of money.

It would be of utmost difficulty for Congress to pass laws changing the quantity of money to any appreciable extent in view of popular sentiment on the subject and the open parliamentary procedure in Congressional action. Under the present monetary system the tremendous changes in the quantity of money escapes the attention of the public in general because of the inconspicuous manner of change, that is, through the making and repaying of loans through demand deposits. Moreover, people in general do not realize that demand deposits function the same as money as a medium of exchange and that they are actually more important from the quantitative viewpoint. On numerous occasions when I have been addressing groups of persons and mention the monetary nature of demand deposits and their fluctuations, my words are greeted as an amazing revelation. It would be a difficult task for Congress to increase the quantity of money, and virtually impossible for it to increase the quantity of money to the extent that it is increased under the present system of fractional reserves for demand deposits. On the other hand, it would be of equal or greater difficulty for the Government to contract the quantity of money, especially during recessions which is characteristic of our present system of determining the quantity of money by the amount of commercial debt to banks. Recession is the most dangerous time to contract the supply of money. The money supply should be independent of commercial debts to banks.

It might be pointed out that even now the Congress can, if it wishes, increase the supply of money by authorizing an increase in United States Notes or Federal Reserve Notes. Or it can reduce the upper limits for demand deposit reserve requirements. Despite its ability to do so at present, there is very little likelihood that Congress would indulge in such a performance.

III

With a full reserve requirement, commercial banks would possess full liquidity for their demand deposits. Gone would be the fear and danger of a run on banks which has been characteristic of past financial panics. Since demand deposits would function solely as money and would bear no relation to bank loans, the bank would stand ready to meet the withdrawals of demand depositors down to the lost dollar. However, once the depositors find out that the capacity of the bank to meet its demand obligations is 100%, depositors would lose their desire to withdraw their deposits, especially since the convenience of checking accounts is of such great importance.

IV

Commercial banks would be able to safeguard their solvency to a greater extent with full reserve requirements for demand deposits. Past banking history has shown that one of the greatest threats to the solvency of a commercial bank is the very lack of liquid assets. When a bank finds itself in such an unhappy plight it is forced to sell some of its secondary reserves or even some frozen assets. Forced sale often means that the cash realized is less than the value at which the asset was carried on the books of the bank. Such an experience was quite common during the last recession and often wiped out the equity values completely and the depositors themselves could not withdraw their claims. If the liquidity problem could be solved, many banks found themselves with insufficient assets to balance off the remaining deposits. While commercial banks at the present time generally have large secondary reserves in the form of U. S. Government obligations, this financial strength might not be a permanent condition of our banks. One cannot foresee the severity of any future depression. It pays to be prepared as fully as is possible against insolvency, and it is true that 100% reserves against demand deposits is complete preparation and not only partial preparation.

V

The basic function of banking, that of accumulating and concentrating idle funds of the community and loaning out these funds would be greatly simplified by disentangling it from the function of creating and destroying money which is a strictly monetary and not a banking function. With 100% reserves for demand deposits, loans could only be made out of time deposits which consist of actual savings of individuals, businesses, and other institutions, deposits which do not represent a medium of exchange created by the bank itself. The complete separation of the banking and the monetary functions would bring the business of banking within the control of the bankers themselves, whereas now the actions of commercial bankers, taken together, causes the economic system to get out of control with the result that the banks themselves must suffer outrageously when a financial collapse follows. It is an obvious fact that the vast majority of bankers are scrupulously careful with respect to whom and how much and for what a loan is made. Loans are made with reasonable thought of the banks obligations to depositors. Yet despite all the reasonable care that bankers give to the making of loans, their collective action which involves the creation of billions of new money periodically results in inflation, a dislocation of prices and income, all of which sows the seeds for a recession which is basically an effort of the economic system to rectify the distortions of inflation. Thus it is that even the utmost care exercised by individual bankers will cause the economic system to get out of hand because of the creation of excessive quantities of money by the banking system as a whole.

But that is not the end of this particular story. We now have to consider the repayment of loans which in itself seems to be the decent and ethical thing for any debtor to do. However, this very repayment of loans by borrowers causes a destruction of circulating media to the extent of billions of dollars. From 1929 to 1933 the contraction of demand deposits was approximately 37% which approximated the extent of the decline in business activity. If no other factor had entered the picture, the destruction of money itself would have made it absolutely impossible to maintain the price level and prosperity. It is true that a decrease in the velocity of money contributed to the recession, but the recession would have occurred even if the velocity of money had remained at its same high level. Moreover, the very destruction of money with the resulting scarcity of money induced people to husband their income and be less free in expenditures. The destruction of money itself is one important cause of decline in the velocity of money. They both contribute to a recession.

Now, no one would charge the individual banker as being responsible for the destruction of money and its accompanying decrease in money velocity. The fault lies with the very nature of the commercial banking *system* which makes the quantity of money in the economic system mainly dependent upon loans in the form of demand deposits. Let it be emphasized again that while individual bankers themselves are not at fault for this situation, their seemingly harmless action of loaning newly created demand deposits, when taken collectively, causes overwhelming tides of inflation and deflation which traditionally have engulfed thousands of banks as well as other businesses, not to mention the greatest hardships which the unemployed inherit.

If the loaning of money were purely a banking function without involving the creation of new money, the traditional great care of the bankers will be truly rewarded, and not undermined by the extremes of inflation and deflation which are largely of their own creation. It is truly strange to see commercial banks engage in the creation and destruction of huge quantities of money which is a primary cause of inflation and deflation. Nothing could be more inimical to the financial well being of a bank. At present bankers view the creation of currency by the government (via the Federal Reserve Banks) with justified discomfort. Yet they habitually close their eyes to their own actions which are similar and even more extensive. This habit is perhaps a natural one inasmuch as traditions are largely accept without question or much critical thought.

VI

Full reserves for demand deposit money would make it necessary for banks to increase their service charges on these accounts. While this increase will very likely make some depositors drop their accounts and resort to a greater use of currency, it is extremely doubtful that these drops would be more numerous. The convenience of check-book money is so great that it is worth far more than the cost being charged at present. When, in the thirties, interest payments on demand deposits were stopped and service charges instituted, it was feared by some that demand deposits would drop substantially. Actually, however, demand deposits are larger than ever.

Furthermore, from the bankers' point of view, since service charges would do little more than cover cost of service, it would really make little difference in terms of earnings if demand deposits were larger or smaller. On the other hand, if the Federal Government would prefer to see that demand deposits and their convenience did not shrink at all, if indeed such a shrinkage would occur, the government could reimburse banks for part of the cost of servicing demand deposits.

VII

Inasmuch as the monetary function of banks would be completely separated from the loaning activities of banks under a system of full reserves for demand deposits, all loans would have to be made from time deposits. Inasmuch as loans would have to be made out of actual savings of persons and institutions, banks could charge a higher rate of interest for loans they would make. Then in turn, the banks could offer a higher interest to the time depositors, which would attract the savings of many individuals who previously had no deposits in banks and also cause many persons who now hold idle demand deposits to transfer the bulk of their demand deposits into time deposits. This increase interest rates would probably go into effect very soon if there is a real demand for additional loanable funds. The demand for funds will permit an increase in rates and at the same time warrant the banks to allow a higher interest earnings to their time depositors. The low rate of interest which was instituted as a depression measure during the 1930's is ridiculously low and entirely out of line with the tenor and needs of the economy.

Before leaving the matter of immediate effects of full reserves for demand deposit money one might consider the charge that earnings of banks would drop immediately and substantially. Such a charge would simply not be true if the plan were properly introduced. A simple, yet wise plan of introducing the system would be to permit a bank to use as reserves (in meeting the 100% requirement) cash, deposits with the Federal Reserve Banks, and U. S. Government obligations. If these items would be insufficient the bank might be permitted to borrow the balance from its Federal Reserve Bank in exchange for a note by the commercial bank bearing only a nominal rate of interest. With this kind of introduction of the system the current earnings of banks would be scarcely disturbed. The ultimate effect upon earnings will be taken up presently in this article.

Ultimate Effects of 100% Money

It is in contemplation of the long-range effects of 100% money that some of the most significant observations can be made. For it is over a period of years that the full benefits and to be sure, certains risks, will be realized.

(1) One hundred per cent money will mitigate inflationary booms and depressions. Undoubtedly the greatest single benefit of full reserve requirements for demand deposits is the increased stability which it will promote in the economic system. While 100% money does not promise complete stability, it is impossible to deny, upon adequate reflection, that the contribution to stability would be substantial.

It is clear, in order to achieve stability for an economic system, that is essentially privately operated, that it is necessary to stabilize the value of money and wealth. Such stability in the value of money would be the same as the stability of prices. It has been known for hundreds of years by bankers, businessmen, and economists that the fundamental determinants of economic values in terms of money, hence prices, are the quantity of goods produced and the demand for those goods in the form of purchasing power. To go a bit further, demand in the form of purchasing power consists of two ingredients, and these are the quantity of money and its rate of turnover or velocity. Under our present system of money both of these ingredients are basically determined by business and customer psychology.

Under the present system of fractional reserves, the total quantity of demand deposit money will depend upon the economic outlook and consequently borrowings of bank customers. The danger arises out of the excessive money which is subesequently created. The sum total of the optimism of borrowers is a poor guide for the maximum limit to the quantity of money which the economic system needs. The truth of this statement is pointed up by all of our past inflationary periods, including the last. These inflationary periods lead to the distortion of prices and incomes which in turn lead to recessions and depressions. While the contraction of demand deposits during these latter phases of the business cycle rectifies distortions of prices and incomes, it does so by working great hardships upon millions of persons, banks, businesses, and workers alike. Not only is there less money with which to buy the goods of merchants, but as people see or feel the increased scarcity of money, they are motivated to spend what money they do have, more and more cautiously. Thus we see that an unstable quantity of money causes an unstable psychology which in turn influences the velocity of money to the detriment of the community. The only way in which to immunize the quantity of money from the influence of mass psychology is to require 100% reserves for demand deposits. This in turn will eliminate one of the many psychological determinants of the velocity of money or the rate at which people spend their money.

The great extent to which the value of money would be stabilized would create much more justice than now exists between creditor and debtor. Upon maturity of a loan, the creditor should receive no more or less in purchasing power of the principal sum than when he advanced the loan. His risk for which he receives interest should be primarily with respect to repayment, and not with respect to a change in the value of money. Yet the latter has continually interfered in the smooth working of the credit system in the United States. On the other hand, the debtor, upon maturity of his loan, should be required to give up a sum of money with different purchasing power that it had when he borrowed the same dollar sum. Only with a stable value of money can we realize the vast benefits of greater justice, reduced risks, and the resulting greater production that would ensue.

With the present fractional reserve requirements and the present liquid position of most banks the amount of deposit money which can be created is practically inexhaustible. Inasmuch as the banking system has to accumulate only a fraction of the money that is loaned (the rest of which is simply created) it is clear that banks are not compelled to charge a higher rate of interest as the demand for loanable funds increases. If the supply of loanable funds were limited to that accumulated by banks, interest rates would go up as the supply dwindled. It is desirable that the law of supply and demand be reinstated for interest rates that the latter may seek its proper level and thereby contribute to the stabilization of the economic system.

There should be no question that a flexible interest rate, determined by the supply and demand for loanable funds, is a very desirable situation to obtain. Such a market determined flexibility would tend to stabilize the economy by putting the brakes upon excessive borrowing during prosperity when the increased demand for limited loanable funds would drive up the interest rates and by encouraging borrowing during depressions when the increased supply of idle funds and decreased demand for loanable funds would drive down the interest rates. A policy of low interest rates is a depression policy. By maintaining this policy during prosperity inflationary borrowing has occurred. The distortion of prices and income will necessitate a readjustment attended by greater hardships that would have been the case if much of the inflationary borrowing had not occurred.

Bankers are generally in agreement as to the desirability of flexible interest rates. They must realize that such flexibility depends fundamentally upon free determination of the supply and demand for loanable funds in the economic system. The free determination of the supply of loanable funds is basically interfered with when to a very large extent, the supply arises out of newly created funds. If bank reserves are huge, as they have been after the war and as they are even now, new funds can be created to such an extent as to cause a considerable inflation before the pinch of dwindled reserves would cause banks to raise interest rates and thereby discourage borrowing. A free determination of the supply of loanable funds which is essential to a stabilizing interest rate for the economic system requires the supply of loanable funds be basically determined by the actual and voluntary savings by business and individuals.

Would There Be Sufficient Credit?

An understandable argument which some bankers raise in this connection is whether or not the economic system would not be stifled with insufficient credit if new money could not be created to make loans. However, this view ignores the tremendous amount of actual and voluntary savings in the economic system. Indeed, one of the basic problems of the economic system has been the lack of investment opportunities. It seems quite ridiculous for banks to be creating new money for loans, when there is much money voluntarily saved which normally goes begging for investment opportunities. The welfare of the capitalistic system of private enterprise depends upon investment outlets for savings.

It is conceivable during some periods of prosperity that some would-be-borrowers would be confronted with a shortage of loanable funds. Actual and voluntary savings *would* place a ceiling upon what could be borrowed during prosperity. But rather than considering this a cause for concern, it is one of the great advantages of 100% money. The very ceiling upon borrowings is what is necessary to prevent prosperity from getting out of hand and developing an unsound inflation and the subsequent hardships of readjustment.

Despite the ceiling upon borrowings, one can be assured that sufficient funds would be available for full employment. Full employment in the economic system requires that total expenditures in the economic system be maintained, and not increased or decreased from year to year. Thus, the economy can be kept at full productive levels if all or nearly all of national income is spent either for consumer or producer goods. What is necessary is for actual and voluntary savings, which are that part of income in excess of consumption, to be spent on producer goods, that is, invested. If all of the savings are invested, national production and employment will be maintained. From the great abundance of money in the economic system at the present time there is little question that sufficient money exists to carry on exchange at or just a little below our present price level. If total employment and production cannot be maintained it will be because of insufficient consumption or the failure to invest most of the voluntary savings in the nation, and this is not a question of creating more money. It is rather a problem of the slowdown in the turnover of existing money. Moreover, this slowdown would not be so great if not facilitated by the destruction of money which now occurs simultaneously with the slowdown.

(2) As one would surmise from the foregoing observations, the banking system in the United States would be tremendously strengthened if it worked with and depended upon 100% money. It is a truism that what is good for the economic system in general is good for the banking system in particular. Specifically, the elimination of pure inflation and the mitigation of depressions would stabilize the value of money with which banks deal. The banks would have greater assurance that repayment of a loan will involve an amount of purchasing power closer to the purchasing power inherent in the money when it was first loaned. A stable money value would give full reward for good judgment that a banker may exercise. As it is now, good judgment in loaning and investment is often offset by extreme changes in the value of money, a phenomenon about which the individual banker can do very little insofar as the quantity of money is determined by the coordinate effect of the entire banking system. Bank management would involve the fundamental banking function of loaning and would not be intertwined with the dangerous matter of changing the supply of money.

The full liquidity of banks with respect to their demand deposits would add immeasurable strength to banks. Past financial crises of banks have often begun with liquidity difficulties. One hundred per cent money would make banks "run proof." Because banks would be liquid despite any degree of demand deposit withdrawals people would no longer feel the need of withdrawing their deposits. "Runs" on banks would become a peculiar phenomenon of the past.

Because of a more stable value of money repayment of loans would be more certain. During a recession, because money is becoming scarcer and more valuable, borrowers find it more difficult and sometimes impossible to meet their obligations when they mature. The difficulty of repayment of borrowings would apply to institutions as well as to individuals. With the reduction of this difficulty banks would experience fewer losses on loans and investments. Moreover, the elimination of forced liquidation of loans and investments, which banks are often obliged to engage in during recession and depression, would also protect banks against losses on loans and investments. By protecting or safeguarding the value of their assets, banks would be in a much stronger position to avert insolvency during periods of financial crisis.

Banking Regulations Would Be Reduced

(3) In view of a vastly strengthened banking system it follows that the complex maze of banking regulations that now obtain would be superfluous. Supervisory and regulatory agencies have been established and their interference compounded in the interest of strengthening the banking system without getting at the root of banking instability. One hundred per cent money will, as we have just seen, remove the fundamentally weak part of the banking structure and replace it with an arrangement as strong as can be devised. Getting rid of the fundamental and inherent weakness of the commercial banking system, the need for extensive governmental regulation will become a thing of the past.

To begin with, Federal Deposit Insurance would be necessary only on time deposits. All supervisory functions of the Federal Reserve system could be transferred to the Federal Deposit Insurance Corporation. A definite reserve requirement could be set by law for member banks time deposits, solely in the interest of safety of deposits. It would not be necessary to regulate reserve requirements in the interest of the economy because even the maximum amount which a bank may loan would not be inflationary. Membership to the Federal Reserve System for State banks need be little more than a formality if a bank is a member of the FDIC. Indeed, membership with the Federal Reserve System might be made automatic for members of the FDIC. Such membership with the FRS would not entail any additional regulation of supervision but rather would extend to the banks certain privileges such as advances and rediscounting rights. Needless to say, the reduction of governmental supervision and restrictions would be welcomed by bankers.

(4) The long run effect upon earnings is perhaps the outstanding objection which bankers raise with respect to 100% money. In view of some of the misunderstandings concerning the plan this apprehension can well be appreciated. Let us consider first of all how some of the above effects would influence earnings over a period of time. We have seen that earnings in the short run need not be changed appreciatively if part of the reserve requirement could be met by U. S. Government obligations and loans at nominal rates from the Federal Reserve. In time it would be advisable for banks to replace these "reserve loans." It certainly would be to the bank's advantage to do so with Government bonds if idle cash arises. On the other hand, if loans have to be curtailed it would definitely cut into the earnings of the bank. However, considering the size of the primary and secondary reserves of most banks today, there would be little need for the forced contraction of loans.

As we have noted above, it is very probable that time deposits would increase both because of higher interest rates and thus banks would have more of such deposits whose funds may be loaned out to the advantage of the banks. A larger volume of business would increase the total earnings on time deposits. It must also be remembered that inasmuch as all loans would have to be made out of time deposits, the earnings on time deposit funds by banks would rise. It would be unnecessary for banks to restrict their use of time deposit funds to prime investments as is the practice at present. Banks would benefit in that loans are more profitable than investments. Thus, while the bank might be restricted in its use of demand deposit funds, the banks would be freed in its use of time deposit funds. Any reduction of earnings on the former would be fully or more than offset by increases in earnings on the latter. Moreover, in addition to increased earnings on time deposits, bank earnings in general would rise to the very real extent that losses on loans and investments would be reduced. All in all, there seems to be good evidence that earnings of most banks would actually increase under a system of 100% money.

With the present unit banking system vastly strengthened, the most imposing argument for branch banking would disappear. There would be no more need for branches to commercial banks than for savings and loan associations. Indeed the traditional rule of competition in American economic life could really be practiced without any fear of disaster. In fact it could play a stabilizing role in our economy and also meet the financial needs of various customers in a selective, yet sympathetic way.

(5) International trade and finance would be stimulated along with the stabilization of the economic and banking system of the United States. One need merely mention that the volume and stability of international trade depends upon the internal economic stability and prosperity of nations. Exporters and importers are taking great chances in the face of changing value of money. When they estimate risks to be too large, they curtail their business until such a time when they foresee greater stability in the value of the money of the country concerned. While it is desirable that all countries possess stability of value in their money, the stabilization of the value of the dollar is of primary importance inasmuch as the dollar plays such a significant role in international economics today. The United States can contribute to a more lasting and less costly international prosperity (and peace) by strengthening its own internal economy.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Insurance Stocks

The favorable operating outlook for fire insurance companies has been expected to result in record earnings for a large number of concerns this year. As a result the mid-year statements have been awaited with more than the usual amount of anticipation.

Some of the first indications of actual results are revealed in the record of operations for the first six months of the current period of The Continental Insurance Co. and the Fidelity-Phenix Fire Insurance Co.

These two companies are the leading units in the America Fore Group. As they are generally among the first to release reports, the results provide one of the earliest indications of what might be expected from the rest of the industry.

The following operating figures are for the parent companies only as the subsidiary figures are not available at this time.

OPERATING RECORD FOR THE SIX MONTHS ENDED JUNE 30

	CONTINENTAL		FIDELITY-PHENIX	
Underwriting—	1949	1948	1949	1948
Premiums written	$34,625,203	$31,042,301	$28,183,950	$24,939,996
Increase in unearned premium reserve	3,366,371	5,236,529	2,419,725	3,644,345
Premiums earned	$31,258,832	$25,805,771	$25,764,224	$21,295,651
Losses	13,942,662	15,676,180	11,886,297	13,008,697
Expenses	13,223,634	11,233,678	10,632,672	9,039,419
Undwtg. prof. or loss	$4,092,536	—$1,104,086	$3,245,255	—$752,465
Investment—				
Interest, divs. & rents	$3,373,451	$2,991,725	$2,645,191	$2,382,637
Expenses	110,541	94,567	89,949	75,526
Net invest. income	$3,262,910	$2,897,159	$2,555,242	$2,307,140
Total operating earns.	7,355,447	1,793,072	5,800,497	1,554,675
Federal income taxes	1,824,456	105,788	1,365,345	89,569
Net income	$5,530,991	$1,687,284	$4,435,152	$1,465,106

The marked improvement in underwriting results for both companies this year over 1948 is evident. The statutory underwriting losses of last year have been converted into a substantial profit.

Premium volume continues to show a moderate increase but earned premiums have gained much faster. Although expenses have increased, lower losses have offset the gain with the result that practically the entire gain in premiums earned has been carried through to underwriting profits.

Investment income compared with a year ago also shows a good gain, 12.6% for Continental and 10.7% for Fidelity-Phenix. This reflects a larger volume of funds employed as well as some increase in yields on securities held.

Federal income taxes are sharply higher for the period and result primarily from the improved statutory underwriting position.

In the following tabulation the above earnings figures have been computed on a per share basis and adjusted for a 40% equity in the increase in the unearned premium reserve. It should be remembered that these figures include only the results for the parent company. They would be improved by the inclusion of the subsidiary earnings.

PER SHARE RESULTS SIX MONTHS ENDED JUNE 30

	Continental Insurance Co.		Fidelity-Phenix Fire Insurance Co.	
	1949	1948	1949	1948
Underwriting profit or loss	$2.05	—$0.55	$2.16	—$0.50
Equity in unearned premium reserves	0.67	1.05	0.65	0.97
Adjusted underwriting	2.72	0.50	2.81	0.47
Investment income	1.63	1.45	1.70	1.54
Federal income tax	0.91	0.05	0.91	0.06
Net income	3.44	1.90	3.60	1.95

Using these figures as a general indication of other reports to be issued in the coming weeks, the results are likely to be very favorable. Operations for the remainder of the year should, barring catastrophic losses, continue on approximately the present level. This would mean a full year of profitable underwriting for 1949 in contrast to six months for 1948. As a result final figures should make the best showing for any year in fire insurance history.

Joins Davies & Mejia

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — Frederick N. Scatena, Jr., is now connected with Davies & Mejia, Russ Building, members of the New York and San Francisco Stock Exchanges.

With Hope & Co.

(Special to THE FINANCIAL CHRONICLE)

SAN DIEGO, CALIF.—Edward R. Little has been added to the staff of Hope & Co., San Diego Trust & Savings Building. He was formerly with Conrad, Bruce & Co.

Truman Outlines Arms Aid Plan

(Continued from page 11)

vent European recovery. Full economic recovery requires peaceful conditions and the assurance that the work of labor, industry and agriculture will not be swept away in an outburst of international violence. In place of these conditions, the Soviet Union with its violent propaganda, its manipulation of the conspiratorial activities of the world Communist movement, and its maintenance of one of the largest peacetime armies in history, has deliberately created an atmosphere of fear and danger.

Soviet Threats

In the face of what has occurred in Greece, and in Berlin, in the face of the threats and pressures to which Iran and Turkey have been exposed, in the light of the suppression of human liberty in countries under Communist control, the nations of Western Europe have not been able to ignore the necessity of a military defense for themselves. They have seen what the Soviet Union has done to nations for which it professed friendship and with which it was recently allied. They have observed how a Communist coup d'etat, operating in the shadow of the massed military might of the Soviet Union, can overthrow, at one stroke, the democratic liberties and the political independence of a friendly nation.

