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Postwar Problem Of World Trade

By J. H. RICHTER*

Head European Division, Office of Foreign Agricultural Relations, U. S. Department of Agriculture.

Dr. Richter, noting low ebb of European foreign trade, contends balance in payments cannot be provided by financial assistance on emergency basis. Foresees lasting dollar shortage and no substantial increase of U. S. imports.

If we read the newspapers and listen to speeches by officials of the United States Government or any European governments, we are sufficiently aware of the fact that there is a problem of international trade and, generally, of international economic relations. The Europeans assert that they must export more in order to import. In the United States we confess that we must import more in order to keep on exporting. It sounds very much like the same story, read

J. H. Richter

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*Address delivered by Dr. Richter at the meeting on Nov. 17, 1949, of the District of Columbia Institute of Certified Public Accountants. The opinions expressed by Dr. Richter are his personal views and do not necessarily reflect official policy or lines of thought.

What's Ahead in Business?

By DAVID E. FAVILLE*

Professor of Marketing, Stanford University

West Coast economist, maintaining business climate is good, predicts, however, total business for 1949 is likely to end up below level of 1948, and 1950 will be below current year. Sees good business continuing when measured by normal standards, and contends, despite unbalanced budget and increased government spending, our huge production potential is powerful anti-inflation force.

The past year has witnessed some significant changes in our economy; namely a downturn in the business cycle last spring, and a return from a seller's to a buyer's market. Unsold inventories, full pipelines, and over-expanded production facilities were disturbing developments unfavorable to business profit margins. Then in the third quarter of the year came a pleasing and what looked like more than a seasonal upturn in business. This fall the stock market rose to around the highest levels of 1948. In spite of currency devaluations and the announcement of Russia's possession of the atom bomb, business was looking up. Our slide-off was described as merely an inventory adjustment. Sumner Slichter told us the recession would soon be over. In the midst of this good news came the prolonged steel, coal, and aluminum strikes precipitating an artificial production. Federal Reserve Board figures show that the strikes pulled down the industrial activity index from 172 in September to 152 in October to the lowest point in three

David E. Faville

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*An address by Prof. Faville before the annual Conference of the Municipal Utilities Association Santa Cruz, Cal., Nov. 16, 1949.

The Stock Market Upturn

By MELCHIOR PALYI

Commenting on recent advances in stock market averages and activity, Dr. Palyi sees in it a behavior pattern responding to a basic element in our economic and social picture, namely, return to deficit financing and inflationary policies. Says stock market reaction was slow, but boom is likely to carry with it low-grade bonds as well as real estate, diamonds and similar hedges against inflation. Warns Administration may reverse inflationary policies.

The greatest puzzle of this postwar world of ours is—not Russia, the A-bomb, Titoism, the British balance of payments, the Welfare State, or the Truman election. Superciliously, they may be termed "simple" matters. The real mystery is what is called the American business cycle. It is mysterious especially to those experts, from Russian planners to American business forecasters, who have a hard time understanding that the "Victorian" scheme of rhythmic ups and downs does not apply under conditions totally different from those before the age of the Four Freedoms—in a super-liquid economy geared to artificial Full Employment.

Dr. Melchior Palyi

In reality, the problem is not: why we do not have the long-expected depression. The problem is: how is it possible under the prevailing circumstances that even such a minor interruption of the boom as that of the last 12 months has occurred?

The recent "recovery" of the stock market throws the spotlight

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EDITORIAL

As We See It

Realism, or the Want of It, in International Affairs

The absence of realism from our international programs has long been evident to the experienced eye. This failure to understand the true inwardness of much that is taking place in the world today is possibly more pronounced in this country than anywhere else in the world of major powers. It must, however, be said in all candor that a number of the older countries long involved in world politics have of late not always been as perspicacious as might be expected. The fact of the matter is that it would be a good thing for most of the peoples of the world to reconsider and restudy the situation by which the world is faced in this day and time.

At the moment, one of the most striking examples of all this is found in the policy of the United States as regards what is known now as Western Europe. It has, of course, long been a favorite pastime of the dreamers in this country—and in some others, too—to talk of a "United States of Europe." However, very few there were who had any serious idea that the diverse peoples, speaking different languages, bound by different and often hostile traditions, and having marked local in-

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A Trip to Fairyland via The Welfare State

By DONALD R. RICHBERG*

Former government official conducts us on journey giving preview of our future apparent from Administration's promises to make our country into a Fairyland. We are showed Nuthin, the great labor economist, who tells us how to divide $100 among 10 people so that each one gets $20. We learn that there is no end to the problem of how to take care of everybody, because the inhabitants have discovered that the way to solve every little problem is to create a bigger one.

Knowing that you are all tired of business and politics, I am going to take you on a trip to Fairyland—to the National Welfare State of Mind. This will give you a preview of what may be the future of the United States, because we already have a national administration that is promising to make our country over in a few years into a Fairyland.

Donald R. Richberg

You have all read of the adventures of Alice in Wonderland and of the strange country that she found after going through The Glass. But probably few of you know that when Alice grew up she married a man named Givemguff, who was commonly referred to as Mr. G. They had a son whom they named Hally, with the fond hope that some day he would be famous, following in the footsteps of his mother, the immortal Alice.

Sure enough, when he was only a small boy Hally discovered Fairyland—which was even more wonderful than Wonderland. Now I'll tell you how it happened, and what happened to Hally in Fairyland, and about the people who lived there, who were all "wild about Hally"—some in one way and some in another.

One day Alice took little Hally for a walk to see the red roses in the Utopia Gardens, which is a popular resort for people traveling on that old winding road that leads over the hill to the poorhouse. Hally was so very active, running around investigating things, that his mother finally said: "You have a true man's curiosity. Perhaps when you grow up you'll be a Senator."

"Or maybe President!" shouted Hally, running around gaily and stumbling in and out of the red rose beds while his mother smiled indulgently. Suddenly he stubbed his toe on a large rock and fell forward into a deep hole which was hidden by a clump of red rose bushes. Down, down, down he fell; but soon he lost his first fright because a rising column of hot air began to check his fall.

Yet, still he kept on dropping lower and lower.

It seemed as though he was going to be falling down forever, but after a while he got the impression that he was falling upward, just as anyone else standing on his head sees the world upside down.

Then, somehow, he found himself sitting on a soft-cushioned throne in the center of a lofty pillared room. In front of him stood a very small man, dressed in a brown silk shirt, black satin breeches, red nylon stockings and golden shoes, who bowed low and said:

"Your majesty, the roof is leaking."

"Where am I?" asked Hally.

"Your majesty, the farmers are waiting."

"For me?" asked Hally.

"Your majesty, the factory hands want more wages."

"Is that my business?" asked Hally. "I'm only a little fellow. Haven't you got some big men for these big jobs?"

"Oh, no; you are much bigger than any of us," assured the little man. "That is why we call you Mr. Big."

"But how did I get this way?" complained Hally. "Everyone at home knows that I'm a little fellow."

"It was falling upward," explained the midget. "As you fall up, you swell up. Even a secretary like me gets puffed up."

"What are you secretary of?" demanded Hally.

"I am the Secretary of Extraordinary Complaints. Just call me Sec. for short."

"Well, I certainly couldn't call you Sec. for long," said Hally, giggling at his own joke.

"Oh yes, you could," replied the midget, "because I'll be long with you; and furthermore I belong to you," he added slyly.

"I don't like puns unless I make them," said Hally. "Tell me about these complaints. What do you do with them?"

Little Sec. laughed: "I just put them on your desk. Then you call a conference of Noble Bleeders."

"Who are they?"

"They are men and women whose hearts always bleed for people who need help."

"They must die young."

"Oh, no. The bleeding tax law compels every citizen to give a quart of his blood every month to provide blood for the bleeders, so they can bleed for people without losing any of their own blood."

"What a strange custom," cried Hally. "Why don't people bleed for themselves?"

The midget Sec. explained patiently: "This is Fairyland—the Welfare State—and here no one is compelled to do anything for himself if the government can possibly do it for him. We have one government bleeder for every 20 workers—so one bleeder can bleed 20 quarts a month for a person who needs help, which no one could do for himself."

"But what happens if everybody needs help?" asked Hally. "How can you bleed the taxpayers enough for that?"

"That's one of your problems," answered Sec. "You see the taxpayers are people who take care of themselves. They are full-blooded people who make money, which is a wicked thing to do, so the government takes most of the taxpayers' money away from them. Then we spend it, taking care of people who ask us to take care of them.

"We have built up this great welfare state by taking care of more people every year, until now we have a safe majority in every election. The only trouble we have is that now we can't pay all our bills. We are spending more and more every year to take care of more and more voters. But we are collecting less and less from the fewer and fewer voters who take care of themselves. That's why we sent for you, Hally. If you can show us how to collect and spend more money than we let people make, you will be crowned Imperial Wizard of the Brave New World."

"But I am only a little fellow," wailed Hally. "What happens if I fall?"

"Don't mention that word!" cried Sec. in alarm. "We don't dare to think of failing; the whole roof might fall in. Oh, dear, oh, dear, it's falling now!"

His voice rose to a shriek as a huge cascade of water poured down upon them: "I told you the roof was leaking. You didn't do anything about it."

The tiny creature crawled under Hally's throne, above which a wide canopy deflected the falling torrent, while Hally shouted: "What makes the roof leak so suddenly?"

"The comical people are wrecking it," cried Sec. "They don't believe in roofs."

"Why don't you call out the police or the army to stop people from wrecking my home?" demanded Hally. "That's what my father, Mr. G., would do if this happened in my country."

"*This* is your country," retorted Sec., "and you can't stop commies or anyone else from tearing down roofs when they don't believe in roofs. That's a sacred right of free speech. The traveling commies run around the country yelling: 'The sky is the limit! Down with roofs!' That stirs up the working commies to strike against roofs. You know you can't stop striking. That's another sacred right."

"But, why don't people who like roofs have a right to protect them?" asked Hally. "Haven't I any right to keep a roof over my head?"

"You have a right," shouted Sec. "You have a right, but it's

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*An address by Mr. Richberg at dinner of Southern Furniture manufacturers Association, Asheville, N. C. October 24, 1949. Mr. Richberg is now a member of the law firm of Davies, Richberg, Beebe, Busick & Richardson, Washington, D. C.

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Some Natural Gas Aspects Of Petroleum Industry

By WINFIELD H. PERDUN*

Partner, Laurence M. Marks & Co., Members New York Stock Exch.

After calling attention to rapid growth of use of petroleum and natural gas, Mr. Perdun predicts greater progress in future. Sees petroleum industry supplying increasing portion of total gas needs, but warns National Gas Act discourages sale of this gas in interstate commerce. Lists companies who are probable holders of largest gas reserves and estimates total reserves may reach 300 trillion cubic feet. Notes expanding market for natural gas.

Forecasting the future energy requirements of the United States involves basic assumptions by the forecaster as between the pessimistic view that this country has become a mature economy and the brighter view that technological developments can continue to bring about expansion comparable with the remarkable progress of the past.

I do not intend to debate the question of our future energy usage volume. I think each of us is a believer in the American system of free enterprise and the production marvels to which it has given birth. If any of you do not believe in that philosophy, you are certainly in the wrong business. Hence, in looking at the future, I feel that subject to the risk of increasing government dominance in economic activity with the uncertainty that mistaken policies brought about by political expediency can be disastrous, our total energy usage will grow. Further, I do not now assume that within the next decade the use of mineral fuels will be seriously affected by the attainment of economic methods for using power from solar radiation or nuclear fission. When and as these methods are developed, they will entirely change the trends of the types of energy use. I have a reasonably strong conviction that we will use these methods at some future date, and perhaps more than from anything else this conviction stems from the limitless nature of the frontiers of the scientific mind.

But, to shorten our view to, say, the next decade, let us agree that these achievements will not have appeared in a degree such as to adversely affect the overall demands for coal, oil, or natural gas, which we broadly describe as mineral fuels. I caution you, however, not to eliminate these potential new energy sources from your long-term investment thinking with regard to the value placed today on extremely long-term holdings of mineral fuel reserves.

A high degree of correlation exists between industrial production and energy consumption. Since 1929 the advance in the use of energy has been at a slower rate than the advance in industrial production because of greater efficiency in energy utilization. Briefly, for the 20-year period 1929-1948, the increase in the use of energy was slightly less than 2% per year, compared with a gain of 3% per year in industrial production.

*A talk by Mr. Perdun at educational meeting of the Association of Customers' Brokers, New York City, Nov. 22, 1949.

Petroleum and Natural Gas Energy Use

In 1948, for the first time in our industrial history, the combined contribution of petroleum and natural gas to our total energy requirement exceeded the combined contribution of anthracite and bituminous coal.

Between 1939 and 1948 our total energy requirements increased 60%. The percentage increases by the various forms of power were: Anthracite coal 11%, bituminous coal 50%, petroleum 66%, water power 77%, and natural gas 97%. Since we know that the percentage of total energy consumption in the form of water power is relatively small, we should next look at a percentage breakdown of energy use in these two periods as follows:

	1939	1948
Anthracite	6.1%	4.2%
Bituminous	44.9	42.4
All Coal	51.0%	46.6%
Petroleum	33.8	35.1
Natural Gas	11.6	14.3
Water Power	3.6	4.0
	100.0%	100.0%

Let me impress upon you that the usage of all forms of energy has increased during the above decade, including coal, which Mr. John L. Lewis has been doing his best to price out of the best markets when it was already a decade ago the most vulnerable fuel for replacement by either oil or gas when prices are in any way comparable on a delivered BTU basis.