As a consequence of that experience, and in the light of the fact that the two most devastating wars in history originated in Europe, they realize that they must have a shield against aggression to shelter their political institutions and the rebirth of their own economic life.

The nations of Western Europe have addressed themselves in all seriousness to the task of providing such a shield. In the Treaty of Brussels, five nations of Western Europe established joint measures for their own defense. In support of that treaty, they have coordinated both their defensive strategy and their plans to produce necessary military supplies.

Those five nations, together with Norway, Denmark and Italy, have undertaken annual military expenditures equivalent to about $5,500,000,000. This is the maximum amount they are able to spend without seriously interfering with the civilian production necessary for their economic recovery. This amount is not, however, enough to furnish these nations the protection they need.

Concentrating, as they are, on restoring their economic stability, they are unable to spare the plants and the materials required to bring their defense establishments up to the necessary levels. Furthermore, there are certain items essential for their defense which they are not equipped to provide for themselves. They have, therefore come to us with urgent requests for assistance in providing the necessary margin of arms and equipment which will make them better able to repel aggression and mitigate the anxieties of their peoples.

Three Types of Assistance Recommended

I recommend that we supply these countries with assistance of three types: First, a limited amount of dollar aid to enable them to increase their own production of military items without impairing their efforts for economic recovery; second, the direct transfer of certain essential items of military equipment, and third, the assistance of experts in the production and use of military equipment and the training of personnel. Such a program will enable these countries to acquire the elements necessary to their defense without hampering their recovery.

The military assistance which we propose for these countries will be limited to that which is necessary to help them create mobile defensive forces. Our objective is to see to it that these nations are equipped, in the shortest possible time, with compact and effectively trained forces capable of maintaining internal order and resisting the initial phases of external aggression.

At the present time, the military power which is the greatest deterrent to aggression is centered in the United States, 3,000 miles away from Europe. It must be made clear that the United States has no intention, in the event of aggression, of allowing the peoples of Western Europe to be overrun before its own power can be brought to bear. The program of military assistance now proposed is a tangible assurance of our purpose in this regard.

Outside of Western Europe we are already engaged in a program of military assistance to Greece and Turkey. This program has been in effect since May 1947. The Communist effort in Greece, in the form of guerrilla war supported from abroad, has been condemned by the General Assembly of the United Nations. Our aid to Greece has checked this attempt to overthrow the political independence of a free nation. It is important that present gains against the guerrillas be maintained and that the operations be pressed to a successful conclusion. Only if this in done, can the economic reconstruction of Greece be accomplished.

In Turkey, our aid has lessened the burden of military preparedness which the threatening pressure of the Soviet Union had imposed on a primarily agrarian economy. Although the Turkish defense system has been improved, additional equipment and maintenance parts are needed for the modernization of certain Turkish defense units.

We are also confronted by the necessity of making military assistance available in other areas of the world outside Europe.

In Iran the use of surpluses of United States military equipment has aided in improving the defensive effectiveness of the Iranian Army and the maintenance of internal order. It is now necessary to provide certain additional items to round out this program, and thereby to strengthen the ability of Iran to defend its independence.

The new Republic of Korea, established as a result of free elections held under the auspices of the United Nations, is menaced by the Communist regime in the northern part of the country. With the advice and assistance of the United States, the Korean Government has established a small force to protect its internal security and defend itself against outside aggression, short of a full scale war. Equipment has been requested from the United States for minimum army and coast guard forces. It is essential to the survival of the Korean Republic that this assistance be made available.

In addition, it is necessary to continue our program of limited aid to the Republic of the Philippines, which was originated under the act of June 26, 1946.

Hemisphere Defense Included

In this hemisphere we have assumed obligations of mutual defense with the other American republics under the Pact of Rio de Janeiro. Our northern neighbor, Canada, is a part with us to the North Atlantic Treaty. It is important under the terms of these two treaties that we should assist Canada and the American republics to establish adequate defenses properly coordinated with our own.

In view of our limited resources, it is impossible for us to assist on a grant basis all countries whose defense is related to our own. We can afford to bear the cost of military aid only with respect to those countries vital to our national security where the danger is greatest and where the ability to pay for military equipment is least. With respect to such countries as Canada and the American republics, therefore, I recommend that our assistance be limited to the use of the facilities of our Government to procure defense equipment for them at their own expense.

Al these various requirements for military assistance should obviously be handled in a unified program, adaptable in its administration to the operation of our foreign policy.

The sum which will be needed in new appropriations for the fiscal year 1950 for all the grant programs now contemplated, together with a margin for emergencies, is approximately $1,450,000,000. The bulk of the supplies to be procured under these programs will be delivered over the next two years. Of this total, $50,000,000 has recently been requested for the interim continuation of our program of military aid to Greece and Turkey under existing authorizations. New authorization will be required for $1,400,000,000.

The major portion of the total is to be devoted to the needs of the Western European nations. It is not proposed that specific sums be committed in advance to particular countries. Rather, the President should be able to make allocations as circumstances require.

Insists on Self-Help of Aided Nations

The aid we provide will constitute only a minor fraction of what these countries will spend themselves. Agreements will be executed with the recipients, to provide for mutual assistance and to assure proper use of the equipment furnished. The recipient nations will be required to limit the use of the items supplied to the defense of agreed geographic areas, and will not be permitted to transfer them to other nations without the consent of the United States.

The President should be authorized to terminate our aid at any time. Aid will be terminated in the event that a recipient acts in a manner inconsistent with the policies and purposes of the program or with its obligations under the Charter of the United Nations.

The recommended program covers the most pressing current needs for military aid. How long it may be necessary to continue military aid depends on many unpredictable factors. Our burden will undoubtedly lessen as our program for peace brings its returns. Advancing economic recovery will enable the free nations to sustain a larger share of the expense of their own defense measures. Progress toward a peaceful settlement of international differences will reduce the threat of violence and lighten the cost of preparedness. Ultimately, when the peaceful principles of the United Nations are fully realized, the protection of the peace may be assigned to the security forces of that organization.

If this program of military aid is to succeed, we must prosecute it promptly and vigorously. Our policies for peace are having the desired effects. We cannot afford to lose the momentum we have already gained.

One need only look back to the situation with which we were confronted 2½ years ago to be convinced of the rightness of our course of action. At this time the free nations of Europe were not only exposed and defenseless, but they were also caught in an economic impasse which threatened the existence of their democratic forms of government. Europe, with its great storehouse of skills and its heritage of free institutions, seemed about to disintegrate and to fall, piece by piece, under the sway of totalitarian control.

The fact that such a disaster has been averted should inspire us with confidence in the ultimate triumph of the cause of peace and freedom not only in Europe but elsewhere in the world.

Like the North Atlantic Treaty, this program of military aid is entirely defensive in character. By strengthening the defense establishments of the free nations, it will increase the confidence of the peoples of the world in a peaceful future and protect the growth of world recovery.

I would not suggest that this program alone will bring present international tensions to an end. It will, however, preserve the initiative which the free nations of the world now have, and help to create a world structure so firm economically and militarily as to convince any potential aggressor nation that its own welfare lies in the direction of mutual tolerance and peaceful foreign relations.

Unsettled Questions in Antitrust Law Revision

(Continued from page 11)

the public. But I think this is secondary to another question, which is more important.

This is the question whether concentrated industry has too great a power—power to squeeze their suppliers of raw materials, power to refuse to increase production, power to determine whether this community shall expand and that one shall shrivel up; power to dominate the pace and place and method of national development. Power to determine whether a small individual can get into business and stay in business on his own; power to determine whether anyone could go into any business with a reasonable chance of survival, or whether in certain businesses the only career will be as an employee of a big concern.

This, it seems to me, is the real issue. There are other issues, but they are secondary.

I take it no one here has any illusion that the "owners" or stockholders in the big business concerns have very much to do with them. They can vote for a slate of directors; and occasionally, as a result of a revolution, they can fire the management—though they rarely do. Stockholders are so split up, now, that only an expensive campaign can get them into action. Most of them do not want the responsibility of making any decisions—but they want dividends. Actually, if you got all the stockholders of General Electric or U. S. Steel or American Telephone & Telegraph, or du Pont, or any other large concern into a single stadium (by the way, no stadium is large enough) and asked them to propose a director, no one would know how to begin. No one would want that anyhow. They expect the corporate managers to select directors for them, and they expect to vote to ratify. Probably, indeed, this is the best that could be done in the present circumstances.

As a result, concentrated industry is run by boards of directors who are virtually self-perpetuating (save in a few cases) and who are paid to do the job.

These managers are not villains, or exploiters, or "Wall Street" demons. In the main, they have done a good job according to their lights. Actually, they are a fair cross-section of America, as high-minded and responsible—and as selfish and irresponsible—as most other people, subject to the temptations which come from power, and subject to a certain amount of control by public opinion. Their difficulty is that they are responsible to no one, and that there is no clear set of road rules to guide them. Consequently, they push for unlimited size, for control of markets, and for greater power.

My impression is that the managers of these concentrations are groping in the dark like everyone else. They know they are no longer merely money-makers. They know that they are also responsible for a huge, perhaps an unduly huge, part of the American economy. They know that, every once in awhile, having done what seemed natural and intelligent, they wind up in a criminal court for violating the antitrust laws, sometimes because they or their assistants are frankly guilty, sometimes because they had no idea that something else was expected of them. They talk about private enterprise—but they know in their hearts that they are no more private than the Secretary of Agriculture. I think they are as anxious as is the House Committee on Judiciary to have some clear enlightenment as to what is expected of them.

II
Risk Capital and Concentration

As matters now stand, we have concentration, a necessary result of the way capital is handled. Here we have to get to figures. The figures were made up for me by Dr. Irvin Bussing, economist for the Savings Banks Trust Company of New York. While the source figures are not wholly satisfactory, we can make a pretty good estimate of where capital came from, from 1919, the end of World War I, to the present.

From 1919 to 1947, the gross amount of capital formed in the United States was approximately $770 billion. This included public works, plus all forms of durable producers' goods, plus housing.

Where did it come from?

34%—$262 billion—came from current business savings. These were primarily profits and reserves made in business and not distributed as dividends or profits, but retained for investment in the business.

40% ($310 billion) came from expansion of bank credit, together with the re-enforcement of savings invested in loans prior to 1919 which were paid up. This investment had been made in corporate debts, mortgage bonds and government bonds; some of it was paid off and the payments became available for further capital investment. Most of this 40%, however, consisted of the increase of bank credit which happened during World War II as a part of war finances.

Only 26% ($198 billion) represented current savings of individuals. This would be an average of $6,800,000,000 a year during the period from 1919 to 1947; but averages mean little. There were moderate savings during 1920 and 1921; fairly high from 1928 to 1929; almost no savings in 1932 and 1933; enormous personal savings during 1945 and 1946.

This is your total frame. On examination it is clear that the great bulk of this huge amount of capital, so far as it was actually available for business investment, went into and through corporations, chiefly large ones. This is the break-down:

34% ($262 billion) of savings originated from profits accumulated and retained by business remained in those businesses. They invested this money in their own expansion. This was additional working capital—"equity capital," if you like—for these businesses. It was capital which paid for the new development, for the new process, for the new invention, for the increase in size of factory, or what not.

The 40% ($310 billion) bank credit and repaid past loans was invested by commercial banks and institutions and by bondholders. The commercial banks, of course, do not invest in new or risky adventures, and generally try not to provide capital. That is not the business of banks. They can and do buy bonds—either government bonds or bonds of large established corporations. Those bonds are, perhaps, the truest "capital" investment that banks can make. Almost by force of circumstances, a bank investing in bonds will buy bonds of a big established corporation. Of course they cannot buy stocks.

There remains 23% ($198 billion) of individual savings accumulated during 29 years. These belong to the "individual investors." If capital is to be spread around, this is where it must come from. Yet actually the break-down of this figure shows that ($198 billion being 100%):

5% went to the savings and loan associations;

21% went into life insurance companies;

11% went into mutual savings banks;

19% went into commercial banks and time deposits;

10% went into United States savings bonds and postal savings;

34% went into the investor's needed cash on hand and into instalment down payments on property which he was buying, especially houses, automobiles, farm tractors and so forth. Only a small fragment of this was available for business capital.

Taking a fair look at the figures, it would appear that:

(1) 34% of the total financing of the United States came from money earned by corporations and not distributed as dividends. This was used almost entirely for internal corporate financing and expansion. Obviously, when a business piles up earnings and expands, it expands itself in business—not someone else.

(2) About 15% of financing, or $115 billion, probably was done by expansion of bank credit. Small business got some of it; but the lion's share went to the big established concerns.

(3) 6% ($46 billion) went into home mortgages—not into business.

(4) 42% (or $323 billion) went into Federal, State, municipal and corporation bonds, chiefly through commercial banks, insurance companies, savings banks and institutions.

(5) Out of the total recorded financing in 29 years, 1.2%, or $9,400,000,000, was invested in preferred stock and 2%, or $15 billion, was invested in common stock. That was the outside "equity" capital. And a lot of this did not go into new business or new concerns. Included in that figure is the added stock issued by concerns like American Telephone & Telegraph and the big utility companies.

* * *

Over all, then, it is clear that corporate big business, had and has a huge edge over everyone else. It can and does accumulate its own capital by withholding earnings from its stockholders. I do not suggest that this is bad practice. On the contrary, it is probably the most effective and cheapest possible way of getting capital. Probably in many ways it is preferable to requiring that a business go to Wall Street, or State Street, or La Salle Street, and float issues through investment bankers, every time they need to add to their plant or take on a new line. It means that the plant managers are independent and free of the investment bankers and the money markets. They, not the investment banking houses, are today the powerful figures. Power thus moves closer to the actual job of production and distribution, and away from the money markets.

But this does mean that the big concerns will go on getting bigger. They can generate their own capital. The small concern has to go out and try to peddle its securities; or maybe cannot get new capital at all.

Do the figures bear this out? I think they do.

Of the total, $323,700,000,000 was invested in corporate enterprises from 1919 through 1947. Of this, 81% ($262 billion) represented business savings—earnings of business not distributed but used to expand their business. That is to say, 81% of the cash invested in corporate enterprises consisted of cash earned by those corporations and held by them.

In addition to that, business financed itself by issuing bonds amounting to $37 billion—11½% of the total cash invested in corporate enterprises. They also sold $9.4 billion of preferred stock and $15 billion of common.

New and small businesses do not generally sell bonds or preferred stock in any great amount. They cannot. Most bonds and preferred stock are floated by big and not small business. Probably about $15 billion over the 29-year period—an average of $500 million a year—went into the small businesses, the highly competitive businesses. In the aggregate, $15 billion is a lot of money. But it is a very small amount matched against 30 years of the whole United States. Even that figure, small as it is by comparison with the whole, is probably padded because it includes the investments during the war years for small war plants and so on.

The conclusions are clear and I think inescapable.

The venture capital which is the life blood of expanding business comes chiefly from the earnings of established corporations which are retained by them and reinvested by them in their own business. The big corporation goes on expanding on its own momentum, its own weight and its own earning power.

A small—very small—balance of personal savings is left over for new business and individual business after the "individual investor" has put some money into the savings banks, paid up his life insurance, bought a United States Government bond or two, paid an instalment on the mortgage on his house, and put down an instalment payment on his car, his icechest, or his farm machinery. The investment market, so called, as a source of capital has to scramble for that limited residue.

To all intents and purposes, the capital which expands business must be sought chiefly from

(a) the fragment of savings remaining in individual investors' hand and available for business investment;

(b) the large amount of corporate earnings withheld, not paid out as dividends;

(c) the proceeds of bond issues which large established corporations can sell to big institutions such as life insurance companies, banks and so forth.

On the capital side this is a picture of big business getting bigger. There is no way out of it. Whatever antitrust laws may provide, they cannot be really effective as long as this situation continues. In fact, it is fair to say that this part of the problem is a financial and economic problem and not a legal one.

You cannot blame the big corporations for using this method of growing. It is ordinary common sense. You cannot attack them as malefactors because they choose to save their money and increase their business that way instead of distributing their money and begging to get it back from the security market.

You can tell them, if you wish, that the United States proposes to limit size as such, and to allow no corporation to grow beyond a certain amount—though there are plenty of objections to this. In the absence of such a law you cannot attack them merely for saving their money.

III
The Question of Bigness

What is the antitrust law on this subject?

I do not think anyone can give a clear answer because the Supreme Court itself appears to be split on the subject. One current of thought among the Justices seems to think that mere bigness may become a restraint of trade under the Sherman law, giving ground for a decree of dissolution. The classic law, of course, was that unless a concern had done something illegal or entered into an illegal agreement, its mere size did not make it unlawful; that size alone was no sin. Some Judges would feel, that if size were to be made a sin, this would have to be done by the Congress of the United States, and not by a new interpretation of the antitrust law.

It is clear that a current of thought is beginning to appear outlawing size and power as such. Put differently, the mere holding of power capable of restraining trade may in the future be held illegal, even though trade has not as yet been restrained; and size clearly can give that power. But the courts have not quite got to this yet; and there is some question whether, if this is desirable, it should not be done by the Congress rather than through judicial legislation.

At the moment, an intermediate point of view is appearing through the operations of the Antitrust Division of the Department of Justice. Antitrust law is made there, far more than it is in the courts. The Antitrust Division tightens up and tries to enforce these ideas—or loosens up and lets economic forces alone. The Attorney General of the United States, and the Congress that gives appropriations for the Antitrust Division really determine more than anyone else whether and how this question is to be tackled—because, to all intents and purposes, antitrust prosecutions or civil suits are the only way we do tackle them.

At the moment, the Antitrust Division seems to be proceeding on the conception that it will attack, for size and power, concerns which do not more or less limit themselves to a single industry or field. I base this conclusion chiefly on two proceedings now pending—the current proceeding against the American Telephone & Telegraph Company, asking that it be compelled to sell its subsidiary, the Western Electric; and the current proceeding against the du Pont Corporation, asking that it be required to sell its holdings in General Motors and United States Rubber. There are other illustrations—but these are current.

American Telephone & Telegraph is, and probably ought to be, the controlling element in the telephone field. The telephone industry really does not permit competition: it is in the nature of a "natural monopoly." The Department of Justice apparently thinks so, too; at all events, never in its history has there been a suit to break up or dissolve the telephone company as such. But the telephone company needs huge quantities of equipment; and it organized and owns an extremely large manufacturing company, the Western Electric, which manufactures its instruments, apparatus and so on. Naturally, it buys all its equipment from its own subsidiary, the Western Electric, thereby saving money since any profit Western Electric makes belongs to and comes back to American Telephone & Telegraph Company. The telephone company thus lowers its costs, or claims to do so; and gets the kind of equipment it wants. The Department of Justice appears to feel that, as a result, no individual or other company can go into the business of manufacturing telephone equipment: its only big buyer is American Telephone & Telegraph Company, and, of course, American Telephone & Telegraph Company is buying mainly from its own subsidiary. So, says the Department of Justice, an arrangement like that restrains trade in that it makes it impossible for any outsider to enter the business of manufacturing telephone equipment. Accordingly, it asks the telephone company be required to sell Western Electric, and that when it buys equipment it must permit competitive bidding for its orders. The conception seems to be that they are willing to leave A. T. & T. as a dominant concern in telephone communications; but do not want it to expand its power by owning its supplier.

Somewhat the same conception seems to be behind the suit of the United States against du Pont. Du Pont was primarily a chemical company which has steadily expanded into a string of related businesses—many of them originally products of chemicals—as for instance, rayon and nylon. It makes and sells an endless number of such products. But, in addition, it has a stock interest, said to be equivalent to control, in two related giant corporations—motors and rubber. Du Pont is far and away the biggest stockholder in General Motors—which is not primarily a chemical corporation. General Motors can and does use in the automobile manufacturing business large amounts of goods manufactured and supplied by du Pont. I presume du Pont in its business can and does use considerable amounts of equipment manufactured by General Motors. The government charges that as a natural result, each corporation finances the other in its buying, though I do not know the facts. So, says the government, du Pont should be required to sell its holdings in General Motors, partly so that every manufacturer will be equally able to compete for General Motors orders and, one supposes, every motor manufacturer will have equal opportunity to compete for the du Pont business. Other indications of a similar point of view appear in other pending antitrust suits.

Where does this get us? Obviously, it does not solve the question of size. Du Pont, even if it does sell its General Motors holdings, will still be one of the largest concerns in the world; and so will General Motors. Each will be the dominant element in its own industry. Each will, if the government's theory is accurate, have somewhat less power over the other and the market may be somewhat freer. But I am frank to say that I do not see that we shall have reached any fundamental solution. It does not probably make a great deal of difference in the general run of the country whether A. T. & T. buys all its instruments from Western Electric or buys part from Western Electric, part from General Electric and part from RCA. You are still dividing business around among a relatively few giants, though perhaps a certain amount of smaller corporations may occasionally get a chance at business they would not otherwise have. The theory of the Department of Justice is intelligent, and has a considerable degree of logic behind it, and does, so far as it goes, prevent a concentration of concentrations—a giant of giants. It does not change the situation very much; though it may prevent a still greater degree of concentration.

IV
Government Buying and Bigness

A third element making for concentration is the United States Government itself — chiefly through defense orders. The Committee has heard other testimony on it, so I merely make a single point out of a single case.

The Army, Navy and Air Corps under their current programs will buy several billion dollars worth of equipment each year. Some of this is concentrated in particular fields. These orders are far and away the largest market in the scientific instrument and electrical supply fields and particularly in the advanced scientific ranges. By concentrating their buying, or by refusing to buy, from any concern, they can make or break any concern in the field. If, having decided to break a concern, they not only decline to buy but also impose a secondary boycott—that is, refuse to deal with anyone who deals with the concern they wish to break, the defense buyers can make a trust—just as the railroads of old used to make trusts by the rebate device.

In fact, this happens. In one case that I know of, just this process appears to be going on. It is in the electrical supply field. The case is roughly this: before World War II an arrangement appears to have existed between General Electric, RCA and certain other American electrical supply giants and an equivalent electric supply giant in Europe, the N. V. Philips Company. The arrangement was that Philips would keep out of the United States market in return for similar concessions to Philips. Philips has in Holland one of the greatest electrical laboratories in the world; it was content to license its new discoveries to the American concerns and not to compete in manufacture; the American concerns kept out of certain markets.

The Department of Justice considered this a violation of the antitrust law, and brought action in 1941 against all of the companies, including Philips. The object was to compel competition between the American companies and Philips. On Jan. 19, 1949, the Federal District Court for the District of New Jersey, by Judge Forman, found that the result of this agreement was to monopolize the electrical supply parts field by eliminating foreign competition; and that any arrangement by which Philips refrained from manufacturing and selling here, and merely licensed to the American companies violated the antitrust law.

After 1941 Philips split its operations and financed the establishment of a group of purely American companies formed in the United States and operated by American citizens. Following the policy outlined by the Department of Justice they started to compete.

But, in 1948, the American Armed Services, speaking through the Navy, produced a "policy" of purchasing nothing from the American Philips industries despite the fact that they had purchased steadily through the war, the Navy stated as follows:

"The North American Philips Company has an excellent record of production and the decision not

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to furnish it with confidential and secret information is the result of a security policy and in no way reflected upon the company or its officers.",

the letter being signed by Mr. M. E. Andrews, Assistant Secretary of the Navy. He subsequently explained that the "policy" was to purchase from no company which had past connections with any foreign concern—the policy applying only to American Philips.

Meanwhile, personnel of the Armed Services requested suppliers of the Navy not to do business with American Philips in any way—suggesting that Armed Service business would be cut off from anyone who entered into normal commercial business with Philips—business not vitally connected with defense orders. The obvious purpose was to eliminate or prevent American Philips from manufacturing or selling in the American market. This, in fact, coolly reverses the ruling of the Federal Courts under the antitrust laws and Judge Forman's square holding that any arrangement by which Philips did not manufacture and sell in the United States violated the antitrust law and tended to monopoly.