If we project to 1960 the relationships which have in the past existed between industrial production and energy use, we may in that year have an energy requirement of between 39,000-41,000 trillion BTU. Despite the fact that our present reserves of coal indicate a far greater potential supply of energy than either gas or oil, I believe that the past experience of convenience of usage for oil and gas may effectively support the argument that if their supplies are adequate and prices remain attractive for home and industrial heating, their energy gain relative to coal may be expected to continue. Three basic reasons for this expectation are:

(1) Proved reserves of natural gas can reasonably be expected to

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Preparation and Method in Salesmanship

By KELSO SUTTON*
Consultant in Salesmanship

After stressing importance of training and preparation in methods of salesmanship, Mr. Sutton describes types of salesmen and then reviews contents of previous lectures. Urges those becoming salesmen to forget about other careers and adapt themselves to their jobs. Contends, though "there is not much gravy in selling," it can be made a successful occupation.

There is a little story I would like to tell you, to begin today's session. During my first year in business school I played squash a lot and through that activity met a student who was rather well-known in college, quite a big shot as an undergraduate. It just so happened that we played a very even game of squash, so he asked me to play another game with him sometime, and I did.

Kelso Sutton

All during that first year at the business school, this chap and I played squash perhaps two or three times a week. We became friendly and I was invited to his home for dinner occasionally.

He had never worked a day in his life. He had plenty of money. At Christmas time, he would go to Florida and during the summer vacations he would be traveling, but was never engaged in working during those vacations.

We were graduated in 1931, a very bad year. He couldn't find a job. He stayed on, doing some other work at the business school for a while and sometime during that year a mutual friend and I paid him a visit. It was evident that he was feeling rather nervous and was sort of biting his lip, but we didn't know why and thought it might be simply because he was tired from working hard there at the business school, which was certainly a terrific grind.

Finally, I heard that my friend had asked another acquaintance where he could get a job and he did eventually land a job as a salesman for a large company. Now, if there was anyone in the world who knew less about selling than this fellow, I don't know who it would be, or anyone less qualified to go out into business and make a start in the terrifically bad years of 1931 and 1932, or to do selling out on the road to the type of retail people he was supposed to contact.

But this company took him on and put him out on the road. One evening, I picked up the evening paper and found his picture on the front page. He had gone out of the tenth floor window of a hotel in Albany, and that was the end of him.

He had everything to live for, a nice family, money; he was a very good-looking boy, well-educated and yet he had ended it all. That hit me pretty hard. At that time, I was working on a newspaper, selling space, and having quite a struggle, as any salesman did in those days. No one taught me anything about selling and no one had taught my friend a thing about selling either.

I had worked through the summers and had been beaten around a lot and could take that tough business of learning to sell during those years, but my friend had lived a more protected life and he just couldn't take it.

I thought about that occurrence a lot and the fact gradually became apparent that that was the epitome of failure on the part of a salesman. That was just the example of a man failing in his career of selling—a very tragic example.

But there are other examples of the same kind of failure every day, with hundreds of other people; failure not always exemplified by such a tragic incident, but occurring nevertheless.

In a way, I felt the company that hired that young man and sent him out with no qualifications to do a very tough job, that in a way they had killed him. I recalled the condition he had been in when I saw him in his room during my visit to the business school, very nervous and near a breakdown, lacking confidence in himself, afraid to go out and meet the world, and also scared by the loss of pride in taking a job at the low-selling level he had been forced to accept, instead of stepping in at a higher rank, perhaps in the investment field, which would have been the customary move before the crash. There had been a terrific change in business and in the conditions into which those college men entered during those years. There was a great adjustment called for; for a man of very good family to come out of college and be forced into a low position instead of entering a nice office somewhere to make his living as a junior executive.

That adjustment was hard for everyone, but it was particularly hard for a man who had not worked before, a man who had taken the only job available, calling on retail storekeepers who were pretty tough to deal with, especially tough when business was bad back during the depression times.

It just seems to me that any company should have done something to prepare their men to go out and meet the world and sell, and yet that company didn't do it.

Function of Salesmanship Neglected

As yet, management does not appreciate the fact that the function of selling, just for its own sake, is a very difficult thing. They fail to differentiate between knowing everything about what you sell, such as investments, mutual funds, commodities, and the knowledge of how to go out and sell it, what we have been talking about here.

Therefore, I have certainly welcomed this opportunity to talk strictly on salesmanship. I feel that in the manufacturing end of business a certain standardization has taken place, as far as the methods of operation are concerned, and that end of business has benefitted from such a development.

Most of you men were in the service—either the Army or the Navy—you know in the Army there was a "GI" way of doing things. They had a method, a special way of doing things. Sometimes we didn't agree that it was the right way, but at least it was a way of getting the work done.

I just wonder how many organizations have ever done any work on setting up some kind of a standard method of selling their offerings. Very few of them! And yet, there is no reason why they should not do that. There is all the reason in the world why they should.

I was reading Somerset Maugham's latest book the other night—a collection of his ideas about writing—and he makes mention in that book of a cesarian operation which occurred way back around 1900, when he was a medical student. Before the operation took place, the husband was advised that very few cesarian operations were successful at that time. However, both the husband and the wife still wanted the operation to take place. It was performed and although the wife died, the baby lived.

In that case, they had not yet developed a method of performing that operation that was successful. Since that date, a method has been perfected and cesarian operations are successful most of the time today.

Create a Standard Method

In practically every activity in life there is some kind of a standardized method created to get the work done efficiently. I would advise, with the greatest sincerity, that you set up some kind of a standard method of your own to do your selling work. You have a basis to go on, with these lectures. You know, they are available in the "Commercial and Financial Chronicle," and I would advise that you don't simply allow these lectures to slip by. Look back over them once in a while, so that you may really derive some benefit from them. Take a pencil and take down some of the meat of these lectures and use it as a basis for setting up some kind of a standardized procedure for selling that will fit into your own personality.

My point here is that in the Army, in manufacturing, in surgery, in singing, in golf, and everywhere else, experience has proven that a method which has been derived from long study and experience can help you do your work more efficiently.

Selling is such an intangible, ethereal kind of a job that this development of standardized procedures has never taken place. It's my humble purpose to strive for that development, even though it is a most difficult problem, to try to reduce all these intagible things that we have been talking about to some kind of a standardized way of doing the job. If a man can do that for himself, or get his management to do it for him, his work will be just so much more pleasant and effective.

Types of Salesmen

I am going to talk for just a minute about certain types of salesmen that I have observed in my own career. One of them is the man whom I call Condescending Conrad. He conveys the idea that he is doing you a favor in his selling work. He is "putting himself out" to contact you and sell you something.

We have observed exactly that type of person in the investment business. They are snobs. Their feet are not on the ground. They give you the impression that they are condescending, just to talk with you.

Another kind of salesman is the fellow whose activities consist mostly of wishful thinking, or wishful waiting, rather. There are a lot of wishful waiters in the sales field. They sit around and they wait for someone to come in any buy something from them.

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*Stenographic report of lecture given by Mr. Sutton, tenth in a series on Investment Salesmanship sponsored by the Investment Association of New York, New York City, Nov. 17, 1949.

LETTER TO THE EDITOR:

Contends Housing Act Provides for Treasury, Not Private Financing

Congressman Fred C. Smith, Republican Representative from 8th Ohio District takes exception to statement of William G. Laemmel that local housing agency bonds issued under act mean program of private capital financing.

Editor, Commercial and Financial Chronicle:

William G. Laemmel, Vice-President, Chemical Bank and Trust Company, New York, in a statement appearing in the "Commercial & Financial Chronicle," Oct. 27, 1949, explaining "Guaranteed Local Housing Bonds," makes assertions which are, to say the least, apt to be misleading. He seems to follow the line pursued by those responsible for the legislation relating to so-called public low-rent housing and slum clearance. He says:

Frederick C. Smith

"What particularly incites the interest at this time of the investment banking fraternity is the adoption by the Federal Administration of a policy which will promote the sale of local housing agency bonds to the investing public. Such policy will result in the furnishing of almost all of the cost of low-rent housing under this program by private capital."

This would imply that the nature of the source of the funds for constructing the housing projects as provided in the Housing Act of 1949 is different than would be the case if the Treasury supplied them directly through the sale of its obligations to the public. Evidently the intended inference is that the Housing Act of 1949 provides for the financing of so-called low-rent housing projects by private capital and not "Government" money. One of the key contentions made by the proponents of the Act was that such would be the case.

The truth is, however, that, in any event as respects the saleability of bonds, which is the sole burden of Mr. Laemmel's dissertation, the Act unequivocally provides for payment of all of the interest on the bonds and additionally all of the capital cost of construction of the housing projects out of Federal taxes. This is precisely what Mr. Laemmel later on says in the gist of his sales talk:

"It is, of course, possible that the bond may provide that the annual contribution may be reduced in any year by the amount of rental revenues actually on hand and applicable to debt service, but what bondholder would not willingly allow for such substitution of funds when the contract with the PHA assures payment in full by the Federal Govrnment should such rental revenues not be forthcoming. . . . the annual contributions will continue to service the bonds regardless of the failure of the local housing agency to construct or operate the project properly. In such event PHA and not the bondholder will be the party to straighten out the errant local housing agency under powers reserved in the contract for financial assistance."

The plain fact is that the Housing Act of 1949 provides annual appropriations, euphemistically called contributions, of $303 million over a 40-year period or a total of $12,320,000,000 which is ample for servicing the housing bonds. Their quality from the investors' standpoint inheres entirely in these appropriations. In the last analysis Mr. Laemmel is simply promoting the sale of Treasury issues.

One must understand the true nature of so-called local housing authorities to be able to fully comprehend this political housing scheme and the evils that inhere in it. The first thing to be noted is that State laws creating these bodies were practically all written by the same hand that wrote the United States Housing Act of 1937. The material provisions relating to so-called low-rent housing in the Housing Act of 1949 are substantially the same as those in the 1937 Act. Local housing authorities are wholly without capital and soul of their own. They are merely dummies of the political authority controlling the Federal Government. Their every act is directed and controlled by this authority. Each is a "body corporate and politic," has its own council, solicitor and mayor, is exempt from local taxation but enjoys the services generally supplied to the citizens of a muncipality.

Local housing authorities are *de facto* creatures of the Federal political authority. The functions which they perform and the housing which they administer respectively are so completely controlled and owned by such authority as postal employees and post offices.

Mr. Laemmel states that:

". . .the entry of the states into this program was essential since it is from the states that the powers of eminent domain stem. Power to condemn private property has proved an absolutely necessary weapon (please note the word 'weapon') in public housing procedure, and site acquisition in many cases would have been quite impossible without this power of condemnation."

The devious means used to finagle the states into making it possible for the Federal political authority to acquire land upon which to construct Federally owned housing projects was nothing less than usurpation by such authority of the states' right of eminent domain.

A still more shocking fact presents itself when it is realized that the $6,900,000,000 capital cost of the housing projects to be constructed under the Housing Act of 1949 becomes a part of the Federal debt but will not be shown as such on the Treasury's public debt statement. It will be a hidden debt. Its concealment is accomplished by the devious device of nominally issuing the bonds against the dummies—local housing authorities — of the political regime controlling the government, whereas they are actually issued against the taxpaying public. Nor is this fact altered in the least whether the ultimate amount of debt be $12,320,000,000, as provided in the Housing Act of 1949, or $7 billion as alleged by the proponents of the housing measure.

The figure of $7 billion is allegedly predicated on the experience which has been had with the financing of so-called low-rent housing under the United States Housing Act of 1937. I use the word allegedly advisedly because not all of the costs of the housing projects to be built under this Act are taken into consideration in arriving at the $7 billion figure. One of these is the interest cost

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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

Industrial production on a country-wide basis made a moderate advance the past week with the most significant rise occurring in the steel industry. Over-all output, however, continued to hold under the level for the corresponding 1948 week.

At the close of the week news came of the new settlements in the steel strike on the part of the Crucible Steel Corp. and the Armco Steel Corp. with the United Steelworkers, CIO, following the pattern of the Bethlehem Steel agreement, providing company-paid minimum pensions of $100 a month, including Federal Social Security benefits for workers at age 65 with 25 years' service. It also provides for a levy of five cents an hour for social insurance, with equal contributions of 2½ cents each from the company and the employee.

The steel union disclosed that 45,950 of its members, employed by 29 companies, were still on strike at the close of the week.

In an analysis of the current steel situation, "Steel," a national metal-working magazine, states that steel shortages threaten the next four to five months, but overall scarcity will not be comparable with that of 1948 and early 1949. Importance of ingot conversion deals is overemphasized in appraisals of the supply outlook. Except for sheets, strip, certain wire products, and pipe, major product supply holds promise of quickly catching up with swollen inventory requirements. Some producers are expected to be current with demand for some products by year-end. Cancellations of duplicated tonnage will ease the mill burden, while slower current buying prompts the view mid-first-quarter will find the market in fairly normal position.

* * *

In the coal dispute latest developments reported on Monday of the present week were to the effect that the trustees of the United Mine Workers' multi-million dollar welfare fund were expected to take up on that day the question of whether payments should continue to be made from the fund in the absence of a contract with the bituminous coal mine operators. Such a step, it was reported, could bring about a break in the soft coal contract deadlock. Should the course of events fail to produce this result, the Taft-Hartley law may be invoked against John L. Lewis and the United Mine Workers if the miners quit the pits again on Nov. 30. President Truman now says he will not hesitate to use the law's injunction features.