I note in connection with this instance that the decision was taken before the present Secretary of Defense, Louis Johnson, took office. I do not wish to be understood as indicating that this was the result of his policy, though the policy has not as yet been withdrawn or reversed. I do not know whether the Armed Services knew anything about the antitrust laws, or the antitrust proceeding, or the decision of the Federal Courts in *United States* v. *General Electric, International General Electric, Inc., Westinghouse Electric and Manufacturing Company and others, and N. V. Philips Company* decided in the District Court for the District of New Jersey Jan. 19, 1949. The point is that whether they knew it or not the Armed Services used all the power they had in a way which flatly and squarely reversed the decision of the Courts, which criticized Philips for being "willing to prevent any birth or rebirth of its trade here." Philips promptly complied in an endeavor to reestablish the trade. The Armed Services have been doing their best to block it—for reasons unstated, though the defense services has stated that the American Philips companies and the American citizens who run it, could be justly proud of their war record.

The Department of National Defense until recently maintained a list of companies blackballed for any Armed Services business. We have been told that this has now been transformed into a "white list"—a list of companies which the Armed Services will favor with orders.

It is obvious that the manipulation of such a list in certain fields can create monopolies and restrain trade at will by an entirely secret process. Especially in the sensitive and growing fields of chemicals, electronics, communication equipment, and the like, you have here a force in the government itself entirely unrestrained by antitrust laws and capable of, very likely without intent of the officials involved, nullifying these laws.

V
What Do We Want?

Well, this brings us squarely to the question of what we want.

Sentimentally, the United States would like a country of small and moderate-sized business, with competition to keep prices down, and freedom of enterprise so that any American could go into a business with a fair chance of success. Actually, in great areas of its economy, that has not been true for more than a generation; but it still remains the Jeffersonian dream.

But, on the other hand, the American seems to want an almost unlimited amount of goods of standard quality, at the lowest obtainable price, capable of being bought anywhere, and everywhere, at any time. He wants to be able to get his standard brand of cigarettes on any street corner, to be able to get a moderate priced car at any time and get spare parts for it anywhere. He wants to be able to buy gasoline of standard quality every five miles; to buy a standard quality ice-chest for his house with a serviceman handy; to see his favorite moving picture star at a neighborhood theatre once a week, and so on.

But everyone of these desires means big business in some form or another. If Americans want a million Ford cars a year, at a moderate price, the technical people tell us, they must necessarily also want a huge Ford or General Motors plant, flanked by a still huger organization for servicing and repair parts. If he wants a 100 million tons of steel a year at a moderate price, he wants necessarily big steel plants capable of turning this out at a relatively low price. If he wants chain store service—big business is against the old corner grocery store—then he wants a chain store, too. Whatever his dreams of the past, when it comes to buying, the American seems to want a product and the service which can only be supplied by a huge unit. He may want an era of small business with one part of his brain; but if he had to choose between an era of small business in moderate price car manufacture which will cost him $200 more for his car, he would rather have the big business—and the cheaper product.

So, says the technician, once you talk of size, and limiting size, once you begin complaining about concentration of industry, you are up against an irreducible fact. You must not limit size, or limit concentration, or limit the ability to get capital, below an efficiency point. Your limit of size must be the size at which you get the maximum efficient production and service and the lowest cost.

Then ask the technician whether he can tell you what that size point is in any given industry. Some technicians may claim to answer that; but of the many to whom I have talked they all give a single answer: "We do not know. We know that there is an 'optimum,' or most efficient size, in an automobile plant or a steel plant, or an electrical equipment plant and we can make a respectable guess as to what that size is. But that is engineering and not business. Frequently the most efficient producing plant is not the most efficient from the point of view of business: it may not be big enough to accumulate its own capital (along the lines we have seen a little earlier) and because it has to go, hat in hand, to the local investment bankers, it may have to spend more on getting its working capital than it can save on plant production. Maybe the most efficient size of plant technically is still not big enough to buy raw material advantageously; ten such plants located around the country and working together may be able to buy copper or raw sugar or steel or what not at a cheaper price than any one of the ten could do alone. In that case, your 'optimum' size would be based, not merely on the optimum size of the factory, but on some concentration of ten or fifteen factories under a single owner, and so on.

"Finally," says the technician, "if I were able to tell you now, that is, today, the optimum size of a business unit, taking everything into account, it might change six months from now when somebody invents a new machine or brings out a new technical process. Particularly in the last ten years production methods have been revolutionized in almost every line. Or, perhaps a change in freight rates or transportation, or some such thing, will make a different concentration logical. Business, in general, and especially in the United States, does not stand still. The biggest concentration in the silk industry has been virtually washed out by nylon in the past five years; and for all we know, nylon may be replaced by something quite different five years from today. Do you dare," says the technician, "to try to set an arbitrary limit on size and concentration when you don't know the optimum points now and, if you did, the engineers, investors and scientists would make them obsolete in a very short time?"

With all this businessmen, especially the corporate manager, immediately agree. They are right in agreeing.

But at this point you and I venture a suggestion. We say, "Suppose, when a particular degree of concentration is reached in any industry, instead of trying to break it up, we push the concentrated unit into a new classification." We say, "Yes, we have long agreed that you do not have competitive small scale industry in electric utilities and railroads, and telephones, and so forth. Small scale industry does not give the service. We accept concentration—even monopoly—in these fields. But once you have it, we say that the industry is affected with a 'public interest' and subject to regulation in that interest. That has been the American way of dealing with these situations. Are you prepared to recognize that when concentration gets to the point which has been reached in many of the great industries, such as steel, electrical supply, chemicals, motor cars and so on, that the same considerations apply to these huge and necessary units as those which apply to electric light companies, the railroads and the telephone? If, in fact, the American public wants and apparently needs the services in many lines of great concentrated units, can you not permit the Federal Trade Commission, or some equally well set-up body, after due hearing and finding to declare that these concerns are in the nature of public utilities and that the public has an interest in their prices, their profits, their methods of business, their capital expansion, and so on? If the situation is reasonably satisfactory, and moving along—if there is competition in the field sufficient to keep prices moderate, and if there is entry for a small group which can manufacture and sell with equal efficiency—then your regulation need be no more than keeping abreast of the facts. But if, in point of fact, the concentrate, or more often the four or five concentrates in the field, keep production low or there is a shortage, keep prices up beyond reason, accumulate capital not for the purpose of the business service they render but merely to pile up money for another dive into a different field, then something can and should be done about it. That is at least one way of dealing with the matter. In my judgment, it would be preferable to the European method, which has been to have the state take over, own and operate these concentrates, thereby creating an out-and-out socialized state."

VI
Conclusions

In taking a fresh look at the antitrust laws, I suggest examination be made of certain principles. If agreement can be had on them, the precise measures are more easily arrived at.

(1) There is a top limit of magnitude beyond which mere size becomes dangerous in and of itself.

(2) Except in the public utility and transportation fields, there is a top limit of concentration beyond which further concentration is dangerous. There should be a top percentage of the industry beyond which no one corporate group should go.

(3) Where a high degree of concentration is permitted, or is inevitable, rules of the road should be laid down as in the public utility industry. This merely recognizes the responsibility which first-rate business executives acknowledge now.

(4) The United States Government should not be permitted itself to discriminate against, or in favor of, any business except on cause shown for valid reasons.

None of these principles are ideal. But the alternative is to leave the antitrust laws as they are, which, in practice, is that legislation is made by the Supreme Court of the United States. Certainly the antitrust laws as they are applied today have little resemblance to the antitrust laws as they were applied 40 years ago—and perhaps ought not to have. But it is hardly fair to businessmen to keep them guessing as to what the Courts will think is reasonable trade regulations later on.

If some such principles were agreed on—and I put them forward only tentatively—then the Congress has various alternatives.

(1) They can maintain the present laws as they now are—leaving the Courts to legislate on the subject of allowable size, allowable concentration, allowable power and so forth.

(2) Or they can provide the Federal Trade Commission with power to inquire, as circumstances call for, whether the size or degree of concentration in any industry restrains trade, prevents competition, or results in unduly high prices, profits and exploitation. That power might include the power to set a top limit on size, or a top limit on the percentage of any industry permitted to any one concern, leaving it open to the government to call for dissolution if size or concentration runs beyond these limits.

(3) Or, after a finding of the Trade Commission, it might permit the imposition of public utility responsibility and regulations on companies which elected to go beyond a particular size.

(4) In any case, the existing measures must be continued, and perhaps amplified, to assure that if the capital market is unable to provide credit and equity capital for smaller business, government banking mechanism if available for that purpose. The Reconstruction Finance Corporation has done some part of it; a great deal of it was done during the war.

(5) Study should be made of measures giving some tax advantage to risk capital in smaller enterprises so that large enterprises shall not be overwhelmingly proprietors of risk capital through withholding dividends.

It need hardly be pointed out that this is a most tentative and preliminary approach to a huge subject. The objective should be the greatest degree of freedom of action for business up to the point at which, through size and concentration, it becomes an essential part of the State, albeit informally. Beyond that size, concentration and importance, we have only two alternatives: regulation or socialized ownership. The American habit has never favored socialized ownership. The real choice thus remains keeping size and concentration within bounds—or regulating those units in which it appears to be inescapable.

Fourth Round of Wage Increases Not Justified

(Continued from first page)

for higher wages, with industry reducing prices at the same time.

But experience warns against this. We have had three rounds of wage increases in the past three years, all at considerable cost to wage-earners and to the country because of lost time and curtailed production. The country was assured that each was possible without price increases. But what happened? Prices did increase, following every wage increase, so that the higher wage benefits were soon nullified. Nothing appears in the picture today which justifies Mr. Nathan's theory that it will be different this time. Especially so, since today we face the added handicaps of business falling off, prices going down, and profits tumbling.

Prosperity cannot be coaxed back by forcing higher wages, and it seems a very poor time to put such an added strain on American industry.

No longer are we in a seller's market when the buyer was willing to pay a high price, because goods were scarce. Now supply has largely caught up with demand. We are in a buyer's market, and we are experiencing for the first time in many years a general lowering of prices.

Newspapers carry ads of cuts in prices. Stores throughout the country have been running sales at sharp reductions. This is a very wholesome thing, for prices are now getting down to what people are willing to pay.

Working people are beginning to realize the simple fact that it is not the number of dollars in their pay envelope that counts most, but what can be bought for those dollars. In fact, stabilizing the lowered prices will mean more to them than raises in wages that are bound to unsettle the price structure, and start prices going up again.

Such price decreases benefit all of the 150 million people of this country, whereas at best a fourth round of wage demands might secure higher wages for only limited numbers of workers. More likely it might increase unemployment and close up many plants which simply could not afford to pay those higher wages and keep operating.

I believe a sound solution of our present economic situation is for wages to be held steady, and for labor to refrain from further demands at this time, while price reductions should be made by manufacturers, wholesalers, and retailers, as rapidly as possible.

Higher wages for a few and higher prices for the rest is not the answer.

Defects of Nathan's Report

A careful analysis of Mr. Nathan's recommendations shows that he actually is not offering a plan for increasing purchasing power, but only taking purchasing power away from those who will not get wage increases and from those who are paid out of the profits of a business, namely stockholders and investors of all types. No economist can for one minute claim that the money spent by investors from dividends received is not just as good in purchasing power as the money of industrial workers.

The fact is that the only way in which purchasing power can be increased is through greater individual productivity of management and labor and through improvements in machinery and methods. That really creates more purchasing power.

Mr. Nathan does not attempt to say that **all** companies should grant wage increases, but that only such companies that are making good profits should be asked for wage increases. Theoretically this sounds fair, but it is practically impossible to carry out. Take any town in the United States, for example, in which a steel mill is located, making a profit which by Mr. Nathan's standard justifies a substantial wage increase.

What happens to other companies in the same town who are not making a good profit and may actually be operating at a loss? How could they hold their workers? There would be much discontent among workers in that community being paid widely varying rates.

Take the case of the company which is not making a profit and cannot possibly pay its workers a higher wage. If it refuses, it may face strikes; if it tries to pay higher wages, that may put the company right out of business.

It is easy to say, "Let those companies which can afford raises, make them," but it is not that simple. Our business structure today is so closely knit that what one company does vitally affects others. One sets the standard, others follow.

Again, what happens to companies which may have been making a large profit if those profits suddenly disappear? It is a well-known fact of economics that profits are the most volatile share of our national income.

Some industries may be operating at a fine profit when they are working 100% of their capacity, yet operating at 75% of their capacity they may make no profit at all. That is happening all over the country today.

Profits Have Fallen

The President's economic advisors, in their July, 1949, report show that, since the third quarter of 1948 through the second quarter of 1949, in those nine months profits have fallen 44.6%; and they are still on the way down. So the company which last quarter might have shown profits by which Mr. Nathan justifies a wage increase, may be making no profits next quarter. What then? Should the wage increase be taken away?

It is apparent that basing wages on profits is entirely unsound and would drastically increase our national instability, because profits is what is left after all bills are paid, and they go up and down drastically. The wage rates, however, are not subject to such fluctuations, and once wages are raised only a severe depression is apt to bring them down. That is something none of us wants to see happen.

Mr. Nathan complains that prices have not come down very much. I believe they have come down a great deal more than latest Government figures indicate. What is more important, however, is that when the price trend turns it continues in the new direction for a long time. It is true that it takes a considerable period of time for the lower costs of material and increased productive efficiency at the factory to reach the consumer. Wholesalers and retailers are apt to make some reductions in their margins in anticipation of replacing their stocks at lower costs, but the real price reductions come after they have the lower priced goods on their shelves. That takes several months.

It is unreasonable to expect that the upward spiral of prices during the past several years shall have been offset by price decreases in this short a period. If wages are maintained at a stable level their real value will increase in a falling market as they have always done before. While prices were going up, wages had a hard job to keep up with them. While prices are falling, wages are not taking corresponding reductions, and purchasing power thus is increasing.

In this period of readjustment, I would like to propose a program for business, labor, and government for the immediate future as follows:

Proposed Program for Business

(1) Reduce prices as rapidly as possible to reflect reduced cost in materials and increased efficiency of labor and machinery. Lower prices stimulate buying, if made sufficiently attractive.

(2) Increase sales and advertising efforts in order to stimulate more business and greater employment. The seller's market is gone. Vigorous competition is the order of the day and is good for all of us.

(3) Bring out new products that may have been developed to stimulate public interest. People like to buy new things. Slow periods have proven effective periods for launching useful new products.

(4) Retain good relations with workers and with unions. This is no time for misunderstandings or for taking advantage of a temporary recession. Good management-labor relations are built on a long time basis, without either side taking advantage of a temporary situation.

Proposed Program for Labor

(1) Forego demands for increased wages at this time. Permit the economy to be stabilized so that public confidence may return to the market. Recognize that lower prices of all consumer goods are already giving labor greater purchasing power at a more rapid rate and with greater assurance than could be obtained from a demand for higher wages. Such demands if not granted may lead to strikes. If granted they may put many companies out of the market and result in lay-offs and less employment.

(2) Assist management in every reasonable way to bring down costs through greater efficiency of operation. There is plenty of latitude here without hurting anybody. A greater respect for one's job, putting in steadier productive effort, will increase the production and decrease the cost. For example, if everyone should produce 20% more, beginning tomorrow, prices would soon fall about 20%. On the other hand, if wages were increased 20% tomorrow, without any increase in efficiency, prices would increase just about that much.

(3) Recognize the simple fact that the greatest security for the worker is a steady job at good wages. Any interruption of employment interferes with this security. Steady wages the year-round at a reasonable level are far better for American workers than part time higher wages which might result in irregular employment.

We all know that the most prosperous countries in the world are the industrial countries. This nation will be the most prosperous as long as it permits a highly prosperous industry. Out of the profitable industries come profitable jobs for workers and adequate taxes for government.

Proposed Program for Government

(1) Permit an orderly readjustment of the economic situation and recovery from the distortions of the war and postwar period. Recognize that there is a leveling off to a more balanced peacetime economy with narrow margins of profits as the order of the day, with prices to go lower for probably several years. Permit the market to operate competitively in this adjustment. Millions of people will better determine what are the right prices for goods than any government agency or group of experts can do.

(2) The Government, too, must exercise economy and increase its efficiency. This should result in lower operating costs without damage to the country, but with a hopeful prospect of lower taxes. The entire tax structure should be restudied with a view to stimulating incentives for business growth. The present tax structure is actually retarding business expansion and creation of new business.

Nothing would increase public confidence more than to take these simple constructive steps at this time.

The Impartial Chairman and Labor Difficulties

(Continued from page 13)

work bench. Thus, he finds himself dealing more in the realm of the spiritual than the physical during bargaining and in his handling of the people who make up the rank and file. Hoxie recognized the force of these divisive elements long ago, and cited them as causes of cleavage between labor leader and rank and file.[4]

Thus, mutual acceptance of an impartial chairman's decision must involve acceptability to management and the labor leader. However, the decision may not be acceptable to the rank and file membership of the union. This observation is not made in the spirit of criticism. It is simply an observation of something which is probably natural, for the rank and file cannot, as a general rule, have sufficient knowledge to realize what it may be possible for industry to yield.

Recognition of the above gives further insight into the political usefulness of the impartial chairmanship to the labor leader, in the latter's relationship with the rank and file membership which, in political parlance, constitute his electorate. A union leader sometimes finds himself convinced of the wisdom of accepting a settlement which will be unpopular with the rank and file membership. Let us construct a hypothetical case, involving a wage issue.

Assume an industry in which labor costs is a large element in total cost. Any upward wage adjustments in such an industry must be reflected in price. Suppose further that there have been large wage adjustments in other industries, which have received great publicity. The other industries have dissimilar cost and market conditions. Yet the workers in our illustrative industry are not aware of these differences, or of their meaning with regard to the desire for wage adjustments, which will match or approach those publicized in the press. Therefore, they demand a wage increase similar to those that have been publicized. The union leader must hear the voices of his "electorate." However, he is aware of the sharp differences between his own situation and that of the union leaders who have successfully pressed for sizable wage adjustments in their industries. He realizes that prices in his industry are extremely sensitive to labor cost variations. Thus, he envisages the wage demands of his rank and file members "pricing the product out of its market."

If he permits this to occur, he knows that there will be unemployment in the industry. This will weaken the union. Collecting dues becomes a problem. Union income drops. A welfare problem arises in helping the works who are unemployed. Finally, the desire for employment may cause a growing number of the unemployed union members to abandon the union and seek work with an employer in a non-union shop. Thus, an unreasonably large wage increase may carry within itself a potent threat to the existence of the union.

This situation poses a dilemma for the union leader. If he insists on the wage demands of the rank and file membership of the union, he will be popular and safe in his position. But eventually the union will be undermined. The result will be that his popularity and support among the membership will be weakened and his position threatened. Or, the union may not be strong enough to stand a knockdown struggle, and the union leader may be certain in his own mind that the demands of the rank and file membership will mean just such a struggle. If, he cautions the workers *not* to press for their wage demands, the opinion may grow that he is in league with the employers. Should that happen he may find the support of his "electorate" withdrawn, and some rival leader competing for his office. He knows there are always potential aspirants for his position, who will foment this sort of talk. As a professional labor leader, he has a vested interest in his office which he will do most anything to maintain. *Plainly, he would like to resolve this dilemma by settling for a modest wage adjustment which would not involve the long range threat to the union, while at the same time avoiding the displeasure of the rank and file membership.* How can he do this? One answer is provided by the impartial chairmanship system.

The Impartial System

The union leader contacts a key employer and arranges an off-the-record meeting. The discussion at such a meeting is frank, and its result is an agreement as to the form of the final settlement. The problem is, to arrange some method by which the union leader can publicly argue for his members' full demands while being sure that they will not be met. An arbitration proceeding before the impartial chairman is an ideal forum for such a purpose, so long as the impartial chairman understands the settlement which has been agreed upon already, and is willing to issue it as his award or decision. The union leader can take care of this in a diplomatic way during a conversation with the chairman. One will wonder, of course, about the ethics of the impartial chairman. From his practical standpoint, a successful arbitration is one which is mutually acceptable to the union leader and management. A prearranged decision guarantees such satisfaction. *The impartial chairman feels that he is rendering a public service in contributing to a peaceful settlement where one might not be possible on any other basis.*

It is not difficult to see why the employers involved would be pleased as such an arrangement. First, they are achieving a settlement which they consider reasonable. Without the arbitration proceeding, the union leader would have to lead his members in a militant campaign for their demands. The consequence to the employers would be an expensive struggle. Also they are assured that they are not entering into a hearing before the impartial chairman blindly, without knowing what the final award might be.

I do not say that our hypothetical case represents a frequent occurrence. However, it does help focus attention upon the implications of the criterion of mutual acceptability. It is presented for that purpose.

(3) **Mediation.** Successfully grievance arbitration does involve mediation, and it seems folly to pretend otherwise. Thus, in an article two years ago, which described the successful 10-year tenure of Mr. Herman Brickman, as impartial chairman of the laundry industry of greater New York, this author said:[5]

"Mr. Brickman, though possessing the legal authority of an arbitrator, conceives of himself as a *mediator*, and this conception has colored his procedures, hearings, and decisions. . . . In each dispute his effort is directed toward reconciling the disputants, and the robes of a judge are assumed only when mediation has failed. The basic point is that our example illustrates that an impartial arbitrator should act the judge only as a last resort, making every effort first to achieve an amicable settlement directly between the contestants."

Mediation is important in any area of human conflict. Consequently, we are not to be surprised that judges, in American courts, make attempts at mediating between disputants. And labor relations are human relations, as Selekman has observed. Thus, I concur completely in the statement that [6]". . . there have been too many befuddled attempts by arbitrators to reason mediation out of grievance arbitration."

The impartial chairman system has achieved a great deal in the direction of industrial harmony. Its past worth is a sound basis for the plea that it be extended in the future. However, let us not forget that it implies mediation, mutually acceptable agreements (understanding what that may mean), and an impartiality consistent with union democracy and civil liberties.

4 Robert Hoxie, "Trade Unionism in the United States," second edition, D. Appleton and Co., N. Y., 1928, pp. 177-187.

5 A. L. Gitlow, "How to Live with Unions," *Cleaning and Laundry World*, May 1947, p. 36.

6 George Y. Taylor, op. cit., p. 2.

FIC Banks Place Debs.

A successful offering of an issue of debentures of the Federal Intermediate Credit Banks was made July 21 by M. G. Newcomb, New York fiscal agent for the banks. The financing consisted of $65,405,000 1.35% consol. debentures dated Aug. 1, 1949 due May 1, 1950. The issue was placed at par. Of the proceeds $56,280,000 will be used to retire a like amount of debentures maturing Aug. 1 and $9,125,000 is "new money." As of the close of business Aug. 1, 1949, the total amount of debentures outstanding will be $631,305,000.

King Merritt Co. Adds

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Harris B. Rossen is with King Merritt & Co., Inc., 408 Olive Street.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Market now entering critical stage. Further strength in negative groups can bring about a major rally.

The past few columns were written from out of New York but now that I'm back at my desk I see the picture hasn't changed where the market is concerned. The averages have moved up nicely and the general feeling is that everything will be okay.

* * *

Readers, however, can't trade in averages, and in retrospect I still would hesitate to recommend buying in spite of the subsequent rally.

* * *

When I sat down to pound this out I intended to go into technical details about stock behaviorism in general and this market in particular. What with the humidity pressing down and a feeling of regret that I even bothered to come back to the city, I decided to give technical analyses the go-by.

* * *

Watching the tape in concentrated fashion yesterday and today, I recognized what I thought to be signs of more up rather than down. None of this, however, was of immediate import. Its significance was long range in character. The stocks most affected seem to be the steels, electrical equipments, rubbers and farm equipments. It is significant that these groups went to new lows on the mid-June break.

* * *

I stress these groups deliberately because I consider improvement in negative stocks more important than a continuation of strength in so-called positive stocks. The latter can be seen by everybody. Action by the former usually escapes attention until the move is on its last legs.

* * *

What happens in the next few weeks should point the way for what may be the remainder of the year. Market is still full of "ifs." One of these is what will happen if stocks now go into a one-third downward correction. The other is what will happen if there is no such correction and the market starts up after only a minor hesitation.

* * *

There is still another possibility; a market which fluctuates between a negative and a positive. In such a market, it is possible to trade profitably because there are always stocks that behave better than the averages. So far these stocks seem to be limited to the steels, rubbers, farm equipments and other so-called negative groups.

* * *

Each week I've been indicating that perhaps the following week we'll have something to sink our teeth into. I'd like to be more positive but I can't force the market to speak or even to whisper. I just have to wait until the right signs appear.

—Walter Whyte.

More next Thursday.

[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.]

Halsey Stuart Offers Columbia Gas Debs.

Halsey Stuart & Co. Inc. headed an underwriting group that offered publicity, July 27, $13,000,000 Columbia Gas System, Inc. 3% debentures due August, 1974 at 101⅛% and accrued interest. The group was awarded the debentures at competitive sale on its bid of 100.63991.

Net proceeds from the sale of new debentures will be added to the general funds of the corporation as were net proceeds of approximately $11,700,000 realized from the sale of 1,223,000 shares of its common stock in October, 1948, $19,905,000 from the sale of its 3% debentures due 1974 in March, 1949 and $9,955,000 from the sale of 1,040,302 shares of its common stock in June, 1949. After the sale of the new debentures it is anticipated that such general funds will be adequate for the 1949 construction program of the System. Such program will involve net expenditures presently estimated at $61,958,000.

Regular redemption prices for the new debentures are scaled from 104.90% during the 12 months commencing Aug. 1, 1949 to 100% on or after August 1, 1973. Sinking fund redemption prices range from 101.10% during the 12 months commencing Aug. 1, 1953 to 100% on or after Aug. 1, 1973.

The Columbia Gas System, Inc. is a public utility holding company. Its operations are conducted through subsidiary companies. These companies or their predecessors have generally been engaged in the gas utility business and related businesses for more than 40 years. The System distributes and sells natural gas in 1,214 communities to approximately 1,030,000 residential, commercial and industrial customers. Gas is also sold at wholesale to other public utilities, which, in turn, sell it to their residential, commercial, and industrial customers numbering approximately 800,000. The population of the total area thus served by the System is approximately 7,000,000.

Observations

(Continued from page 5)

investor a fairly clear indication of what dividend he could expect on his common stock investment.

Nowadays, there is an increasing tendency to pay regulars and extras in an irregular pattern and this is further confused by dividend declarations in a succeeding year out of a previous year's earnings, so that the pattern of dividends paid or declared in a given calendar or fiscal year has become a Chinese puzzle. **All of this, I think, has contributed to a feeling of insecurity concerning the dividend policies of management on common stocks.** It is understandable, of course, that management and directors want to play safe and are desirous of knowing just how the impact of changing taxes, costs and capital expenditures might affect the distribution of profits, but it seems to me they have gone to the other extreme. Very frequently, it is difficult for an adviser in a security business to indicate to an investor what the dividend of a particular company is supposed to be.

Some of the difficulties in interpreting dividends can be seen from the appended list of high-yielding equities.

Stocks Yielding 10% or More

There has been considerable interest in the high yields obtainable on common stocks. At this stage of business adjustment it is impossible to attempt to forecast future dividend rates. Nevertheless, it is interesting to draw up a broad list of equities which are paying 10% or more, based upon the total 1948 declarations, or, in a few instances, on the latest current rate. The list is not selective. In the course of the year there will be many casualties in dividend payments. This list, however, does furnish a comparative background and a source from which equities currently providing a high yield may be selected.

I. Consumer Goods or Relatively Stable Industries

	1948 Regular	1948 Extra	1948 Total	Recent Price	Yield	Current Regular Rate	Extras to Date
Baking—							
Continental Baking	$1.00	$0.50	$1.50	13¾	10.9%	$1.00	
General Baking	0.60	0.40	1.00	10⅛	9.9	0.60	
Ward Baking	0.80	1.05	1.85	12⅜	14.9	1.00	
Finance—							
Pacific Finance	1.55	0.20	1.75	19	9.2	1.60	
Foods—							
Allied Mills	2.00	1.00	3.00	25½	11.8	2.00	$0.25
Best Foods	1.50	1.25	2.75	27¼	10.1	2.00	0.50
California Packing	2.50	0.50	3.00	31¼	9.6	2.50	
Libby, McNeil	0.50	0.25	0.75	7	10.7	0.50	
Wilson & Co.	1.00	1.00	2.00	9⅞	20.3	1.00	
Gold—							
Natomas Co.	1.00	----	1.00	9¾	10.3	1.00	
Liquor—							
National Distillers	2.00	----	2.00	17⅞	11.2	2.00	
Merchandising—							
Alden's, Inc.	1.50	----	1.50	14	10.7	1.50	
Allied Stores	3.00	----	3.00	28⅞	10.4	3.00	
Associated Dry Goods	1.60	----	1.60	13¾	11.6	1.60	
Bond Stores	2.00	----	2.00	17¼	11.6	2.00	
Interstate Dept. Stores	2.00	----	2.00	19⅝	10.2	2.00	
Lane Bryant	1.00	----	1.00	10	10.0	1.00	
Marshall Field	2.00	----	2.00	21	9.5	2.00	
McLellan Stores	1.00	1.00	2.00	20	10.0	1.50	0.375
National Dept. Stores	1.00	0.50	1.50	15	10.0	1.00	**0.50
Motion Pictures—							
Paramount	2.00	----	2.00	19⅞	10.1	2.00	
Shoes—							
Florsheim A	1.00	0.30	1.30	13	10.0	1.00	
General Shoe	2.50	----	2.50	25¼	9.9	2.50	
Miscellaneous—							
Gillette Safety Razor	2.50	0.75	3.25	26	12.5	2.50	

**Final for fiscal year.

The first problem in drawing up the dividend column was whether to take the dividends paid in the calendar year or declared in the calendar year. The next problem was to distinguish between the regular and the extra portion of the sum that frequently varied quarterly or semi-annually. This confusion of irregular dividend patterns and extra dividends is unfortunate. Not so many years ago, the average investor and certainly the professional could state offhand the dividend rate of any number of securities. Today, when somebody asks for the dividend rate, reference is made to the dividend book.

It seems to me that managements and directors should take the trouble of establishing a more orderly policy on dividend declarations and payments and should attempt to clarify the subject to the stockholders instead of making it obscure. The program should be:

Pay regular quarterly dividends or, where called for, semi-annual dividends.

Declare and pay all dividends, regular and extras, in the given fiscal year of the corporation.

Pay extras in the last quarter.

Where the corporation wants to make certain that it is not committing itself to a higher rate of dividends than could be paid during subnormal years, the practice of regular quarterly dividends plus regular quarterly extras could be followed. This puts everybody on notice that the corporation thinks, for example, that a 25c regular quarterly dividend is sustainable under most circumstances but the 25c quarterly extra is on a less certain basis.

Where special circumstances prevail and it is not conservative to declare and pay dividends before the year's final results are completely audited, then the policy should be adopted of declaring and paying dividends through the year based upon the earnings of the previous year. Under such circumstances the dividends could be declared at the beginning of the succeeding fiscal year for distribution through that fiscal year. In this manner, while dividends would be a year old, at least they would be coherent and clear for the ensuing year.

Sincerely yours,
ARMAND G. ERPF,
Partner, Carl M. Loeb, Rhoades & Co.

July 25, 1949.

Deficit Spending Is Dangerous: Wherry

(Continued from page 12)

work, and children crying for food, than to see him succeed.

Who are these "selfish interests?" They must include all who advocate economy in government. Is it selfish for these economizers to be thinking of their own welfare and the welfare of their children? Are they selfish because they do not want to live in a bankrupt nation?

Are they selfish because they do not want to live in "Mr. Truman's welfare" state as wards of the national planners, and then as tools of the State?

Are they blind and selfish because they do not understand it is their duty to support half the rest of the world?

Are they voicing "selfish interest" when they say—there is nothing wrong with western Europe that hard work and protection for free, competitive enterprise won't cure?

And what about those Democrats in Congress who have signed pledges in support of reduction in the President's spending budget? Sixty-three United States Senators, Democrats and Republicans alike, have endorsed a resolution, over Administration opposition, to reduce government expenditures, and balance the budget.

Is Mr. Truman going to purge those Democrats, because they don't agree with his philosophy of deficit-spending?

President Truman sees in the socialism and nationalization program of the Labor Government of Great Britain and its companion governments in other lands, a system that obviously pleases him better than our tried and proven American way.

He has cast his lot with the pressure groups and special interests. He would barter away our freedom and the highest standard of living in the world. He would substitute regimentation under scores of measures, including the Brannan plan to control and manage the affairs of our farmers.

For our part, we Republicans in Congress will continue to fight for reduction in the cost of government; we shall resist without compromise those proposals of the Truman Administration that infringe upon the inalienable right of our people to freedom of choice.

We shall continue to strive for stability in the government at Washington for this is the most vital ingredient in the formula for world peace and prosperity. Only if we have stability can we achieve confidence among our own people that their public servants are adhering to the principles of thrift, efficiency, economy and forthrightness. On these principles our nation was founded and has grown. They cannot be compromised. They have brought us standards of living that are goals to which all other peoples can only aspire.

We live in the best country on earth.

Let's keep it that way!

Dreyfus Institutes Trainee Program

Dreyfus & Co., 50 Broadway, New York City, members of the New York Stock Exchange, have instituted a trainee program for college graduates who aspire to become customers' brokers. The plan calls for a thorough indoctrination in the workings of every department of a brokerage business. Shelton A. Brooks, Harvard University and Saul Bogan, Columbia University, are the firm's most recent trainees.

Depression and Devaluation

(Continued from page 2)

materials. These have to be paid for, independently of current production, out of the capital of the producers. A manufacturer whose debt is reduced by the devaluation of money receives a windfall that he will not sacrifice by resuming production at a loss.

Influence on Export

Certainly a devaluation can exercise, for a short time, a favorable influence on export industries. This is another great argument of the adherents of devaluation who imagine that they can thus furnish industry with an invigorating stimulant. The rise in foreign exchange rates really permits exporters to sell their products abroad cheaper and permits them accordingly to maintain and even develop their production. It thus appears that export industries obtain miraculous encouragement, which, at first glance, harms no one. However, on looking at things closely, it is perceived that the export premium thereby created is entirely supported, and even with a vengeance, by the national economy.

This export premium arises from the fact that the producer of the articles exported finds himself in a privileged position, owing to devaluation which allows him to acquire the factors of his production **below** their real value. Indeed, whilst the prices of exportable products immediately go up due to the devaluation of money, the elements of the costs of these products—salaries, the prices of raw materials, the cost of transport, taxes, etc.—take longer to adjust themselves to the new standard of value. In this manner a veritable transfer of purchasing power from other sectors of the economy to export industries takes place.

Such a source of export premium indicates that it wouldn't be for the good of industry in general without some counterpart. If, indeed, this export premium encourages export industries, it can only at the same time cause prejudice to other industries by correspondingly diminishing the demand for other products on behalf of those whose purchasing power has been reduced by the devaluation for the benefit of export industries.

Other Repercussions

The repercussions of devaluation do not stop there. The expansion of exports cannot take place without a reduction of the prices of the products exported into foreign markets, since it signifies on the whole an increase in the offer. And it cannot be ignored that every increase in the offer leads to a **more accentuated** fall in prices. This implies that an important part of this purchasing power transferred from other sectors to export industries will be lost to the country and yielded to foreign consumers. It is this which, after the first World War, at the time of depreciation of the currencies in many countries, was termed emptying the country's material substance and which led the governments of those countries to regulate, and even prohibit, exports. In the case of a moderate devaluation, this loss of substances does not attract attention; but it is none the less real.

Export industries can therefore only develop, following devaluation, **at the detriment of other industries and at the expense of the capital of the country.**

And that is not all. Such an encouragement given to the export industries is in fact a sort of dumping which brings about reprisals on the part of other countries, provokes tariff wars and quotas, even monetary wars, that eventually lead to the restriction of international commerce and of production in general. To quote an example, there is no doubt that the abandonment of the gold standard by Great Britain in 1931 largely contributed to the decrease of international exchanges, to the fall of world gold prices and to the aggravation of the universal crisis of 1931 to 1935. On the other hand, it in no way prevented English exports reckoned in the value of gold from continuing to decrease even more than the exports of a country like France which kept the gold standard.

The possibility of preventing a depression by way of devaluation and a rise in nominal prices is therefore a delusion. As we have already said, devaluation can only aggravate a depression and cause in the economy a fresh and powerful dislocation just at the moment when it is most in need of conservative treatment.

And we are not speaking here of the fatal consequences from the moral, social and political points of view, which undermine the legal principles of the stability of contracts on which our economic structure is erected, ruin the middle classes, open the door for agitation among the wage-earners directly affected by this measure and often pave the way for political and social unheavals.

Once engaged on this slippery road, it is often almost impossible to stop. The setback which is inevitable after the first devaluation and the difficulties it injects into public finances bring along fresh devaluations. It is what has happened in England, Belgium Czechoslovakia. France and in so many other countries since 1931.

The rise in the price of gold in the black market has likewise been used as an argument by the advocates of devaluation. But it is known that this rise is the consequence of the instability of currencies in most countries since the war and of the search for gold as a refuge of value. So long as this monetary instability exists, it is evident that the devaluation of the dollar can in no wise alter this incentive and suppress the premium on gold.

Let us remark that the fall in prices must not necessarily lead to a recoil in economic activity. Be it remembered that the continuing fall in prices from 1924 to 1929 did not prevent an economic rebound without a precedent during this same period. A fall in prices still more accentuated might very well be reconciled with a fairly normal level of production if certain necessary steps were taken to maintain economic equilibrium. But then it would be a question of normal and direct measures and not of illusory and dangerous artifices.

Politics Is Everybody's Job

(Continued from page 7)

very necessary and informative job, that we are organized to do.

The NAM's Role

The association is a voluntary incorporated membership organization. Its membership comprises more than 15,000 individual manufacturing companies. Like other similar organizations, we must rely, in all phases of our activities, on the voluntary support of our members. This support must go beyond the payment of membership dues or subscriptions. It must include the donation of substantial time and effort of a large number of officers of individual member-companies for serving on committees of the association, serving on its board of directors, in gaining wider acceptance among manufacturers and the public of principles, policies, or programs adopted by the association.

The extent to which the association viewpoint may actually influence legislation pending before Congress is largely dependent upon the voluntary action of its individual members in communicating their views to members of Congress.

The association does not and cannot either directly or indirectly engage in political activities such as seeking the election or defeat of candidates for public office. The association is a corporation, subject to the Federal Corrupt Practices Act, and makes no contributions or expenditures for or against candidates for office.

The association, through its staff, serves essentially as an agent of its members, to report to them trends and developments, as well as the scope, content and progress of legislation pending before Congress, of general or specific interest to manufacturers. As is well known, however, the association exercises no control over the action or inaction of its individual members with respect to such matters.

Through the activity of our staff, we are able to provide accurate and timely information to our membership, and to the affiliates in the National Industrial Council. Such information is of value to our members and to National Industrial Council affiliates in arriving at decisions as to what they consider should be done about important national issues.

Information thus gathered is supplied to our membership through the "Washington Newsletter" and through specially prepared news articles in the "NAM News." Supplementary bulletins are issued to the affiliates of the National Industrial Council, usually in more detail than is carried in the "NAM News," for the purpose of providing council affiliates with all the details necessary to keep them informed.

In this area the chief function of the National Association of Manufacturers and of the National Industrial Council affiliates is to do everything we can to make the public aware of these great basic issues affecting the public welfare, which are frequently involved in legislative proposals. An enlightened public opinion is the only one which can or should have any influence upon the passage of any legislation at any level. Such an organization as the NAM functions best when it utilizes every resource at its command in analyzing those important issues which can only be decided by the voters themselves, through the reflections of the voters' views by the type of people they elect to public office.

I know that to a lot of people things looked pretty hopeless after the election last fall. I have been in practically every part of the country since that time, and I am well aware of the panicky feeling shared by many business leaders.

Certain union leaders felt that they would be able to dictate national policies. They confidently expected to see the Taft-Hartley law repealed and a start made toward many of the socialist measures which the President demanded in his inaugural address.

You are familiar with the subsequent results. I think the principal reason that Congress did not act on the demands of certain union leaders is because its members heard from their constituents. And members of Congress have continued to hear from their constituents pretty steadily on most of the proposals in the President's program.

NAM is one of those organizations which are striving to preserve the traditional American freedoms. If such organizations are to have any hope of success in their undertakings, that success can come only when the voters of this country understand the issues and have an opportunity to cast their votes for men of intelligence and integrity—men who will stand with the great elected statesmen of our times and swell the numbers of those who will work steadfastly to preserve our basic freedoms.

Groundwork for Better Government

I have the feeling that better national government is bound to come in this country after the people have learned how to provide themselves with better local government. This applies to all local offices at every level, from school boards and county commissioners up to mayors and governors. To preserve the best of the American way of life, and to have any hope of improving and bettering it for future generations, we must have two things:

(1) Proper public understanding, and

(2) Properly qualified men who are willing to offer themselves as candidates for public office at all levels.

No business organization can do this job. No other organization should undertake it.

The National Association of Manufacturers can be most effective in providing its members and Council affiliates with facts which can be utilized by businessmen in all parts of the country. It is the individual businessman who can most properly get such facts presented and understood by his own stockholders, his employees, his customers, his supply sources, his friends and neighbors—by everyone in his own community.

This means that many a man who has been inactive in politics must dedicate himself to a job which cannot be done by anybody but himself.

Our great two-party system has demonstrated its value and its usefulness. It must be preserved. So when I talk about businessmen taking an active interest in these great public questions I don't mean that they must all become workers for the Republican or all for the Democratic party—as such.

If they are Republicans they cannot avoid the responsibility of helping to make certain in their own communities that the men selected as Republican candidates are really men of intelligence, integrity and courage. If they are Democrats they must help make equally certain that the Democratic candidates possess these essential traits.

Too often in recent years a certain type of man has been elected to public office solely upon the basis of the material things he promised to those who he hoped would vote for him.

Against the basic dishonesty of planning to distribute political favors and collectivist privileges at the expense of the whole American peopl's means to produce greatly and distribute with unprecedented magnitude and breadth—the men who make up business and industrial management are our free economy's most effective spokesmen and advocates. No one can better tell—because no one better understands—why and how business is woven into the history, life, security prosperity and destiny of the United States.

Industry Part of American Opportunity System

The American people must be made to realize that business and industry are integral parts of the American opportunity system. It is our responsibility to carry this truth to them. This is as it should be. T is the way we would have it.

We must primarily address ourselves to clear-thinking, independent-minded and whole-souled Americans. I am not referring to a class or faction. This group does not consist only of management or labor or farmers or housewives or politicians or professional people, though you will find many from each of these groups. It is composed, rather, of those millions of Americans, from all walks of life and all income groups, who love their country and who make its welfare and preservation their first and their chief concern. In short, those who have the ability to recognize and the courage to reject the short-term benefit that results in a long-term headache.

Millions have failed to recognize—or perhaps refused to recognize—the fundamental long-term implications of the step-by-step and law-by-law slide down the bleak road of collectivism. Great numbers of the American people have been coasting to collectivism on the easy assumption that because the right to freedom is constitutionally guaranteed, it is not their personal responsibility to guard it . . . understand it . . . and everlastingly use its full creative power.

Ours is still a nation of free and unregimented individuals who reject spoon-fed, tailor-made opinions. Man by man, by the natural leaders in every home town and place of business throughout our land, the great majority of the American public can be shown—overwhelmingly convinced that in the last analysis, *government can't do things for people.* It can only provide the atmosphere in which *people can do things for themselves.*

Let's get back to that fundamental concept of government which was established by the founders of this nation in our Constitution and in our great Bill of Rights.

Let's restore the incentives of individuals to use their great freedoms of personal liberty, freedoms of choice, freedoms of opportunity, and all other elements that make up that priceless heritage of all-embracing freedoms which is American.

Let's really start to do things for the government of this great country of ours instead of pursuing any longer that false philosophy of expecting the government to do things for us.

Let's give to our school boards, our town councils, our boards of county commissioners, our state legislatures and our national Congress—men of intelligence, integrity and courage—men who will serve our country well.

And let's preserve our American way of life. It is not ours alone. It is ours to pass on as good as we received it—as much better as we can make it—an inviolable trust that no generation which comes after us can rejoice in unless we preserve it and restore it and perfect it throughout our time. We stand today in the vanguard of service to the eternal principles that are and forever can be maintained as the whole American people's heritage.

E. W. Thomas Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — John D. Sharp has been added to the staff of E. W. Thomas and Company, 135 South La Salle Street.

With R. H. Johnson & Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — John J. Quinn is with R. H. Johnson & Co., 30 State Street.