Meanwhile, states "Steel" magazine in its issue of Nov. 21, evidence is piling up to show the short and long-term results of the Lewis dictatorship. Aside from the hardships inflicted upon the miners themselves, the futile strike has caused a serious deficit in coal stocks in the northwestern areas normally served by lake shipping. The pressure for coal at upper lake ports may cause vessel operators to carry coal up the lakes and return light—an unusual and uneconomical operation. In any event, a considerable tonnage of coal will have to go northwest by rail, at higher cost to consumers.

A longer-term result of Lewis czarism, the magazine adds, is found in the steady shift from coal to oil and gas. In 1939, coal supplied 51% of the energy in the nation and oil, gas and water power supplied the remaining 49%. In 1948, coal accounted for 46.6% and oil, gas and water power 53.4%.

* * *

In wholesale markets the past week buyers of apparel increased the total volume of orders fractionally. An interest in specialties and commitments for Spring and holiday lines constituted a large part of the ordering.

Wholesale dollar volume for food continued steady in the week. Although unit sales exceeded last year's level these were frequently offset by generally lower prices.

The wholesale ordering of textiles continued to increase in the week. Many mills increased operations to fill large orders for sheetings. Bookings were also large for many types of gray cloths; sateens, army ducks and drills were frequently ordered. Wholesale orders for house-furnishings remained near last week's high level.

STEEL OUTPUT RECOVERS SHARPLY TO 78.2% OF CAPACITY

With inventories unbalanced and short in many items some steel uses, according to the current issue of "The Iron Age," national metalworking weekly, are revising their first-quarter production schedules downward to match the amount of steel they can reasonably expect to get during the first three months of 1950.

Most of the facets of the 1948 steel shortage are here this week: The gray market, the conversion deal and scattered price increases by smaller steel companies. This time, however, there is a note of caution. Buyers are going slowly in ordering material ahead. Conversion steel is being rolled for the automobile industry and some appliance makers are looking for it. The oil and gas industry—a big conversion steel buyer last year—has turned thumbs down on it—at least for the present, this trade authority states.

Though the steel industry expects to operate at 78.5% of capacity this week, the effects of the strike are still being felt in production and quality. While some sheets have been rolled from raw steel in process when the strike hit, most mills are now experiencing delays on sheet rolling because of the quality of the iron that has been made since they resumed production. This means there will be shipping delays, particularly in the high quality steels required for deep drawing. However, most of this steel is perfectly suited for other products where the chemistry requirements are not so delicate.

Even though all integrated steel mills are back in production this week for the first time since the strike ended, most steel products are hard to get and will probably remain so for the next three or four months, "The Iron Age" asserts. Hot-rolled sheets are tough, but cold-rolled sheets are worse. Stainless and aluminum demand are strong. Certain cold-drawn bar sizes are almost impossible to find and cold-drawn producers are promising four to eight weeks' delivery.

The galvanized sheet supply picture is the gloomiest of the whole

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Sees Currency Cuts And ECA Making Europe Self-Supporting

James M. Cleary

Speaking at the World Trade Forum of the Illinois Manufacturers' Association in Chicago on Nov. 16, J. M. Cleary, of the advertising firm of Roche, Williams & Cleary, Inc., praised the decision of Great Britain to devalue the pound "as dramatic evidence of earnestness of purpose" but warned devaluation is not a cure all for Europe's problems. "Immediately ahead for European countries is the necessity for bold and imaginative measures to sell their products in the United States," Mr. Cleary added. "America is the richest market in the world. We had an annual gross national product of approximately $250 billion in 1948. In order for Europe to balance accounts, an additional $2½ billion worth of goods must be sold in the United States. It is up to Europe to attract only an additional 1% of the current American national income and through extra intensive efforts and new lower prices, this can be achieved.

"People get all worked up about the fact that if European nations become more efficient, they will be more dangerous competitors of the United States. Yet if any of these critics are asked to estimate the gross national product in the United States for the year 1950, he would allow himself a $15 billion margin at least. We are talking about the sale of only $2½ billion worth of additional European goods in the United States.

"I have been asked why the pound was not devalued sooner. I think it has only been recently that the failure to devalue was any real block. When the Marshall Plan came into action 18 months ago, devaluation, in my opinion, would not have solved our problems. What was needed then was increased production, and our efforts were mainly directed toward helping Europe get her production up to a point where she had enough food and industrial products to carry on. That was what was needed, and that was what was done. But today the problem is not production but distribution. And when the problem is distribution, exchange becomes of primary importance.

"I am frequently asked what effect devaluation is going to have on our exports and on our program as a whole. Please remember that ECA is a commodity program. It takes just the same number of dollars to buy what Europe needs as it did before, but what will happen is that we will have a larger amount of counterpart funds in the countries where there has been devaluation and, therefore, the opportunity to carry on an even larger recovery program in those countries.

"Now that the jam has been broken, I think we will see other measures come into play within the next few months, all of which will help bring about expansion of trade in Europe.

"In my opinion, the measure which Great Britain has taken and the fact that nine other countries have followed the same course gives added promise that by June 30, 1952, when Marshall Plan aid ends, provided always that we do our share, Europe will be on a self-supporting basis."

Observations . . . .

By A. WILFRED MAY

The Russians Vote YEA! on Point IV

(This is the second of two articles on the President's proposals for promoting American private investment abroad)

A. Wilfred May

In a unique display of harmony last week, the United Nations unanimously and without any abstentions approved a program for worldwide economic development in conjunction with President Truman's Point IV proposals. This assent of the Soviet Union and her satellites has been hailed, with some surprise, as a welcome omen of change for the better in East-West relations, and also as a new lease of life for the chronically impotent General Assembly.

But this commentator feels constrained to introduce the sour note of suggesting that this sudden exhibition of conformity by the Soviets and our other UN friends seems to confirm two of the objections to Point IV suggested in our column of last week. If we have been correct in depicting the foreigners' concept of USA-UN "technical assistance" as expectation of continued dollar largesse (in the present proportion of tens of U. S. millions to the UN's actual expenditure of $283,000 in 1949 and budgeting of $676,000 for 1950), then small wonder indeed should there be over this scramble of the prospective beneficiaries to vote *yea!*

In the second place, the Russians' unhesitating endorsement would indicate that the Politburo, no tyros in pro- or anti-Communist strategy and who have so incessantly poured out their condemnation of Marshall Aid, do not take seriously our faith in the proposed program's alleged anti-Communist effectiveness.

This writer is loathe to wave the Red flag in these discussions, but is compelled to point out that as a matter of fact if anything quite the opposite of *anti*-Communist ends would be served. Demands in general terms for raising the standards of living of the underprivileged throughout the world, and also specifically for underwriting the industrialization of underdeveloped areas throughout the world, have been broached, in speech and in writings, not only by Henry Wallace, but by Earl Browder himself.