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)	July 31	81.5	78.3	79.9	93.1
Equivalent to—					
Steel ingots and castings (net tons)	July 31	1,502,500	1,443,500	1,473,000	1,678,100
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	July 16	4,671,350	4,667,750	4,867,650	5,444,450
Crude runs to stills—daily average (bbls.)	July 16	§5,130,000	5,201,000	5,171,000	§5,633,000
Gasoline output (bbls.)	July 16	18,117,000	18,559,000	17,998,000	§17,524,000
Kerosene output (bbls.)	July 16	1,531,000	1,586,000	1,530,000	§2,207,000
Gas, oil, and distillate fuel oil output (bbls.)	July 16	5,699,000	5,768,000	5,228,000	§7,382,000
Residual fuel oil output (bbls.)	July 16	7,785,000	7,879,000	7,693,000	§9,008,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	July 16	111,464,000	113,763,000	116,403,000	§100,701,000
Kerosene (bbls.) at	July 16	23,791,000	24,055,000	22,504,000	§19,773,000
Gas, oil, and distillate fuel oil (bbls.) at	July 16	68,622,000	66,620,000	61,445,000	§53,385,000
Residual fuel oil (bbls.) at	July 16	67,564,000	67,136,000	65,594,000	§63,170,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	July 16	724,100	595,321	649,351	892,080
Revenue freight received from connections (number of cars)	July 16	531,788	456,614	577,968	656,232
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	July 21	$158,751,000	$190,346,000	$215,170,000	$143,213,000
Private construction	July 21	65,229,000	61,468,000	84,840,000	69,784,000
Public construction	July 21	93,522,000	128,878,000	130,330,000	73,429,000
State and municipal	July 21	77,984,000	87,408,000	83,963,000	63,277,000
Federal	July 21	15,538,000	41,470,000	46,367,000	10,152,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	July 16	6,600,000	*4,725,000	2,215,000	12,274,000
Pennsylvania anthracite (tons)	July 16	1,034,000	848,000	121,000	1,070,000
Beehive coke (tons)	July 16	6,800	*16,900	19,700	83,300
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	July 16	214	201	285	236
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	July 23	5,461,665	5,342,107	5,466,169	5,342,127
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	July 21	182	167	196	91
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	July 19	‡3.705c.	3,705c.	3.705c.	3.211c.
Pig iron (per gross ton)	July 19	$45.91	$45.91	$45.91	$42.96
Scrap steel (per gross ton)	July 19	$19.33	$19.33	$20.25	$41.33
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	July 20	17.325c.	17.325c.	15.700c.	21.200c.
Export refinery at	July 20	17.520c.	17.550c.	15.925c.	21.425c.
Straits tin (New York) at	July 20	103.000c.	103.000c.	103.000c.	10[illegible]
Lead (New York) at	July 20	14.000c.	14.000c.	12.000c.	17.500c.
Lead (St. Louis) at	July 20	13.800c.	13.800c.	11.850c.	17,300c.
Zinc (East St. Louis) at	July 20	9.500c.	9.000c.	9.000c.	12.000c.
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	July 26	103.20	103.41	101.70	100.79
Average corporate	July 26	113.89	113.70	112.93	112.37
Aaa	July 26	120.02	119.82	118.80	116.80
Aa	July 26	118.20	118.20	117.40	115.04
A	July 26	112.93	112.56	112.19	111.81
Baa	July 26	105.00	105.17	104.48	106.21
Railroad Group	July 26	108.16	107.98	107.62	108.34
Public Utilities Group	July 26	115.43	115.24	114.46	112.56
Industrials Group	July 26	118.40	118.20	117.20	116.22
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	July 26	2.27	2.25	2.37	2.44
Average corporate	July 26	2.96	2.97	3.01	3.04
Aaa	July 26	2.65	2.66	2.71	2.81
Aa	July 26	2.74	2.74	2.78	2.90
A	July 26	3.01	3.03	3.05	3.07
Baa	July 26	3.45	3.44	3.48	3.38
Railroad Group	July 26	3.27	3.28	3.30	3.26
Public Utilities Group	July 26	2.88	2.89	2.93	3.03
Industrials Group	July 26	2.73	2.74	2.79	2.84
MOODY'S COMMODITY INDEX	July 26	339.5	342.4	336.1	434.6
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	July 16	145,799	104,809	150,021	138,409
Production (tons)	July 16	137,034	73,941	167,196	157,641
Percentage of activity	July 16	64	35	78	84
Unfilled orders (tons) at	July 16	282,174	278,124	254,033	372,739
OIL, PAINT AND DRUG REPORTER PRICE INDEX — 1926-36 AVERAGE=100	July 22	128.4	128.0	128.1	145.6
STOCK TRANSACTIONS FOR THE ODD-LOT ACCOUNT OF ODD-LOT DEALERS AND SPECIALISTS ON THE N. Y. STOCK EXCHANGE—SECURITIES EXCHANGE COMMISSION:					
Odd-lot sales by dealers (customers' purchases)—					
Number of orders	July 9	13,160	13,389	20,270	17,914
Number of shares	July 9	368,858	384,489	567,955	538,108
Dollar value	July 9	$13,549,183	$14,072,542	$19,944,215	$22,026,009
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	July 9	12,101	12,974	18,017	19,548
Customers' short sales	July 9	136	154	315	74
Customers' other sales	July 9	11,965	12,820	17,702	19,474
Number of shares—Customers' total sales	July 9	318,652	352,153	510,978	529,799
Customers' short sales	July 9	5,844	6,600	12,419	2,566
Customers' other sales	July 9	312,808	345,553	498,559	527,233
Dollar value	July 9	$10,251,259	$11,265,509	$16,268,719	$19,341,405
Round-lot sales by dealers—					
Number of shares—Total sales	July 9	100,700	123,730	157,870	144,550
Short sales	July 9				
Other sales	July 9	100,700	123,730	157,870	144,550
Round-lot purchases by dealers—					
Number of shares	July 9	147,790	162,680	216,320	172,150
WHOLESALE PRICES NEW SERIES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	July 19	154.3	154.2	153.0	168.8
Farm products	July 19	168.4	168.5	165.9	194.1
Foods	July 19	164.2	164.2	159.6	191.0
All commodities other than farm and foods	July 19	145.2	145.1	145.4	150.7
Textile products	July 19	139.0	138.6	138.2	149.4
Fuel and lighting materials	July 19	130.6	130.6	130.6	136.4
Metals and metal products	July 19	167.8	167.6	165.7	159.2
Building materials	July 19	190.4	190.1	191.6	200.1
All other	July 19	125.0	124.8	126.9	135.8
Special indexes—					
Grains	July 19	155.5	156.5	156.4	189.3
Livestock	July 19	213.9	208.8	206.7	272.5
Meats	July 19	231.1	228.0	220.9	279.6
Hides and skins	July 19	180.5	179.5	186.5	220.4

*Revised figure. †Includes 431,000 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.

NOTE—The National Fertilizer Association has decided to discontinue publication of its weekly wholesale commodity price index. It will, however, continue to compile monthly indexes covering mixed fertilizers.

	Latest Month	Previous Month	Year Ago
BANK DEBITS — BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—			
Month of June (in thousands)	$109,068,000	$99,336,000	$108,639,000
BANKERS DOLLAR ACCEPTANCES OUTSTANDING — FEDERAL RESERVE BANK OF NEW YORK — As of June 30:			
Imports	$121,154,000	$118,469,000	$155,475,000
Exports	46,768,000	44,450,000	56,193,000
Domestic shipments	9,845,000	10,516,000	10,592,000
Domestic warehouse credits	7,029,000	6,380,000	8,730,000
Dollar exchange	68,000	2,389,000	2,289,000
Based on goods stored and shipped between foreign countries	13,066,000	12,381,000	19,880,000
Total	$197,930,000	$194,585,000	$253,159,000
BUILDING CONSTRUCTION—U. S. DEPT. OF LABOR — Month of June (in millions):			
Total new construction	$1,759	*$1,584	$1,754
Private construction	1,241	*1,117	1,348
Residential building (nonfarm)	600	530	682
Nonresidential building (nonfarm)	270	*257	303
Industrial	77	82	110
Commercial	92	*83	114
Warehouses, office and loft buildings	23	23	26
Stores, restaurants and garages	69	*60	88
Other nonresidential buildings	101	92	79
Religious	28	26	18
Educational	20	19	19
Social and recreational	22	20	18
Hospital and Institutional	16	14	10
Remaining types	15	13	14
Farm construction	50	40	62
Public utilities	321	*290	301
Railroad	36	*34	33
Telephone and Telegraph	62	60	65
Other public utilities	223	*196	203
Public construction	518	*467	406
Residential building	16	15	7
Nonresidential building (other than military or naval facilities)	146	*144	85
Educational	71	*70	44
Hospital and institutional	38	*36	18
All other nonresidential	37	*38	23
Military and naval facilities	9	*9	11
Highways	200	*110	179
Sewer and water	52	*49	43
Miscellaneous public service enterprises	10	*10	11
Conservation and development	67	*63	55
All other public	18	17	15
BUSINESS FAILURES—DUN & BRADSTREET INC.—Month of June:			
Manufacturing number	215	202	130
Wholesale number	92	101	54
Retail number	372	351	194
Construction number	74	63	36
Commercial service number	75	59	49
Total number	828	776	463
Manufacturing liabilities	$13,500,000	$11,182,000	$5,147,000
Wholesale liabilities	4,089,000	4,334,000	1,678,000
Retail liabilities	6,234,000	6,034,000	3,037,000
Construction liabilities	2,476,000	1,434,000	984,000
Commercial service liabilities	1,862,000	5,390,000	1,317,000
Total liabilities	$28,161,000	$28,374,000	$12,163,000
COMMERCIAL PAPER OUTSTANDING—FEDERAL RESERVE BANK OF NEW YORK—			
As of June 30 (000's omitted)	$199,000	*$219,000	*270,000
COTTON AND LINTERS — DEPT. OF COMMERCE — RUNNING BALES			
Lint—Consumed month of June	600,495	580,078	800,347
In consuming establishment as of June 30	1,058,697	1,277,423	1,734,787
In public storage as of June 30	4,406,538	5,079,999	1,676,082
Linters—Consumed month of June	121,992	126,420	94,647
In consuming establishments as of June 30	254,106	289,901	218,044
In public storage as of June 30	68,138	96,601	77,211
Cotton spindles active as of June 30	19,464,000	19,862,000	21,473,000
DEPARTMENT STORE SALES—SECOND FEDERAL RESERVE DISTRICT, FEDERAL RESERVE BANK OF N. Y. — 1935-39 AVERAGE=100—Month of June:			
Sales (average monthly), unadjusted	228	225	251
Sales (average daily), unadjusted	224	230	*247
Sales (average daily), seasonally adjusted	238	239	262
Stocks, unadjusted as of June 30	206	227	*227
Stocks seasonally adjusted as of June 30	218	224	241
LIFE INSURANCE PURCHASES — INSTITUTE OF LIFE INSURANCE — Month of June (000's omitted)—			
Ordinary	$1,252,000	$1,245,000	$1,244,000
Industrial	396,000	431,000	370,000
Group	242,000	185,000	236,000
Total	$1,890,000	$1,861,000	$1,850,000
NEW CAPITAL ISSUES IN GREAT BRITAIN—MIDLAND BANK, LTD.—Month of June	£12,351,000	£15,683,000	£9,939,000
REAL ESTATE FINANCING IN NON-FARM AREAS OF U. S. — FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION —Month of May (000's omitted):			
Savings and Loan associations	$296,617	$283,535	$314,340
Insurance companies	79,713	77,309	80,611
Banks and Trust companies	196,865	189,750	235,185
Mutual Savings banks	59,396	52,976	60,906
Individuals	168,926	166,925	174,520
Miscellaneous lending institutions	141,232	137,521	133,894
Total	$942,749	$908,016	$999,456
TREASURY MARKET TRANSACTIONS IN DIRECT AND GUARANTEED SECURITIES OF U. S. A.—Month of June:			
Net sales	$88,353,050	$54,659,950	
Net purchases			$1,124,000
U. S. GOVT. STATUTORY DEBT LIMITATION —As of June 30 (000's omitted):			
Total face amount that may be outstanding at any one time	$275,000,000	$275,000,000	$275,000,000
Outstanding—			
Total gross public debt	252,770,350	251,889,420	252,292,246
Guaranteed obligations not owned by the Treasury	27,275	23,061	73,460
Total gross public debt and guaranteed obligations	$252,797,635	$251,912,480	$252,365,707
Deduct—Other outstanding public debt obligations not subject to debt limitation	769,922	772,761	824,135
Grand total outstanding	$252,027,712	$251,139,718	$251,541,571
Balance face amount of obligation issuable under above authority	22,972,287	23,860,281	23,458,428

*Revised figure.

A Post-ERP Program

(Continued from page 9)

pean recovery program and a plan to bring about world economic recovery.

We are spending in the area of $5 to $6 billion a year on the European recovery program as compared with a domestic civilian economy in the United States alone of about $250 billion as gross national product, or in the magnitude of 2%; and with operations in our foreign trade of approximately $19 billion, of which $12.5 billion are in exports and $6.5 billion in imports. These figures show that if we are to attain world recovery we must act on the scale which our own economy and the world economy implies. This does not mean, however, expansion of government programs, for such expansion, aside from its ideological implications, would bog us down administratively. As it is today, the administration of the European recovery program is relatively superficial and does not get down into the detailed operations in the various countries which are essential to our successful supervision even of the European recovery program of self-help and mutual cooperation itself. For example, we have relatively little to do with the aspects of domestic business in the ERP countries which result from the ERP—we have little to say about whether or not they encourage free competition or cartels.

Select House Committee on Post-ERP Policy

It is time that the Congress took a broad look at the whole basis for participation by American trade and industry in the European Recovery Program and in the program of world recovery and assess its capabilities and the legislative action which could be taken to deal with them. Such a review would involve not only the possibilities of government guarantees of convertibility of foreign currency, a program started in the Economic Cooperation Act of 1948, but also taxation, government interposition in American foreign investments, government-industry partnership in foreign investment and development and similar changes. It would include also an investigation which is long overdue of the role played by the International Bank for Reconstruction and Development and the International Monetary Fund in the prospects for world recovery. For this purpose I am today introducing a resolution for the creation of a select committee of the House on post-ERP policy. This resolution follows the experience of the House in the 80th Congress in creating the Eaton-Herter Committee. It would include in its membership representatives of the Committee on Foreign Affairs, Ways and Means, Appropriations, Banking and Currency, and Agriculture with its Chairman the Chairman of the Committee on Foreign Affairs. I attribute to the work of the Eaton-Herter Committee a great deal of the credit for the passage of the ERP legislation, and I believe the gravity of the problems which we are facing requires a similar basis for action now.

It is also important that this committee should have before it alternatives for action and it is in this spirit that I outline a program for the continuance of economic recovery in the free world and for the accelerated development of the economically underdeveloped cuntries.

International Bank and Monetary Fund

It is high time that we learned why it is that two agencies tc which the United States had pledged $5.920 billion—$3.175 billion to the bank and $2.750 billion to the fund—have done so relatively little in aid of world recovery at the most critical point in world history and why almost the whole job has been left to the United States. It is very interesting to note that one of the first actions of the National Advisory Council on International Monetary and Financial Problems which runs United States policy with respect to the bank and the fund was to ask for an interpretation by the executive directors of the bank on whether, under the articles of agreement, "the bank had authority to make or guarantee loans for programs or economic reconstruction and the reconstruction of monetary systems, including long-term stabilization loans." This question was answered in the affirmative, yet for whatever reason, the record is almost blank insofar as carrying it through in any country is concerned.

The bank has interpreted almost as literally as the National City Bank of New York or the Chase National Bank the mandate in its charter that the borrower "will be in a position to meet its obligations under the loan"; yet equal consideration must be given to the other provision in its charter that "the bank is satisfied that in the prevailing market conditions the borrower would be unable otherwise to obtain the loan under conditions which in the opinion of the bank are reasonable for the borrower." The bank has the power to loan or guarantee over $8 billion; it has in United States funds alone almost $730 million, and has raised $254 million by direct bond flotations, largely in the United States market. Yet in the almost three years since it began operations it has made loans of only $650,100,000 through Jan. 31, 1949.

The International Monetary Fund has aggregate authorized capital of $7,976,000,000 of which the United States' share is 34.2%. There has been paid into the fund over $1,300,000,000 in gold, over $927,000 000 in members' currency —of which over $300,000,000 is in United States or Canadian dollars — and $4,500,000,000 in non-negotiable, non-interest-bearing notes of the members of which the United States share is about $2,-000,000,000. The total business done by the fund since the beginning of its operations is about $650.000.000. The question is immediately raised whether the very large amount of capital in terms of United States dollars and gold —well over $3,500 000,000—is not just frozen in the fund and whether it should not be released for productive use by a merger of the bank and fund making them one institution — a merger which has been very seriously considered in responsible quarters.

I think it is fair to say that those in high places don't know quite what to do and have little confidence in the remedies that they have proposed. It seems clear, too, that American private business in which alone resides the experience and facilities to proceed on a great program of foreign private capital investment or of engaging manpower and technological skill for foreign economic development does not know what to do either. Yet, American business has never in its history shrunk before the challenge of war or failed to magnificently meet that challenge in terms of enough production on time. Why then should it fail to meet the challenge of peace?

Four-Point Program

I believe that the time has come for a totally new approach to the world's economic problems in which the United States should lead, and that the willingness to take the needed steps must be premised on the will to avoid war by obtaining an economic triumph over the Communist system rather than a miltary triumph. In this spirit, a partnership of the United States Government and of United States private business for overseas economic development is essential. Only on these terms can the job be done and America's fundamental resources be harnessed to meet the test of winning the peace.

I propose, therefore, a four-point program for post-ERP recovery and for the economic development of underdeveloped areas calculated in a magnitude realistically to meet these problems:

First: Utilization by the government of the great resources of business and industry in extending technological assistance to underdeveloped areas which are part of the free world, through research and development contracts of the type made during the war between government and business.

Second: Government guarantees against political risks for American private investment contributing to the economic improvement of developed countries and the development of underdeveloped areas of the free world, both of the capital invested and of a reasonable interest rate or return guaranteeing convertibility into dollars.

Third: The creation of a great world financing organization by a merger of the International Bank and Fund, or if this cannot be accomplished, by the organization of an economic development corporation with United States Government capital in the amount of $10 000,000,000 to engage in partnership ventures with American business and industry, for the continuance of recovery in developed countries and the economic development of underdeveloped areas of the free world.

Fourth: Enactment by the Congress of the reciprocal-trade agreements program which expired June 30, and passage of the enabling act for acceptance of membership by the United States in the International Trade Organization.

It is anomalous that the nation which will spend $17,000,000,000 for the European recovery program, has an annual budget of almost $42,000,000,000, has an annual non-government income of about $215,000,000,000 and gross national product of over $250 000-000,000, and possesses the greatest resources in skilled men and productive machinery and raw materials which the world has ever known, should be thinking of a great program of economic reconstruction for the world in terms of $45,000,000 to be devoted to the President's Point IV. Our experience in the Reconstruction Finance Corporation itself, in the Home Owners' Loan Corporation, in the FHA mortgage insurance program indicates that underwriting the development of American resources whether of property or investment is always a money-making rather than a money-losing venture.

The first means for utilizing America's technological resources is already dealt with by legislation the President has sent to the Congress. Where these resources are required, private business should, under contract with the government, devote its technological and planning staffs for stated periods for the purpose, payment to be made as the United States may be able to arrange between itself and the participating country. So long as the contract is in effect, the operation is to be carried on under governmental supervision and control by the United States. The participating company has the option to renew its contract or to withdraw and thereby maintain that freedom of action so essential to the efficiency and success of the operation.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government market seems to have gone on the defensive because the monetary authorities are applying pressure by keeping money tight. . . . They have been both sellers and reluctant buyers of short-term Treasuries. . . . It might be the policy of the money managers now to push yields on the nearer-term governments up a bit, so that the next certificate will be a 1⅛% instead of a 1% obligation. . . . The lower rate had been indicated by the downtrend of yields, following the changed attitude toward the money markets. . . . Slowing the advance in the government market, and preventing rates from going too low, might give the authorities greater freedom of action (in the future) particularly if the easy money policy should have a favorable influence upon business conditions. . . .

Nevertheless, a 1⅛% certificate rate still means ample credit and should have little, if any, effect upon current prices of the longer-term obligations. . . . On the other hand, the more attractive the monetary authorities make Treasury obligations (to the banks) whether they be long or short, the less is the likelihood they will seek other channels for the investment of surplus funds. . . .

PROFIT-TAKING LOWERS PRICES

Professional operations, together with some liquidation, profit-taking and the uncertainty created by Federal's action in the short market resulted in a fairly sharp price decline throughout the list. . . . The longest ineligible issues bore the brunt of the selling and downward quoting although the most distant bank bonds were not far behind. . . . It seems as though dealers are not interested in stocking securities pending clarification of the Central Bank's latest operations in the near-term end of the list. . . . Investors have been waiting for an opportunity to pick up the higher-coupon obligations at prices better than those recently prevailing. . . . But some of them also pulled away from the market when prices started to give ground. . . .

This might be the healthy reaction some money market followers have been looking for. . . . Prices have gone ahead a bit fast and some indigestion was bound to develop. . . . However, money rates are still very low and set-backs under such conditions usually turn out to be buying opportunities. . . .

BANK-ELIGIBLE 2½s ACTIVE

Sizable amounts of the bank-eligible 2½% due Sept. 15, 1967/72 have been taken out of the market, principally by the out-of-town commercial institutions. . . . Income is of prime importance to these banks and the longest eligible is the only obligation that gives these institutions the return they need. . . . Although prices of the 2½s due Sept. 15, 1967/72 have advanced along with the rest of the market, the yield is still the best available in the bank group. . . . Funds have to be put to work, and with no alternative important commitments are being made in the 2½s due Sept. 15, 1967/72. . . .

These purchases of the longest-eligible are being made with a degree of caution in order not to influence the market action. . . . Advantage has been taken of price weakness and switches out of the eligibles by non-bank holders which have increased somewhat of late. . . . This has enabled the smaller deposit banks to acquire the longest eligible issue, at favorable levels. . . . Orders have also been placed on a scale basis. . . .

Positions in the 2½s due Sept. 15, 1967/72, according to reports, are not substantial and were it not for swaps out of this bond by non-bank holders, quotations would most likely be higher. . . . However, since this issue is going into strong hands, there seems to be little doubt that with the decreasing supply will eventually come better prices. . . .

OTHER ELIGIBLES ALSO SOUGHT

The eligible list as a whole is getting plenty of attention, with considerable activity taking place in the shortest-term obligations. . . . Although the longest partially-exempts have their followers there has not been too much going on in these bonds because of the premium involved and the decline in the tax-free yield. . . .

Th 2½s due 1956/58 and the 2¼s due 1956/59 have been fairly active with some of the large money center banks on the buy side. . . . Switches are being made out of the 2½s due 1956/58 by certain banks in order to put the funds into the longest bank-eligible obligation. . . . Likewise non-bank investors have been letting out moderate amounts of this same 2½s with the proceeds going largely into the Victory bonds. . . .

MARKET NOTES

Insurance companies and other non-bank investors have been modest sellers of the ineligibles in order to make way for private placements and other commitments. . . . Some of this liquidation (which has been pretty well taken) was to provide funds that were used to pay for the Standard Oil bonds. . . . Savings banks still dominate the ineligible list with commitments at this time running principally to the Vics, because income continues to be very important to these institutions. . . . In order to improve earnings switches are also being made by these institutions from the shorter taps into the June and December 1967/72's. . . .

April Treasury figures on ownership of government securities begin to reflect the changing money market conditions. . . . The heaviest sales by Federal were in the 1952 eligible taps with the main buyers savings banks and other investors including dealers. . . . Insurance companies sold the longer ineligibles as did savings banks. . . . Other investors bought most of these securities. . . . In the bank issues the December and June 1952/54's, the 2¼s of 1956/59 and the September 1967/72's were the leading acquisitions of the deposit institutions. . . . Savings banks and other investors were the principal sellers.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

The Board of Directors of **Bankers Trust Company of New York** has approved the transfer of $20,000,000 from undivided profits to its surplus account, it was announced on July 20. Based upon the published figures as of June 30, the company's capital funds after the transfer will be: Capital, $30,000,000; surplus, $100,-000,000; undivided profits, $35,-913,000, a total of $165,913,000.

S. Sloan Colt, President, states that this transfer will result in a stronger capital funds structure, and that the remaining balance in undivided profits will be 27.6% of the combined capital and surplus.

* * *

N. Baxter Jackson, Chairman of the **Chemical Bank & Trust Company of New York,** has announced the election of Alonzo F. Bonsal, Vice-President of Joshua L. Baily & Co., Inc., to the Advisory Board of the 320 Broadway office of the bank. Mr. Bonsal is also a director of the Erwin Cotton Mills Co. and the Textile Export Association, Vice-President of Mayfair Mills and a member of the Textile Industry Committee on Foreign Trade.

* * *

Harvey D. Gibson, President of **Manufacturers Trust Company of New York,** announces that Edmund Leone, formerly Assistant Vice-President of the bank's Installment Loan Department, has been appointed Auditor. Mr. Leone began his banking career in 1924 and became associated with the Manufacturers Trust Company in 1928. He was appointed Assistant Secretary in 1941 and Assistant Vice-President in 1947. He was admitted to the New York bar in 1934. This Summer, Mr. Leone was chosen by the trust company to attend the Graduate School of Banking at Rutgers.

* * *

George S. Wallace recently completed 25 years of service with the Lincoln Savings Bank of Brooklyn, at which time the bank presented him with a gold watch at a luncheon held in his honor. Mr. Wallace is the Safe Deposit Manager of Lincoln's Bay Ridge Office.

* * *

An exhibition of checks and other negotiable instruments carrying the signatures of some of the signers of the Declaration of Independence after whom Brooklyn, N. Y., streets have been named, has been opened in the Bensonhurst branch of the **South Brooklyn Savings and Loan Association of Brooklyn,** at 1972 86th Street. Andrew S. Roscoe, President of the Association, who made the announcement, explained that the checks, drafts and currency are part of the collection of Richard M. Lederer, New York philanthropist and autograph collector. The exhibition will be open for inspection during the branch's business hours—from 9 a.m. to 4 p.m., Mondays through Fridays, except on Thursdays when the office remains open until 7 p.m. Included in the display are the signatures of Robert Morris, called the financier of the American Revolution; Francis Hopkinson, United States Treasurer of Loans; Eldridge Gerry, who became the country's Vice-President under James Madison, and Charles Carroll, only Catholic signer of the Declaration. Also, Roger Sherman, who rose to the positions of Judge and Senator; James Wilson, who became a member of the U. S. Supreme Court; Josiah Bartlett, who became the first Governor of New Hampshire, and George Clymer, Pennsylvania banker.