The Buying-Off-Communism Motive

The certain inability of *Point Fourism's* promises to the world's underdog to compete with those made by Mr. Stalin in areas outside of our own hemisphere, has been clearly pointed out in a recent article, *"Point Four in Asia,"* in the London "Economist."

> "Above all, the contributor to Point Four schemes would be mistaken in thinking that, even where the spending of his money is successfully administered, it would serve as an immediate antidote to communism," concludes the "Economist's" correspondent. "Paradoxically, any change for the better in the Asiatic peasant's miserable circumstances seems to wake him out of his fantastic lethargy only to render him receptive to communist whisperings that he ought to be getting more."

Also with countries outside the scope of the Communist threat, the Point IV technique is likely to do more harm than good. In the case of foreigners' breaking of a formal agreement or more indirect action against our investors' rights, our government's policy will face the Hobson's choice of either undertaking distasteful "interference" of a political or ideological nature, or of losing its guaranty commitment.

On the other hand, private investors called on to lend at their own risk, can quietly but most decisively just refuse to supply their

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What's Ahead for the American Economy?

By CLOUD WAMPLER*
President, Carrier Corporation, Syracuse, N. Y.

Asserting highly centralized big government is fast creating load that will break nation's financial back, prominent industrialist calls attention to burdensome effects of wasteful government spending and increasing government debt. Sees possibility in cutting down government costs and points out, because government is not disciplined by competition, powers of bureaucracy increase. Warns highly graduated income taxes destroy incentive and curtail investments. Deplores lack of statesmanship among both business and labor leaders.

Last week, as we of Carrier Corporation moved into a new fiscal year, we had a long pow-wow with our consulting economist and he expressed these opinions. The first quarter of 1950 will be a period of good business. In the second quarter, a considerable softening will take place. However, business will then pick up and the last half of the year will be very satisfactory.

Cloud Wampler

Next, this economist friend of ours did some long-range forecasting. He said he felt very sure that 1951 and 1952 would both be highly prosperous years. Following these, however, will come some rather tough sledding and this could easily continue for three years or so.

Well, I don't know whether he's right or wrong. But I do think that 1950 **can be**—overall—an excellent business year.

Be that as it may, when our economist had finished with his forecasting, I asked him this question: How can America be really prosperous if we continue the "something for nothing" approach as opposed to earning and paying our way?

Surprisingly enough, his answer was: "I beleve that economic developments will largely govern political developments and I am sure that before long, those who believe in taxing and taxing and spending and spending will be completely discredited."

Breaking our Financial Back

Well, I hope he's right but I have my doubts. And this brings me to the basic position which I wish to take this evening, which is—bigger and bigger government, and especially one that is highly centralized, is fast creating a load that may well break our financial back and, on top of this, seriously impair the moral fibre of the American people. And if this happens—and it **is** happening—there can be no real or lasting prosperity.

In a recent magazine article, Secretary of the Treasury Snyder made this statement: "The financial soundness of the United States Government is beyond question." Certainly that is true as of the moment. But I would like to ask Mr. Snyder some questions:

How long can an institution remain sound when it spends more than it takes in during its most prosperous year?

How long can an institution remain sound when it fails to balance its budget, as we have failed to do in 18 out of the last 20 years?

How long can an institution remain sound with a debt six times as large as its gross take—in its best year?

How long can an institution remain sound that tolerates the appalling waste and inefficiency revealed by the Hoover Report?

How long can an institution remain sound when its management retains itself in power by deluding the owners with doubtful give-away programs—which only seemingly offer something "for free"—and by making promises that cannot be kept?

Items in Federal Budget

Now then, I wish you would take a look with me at certain items in the Federal bludget for 1949, which totalled almost exactly $40 billion. This was made up of about $31 billions in costs connected, in some way or other, with war. All other Federal expenses accounted for the remainder—roughly $9 billion.

In the war category are these items:

	Billions
National Defense	12.6
Interest on Debt	4.6
Foreign Aid	6.9
Veterans' Program	6.3

I don't pretend to be able to tell anyone how to cut our national defense expenditures. However, I feel in my bones—and I suspect you do too — that somehow or other, we ought to be able to do an adequate job for somewhat less money.

Regarding interest on the national debt, I suppose this is something we can't do much about. In fact, I would guess that our interest charges are apt to work higher rather than lower, unless of course, we reduce the debt. And this could be done.

But now we come to foreign aid and the veterans program. And it is here that something can and must be accomplished.

Certainly we **may not** continue indefinitely to make gifts running into the billions annually to foreign nations. And as far as the veterans program is concerned, some of these days we might have an administration that will face the facts and obtain the support of our ex-soldiers—and all other citizens—in cutting out benefits that are really sheer gifts. Here I mean to say that, under good national leadership, the veterans themselves would cooperate in reducing Federal expenses, provided those who were injured either physically or mentally are cared for properly. And, of couse, this **must** be done!

Turning now to non-war costs, these include some items that are certainly worth a careful look. For example $1,346 millions for the promtion and supervision of business and economic activities; $2.339 million for social and economic welfare; and cost of government-controlled business enterprises to the tune of almost a billion dollars.

Could some of these expenses be cut? It seems to me that an affirmative answer is inescapable. Reference — the Hoover Report.

Nevertheless, the Federal budget for fiscal 1950 totals approximately $45 billions, substantially higher than the 1949 figure and almost exactly ten times that which the government spent in 1932.

Just to get this Federal expenditure business into focus, let's compare the $40 to $45 billion with some other figures.

The annual food bill of the nation is roughly $53 billion.

All wage and salaries paid out by manufacturing concerns in 1948 totalled less than $47 billion.

If every man in the United States cashed all of his individual life insurance policies, the total would amount to approximately $44 billion.

Last year, the sum total of all corporate profits was the greatest in the history of our country. According to the Department of Commerce, the figure was a little more than $32 billions.

This is before taxes. Also before inventory adjustments.

So, if we took every penny of the gross earnings of every incorporated business in the United States and applied this money to the cost of government, the show could be run for less than nine months at the going rate.

You know, this big government situation is pretty much as follows. The more government does, the more money government must have and the more people government must employ. Incidentally, we should keep in mind that government is not disciplined by competition. Anyway, more and more people go on the government payroll and more and more money is spent. The more and more people have to do more and more. As this happens, the power of bureacracy over the average citizens increases. More and more people are told what to do and pretty soon, we get to the point where government by law disappears and government by men takes its place.

Now then, where does all this money for big government come from? The answer is very simple. Three-quarters of it comes from income taxes and all individuals have to pay these taxes on a graduated basis.

The Danger of High Graduated Income Taxes

Probably most of you have read the "Communist Manifesto," written by Karl Marx about a hundred years ago. But you might not recall an extraordinarily pungent statement that this book contains. Here it is in short form: "The very best way to destroy capitalism is to apply a graduated income tax."