As of July 15 the consolidation became effective of **The Hartford National Bank & Trust Company** (capital $4,000,000) and the **First National Bank** (capital $1,150,000), both of **Hartford, Conn.**

The Office of the Comptroller of the Currency reports that the consolidation was effected under the charter and title of the Hartford National Bank & Trust Company and that the initial capital stock of the consolidated bank is $5,150,000, divided into 515,000 shares of common stock of the par value of $10 each. The initial surplus of the consolidated bank is $5,150,000, with undivided profits of not less than $2,700,000. Items relative to the plans for consolidation appeared in these columns June 15, page 2600, and July 7, page 72. The Hartford "Courant" stated in its July 15 issue that directors of the First National Bank of Hartford held their last official meeting on July 13 followed with a testimonial luncheon at the Hartford Club with James W. Knox, President, and Robert A. Boardman, Vice-President, as guests. The directors presented the honor guests testimonials to indicate appreciation for the services rendered to the bank through the years. The "Courant" added:

"Mr. Knox entered the banking field in 1925, becoming Trust Officer of the First National. In 1929 he was elected President of the bank.

"Mr. Boardman is one of the senior bankers of Hartford and on Oct. 8 will mark his 52nd year in banking. He entered the employ of the First National as a clerk; became discount clerk in 1903; Cashier in 1922 and Vice-President and Cashier in 1926. He was elected a director in 1929.

"Upon the merger of the First with the Hartford National Bank & Trust Company, effective July 15, Mr. Knox will become a Senior Vice-President, and a member of the honorary board of directors. John E. Stewart, an Assistant Cashier of the First National, is terminating 53 years of banking service with the bank and retires as the banks are merged."

* * *

Aaron D. Felsing has been elected Manager of **The Northern Trust Company Safe Deposit Company of Chicago** to succeed Krebs Beebe who has retired under the trust company's pension plan. Mr. Felsing has been with the institution since 1930 and was appointed Assistant Manager of the Safe Deposit Company in 1947.

* * *

The sale of new stock to the amount of $100,000 has served to increase the capital of the **Midland National Bank of Midland, Texas,** from $200,000 to $300,000. The weekly bulletin of the Office of the Comptroller of the Currency reports that the enlarged capital became effective July 14.

* * *

As of July 7 the capital of the **Longview National Bank of Longview, Texas,** was enlarged from $200,000 to $300,000—a part of the increase ($50,000) resulting from a stock dividend of that amount, and the sale of $50,000 of new stock comprising the further action in the raising of the capital.

* * *

The American National Bank of Idaho, Idaho Falls, Idaho, increased its capital effective July 14 from $300,000 to $350,000 by the sale of $50,000 of new stock.

* * *

The directors of the **Midland Bank Limited,** head office, London, announce an interim dividend for the half-year ended June 30 last at the rate of 8% actual less income tax, payable on July 15. The same rate of dividend was declared a year ago.

* * *

The directors of **Westminster Bank, Ltd., London,** have declared an interim dividend of 9% for the half-year ended June 30, 1949, on the £4 shares and the maximum dividend of 6¼% on the stock for the same period. The dividends (less income tax) will be payable on Aug. 2 to shareholders and stockholders registered in the books of the company on June 30.

Must Consumer Credit Costs Rise?

(Continued from page 9)

because their average loan is increased by the larger loans they are permitted to make.

States are following different procedures in providing higher limits for the loans made by consumer finance companies. Those States which have recently enacted legislation based on the Uniform Small Loan Law have set maximums higher than the old $300 limit. For example, the Washington Act prescribed $500 and the Nebraska and Ohio acts, $1,000.

In those States which adopted small loan legislation many years ago, a trend has begun to raise the old $300 limit by amending the loan maximum section of the law. The limit was raised to $500 in 1947 in Illinois and Michigan, in 1948 in New Jersey, and in 1949 in New York. In each of these cases, the rate permitted on the amount above $300 was reduced considerably below that permitted on smaller amounts. Furthermore, in other States there are additional statutes now under which the consumer finance companies may qualify so as to make loans of more than $300. Under these statutes, consumer finance companies are now making loans above $300 in Colorado, Indiana, Louisiana, Maryland, Massachusetts, New Hampshire, Oregon, Pennsylvania, Rhode Island, Utah, and Wisconsin.

As a result of these trends in State legislation, many consumer finance companies are now making large as well as small loans to consumers, and to reflect this change the companies a few years ago changed the name of their national association to the National Consumer Finance Association — the companies are coming to be referred to as consumer finance companies rather than just small loan companies. These lending institutions supplement, rather then compete with, the consumer loan services offered by banks. As a leading national publication in the banking and investment field points out:

"A great many of the people served by these consumer finance companies are in reality not adapted to bank service. They are people who will never become economically grown-up, who will always need to be held in somebody's leading strings, so far as money management and personal budgets are concerned, and who, in these days, may just as well place those leading strings in the hands of the consumer finance company men as in the hands of anybody else. They need somebody who will hold them decently but firmly to the promises of repayment which they have made. They need somebody whose charges are large enough to justify this constant watch and, if need be, this constant dunning for payments."

Conclusion

In short, some consumers who need more than $300 can be served by the banks, and some cannot. There is, consequently, a need for consumer loan service above $300 both by the banks and by the consumer finance companies. Furthermore, low rates to the very small borrowers (from $20 to $100 or $150) who rely upon consumer finance companies, and are served only to a negligible extent by banks, depend upon increasing the maximum loan limits of the consumer finance companies so that the companies can make some of the larger consumer loans, thereby increasing their average loan balances and reducing their costs of operations.

Stockholders Unions— Objections Considered

(Continued from page 4)

opposition to wage incentives and more interference with plant operations. America's economic progress could be accelerated if organized labor pressure groups and their cooperating politicians could be held in check by a Stockholders Union. But America's economic progress could not be greatly increased even if all the evils in management, real or imaginary, ferreted out by the rambunctious stockholder, were completely removed. The stockholder's enemy is not management but the ruthless labor leader and the political demagogue. The "independent stockholder" is shooting at the wrong target.

The Automatic Check-Off

The check-off of union dues is opposed by one critic. "The unwilling minority stockholder will then have taxation without representation." The other critic states, "Independent stockholders will refuse to contribute to any check-off . . . and will challenge from the floor of the annual meeting any attempt by management to make contributions to such an organization" like the stockholders union. This attitude constitutes political anarchy. **The minority may not like the taxes that the majority levies but it must, under free democratic government, abide by the wishes of the majority.** Miss Vivian Kellems in Connecticut also refused to obey the law and deduct the withholding tax from her employees. She created much notority but the democratic process prevailed in the end. Stockholders will be represented on their union's board by their elected agents and there will be no taxation without representation. In Congress, the representatives elected by the majority speak for all, including the minority. The voice of the United States is spoken by Warren Austin at UN meetings, and not by the isolationist minority.

That Independent Minority!

One critic would "give fair representation to the minority stockholders . . . and the independent public stockholder. The employee-stockholders are an articulate minority which has been fighting for years for corporate reforms." The other critic threatens that the minority stockholders "will make it clear to the legislators" that the stockholders unions "have no authority and are only speaking for management-minded stockholders." The answer is obvious. **If stockholders unions are formed, the minority stockholder who has a just cause can mobilize the majority to support him.** If his cause is unjust and he cannot convince the majority and he adopts an obstreperous attitude, then he is a nuisance both to the majority stockholders as well as to the management. **The democratic process of counting ballots squelches the crackpots in our political life.** The same process should apply in our corporate life. Remember that Wallace "also ran."

Labor and the Stockholder

One critic charges that "a significant proportion of small holders are labor which the new Stockholders Union is being organized to oppose." However, such employee-stockholders have a dual role and their vote will be determined by the stronger of their interests. **But the non-employee stockholders have a perfect right to organize against exploitation by ruthless labor leaders who make demands but refuse the responsibility for the financial consequences thereof.**

One critic would "put a representative of labor on the board of directors of the very companies who have mobilized their stockholders against labor." Labor can properly be on both sides of the fence, labor and management, if employees own a significant percentage of the total stock, as in the case of Sears, Roebuck. **But if the workers own no stock, they have no right to be represented on the opposite side, managing the company, as little as the managers would have the right to be on the board of labor unions.** If labor has an important position on the corporation's board, will it run the company in the interests of the investors who put up the money to buy the tools and the machines, or in the interests of the workers who have no financial risk and would obviously run the company in the interests of the employees. To put labor on the board of management constitutes foggy thinking.

Labor can solve this problem more effectively by other means. It can support a comprehensive scheme of profit-sharing, hitherto always opposed by union leaders because it creates harmony between workers and employers. Or else the workers could buy stock in the company. Or they could accept a profit-sharing bonus in the form of stock. Such stock ownership would justify representation on the company's board of directors. Such stock ownership would teach the workers the elements of bookkeeping and economics and make them sympathetic to policies designed to avoid bankruptcy and to make profits. Eventually the company could be owned by workers, as has happened in many small corporations where a retiring proprietor turns his business over to loyal employees or permits them to acquire it through loans repaid out of profits.

Questions That Only Time Can Answer

One critic raises many questions which will be answered automatically as stockholders unions evolve new functions and uses. How can anyone now answer the following questions: (1) "Will management help to set up an agency which will in any way threaten its present control of proxies? (2) Will it (Stockholders Union) pave the way for a real union of stockholders over whose proxies management will have no control? (3) Will the new Stockholders Union work for a free economic vote for its members? (4) Will it make proxy solicitation mandatory? (5) Will the new union allow unmarked proxies to be cast by management for its own interests? (6) Will the new union stand for cumulative voting? (7) Will it concern itself with the addition of outside directors? (8) Will it demand that directors attend stockholders meetings and stand for questioning. (9) Will it work to hold annual meetings in more accessible places so that more stockholders can attend?"

These questions are welcome. It was such answers to intelligent criticism in the Federalist Papers which laid the basis for the American Constitution but none of the authors of the Federalist Papers, Hamilton, Jay and Madison, could deal with the details which time and the evolution of the American Government eventually solved.

The Independent Stockholders Movement

One critic asks whether the Stockholders Union was "designed to suppress the growing independent stockholders movement and economic democracy. . . . Does the new stockholders union ignore the causes, effects and strength of the public stockholder movement whose slow but healthy growth this union (Stockholders Union) is threatening to divert or wipe out?" **These are rhetorical questions. They require no answer.**

Every good objective initiated by the "independent stockholders movement" will be fostered by a National Federation of Stockholders. But its 10 million members and its annual potential receipts of twenty-odd million dollars will enable it to be effective. The present independent stockholders movement, based on voluntary contributions, is a gadfly in a situation where a powerful percheron is needed that can move heavy burdens easily.

The independent stockholders movement is over thirty years old. Organizations have come and gone. **Their net effect has been next to nil.** Let anyone cite a single achievement to help the stockholder in Congress or before Commissions. **Their objective can be realized only through a powerful organization with ample funds.**

The Federation of Women's Shareholders seems anomolous. The common interest in the ownership of stock, not an anatomical difference. The support of all stockholders is needed, not only women but men, also children and Chinamen, Belgians and buglers, Swiss and swimmers. **The sex of the stockholder seems utterly without significance.**

To the extent that some women stockholders have executive ability, knowledge of economics, accounting, and industrial management, they can serve effectively as members of the board of the corporation as well as a member of the Board of the Stockholders Union. Women are gradually making their place in public life. They started in appointed government posts and gradually progressed until they attained places as Senators, Governors, and Judges of the high courts. But women attained important posts not by favor but as victors in open competition. The same principle should apply to women stockholders on boards.

Mr. Emil Schram, President of the New York Stock Exchange, put the case briefly when he told one critic that, "He looked with favor upon stockholders organizations" but "not to worry about reforms or putting women on boards."

The proposal to set up Stockholders Unions is an attempt, when old methods failed, to get action along new lines to preserve free enterprise and free government. When you lay the foundations of a house, you do not worry about the colors of the shutters.

ELISHA M. FRIEDMAN

New York City
July 26, 1949

The State of Trade and Industry

(Continued from page 5)

July 16, 1949, sales registered a decrease of 8% from the corresponding period a year ago and for the year to date a decline of 4%.

"BUSINESS WEEK" EXPECTS SUGAR PRICE TO TAKE SHARP RISE

The price of sugar is expected to take a sharp climb in the next few weeks, according to "Business Week." The magazine says government economists think the price of wholesale refined will go from 7.85c per pound (after discounts) to 8.10c.

"Business Week's" reasons are: (1) Hawaiian supply has been cut off for two months by the shipping strike; western users are competing for eastern supplies. (2) Raw-sugar prices have inched up over the last year from 5.05c per pound (duty-paid) to 5.90c; producers have been taking advantage of relatively low import quotas. Normally, wholesalers maintain a 2.25c spread and have not passed along the rise for fear of cutting demand. (3) This is the peak consumption period of the year.

CARLOADINGS ARE LOWER AGAIN FOR JULY 16 WEEK

Loadings of revenue freight for the week ended July 16, 1949, totaled 724,100 cars, according to the Association of American Railroads. It also represents a decrease of 167,980 cars, or 18.8% below the corresponding week in 1948, and a decrease of 195,635 cars, or 21.3% under the similar period in 1947.

AUTOMOBILE AND TRUCK OUTPUT

According to "Ward's Automotive Reports" for the past week motor vehicle production of 156,100 units almost duplicates the previous week's production record of 156,438 (revised) vehicles for the U. S. A. and Canada. Car and truck assemblies in both countries for 1949 to date totaled 3,612,144 units or 618,751 ahead of the same period in 1948. Chrysler Corporation is planning to step up next week's performance, working six nine-hour days, "barring worker resistance." Ford, General Motors and other manufacturers are expected to continue their record-breaking production.

LISTED SHARES ON N. Y. STOCK EXCHANGE PAYS 11.2% MORE DIVIDENDS IN THE FIRST HALF-YEAR OF 1949

Despite declining production trends and industrial adjustment, dividend payments to shareholders of common stocks listed on the N. Y. Stock Exchange aggregated $1,853,275,000 in the first six months of 1949, a 11.2% increase over the 1948 half-year disbursement of $1,667,147,000. The "Exchange," official Big Board publication, says that increases were generally distributed among the 26 industrial classifications with the exception of the aircraft group. There were 244 common stocks paying larger dividends in the initial six months of 1949 than in the same 1948 period, 474 listed issues paid the same rate, 118 issues reduced payments and 37 issues were eliminated or deferred their dividends. Seven groups showed lower payments. Two rubber manufacturing companies recorded 11.4% decline and food products and beverage concerns were 10.4% down. The textile classification, the first to undergo trade readjustment, was off only 1.2% from the first half of 1948 figure (plane manufacturers and air lines), which registered the largest increase in dividend payments, raising the disbursements in this category from $5,485,000 in the first half of 1948 to $14,795,000 for the same six months' period in 1949—a 169.7% gain. Other gains included automotive stocks up 42.6%, steel 23.5%, chemical 15%, financial 14.9%, electrical equipment 13.6%, petroleum and natural gas 13.6%, railroad and railroad equipment 12.9%, tobacco 12%. Five other classifications had 5% advances.

RETAIL TRADE STEADY, WHOLESALE TRADE INCREASES, MANUFACTURING RISES SLIGHTLY, DUN & BRADSTREET SUMMARIZES IN ITS WEEKLY TRADE REVIEW

Retail Sales Steady — Aggressive promotions and favorable weather helped to sustain retail dollar volume in the week ended Wednesday, July 21; it continued to be slightly below the high level of the similar week last year. Consumer response to clearance sales of seasonal merchandise was generally favorable. Shoppers continued to seek quality goods in the lower price ranges.

Consumers' interest in apparel dipped slightly this week. Aggregate unit volume of apparel sales was close to that of a year ago. Summer clothing was generally offered at noticeable reductions. Among the best-selling items were women's cotton dresses and sportswear, and men's shirts. Early showings of women's Fall coats and suits appeared in some sections; demand was generally slight.

Retail food volume was practically unchanged from that of the previous week; aggregate dollar volume was slightly below the high level of the comparable week last year.

Shoppers increased their purchases of furniture and household goods in the week ended July 21. Promotions attracted many consumers, but failed to lift total sales above the level of a year ago. There was a slight rise in the demand for electrical appliances.

Total retail volume in the week ended July 21 was estimated to be from 2 to 6% below a year ago.

Wholesale Trade Increased—The total dollar volume of wholesale orders rose slightly in the week ended July 21; it was moderately below the high level of the comparable week in 1948. The number of buyers attending many wholesale markets fell slightly this week, but was noticeably above that of the similar week a year ago. Many merchants continued to insist on prompt delivery.

Manufacturing Rose Slightly—There was a slight increase in total industrial production in the week ended July 21; it continued to be moderately below that of the corresponding week in 1948. Total claims for unemployment insurance declined about 4% in the week ended July 9; this was the second successive week in which total claims declined. In the same week initial claims dipped 1%.

ZINC PRICE CLIMBS; LEAD STILL STRONG

The "Engineering and Mining Journal" reports that the non-ferrous metal situation continued to show improvement last week with *lead* still strong at 14 cents, New York, and one-half cent rise in the price of *zinc*, making the market price 9½ cents, East St. Louis.

The market for *domestic copper* on the basis of 17½ cents, Connecticut Valley was firm for the week ending July 20, but somewhat quieter than the preceding week. The volume of export sales was considerably above that for domestic sales.

In commenting on the *lead* situation, the article notes that some sellers transacted future business at the average rather than on a fixed-price basis. Sales of common *lead* were made on the basis of 14 cents, New York, and 13.80 cents, St. Louis. Sales for the week totaled 9,045 tons, not including government stockpile purchases.

Major sellers of *zinc* have been doing a good volume of business at the new price of Prime Western, East St. Louis, the article says. Because of the firmness of the market at this level, sellers are limiting the amount of fixed-price business, preferring to sell on an average-price basis.

"The increase in price was due to low inventories on the part of consumers and the fact that the recently averted steel strike promised uninterrupted production for the galvanizing industry," the publication explains. "Demand for galvanized products is still strong. The demand for die casters and brass mills has also been strong."

AMERICAN WOOLEN CO. REDUCES PRICES 4.7 TO 18.1%

A drastic price cut, for woolen materials suitable for men's clothing, of 4.7 to 18.1% was announced by the American Woolen Co. July 25, the world's largest manufacturer of woolen and worsted. These cuts in all, averaging 9%, is the broadest reduction in woolen materials for men's wear since World War I and will be duplicated by the rest of the industry. On July 27, the company announced a reduction of 27½ to 37½ cents per yard on its 1950 Spring line of women's wear worsted fabrics. This price cut compares with the reduction of 22½ to 70 cents per yard on its 1950 line of men's wear materials.

COMMODITY PRICE INDEX SHOWS LITTLE CHANGE IN LATEST WEEK

The Daily Wholesale Commodity Price Index, compiled by Dun & Bradstreet, Inc., closed at 238.78 on July 19, comparing with 238.65 on July 12, and with 281.71 on the corresponding date a year ago.

Grain markets were unsettled and price movements irregular. Despite reports of deterioration in the Southwest, wheat prices on the Chicago Board of Trade worked lower under the influence of a heavy movement of grain in the Mid-West.

Oats were under pressure and prices declined as offerings increased. Corn prices showed strength, aided by light receipts and small offerings from the country. The more distant futures attracted some selling due to the prospect of record corn supplies. The drop in wheat was reflected in lower prices for flour. Domestic bakery flour bookings last week were only fair following the broad buying movement of the previous week. Cocoa prices rose sharply during the week, reflecting a steady manufacturer demand and absence of pressure from producing areas. Lard prices turned upward after declining steadily for the past ten weeks. In the Chicago livestock market, hog prices advanced sharply to the best levels of the year, aided by light receipts. Steers closed only slightly lower despite heavy marketings.

Fluctuations in cotton prices continued very small during past week. Spot market quotations were somewhat lower for the week while futures generally trended mildly upward. Although sales of early ginned cotton in south Texas increased sharply as the new crop movement got under way in that area, trading in spot markets was generally quiet.

Reported sales in the ten spot markets amounted to 61,500 bales last week, against 31,900 the previous week, and 54,100 in the corresponding week a year ago.

More favorable crop news brought on some profit-taking and liquidation but selling was not aggressive. Factors tending to sustain futures prices were reports of increased activity in cotton gray goods, the expectation of heavy third-quarter purchases by the ECA, indications that the present 90% of parity loan rate would be continued through 1950 and the likelihood that the June rate of cotton consumption would show less of a decrease from the May figure than had been looked for. Loan repayments on the 1948 crop totalled 21,300 bales in the week ended July 7, slightly higher than in the two preceding weeks. This brought total withdrawals for the season through July 7 to 1,395,000 bales, leaving a net stock of 3,875,500 bales still under loan as of that date.

There was a decided increase in activity in the non-ferrous metals markets last week.

The price of zinc was raised a half cent a pound to 9½ cents East St. Louis, marking the first advance since the downtrend began on March 23. Prices for lead and copper also registered further advances from their recent lows, aided by sustained buying by industrial users.

WHOLESALE FOOD PRICE INDEX SHOWS FURTHER RISE IN WEEK

The Dun & Bradstreet Wholesale Food Price Index scored a further rise of 3 cents this week, bringing the July 19 figure to $5.71. While the current level represents a drop of 21.8% from the $7.30 recorded a year ago, it has fluctuated within a fairly narrow range during the past 15 weeks.

There was an irregular movement in individual commodities this week. Thirteen items advanced, including corn, rye, oats, barley, hams, bellies, lard, butter, cottonseed oil, cocoa, eggs, steers, and hogs. Eight declines were as follows: flour, wheat, beef, cheese, sugar, potatoes, rice and lambs.

The Dun & Bradstreet Wholesale Food Price Index represents the sum total of the price per pound of 31 foods in general use. It is not a cost-of-living index. Its chief function is to show the general trend of food prices at the wholesale level.

ELECTRIC OUTPUT IS ON THE UP-AND-UP

The amount of electrical energy distributed by the electric light and power industry for the week ended July 23 was estimated at 5,461,665,000 kwh. according to the Edison Electric Institute. This represented an increase of 119,558,000 kwh. over the preceding week, 119,538,000 kwh. or 2.2% higher than the figure reported for the week ended July 24, 1948, and 731,436,000 kwh. in excess of the output reported for the corresponding period two years ago.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

Alabama-Tennessee Natural Gas Co., Florence, Ala.
July 14 filed 90,000 shares ($1 par) common stock. **Price**—$9.60 a share. **Underwriter** — Scott, Horner & Mason, Inc., Lynchburg, Va. **Proceeds**—To be used for construction of a gas pipe line system.

• Axe-Houghton Fund B, Inc.
July 22 filed 750,000 shares of capital stock ($5 par). **Price**—About $14 per share. **Proceeds**—To be used to increase capitalization of investment company. **Underwriter**—Leffler Corp., New York.

• Bib Corp., Bartow Road, Lakeland, Fla.
July 14 (letter of notification) 20,000 shares ($10 par) 5% cumulative preferred stock and 20,000 shares ($1 par) common stock, to be sold as 20,000 units at $11 a unit with this price allocation: $10 per share for preferred stock and $1 per share for common; also 60,000 shares ($1 par) common stock at $1 per share. No underwriters. Working capital in making medical supplies in 1949-50.

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.

• Burd Piston Ring Co., Rockford, Ill.
July 18 (letter of notification) 2,500 shares common stock (par $1). **Price**—About $7 per share. **Underwriter**—Paul H. Davis & Co., Chicago.

• Canady-Wiley Mfg. Co. Inc., Winslow, Ariz.
July 14 (letter of notification) 15,000 shares ($10 par) common stock. Price, par. **Underwriter** — Clifford J. Wiley of Winslow. To pay for manufacturing equipment and operating. Office, P. O. Box 1073, Winslow, Ariz.

• Canners Finance Co., Springdale, Ark.
July 15 (letter of notification) $150,000 in $100 par value units of pre-organization certificates. No underwriters. The certificates are to be exchanged for stock in the corporation after a letter of notification has been filed with the SEC. Proceeds to be used as capital for the newly-formed finance company.

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.

• Catholic Pictures International Inc., New York
July 26 (letter of notification) 25,000 shares non-cumulative 5% preferred stock (par $10). Price, par. Production of moving picture telling the story of the Holy Mass as well as all other corporate activities related thereto. Office, 115 Broadway, New York.

Central Electric & Gas Co. (7/29)
June 29 filed 132,874 shares ($3.50 par) common stock. **Underwriters**—Paine, Webber, Jackson & Curtis and Stone and Webster Securities Corp., New York. Price and underwriting terms by amendment. **Proceeds**—to finance an $8,400,000 expansion program for two telephone subsidiaries.

• Chemical Research Corp., Detroit, Mich.
July 25 (letter of notification) 250,000 shares of common stock (par 50¢). The stock will be offered—25,000 in Canada at prevailing market price of 45¢-50¢ per share and the balance of 225,000 shares will be purchased by A. A. Wallace. Proceeds will provide funds with which to bring to trial corporation's case against American Locomotive Co.

Chicago Pump Co.
June 20 (letter of notification) 29,000 shares of 70-cent cumulative preferred stock. **Price**—$10 per share. **Underwriter**—Straus and Blosser, Chicago. To retire an interim loan of $250,000. Office, 2336 Wolfram Street, Chicago.

Citizens Credit Corp., Washington, D. C.
June 22 (letter of notification) 2,800 shares of Class A common stock ($12.50 par) and 1,400 shares (25¢ par) Class B common stock. To be offered in units of two shares of Class A and one of Class B stock for $29.75 per unit. **Underwriter**—Emory S. Warren & Co., Washington, D. C. **Proceeds**—General corporate purposes, including establishment of a small loan office in Mt. Rainier, Md.

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.

• Clover Mining Co., Cheyenne, Wyo.
July 19 (letter of notification) 12,000 shares of common capital stock. **Price**—$1 per unit. No underwriters. To develop mining claims. Office, 408 Boyd Bldg., Cheyenne, Wyo.

• Columbia Gypsum Products, Inc., Bremerton, Wash.
July 15 (letter of notification) 915,000 shares ($1 par) common stock. Price, par. Underwriter, none. Equipment and development of gypsum mining claims. Office, 40 Harrison Bldg., Bremerton, Wash.

• Committee For Industry, Inc., Hoosick Falls, New York
July 22 (letter of notification) 2,000 shares of common stock (par $50). Price, par. No underwriting. Strictly a community project to improve conditions of community.

• Conditioned-Aire Corp., Alexandria, Va.
July 14 (letter of notification) 99,833 shares of 6% cumulative convertible preferred stock ($3 par) and 50,000 warrants to purchase 50,000 shares (par 10c) common stock at one cent per warrant. Price of preferred, par. **Underwriters**—The First Guardian Securities Corp., New York. **Proceeds**—To provide additional working capital for manufacturing and sales of air conditioning equipment.

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. Temporarily postponed.

• Consolidated Engineering Corp., Pasadena, Calif.
July 18 (letter of notification) 400 shares ($1 par) common stock. **Price**—$5 a share. Underwriter, none. Working capital. Office, 620 North Lake Ave., Pasadena, Calif.

Cooperative G. L. F. Holding Corp., Ithaca, N. Y.
June 29 filed 44,088 shares 4% cumulative preferred stock. **Offering**—To be offered at $100 to farmer and non-farmer patrons of the G. L. F. Exchange and its affiliates. **Underwriting**—None. **Proceeds**—To replenish working capital.

Cooperative Grange League Federation Exchange, Inc., Ithaca, N. Y.
June 29 filed 1,200,000 shares ($5 par) common stock. **Offering**—To be sold to members and farmer patrons. **Underwriter**—None. **Proceeds**—To be added to working capital and used for general corporate purposes, including payment of $12,693,000 in loans to an affiliate, Cooperative G. L. F. Holding Corp.

• Corporate Leaders of America, Inc.
July 26 filed $10,000,000 of Corporate Leaders Trust Fund Certificates, Series "B" (periodic payment), and $250,000 of Corporate Leaders Trust Fund Certificates, Series "B" (single payment). **Underwriter**—Corporate Leaders Sales Co., Inc., New York. **Proceeds**—For investment.

• Eastern Footwear Corp., Dolgeville, N. Y.
July 15 (letter of notification) 135,620 shares 4% non-cumulative class A preferred stock (par $1), 1,055 shares 4% non-cumulative class B preferred (par $100) and 105,500 common shares (par $1) reserved for conversion of class B preferred. Company will offer 135,620 shares class A preferred and 1,055 shares class B preferred in exchange for notes and other evidences of indebtedness, aggregating $241,120.

Economy Forms Corp., Des Moines, Iowa
June 27 (letter of notification) 7,500 shares of preferred stock, of which 6,000 shares will be publicly offered and 1,500 shares will be offered to officers and employees without underwriting. **Price**—$25 per share to public, $23.75 per share to employees. **Underwriters** — T. C. Henderson & Co. and Wheelock & Co., Des Moines, Iowa. To buy additional equipment, plant additions, etc.

Emerson Radio & Phonograph Corp.
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.

• Fowler Farm Oil Corp., Fort Worth, Texas
July 14 (letter of notification) 100,000 shares ($1 par) common stock. Price, par. No underwriters. To complete an oil and gas test well. Office, 367 Majestic Bldg., Ft. Worth, Texas.

• Great Western Oil Co., Denver, Colo.
July 15 (letter of notification) 10,000 shares ($10 par) capital stock. Price, par. No underwriters. Oil development. Office, 719 Mining Exchange Bldg., Denver, Colo.

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, and may include John J. Bergen & Co. and A. M. Kidder & Co. Underwriters 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.

Hawaiian Electric Co., Ltd., Honolulu
June 21 filed 150,000 shares of series E cumulative ($20 par) preferred and 50,000 shares of ($20 par) common. **Offering**—Preferred will be offered to preferred holders at 1-for-3 rate and common will be offered to common stockholders at 1-for-9 rate. **Underwriters**—Dillon, Read & Co. Inc. and Dean Witter & Co. will buy unsubscribed preferred; unsubscribed common will be sold either at public auction or to the underwriters. **Proceeds**—To pay off short-term promissory notes and to carry merchandise inventories and receivables or to replenish treasury funds. The balance would be used for other corporate purposes or construction.

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.

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.

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.

• Iowa Southern Utilities Co. of Del.
July 26 filed 80,000 shares of cumulative preferred stock ($30 par), convertible on or before June 1, 1959. **Underwriter**—The First Boston Corp. **Proceeds**—For construction.

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.

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.

• Lee-Norse Co., Charleroi, Pa.
July 25 (letter of notification) 786 shares 6% cumulative preferred stock (par $100) and 786 shares of common stock (par $1). To be offered to stockholders and outsiders, the preferred at par and the common at $20 per share. No underwriting. Liquidate debt and increase working capital.

• Little Queen Mines, Inc., Atlanta, Idaho
July 15 (letter of notification) 725,000 shares of participating common stock and 275,000 shares of common stock (par 10c). Price, par. No underwriters. Continued mining development.

• MacFarlane's Candies, Oakland, Calif.
July 18 (letter of notification) 9,545 shares ($1 par) common stock. **Price**—$9 per share. **Underwriter**—Stephenson, Leydecker & Co., Oakland, Calif.

Maracaibo Oil Exploration Corp.
June 30 (letter of notification) 49,500 shares of capital stock (par $1). **Price**—$5 each. **Offering** — Offered for subscription by stockholders of record July 13 in ratio of one new share for each eight shares held. Rights expire Aug. 9. Underwriter, none but Alfred J. Williams, President, has agreed to exercise rights to buy 1,487 shares and his wife 651 shares, to which their holdings entitled them. Mr. and Mrs. Williams will buy 17,862 more shares if other stockholders don't buy this much. **Proceeds**—To develop properties in Louisiana, Texas and Kansas.

Maumee Oil Corp., Toledo, Ohio
May 12 filed 8,000 shares (no par) common, of which

NEW ISSUE CALENDAR

July 29, 1949
Central Electric & Gas Co.________Common
Worcester County Electric Co.________Bonds

August 2, 1949
Wheeling & Lake Erie Ry.________Bonds

August 9, 1949
Missouri Pacific RR.________Equip. Trust Ctfs.
Northern States Power Co. (Minn.)________Bonds

August 10, 1949
Pennsylvania Power & Light Co.________Preferred
International Great Northern RR.____Eqp. Tr. Ctfs.
St. Louis Brownsville & Mexico Ry.____Eqp. Tr. Ctfs.

August 23, 1949
California Oregon Power Co.________Bonds

September 8, 1949
Indiana Harbor Belt RR.________Equip. Trust Ctfs.

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.

New Jersey Power & Light Co.
June 9 filed 20,000 shares ($100 par) cumulative preferred stock. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: 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. Sale deferred until later this year.

New York & Cuba Mail Steamship, New York
June 17 filed 190,125 shares of 5.6% cumulative preferred ($25 par) stock, which Atlantic Gulf and West Indies Steamship Lines is offering in exchange for its own preferred (5% non-cumulative $100 par) at the rate of one Atlantic share for three shares of Cuba Mail preferred plus $25 in cash. No underwriting.

● **Nilsen Television Corp., New York**
July 22 (letter of notification) 2,000 shares 6% cumulative convertible preferred stock (par $25) and 5,000 shares of common stock (25¢ par). To be offered in units of one preferred and 2½ common shares at $25.625 per unit. No underwriting. Working capital requirements. Office, 11 East 31st Street, New York.

Northern States Power Co. (Minn.) (8/9)
July 8 filed $15,000,000 first mortgage bonds, series due Aug. 1, 1979. **Underwriters**—To be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers and Riter & Co. (jointly); Equitable Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane; Union Securities Corp.; Glore, Forgan & Co.; Smith, Barney & Co. **Proceeds**—Will provide part of the new capital needed for company's construction program. Expected Aug. 9.

O-Cel-O, Inc.
July 13 (letter of notification) 12,500 shares of common stock (par $1). **Price**—$6 per share. To be offered for subscription by stockholders. Underwriting, none. Increase capital. Office, 1200 Niagara St., Buffalo, N. Y.

Oil, Inc., Salt Lake City, Utah
May 19 (letter of notification) 172,690 common shares (par $1). Price, par. **Underwriter**—Waldron & Co., San Francisco, Calif. To drill and equip five wells, working capital, etc.

● **O. K. Ko-Op Rubber Welding System, Littleton, Colo.**
July 19 (letter of notification) 300 shares of participating member shares (par $1,000). Price, par. No underwriters. Sales to be restricted to franchised operators of the rubber welding system. Operating capital.

Palestine Cotton Mills, Ltd., Tel Aviv, Israel
June 29 filed 300,000 ordinary (common) shares, one (Israeli) pound par value. **Underwriter**—The First Guardian Securities Corp., New York. **Price**—$5 each. **Proceeds**—To expand weaving facilities.

Pennsylvania Power & Light Co. (8/10)
July 20 filed 75,000 shares of 4½% cumulative preferred stock (par $100). **Underwriters**—The First Boston Corp. and Drexel & Co. **Proceeds**—Money will be added to general funds and will be used in company's construction program.

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**—P. G. Cranwell & Co., New York. **Proceeds**—For administration expenses and drilling. Statement effective June 27.

● **Rainbow Onyx Co., Albuquerque, N. M.**
July 18 (letter of notification) 80,000 shares ($1 par) common stock. Price, par. No underwriter. Mining and manufacture of onyx.

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.

● **Southern Wholesalers, Inc., Jackson, Miss.**
July 18 (letter of notification) 1,000 shares of first preferred 6% cumulative (par $100). Price, par. Not underwritten, but to be offered principally through Edward S. Lewis & Co. of Jackson, Miss. Operating capital for wholesale hard goods business.

Spring Coulee Perpetual Royalty Trust, Alberta, Canada
June 30 filed 1,120 units of non-producing landowners royalty trust certificates, at $247.50 a share. **Underwriter**—Thomas G. Wylie Co., New York City. **Proceeds**—For development purposes.

● **Stevens Stephens Co., Inc., Oklahoma City, Okla.**
July 12 (letter of notification) 22,000 shares of capital stock ($10 par). Price, par. No underwriters. Oil and gas development. Office, 508 N. W. 20th St., Oklahoma City, Okla.

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.

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.

U. S. Rubber Reclaiming Co., Inc., New York
June 29 (letter of notification) $100,000 5% notes, 1,000 options to purchase 15,000 shares of convertible cumulative preferred stock and 15,000 shares of convertible cumulative preferred stock. Notes will be offered at par and interest for subscription by stockholders and Ladenburg, Thalmann & Co. and Milton Dammann, as underwriters, will purchase and hold as investment any notes not taken by stockholders. Each $100 unit will carry an option to purchase 15 shares of convertible cumulative preferred stock at $6 per share. Subscriptions to note are payable before 3 p.m., Aug. 15, next. Proceeds for working capital.

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.

● **Victory Divide Mining Co., San Francisco, Calif.**
July 15 (letter of notification) 1,400,000 shares of common, non-assessable stock with the first 500,000 shares at 15 cents and the second 500,000 shares at 20 cents. No underwriters. Mining equipment. Office, Room 408, 163 Sutter St., San Francisco.

● **Weaver Bros. Inc. of Maryland, Baltimore**
July 15 (letter of notification) 2,890 shares ($100 par) 6% cumulative preferred stock. Price, par. No underwriters. Interim financing in mortgage loan business. Office, O'Sullivan Bldg., 10 Light St., Baltimore, Md.

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.

Worcester County Electric Co. (7/29)
June 10 filed $5,500,000 of first mortgage bonds, series A, due July 1, 1979. **Underwriters**—Issue awarded to Halsey, Stuart & Co. Inc. July 27 on a bid of 100.31 for 2¾s. Offering at 100.75 on July 29. **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

● **American Gas & Electric Co.**
July 27 reported four investment banking groups are forming syndicates to submit competitive proposals for the underwriting of company's proposed offering of 500,000 additional common shares. The groups are: Union Securities Corp.; The First Boston Corp.; Dillon, Read & Co. Inc.; Blyth & Co., Inc., and Goldman, Sachs & Co. (jointly). The shares will first be offered, about Oct. 1, for subscription by company's stockholders, in the ratio of one new share for each nine held.

● **Appalachian Electric Power Co.**
July 23 reported company expects to sell, probably after the turn of the year, $30,000,000 in new first mortgage bonds. Probable bidders include: Kuhn, Loeb & Co. and Union Securities Corp. (jointly); Harriman Ripley & Co. Inc.; The First Boston Corp.; Halsey Stuart & Co. Inc.

Arkansas Power & Light Co.
June 29 reported company plans sale in September of $8,700,000 bonds. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; White, Weld & Co.; Lehman Brothers and Stone & Webster Securities Corp. (jointly); Equitable Securities Corp.

● **Atlas Aircraft Corp.**
The California Commissioner of Corporations has approved corporation's application for authorization to issue and sell 200,000 shares of ($5 par) stock. Only 38,000 shares will be offered to the public, the remainder having been either subscribed or earmarked for dealers or personnel of the company, it was stated.

● **Brooklyn Borough Gas Co.**
The New York P. S. Commission announced July 26 that it has authorized the company to issue 10,000 shares of preferred stock (par $100). Proceeds are to be used used to pay off $300,000 of short-term bank loans and construction. The new stock is to bear dividends at the rate of 4.4%.

● **California Oregon Power Co. (8/23)**
July 26 reported company plans sale of $7,000,000 first mortgage bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce, Fenner & Beane and Kidder, Peabody & Co. (jointly); Lehman Brothers; Shields & Co. and E. H. Rollins & Sons (jointly); Blyth & Co., Inc. and The First Boston Corp. (jointly); Harriman Ripley & Co. Bids expected Aug. 23.

● **California Oregon Power Co.**
The California P. U. Commission exempted from competitive bidding a proposed issue of 250,000 additional common shares. Proceeds from sale would be used to repay loans and for expansion. Probable underwriters: Blyth & Co., Inc., and The First Boston Corp.

● **Commonwealth Natural Gas Corp.**
July 22 company advised the FPC that it proposed construction of 200-mile pipe line would be financed through sale of securities by Scott & Stringfellow, Richmond, Va.

Cornucopia Gold Mines, Spokane, Wash.
Common stockholders of record June 30 will be given the right to subscribe for an aggregate of 191,500 additional shares (par 5¢) in a 1-for-5 ration at approximately 27½ cents per share. Rights will expire Sept. 13 and are exercisable at office of Old National Bank of Spokane.

● **Gas Service Co.**
July 23 reported company (subsidiary of Cities Service Co.) is preparing to file with the SEC a registration statement covering $18,000,000 25-year first mortgage bonds. It is expected that the issue will be ready for the market in September.

Indiana Harbor Belt RR. (9/8)
July 18 reported company expects to sell September 8 $2,970,000 10-15 year equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. and Lehman Brothers (jointly).

● **Indianapolis Power & Light Co.**
July 23 reported company may be in market in September with a $32,000,000 bond issue, the proceeds to refund outstanding 3¼s. Probable bidders include: Halsey, Stuart & Co. Inc.; Lehman Brothers; Goldman, Sachs & Co. and The First Boston Corp. (jointly); Blyth & Co., Inc.; W. C. Langley & Co. and White, Weld & Co. (jointly).

International Bank for Reconstruction & Development
July 13 loans now under consideration by the Bank total about $100,000,000 and the institution is thinking of offering a new bond issue in that amount sometime after the turn of the year, Eugene R. Black, the Bank's President, disclosed. The management, Mr. Black said, is considering the advantages of offering the issue through competitive bidding, rather than through direct allotments to dealers, the method employed in earlier financing.

● **International-Great Northern RR. (8/10)**
July 25 reported company is expected to open bids Aug. 10 for the sale of $1,710,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.); Salomon Bros. & Hutzler; Harriman Ripley & Co. and Lehman Brothers (jointly).

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. (jointly); The First Boston Corp.; Glore, Forgan & Co., and A. G. Becker & Co. (jointly); Harriman Ripley & Co.

Iowa Southern Utilities Co.
Aug. 9 stockholders will vote on creating an issue of $3,000,000 cumulative preferred stock and increasing the authorized common from 360,000 shares to 560,000. Company plans to sell as much of the preferred issue as "can be marketed on advantageous terms." Probable underwriter: The First Boston Corp.

● **Missouri Pacific RR. (8/9)**
July 22 reported company probably will be in the market about Aug. 9 with an offering of $5,025,000 in equipment trust certificates. Probable bidders: Halsey, Stuart

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& Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. and Lehman Brothers (jointly).

Montana-Wyoming Gas Pipe Line Co.

July 1 this company, recently organized, will be publicly financed, to build a pipe line costing $8,000,000, 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. Company proposes to sell $6,000,000 3½% first mortgage bonds. Probable underwriters: Blyth & Co., Inc.; Merrill Lynch, Pierce, Fenner & Beane.

New England Gas & Electric Association

Company proposes to offer to the holders of its outstanding 1,246,011 shares of common stock, 124,601 shares of additional common stock on the basis of one share of the additional common stock for each 10 shares of common stock held. The offer will be made through rights issued to the stockholders. Existing shareholders will also be given the privilege to subscribe for any number of additional shares not subscribed for through the exercise of the rights, subject to allotment on a pro rata basis. The proceeds will be used to retire $1,250,000 principal amount of short term bank notes of NEGEA and the balance will be set aside for the acquisition of additional common stock of subsidiaries. Probable underwriters: The First Boston Corp., Harriman Ripley & Co.

Pacific Power & Light Co.

June 28 company contemplates the issuance by Nov. 15, next, of approximately $7,000,000 additional first mortgage bonds to retire outstanding notes and to finance its construction program. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Kidder, Peabody & Co.; W. C. Langley & Co. and The First Boston Corp. (jointly); Union Securities Corp., Equitable Securities Corp. and Salomon Bros. & Hutzler (jointly).

Rochester Gas & Electric Corp.

July 11 General Public Utilities Corp. applied to the SEC for authority to dispose of its stock interest in the Rochester Gas & Electric Corp. GPU stockholders would be offered prior subscription rights to the Rochester stock now outstanding, GPU would cause Rochester to Gas stock. As owner of all 775,914 shares of Rochester reclassify the stock into 835,000 shares at a stated value of $24 a share. Details of the proposed distribution of the 835,000 shares, including the record date, subscription price and other terms are to be supplied by amendment. Unsubscribed shares would be offered for public sale. Company may offer through dealer-manager (probably The First Boston Corp.)

● **St. Louis Brownsville & Mexico Ry. (8/10)**

July 26 reported company is expected to open bids Aug. 2 for the sale of $1,020,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. and Lehman Brothers (jointly).

Telluride Power Co., Salt Lake City

July 8 FPC authorized company to issue 3,000 shares (par $100) 6% preferred stock, to be offered for subscription by stockholders at par. Any unsubscribed stock is to be sold without limit to stockholders and employees. Proceeds for construction.

● **Virginia Natural Gas Co.**

The company's proposed construction of natural gas pipe line, costing $5,377,972, would be financed through sale of securities either through a public offering, private sale, or combination of both.

Western Maryland Ry.

July 16 reported refinancing of company's outstanding first mortgage 4% bonds, due Oct. 1, 1952, is receiving attention. Whether to await the maturity of the bonds and refinance on the best terms then available, or now to offer lower term bonds to existing holders for voluntary exchange and in that manner retire a large part of the bonds at this time, is a question that is receiving careful attention.

Wheeling & Lake Erie Ry. (8/2)

July 11 company asked ICC permission to sell competitively $6,870,000 series B general & refunding mortgage bonds, dated Aug. 15, 1949, due Aug. 15, 1974. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp. and Kidder, Peabody & Co. (jointly); Harriman Ripley & Co.; Salomon Bros. & Hutzler; Shields & Co. and Harris Hall & Co. Inc. (jointly). **Bids**—Bids for purchase of the bonds will be received at company's office, Cleveland, up to noon Aug. 2.

Hails New Federal Reserve Policy

In a leading article in the current issue of "The Guaranty Survey," monthly publication of the Guaranty Trust Company of New York, the recent announcement of a change in policy of the Federal Reserve System is hailed as giving hope that from now on the nation will have a central bank policy aimed at stabilization of the economy as a whole, rather than one section of it. According to the article:

"A new phase of central-bank policy for the United States was inaugurated on June 28, when the Federal Open Market Committee of the Federal Reserve System issued the following statement:

"'The Federal Open Market Committee, after consultation with the Treasury, announced today [June 28] that with a view to increasing the supply of funds available in the market to meet the needs of commerce, business, and agriculture it will be the policy of the Committee to direct purchases, sales, and exchanges of Government securities by the Federal Reserve Banks with primary regard to the general business and credit situation. The policy of maintaining orderly conditions in the Government security market and the confidence of investors in Government bonds will be continued. Under present conditions the maintenance of a relatively fixed pattern of rates has the undesirable effect of absorbing reserves from the market at a time when the availability of credit should be increased.'

Meaning of the Announcement

"The Committee's statement indicated that its primary endeavor henceforth would be to increase the supply of funds available to meet the needs of business, rather than continue to maintain a relatively fixed pattern of interest rates on Government obligations through the sale of such securities, a policy which had the effect of withdrawing funds from the money market. Under the inflationary conditions that existed until about seven months ago, the pattern of rates was maintained by purchases rather than sales, and the statement of the Committee derives a large part of its interest and potential importance from the possibility that it may imply abandonment or modification of the former policy of maintaining a relatively fixed pattern of rates in inflationary as well as deflationary situations. The exact nature of the new policy, especially in its longer-term aspects, has been a subject of considerable discussion in financial circles since the statement was issued. For the immediate future, the change seems to point clearly in the direction of 'easier' money. The main question is whether this supposedly expansionary influence will be followed by correspondingly greater credit restraint when the economic balance swings again toward the inflationary side.

"On its face, the Committee's statement leaves room for the inference that such restraint will be attempted—in other words, that the wartime policy of maintaining rigid stability in the Government bond market will be relaxed in favor of a policy aimed at greater stability in commodity prices and business in general. If this is the case, and if the experiment proves successful, a significant step toward healthier economic conditions will have been taken.