By no means do I wsh to insult anybody's intelligence, but we might throw some real light on one of our major national problems by examining the application of the graduated income tax theory on a very small scale. Let's assume that a nation consists of only five citizens. Two of these make $2,000 a year; the third $4,000; the fourth $6,000, and the fifth $10,000. Now then, the cost of government is $4,000, and this amount is to be raised through taxation. In the first instance, the five citizens get together and decide to tax everyone 17%. Then one of the $2,000 boys says: "Surely that guy with the big income should pay a bigger percentage than we little fellows do." So, the upshot of the whole business is that the four citizens getting $6,000 or less gang up on the one who is getting $10,000 and he is forced to pay a 40% tax, which supplies the necessary $4,000.

In other words, the vote is four-to-one in favor of graduating the income tax so that it hits only the $10,000 earner. And maybe the result of this is that the man who was working to make $10,000 says to himself: "Why should I take the responsibility and do the job that goes with these larger earnings? I'd be better off if I didn't work so hard and moved down to the $6,000 bracket."

Of course, I am over-simplifying the situation. But just the same, the illustration is sound. And today incentive in America is being destroyed through taxation which smacks quite a lot of being punitive.

This destruction of incentive seems to me to be **almost** the worst thing that is happening these days in this land of ours.

From whatever angle you view the history of our country, you will invariably find that progress has been made and our standard of living constantly improved because adequate incentives have been offered to those who had the brains, the imagination and the courage to do great things.

Perhaps even more important, these incentives have been sufficiently large to attract a steady flow of venture capital for the development of business enterprises.

Currently, this motivating force is being chipped away here and whittled down there. Men and money seem to be more and more inclined to follow easier, safer channels because there is less and less reward for choosing a bolder course. In fact, there is much evidence of a basic change in our national philosophy — a shift from opportunity to security or from freedom to "for free." And this is both a sad thing and a dangerous thing.

Maybe I can get at the heart of our venture capital problem if you'll let me be quite personal for just a moment.

In 1948, my gross income was almost exactly twice what it was in 1939. However, my income tax bill was more than five times as much. Hence, what I kept in 1948 was only 25% in excess of what I kept in 1939.

However, this excess was nowhere near enough to compensate for a 68% rise in living costs. Anyway, the net of the whole business is that from an investment standpoint, I was very much worse off in 1943 than in 1943.

But here are the brass tacks!

Consistently from 1935 to 1941 I made investments of the venture capital type. But during the past eight years I have made exactly one such investment—and the amount was only $6,500.

Perhaps my case is not typical but I suspect it is. And certainly it is people like you and me who have, in the past, supplied most of the money for the new enterprises that have been so largely responsible for the growth of our country.

A few minutes ago, I referred to the destruction of incentive as being almost the worst thing that is happening in these United States of ours. Obviously, I have in mind something that is an even greater evil and here it is.

Pitting Labor Against Management

I believe that the very worst thing is the pitting of group against group, class against class—even race against race—in an effort to gain political or economic advantage. And one of these pittings has been and is labor against management.

I wish I had the time to talk about this labor-management business! But I haven't and so I must proceed by merely pointing out the result—which is disunity. And disunity is an awful thing, not only internally but externally.

If we continue to fight bitterly among ourselves, if we continue to take advantage at the expense of our fellow men, we most certainly will not be a unified people. Therefore, we will not long be strong. And if America is not strong, the peace of the world is in greater danger. Even more important, if America is not strong, we may not be able to win the next war should it have to come.

Now then, I would like to recapitulate:

Here are some of the elements that we simply must consider as we seek to determine what's ahead for the American economy:

(1) Big government and its constantly increasing tendency to interfere in problems that can best be solved at lower levels, in our communities and by men and women working together.

(2) More and more government by men as opposed to government by law.

(3) Burdensome and unsound taxation with the result that the incentive for men to do great things is being destroyed and the sources of venture capital dried up.

(4) The substitution of a security philosophy for the opportunity philosophy that made America

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*An address by Mr. Wampler at Town Meeting Program of the Chicago Chapter of the American Society of Chartered Life Underwriters, Chicago, Ill., Nov. 14, 1949.

Now for the Concrete Evidence

"We [the Defense Department] are going to get along on this lesser amount [appreciably less than at present, so it is said] because we know our economic system cannot afford to pay much more. We not only are trying to get along on less, we will get along with a whole lot less. Moreover, we will get a lot more for our money; it will be a matter of less money and more defense.

* * *

"What will preparedness or even victory in battle avail us, we must ask ourselves, if our free democratic system is crushed in the process?

* * *

"We in the Defense Department are appreciative of the need for national economy. To become dollar-conscious is not only good economics but good military discipline for our military and naval men. We now have courses in economics at West Point, at Annapolis, at our National War College, at the Industrial College of Armed Forces, and other schools.

"Our men in uniform in all echelons are being made to appreciate the cost of national defense and the relations of those costs to the financial structure of our whole economy."—Louis Johnson, Secretary of Defense.

Many will be waiting with what hope they can muster for concrete evidence that, at long length, these elementary truths have really sunk in anywhere around the Pentagon—or the White House.

From Washington Ahead of the News

By CARLISLE BARGERON

Our becoming a global leader has undoubtedly been a pain in the neck for many taxpayers, but it is a tremendous joy for the thousands of government employees here in Washington. They get off from work every time a foreign ruler comes to visit us.

Carlisle Bargeron

Naturally, when we became a global leader we had to pick up the customs of the global leaders of the past. Aside from giving away money, there is a certain pageantry about the role of global leader. I suppose this is one of the ways you can tell a global leader when you see one. There would be no glamour in just giving a foreign ruler the money, just handing it over to him. This might be all right with the more sophisticated nations such as Britain and France, but in the case of rulers from the Middle East or Latin America, we must wrap it up with a parade and a lot of panoply.

Since we succeeded to the global leadership, apparently by acclamation on the part of the other nations of the world, there has been quite a procession of foreign rulers to Washington, and boy, have we put on the dog! We have shown that in the space of a few years we are quite as cultured as the Old World in the matter of knowing how to receive a monarch; we have shown a keen appreciation of the military pomp and splendor, the gold braid trappings and the aristocratic lorgnette.

In Paris and London, where the global leadership formerly resided (though seemingly we've always had to pay the bill) this pageantry—the turn out of the military, the blaring of the trumpets and beating of the bands, the flashing of national flags and standards—was deemed necessary to soften the taxpayers up for the touch to which their governments were about to accede. Our own government officials are proving they were not behind the barn when the brains were being passed out, because they have subscribed to this softening up process, lock, stock and barrel. It is as if London and Paris, in turning over the mantle of global leadership, gave us a guide book or a manual instructing our government officials in the art of getting by with it.