War and Postwar Credit Conditions

"The wording of the statement has been criticized in some quarters as ambiguous. Certainly different implications can be read into different parts, and the Committee has left itself (as it probably intended to do) considerable latitude in the choice of specific courses of action under varying conditions. Read as a whole, however, the announcement must in fairness be interpreted as indicating at least a temporary and perhaps a permanent shift of emphasis toward greater flexibility and a broader objective of central-bank policy.

"The meaning of the change must of course be judged in the light of the existing credit situation and background. The 'relatively fixed pattern of rates' on Government securities was a holdover from the war period, when every other financial consideration was necessarily subordinated to the Government's need for money. To help supply this need, the Federal Reserve banks poured reserve funds into the money market by increasing their holdings of Government securities from about $2 billion at the beginning of 1942 to $24 billion at the end of 1945. On the reserve base thus created, commercial and savings banks were able during the same period to absorb a net amount of nearly $76 billion in Government securities without any general rise in rates.

"The modification of the wartime rate pattern has taken place by degrees. In July, 1947, the Federal Reserve banks abandoned the policy of buying Treasury bills at a fixed rate of ⅜% and terminated the repurchase option on such bills, with the result that the rate rose immediately to ¾% and continued to advance gradually to approximately 1.16% just before the announcement of the new open-market policy last month. Since the latter part of 1947 the yield on Treasury certificates of indebtedness has risen at a rate roughly equivalent to the advance in the yield on bills.

Effects of Inflation and Deflation

"In the closing weeks of 1947 the market for longer-term Government securities began to feel the effects of large-scale selling, reflecting a general rise in yields on State, municipal and corporation bonds, combined with an increasing volume of new bond issues, a growing amount of urban mortgages, and an expanding demand for commercial credit. The Federal Reserve banks and the Treasury purchased large amounts of Government bonds in order to support the long-term 2½% rate. On December 24 the Open Market Committee reduced its buying prices for bonds, allowing yields on some maturities to rise above the wartime levels. To maintain even this modified rate pattern, it was necessary for the Reserve banks to increase their bond holdings from less than $1 billion in the latter part of 1947 to more than $11 billion a year later. No great increase in total security holdings resulted, however, because bond purchases were largely offset by declines in holdings of short-term obligations.

"That was a period when inflationary forces were clearly in the ascendancy, and the propriety of holding Federal Reserve credit outstanding at a level between $20 billion and $25 billion at such a time became a subject of active controversy. Critics of the existing policy argued that a comparatively small decline in Federal Reserve security holdings would be sufficient to wipe out excess bank reserves, stop the expansion of bank credit, and check the rise in prices. To bring this about, however, would have meant abandoning support of the Government bond market, a step that Federal Reserve authorities were not prepared to take, partly because some leading members of the Administration contended that there was a moral obligation to protect security holders against loss of money loaned to the Government to finance the war, partly because they considered it undesirable to increase the cost of carrying the public debt, and partly because it was feared in some quarters that withdrawal of support would precipitate a general credit breakdown—that the cure would be worse than the disease.

"The question ceased to be a practical issue about the end of 1948, when bank loans stopped expanding and turned downward, and the maintenance of stability in the Government bond market became a matter of reducing rather than increasing Federal Reserve holdings. No longer are Federal Reserve authorities under pressure to restrain inflation by withdrawing funds from the money market. Their present aim is rather to increase 'the availability of credit.' That is the immediate significance of the new open-market policy, as far as the general business situation is concerned.

Immediate Effects

"The Committee's statement has been criticized as misleading in that it could be taken to imply a credit shortage that does not exist. The decrease in commercial bank loans during the past seven months has not been due to a decline in the availability of credit but to a decline in the demand for credit. Shortages of credit do occasionally occur, but almost invariably at or near the top of the business cycle, and under conditions very different from those that have prevailed in recent months. In the present situation, a credit shortage could occur only as a result of central-bank policy directed to that end. As far as interest rates are concerned, it is only rarely that these rise to such a level as to constitute a serious deterrent to business borrowing.

"Under easy-money conditions such as have existed in the United States without interruption for many years, a further injection of funds into the money market and a further decline in interest rates can do little either to check recession or to promote recovery. Business credit will expand when the demand for it increases, and not before; and the increase in demand will come as a result of more favorable prospects for business operations, not as a consequence of easier money. For obvious reasons, banks and other financial institutions dislike to keep funds idle, but when opportunities for sound loans and investments do not exist in sufficient quantity, excess reserves can rise to high levels and remain at such levels for long periods, as was conclusively demonstrated during the prewar years.

"What easier money can and presumably will do is to enable the Federal Treasury to borrow more cheaply. This prospect is important from the fiscal point of view at a time like the present, when the Treasury faces the necessity of refunding more than $18 billion in certificates and bonds during the remainder of the year, and when the Administration's fiscal policy is based on the belief that it would be "economic folly" to try to avoid a budget deficit. The announcement of the new policy was followed by marked declines in yields on both short-term and long-term government securities, accompanied by generally higher prices for other bonds and for preferred and common stocks.

Long-Term Aspects

"Potentially more significant, and at the same time more obscure, are the long-term implications of the announcement. The avowed purpose of conducting open-market operations with primary regard to the general business and credit situation, coupled with mention of the undesirable effect of a relatively fixed pattern of rates, certainly seems to indicate greater flexibility of Federal Reserve policy. But whether this will be a permanent flexibility, operating in both inflationary and deflationary situations, or a temporary one-way flexibility on the easy-money side alone, is left in some doubt by other parts of the statement, such as the reference to increasing the supply of funds and maintaining orderly conditions in the government security market and the confidence of investors in governments bonds, as well as the restrictive phrasing 'under present conditions . . . at a time when the availability of credit should be increased.'

"With the issuance of the announcement the Federal Reserve banks ceased to sell bonds, but they have reduced their holdings of bills and certificates by $1,037 million, checking and to some extent reversing the decline in the rate on bills. This lends point to the section of the statement dealing with the maintenance of orderly conditions in the government security market, but it throws little light on the question of long-term policy.

A Step Toward Normality

"It seems likely that the Open Market Committee purposely refrained from committing itself too definitely on this all-important point. There is a large element of trial and error in central-bank operations, as in other forms of centralized intervention in economic affairs; and enough leeway to alter the course on short notice is desirable. One thing, at least, seems clear. The committee has taken a step in the direction of a freer and more normal type of open-market activity, and has given itself the opportunity, subject to changing conditions, to make the step a permanent one. It is to be hoped that the move marks the beginning of a transition toward a central-bank policy aimed at stabilization of the economy as a whole, rather than one sector of it alone."

Preston Delano Finds Banking System Sound

Comptroller of the Currency, though noting increase in capital funds in relation to liabilities, cautions prudence in making bank investments. Reports decrease in assets and net earnings of national banks.

The annual report of the Comptroller of the Currency Preston Delano, which was released for publication on July 25 and which covers in the main the 1948 operations of the national banks, reveals that the national banking system on the whole ended the year 1948 in sound condition.


Preston Delano

The National Banking System according to the Comptroller apparently has stabilized numerically, for the time being at least, the number of banks in the System having remained in the neighborhood of five thousand for some five years. (Branches in operation in December 1948 were somewhat less than two thousand.) Although these banks constituted, at the end of 1948, only 35% of the 14,200 commercial banks of the Nation, they continued to hold substantially over one-half of the commercial banking resources of the United States ($88 billion out of $156 billion).

Total outstanding loans of national banks continued to increase during the year, rising from $21.5 billion to $23.8 billion. In order to provide available credit for this expansion in loans, national bank investment in United States government securities continued the downward trend of recent years, although at a somewhat slower rate—from $39 billion to $35 billion. Cash and balances with other banks rose from $22 billion to $23 billion, due to an increase of about $1.8 billion in required reserves.

As in the preceding year, national banks' capital accounts (capital, surplus, undivided profits and capital reserves) increased by a little over $250 million—from $5.4 billion to $5.7 billion. Outstanding preferred stock continued its decline, being less than $25 million (retireable value: $35 million). In relation to total common stock of $1.8 billion and total capital accounts of $5.7 billion, the aggregate preferred stock is now a negligible amount. This is in accordance with our understanding of Congressional policy, and our administrative conviction, that it is most desirable for national banks to have a capital structure based solely upon a uniform type of common stock, and that issuance of preferred stock should be limited almost entirely to emergency situations, with retirement at as rapid a rate as is feasible.

Total deposits of all types in national banks, as well as the major category of demand deposits, dropped slightly during the year 1948. Nevertheless, as indicated above, the capital cushion provided by the investment of stockholders, plus accumulated and undistributed earnings thereon, continued to increase, with the approval and encouragement of this bureau. This increase in capital accounts seemed to be called for primarily because of the increase of over $2 billion in outstanding loans, previously commented upon. The changed picture of American banking in the past quarter century has made the ratio of capitalization to total deposits, formerly used as a rough rule-of-thumb, far less significant than the question of the amount of capital funds needed in view of the amount and character of so-called "risk assets" held by the particular bank.

"It is gratifying to observe the extent to which the National Banking System has performed its major function as creator and distributor of credit during the postwar years," Comptroller Delano notes. "At the end of 1945, the last war year, United States government securities were still well over one-half of the resources of national banks; three years later such securities constituted less than 40% of all resources. Even more striking has been the increase in lending activities. In December 1945 loans accounted for barely 15% of national bank resources, but three years later 27% of those resources consisted of outstanding loans.

"Paralleling these changes, and called for by them, there has been a substantial increase in capital funds, derived chiefly from the retention of earnings. Over the three-year period referred to, capitalization rose from 5.1% of all resources to 6.4%—in other words, an increase in the capital cushion of 25%, relative to the deposits and other liabilities protected thereby. Elsewhere in this discussion mention is made of the importance of determining the adequacy of capital structure in the light of the volume and quality of loans and comparable assets, rather than in relation to deposit liabilities, although the latter factor should not be disregarded in view of the potentialities it affords for future increase in 'risk assets.'

"In our economy, a banking system—like any other economic organism—remains healthy only as long as it yields returns commensurate with the investment of its owners, and the degree of risk necessarily involved in the undertaking. On the other hand, returns which seem patently excessive, when contrasted with returns in comparable sectors of the economy, may reflect an absence of the competitive factor which is also essential in an optimum economic climate. Consequently, it is appropriate to examine with care the sources, amount, and use of national bank earnings.

"In 1948, for the first time since 1942, earnings from lending operations ($890 million) exceeded aggregate income from investments in government and other securities ($690 million), and did so by the wide margin of $200 million. Operating expenses continued to increase, and many national banks adopted the reserve method of accounting for bad debt hazards, so that despite an increase over the preceding year of $175 million in gross earnings, net profits before dividends actually were $30 million less than in 1947. As a result, net profits amounted to 7.6% of capital funds, compared with 8.6% the previous year. Less than half of net profits was distributed as cash dividends, the remainder being retained to strengthen the capital position.

"The facts thus briefly presented justify the conclusion that the National Banking System on the whole ended the year 1948 in sound condition. Nevertheless, it must be recognized that during the year and also presently, economic and political forces were at work, both at home and abroad, which could affect adversely both banks and the economy of the country generally."

Reminding the nation's banks that "it must be recognized that during the year and also presently, economic and political forces were at work, both at home and abroad, which could affect adversely both banks and the economy of the country generally," the Comptroller cautioned prudence in making loans and investments. After reviewing in detail the criteria of credit soundness, the Comptroller suggested that the banks be careful in making investments in municipal obligations and real estate loans. Congress exempted state and municipal securities from the statutory limits set on bank investments, but this "is not equivalent to a blanket approval of investment in such securities without regard to their inherent qualities and their suitability for the investment portfolio of a particular bank," the Comptroller points out. Mr. Delano referred particularly to the risks involved in investment in "special revenue" as distinguished from the direct and general obligations of municipalities.

As to investment in real estate mortgages, the Comptroller notes that "by adhering to fundamental principles of realistic appraisals and adequate amortization, banks can with safety discharge their duties in a constructive program of adequate housing and economically sound home ownership."

Our Reporter's Report

Supporting reports that the "float" of unsold corporate bonds, accumulated prior to the Administration's definite return to an easy money policy, has been pretty thoroughly cleared away, several new issues brought out this week were accorded a reception that was regarded as little short of amazing.

And it was not the ready acceptance of the issues alone, but rather the reported identity of certain of the buying institutions which made the surprise even more pleasant.

This was especially true in the case of Columbia Gas System's $13,000,000 of new 25-year debentures for which the bankers paid the company 100.63991 for a 3% interest rate.

The successful group repriced the issue at 101⅛ for an indicated yield of 2.94%. As some people in the Street put it, by way of alluding to the price, "we thought the issue was bought for September distribution."

But one of the big insurance companies, which has not been active below a 3% basis, and which has been operating chiefly in the field of direct purchases, stepped in, reportedly, with orders for $6,000,000 from the sponsors and another $4,000,000 from group members, leaving only a small balance to be marketed.

The story was almost the same in the case of Illinois Power Co.'s $15,000,000 of first mortgage 30-year bonds, purchased as 2⅞s for 100.176 and reoffered at 100½ to yield 2.85%. Two insurance companies were reported to have spoken for blocks of $5,000,000 and $3,000,000, with several others coming in for smaller amounts. Naturally this left the underwriting bankers not too mindful of the heat.

Looking Well Ahead

Success which has attended several such operations in recent months is promoting unusual interest in the forthcoming sale by American Gas & Electric Co. of 500,000 shares additional of common stock.

The company proposes first to offer the stock on "rights" to shareholders in the ratio of one share for each nine now held, probably along about Oct. 1 next.

But several banking groups are reported organizing already to seek the "standby" contract on this business in the wake of last week's Securities and Exchange Commission action in denying the company's request for permission to arrange the standby through negotiation.

August Looks Quiet

Usually the biggest vacation month of the summer, August, this year promises to be extremely quiet unless there is a sudden rush of registrations. At the moment only two utility companies have chosen the period, and then but tentatively for floating new issues.

Northern States Power Co. of Minnesota has a $15,000,000 deal projected for Aug. 9, and California Oregon Power Co. is planning to float $7,000,000 of new mortgage money, probably toward the end of the month.

On Futures List

Banking groups are in process of formation to bid, on Aug. 10 next, for roughly $20,000,000 of new bonds of the Lower Colorado River Authority. The exact amount of the offering will not be determined until early next month when the Authority is slated to open bids for construction of two new dams.

Meanwhile bankers believe that Indianapolis Power & Light Co. is a prospect for extensive financing along about September. They figure the company could come out with a request for bids on $32,000,000 of new bonds.

The issue would be floated to replace at reduced cost an outstanding issue of 3¼% bonds, due 1970.

Liquidation Notice

The Plainfield National Bank of Moosup, located at Moosup, in the State of Connecticut, is closing its affairs. All creditors of the association are therefore hereby notified to present claims for payment to the undersigned at said bank.

BENJAMIN F. DAWSON,
Liquidating Agent

Dated June 24, 1949

Washington... And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—Two seemingly unrelated bills were unveiled formally to Congress this week. Dealing with housing and foreign arms aid, they looked to be as diverse as steel and water. Yet these two legislative projects had some striking elements in common, to wit:

In both cases, the Administration is seeking broad grants of power, bound by as few definitions and limitations as possible. Both bills are so complex that experts in statute law writing would have to burn the midnight oil many, many nights to begin to figure out what they meant. With both bills Administration officials are being anything but fully frank with Congress. Should both bills be enacted, the long-run implications of their operation would be far broader than even the most suspicious anti-Administration Congressman could imagine.

* * *

Congress was quick to note and call attention to the broad language of the arms aid bill. There are many examples which might given, one of which was suggested. It is contemplated that the arms aid bill will finance primarily war "capital equipment," by which the military mean the solid implements of war, from gun carriers to aircraft. The potential beneficiary nations signed a statement in April in which they declared that they would provide, as it were, the food, clothing, and shelter for their own military establishments.

Yet the bill as drafted imposes no obstacle to working off on the Europeans, of a surplus of cheese or cotton, potatoes or pork.

It is probable that the technicians who have labored for months on the arms aid program, would be genuinely horrified at the thought that any of the money authorized might ever be diverted to such an extraneous objective as working off farm surpluses. They know down to the last truck or training aircraft or replacement nut and bolt, what country would get what for what purpose, and when.

Yet they have drafted a bill of great flexibility, so as to permit them to change their plans whenever military considerations, particularly changes in the situation, would seem to indicate a change in the arms aid program. At the same time they would put in the hands of an Administration a power which, if enacted, could be used to do wonders with a farm surplus problem in an election year.

* * *

This arms aid program bears a close resemblance in its vast mass of detail to a military staff plan for conducting a huge operation with forces. Because of this character only a few select members of Congress will get a look at it even in secret. Most of the Congress and few of the people generally will know what is in it.

Congress will also allege that the Administration is far from frank about at least two other phases of the program.

One is its duration. The State Department's official public brochure, "The Military Assistance Program," asks itself Question VIII, "Duration of the Program," writes 250 words in answer, and begs the question. The President goes farther by implying that the program is one of some years' duration, by stating: "How long it may be necessary to continue military aid depends on many unpredictable factors."

Actually the objective of the military aid program is believed in informed Congressional quarters to help the western European nations to prepare themselves, not to defeat Russia, but to hold an invasion at some place like the Rhine until some such time as American forces can be brought to bear. This is believed to be a four-year or more program.

It is a pretty good guess that officials know tentatively the probable cost of this program, but they are not saying. They are taking the position, convenient to avoid the long-term commitment as to what they propose to undertake, that this is purely an "interim" plan until the security committee which would be set up under the Atlantic Pact, can take over.

* * *

Finally, the President officially depreciated the monetary significance of the program, by stating in his message that "The aid we provide will constitute only a minor fraction of what those countries will spend themselves."

Certain Congressmen were quick to note the President's own figures, that "about $5½ billion dollars" was all that the domestic budgets of the Brussels Pact countries (including England and France) plus Norway, Denmark, and Italy "are able to stand without interfering with the civilian production necessary for their economic recovery."

If the equivalent of $5.5 billion is all that these nations in the aggregate are spending on defense, and the President's figure was actually meant to be an aggregate of the total of all their defense budgets, then the $1,450 million for foreign arms aid would be greater than 25% of the European effort to defend itself. Excluding $300-odd millions for Greece, Turkey, and Korea out of the arms aid proposal, the remaining $1,130 million is equal to 20%.

On this point the Administration, it may be taken for a certainty, will be challenged. If the purely domestic budgets of Europe (apart from the "dollar shortage") can afford social security from the love nest to the grave, and billions for socialization, then it will be alleged that they can make a greater contribution to their own military security.

* * *

With an official analysis and some unofficial reports which have come out since the new big housing bill came out into the broad daylight of open Congressional committee hearings, the magnitude of the "private" or "median income" housing bill is beginning to be revealed.

It is reported that one of the features of this bill is a very definite scheme to add to public housing in this country by some figure less than 500,000 housing units above the 810,000 units adopted recently in a separate public housing act.

When Congress before the official war passed the Lanham act appropriating for the construction of war housing for war workers, it attached a firm proviso to the law that none of this housing should ever be used after the war for either low rent or public housing. This prohibition was not just a quirk that some conservative Congressman got by Congress in an absent-minded moment. Congress had been steadily turning down the public housing boys for some three years prior to the war, and did not want to create a vast total of housing that could land after the war in the laps of the public housers.

Congress also declared that the Administration must dispose (by which it was meant sell to private owners) of war housing within two years after the end of the war.

In all some 750,000 temporary and permanent war housing units were built. Despite the mandate to the Administration to get this housing off the government's hands without turning it into subsidized, public housing, the Public Housing Administration has some how found the job over its head. It got an extension of the deadline on disposing of this housing until Dec. 31, 1947, then to Dec. 31, 1948, then to Dec. 31, 1949.

Yet some how there always seemed to be something wrong with the disposal program. There were more roadblocks created by PHA to sales of this housing to private owners than there are roadblocks into the Iron Curtain. Roughly only some 125,000 units were sold by PHA of its own volition and another 125,000, more or less, were given to colleges and universities by Congress, leaving around 500,000 remaining, of which about 50,000 are temporaries.

Now the delay has finally produced a change to hearten the public housers. The change is a Congress which finally swallowed public housing. So part of this omnibus bill is a specific repealer of the prohibition of the Lanham act against the use of this war housing for low rent and public housing, and provision that any state, county, or local government which wants to take over and use this housing for either public or low rent housing or both may do so.

And, of course, should Congress not get wise to this one, it would only be a matter of a year or two before there would be another little amendment in another housing bill providing for annual subsidies "to maintain the low rent character" of this new increment of public housing.

* * *

It is declared in several quarters that the scheme which is part of this same housing bill to set up a government loan fund of $1 billion for cooperative rental housing, is actually the CIO section of the bill.

With this scheme the CIO, which has gone in for cooperatives, could set up housing cooperatives beholden to the CIO unions. The benefits of this housing, subsidized both as to the cost of the money and as to free government architectural, legal, and other technical assistance, would accrue to unions, and thus help the boys collect the dues.

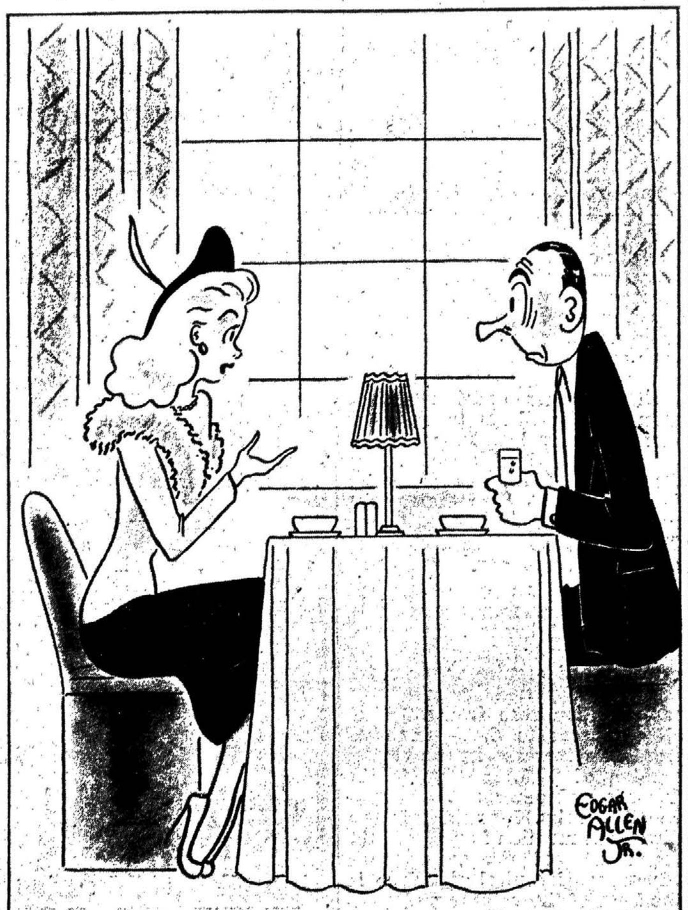
Furthermore, as the entrepreneurs with government money, the CIO could set up CIO unions in the building field, and muscle in on this field where it never has been able to make appreciable progress.

* * *

Raymond Foley, Administrator of the Housing and Home Finance Agency, was very careful in his testimony, of course, to avoid pointing up these cooperative and public housing facets of the big housing bill. To hear his testimony one would never learn that a couple of radical new departures in government-in-housing were being proposed, or particularly that a long-established Congressional policy against using war housing for public housing, would be reversed. Mr. Foley, so he said, was just interested in providing the housing financing aids which experience shows are necessary to keep "private housing" going at full tilt.

(This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.)

BUSINESS BUZZ



"—And for our Paper Anniversary, Honey, just give me a little something made of paper—like stock certificates for example!"

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WAUSAU, WIS.—W. J. Kurth has joined the staff of Raymond J. Plunkett & Co., 502 Third St.