I recall once watching a "change of the guard" at the Tower of London. It fitted in perfectly with the stories I had heard as a youngster of how snobbishly and cast-laden the British officers treated the enlisted men. This officer in charge had a riding whip and he moved around behind the men after every order he had barked, striking them on the buttock and smirking comments on their lowly station in life. He was tall, erect, rigid with a crisp military moustache. He was, in fact, the image of the military officer on the whiskey bottles labeled "By Appointment of the King."

I stood fascinated by the severity of the ceremony. It required 20 minutes and then the guard was dismissed and made helter skelter for the guard house. The officer swaggered off.

For some reason or another, I continued to stand there. I suppose I was entranced. Then to my amazement, out came the same men and the same officer to do the same thing all over again. The officer saw me still standing there and burst out laughing. What they were doing, of course, was putting on a show for touristing Americans. The ceremony was repeated at brief intervals throughout the visiting hours of the Tower.

I wondered for a long time why the British thought this was a good way to advertise themselves with visiting Americans. Certainly my reaction, until I learned, by chance, that it was all a fake, had not been good. When I made inquiries I was told, that, oh, although we denied it, we had more awe of monarchs than the British did.

The procession of foreigners to Washington with their hands out being what it has been, it follows that our capital city has come to have a continuous martial air. We seem forever acting as host to King Eezelbub or some such. We have become quite suave and gracious, too.

If it can be arranged, the arrival of the dignitary is timed with the lunch hour of the vast army of government employees. In this event they are given extra time for their luncheon and urged to foregather along Pennsylvania or Constitution Avenue to see the parade.

But, in some instances, as in the case of the Shah of Iran, who arrived at 4 o'clock, the government employees are let off an hour earlier. They seem to make a bee line for home but the traffic being crowded beyond all reasonable conditions at that time of day, they can't make it and are caught in a jam along the avenues just as the parade comes along. The press of the country then tells of the cheering thousands of Washingtonians that greeted the visitor.

There was a jarring note in the Shah's visit, however. One of our irreverent newspapers sprung a story that the Shah's representatives in this country, thinking along with a lot of others that Dewey would win last November, had contributed $2,500 to the Republican campaign. This seemed to give a touch of commercialism to what had been portrayed as a visit of grand friendship.

H. M. Hellerud Joins Waddell & Reed, Inc.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO. — Henry M. Hellerud and Wayne E. Northway have become associated with Waddell & Reed, Inc. Mr. Hellerud was formerly Vice-President of King Merritt & Co., Inc., in charge of the St. Louis office.

Gorge O. Moeller With Hill Bros., St. Louis

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO. — George O. Moeller has become associated with Hill Brothers, Security Building, members of the New York and St. Louis Stock Exchanges. Mr. Moeller since 1930 has been with Reinholdt & Gardner.

Current Problems of Job Creation

By C. R. COX*
President, Carnegie-Illinois Steel Corporation

Asserting only solution of unemployment problem is judicious and progressive investment in private industry, prominent steel executive cites U. S. Steel investment of $8,000 for each employee. Calls for incentive return to risk capital investors and overhauling of laws relating to taxation and trade regulation. Scores deficit financing, and says social security programs should be kept within ability-to-pay limits. Wants labor monopolies under anti-trust laws.

Following V-J Day the country underwent a series of readjustments. Industry after industry caught up with the backlogs created by the war and leveled off to normal peacetime rates of production. Since all industries did not complete their adjustments at the same time, the economy for the most part continued at a high level of activity for more than three years. However, by the Spring of 1949 heavy industry had largely caught up with the demand, and agriculture had produced huge surpluses. The major postwar adjustments in supply and demand had then been completed.

C. R. Cox

Recent paralyzing strikes in coal and steel have produced impacts on almost every industry. These interruptions of production of essential materials have created further shortages and an additional small backlog of deferred demand. As the country restores normal operations after conclusion of the strikes, these deferred demands undoubtedly will sustain production for a time and will give the economy some additional momentum. However, the momentum immediately in prospect does not appear to be enough to satisfy a nation that has witnessed full employment and a complete scale of production that rightly earned this country the title of "the arsenal of democracy." Thought should be given to other methods of preventing large-scale unemployment.

A growing population calls for a growing output of useful goods and services continuously adjusted to meet the changing demands of an improving living standard. The redistribution of the nation's manpower and resources to meet those demands of progress is thus one of the major problems now facing American agriculture, industry, and commerce. The accomplishment of that objective calls for stimulating rather than repressing the people's inventive resourcefulness, business initiative, and labor mobility. The accumulation and productive investment of savings should be consistently encouraged as an important factor in attaining the objective. Our industries, present and future, are the market outlets for the services of the population. The unemployed offer their services and they look to American industry to find a market for the results of those services.

Government vs. Private Employment

Whenever the price demanded by people for their services is too high for their purchase by industry, the people thus unemployed have been encouraged to turn to government for employment, livelihood, or some form of support. The results of this recourse to government are substantially the same as competitive sales. In fact, the competition can be the unfairest of all competition—for the government is in a position to tax private business to pay those for whom it assumes such a responsibility. This taxation and the other activities which are set in motion in turn increase business costs and make it more difficult for business to continue in existence and to provide jobs. Hence, government intervention in these matters may be another turn in the spiral toward statism.

It is my purpose to discuss what should be done to provide jobs in private industry because it is my conviction that only through private industry can the American people attain the increased production and the standard of living they are seeking. I feel confident that the American people want more goods and improved comforts of life, not more government intervention in their lives. To get such goods and comforts they must rely on industrial initiative and genius working in confidence with an ever-growing stock of the tools of production and with a cooperative work force.

During the depression of the 1930's, we as a nation suffered from conditions which prevented our utilizing fully the initiative, enterprise, and genius of business management. We all remember how investment lagged and unemployment became chronic. It took a war to uncover quickly and put to work the fire in business leadership. But although American industry then performed miracles of production, the war was fearfully destructive. Consequently, even though the country maintained an amazing productive capacity, it accumulated an estimated theoretical deficit of some $80 billion worth of plants and equipment that would have existed if our previous rate of industrial expansion had continued unchanged during the last 20 years. As rapidly as feasible under the most trying handicaps and conditions, industry has been repairing, replacing, and adding to its facilities since the cessation of hostilities.

Solution of Unemployment Problem

The solution to any unemployment problem which may arise and to the problem of increasing the standard of living is the judicious and progressive investment of private capital in private industry, thus providing for new enterprises

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*An address by Mr. Cox before the National Electrical Manufacturers' Association, Atlantic City, N. J., Nov. 15, 1949.

The Present Status of Utility Regulation

By HARRY MILLER*
Member, Public Service Commission of Ohio

Ohio Utilities Commissioner criticizes Federal usurpations in field of utilities regulation as detrmental to both consumers and to shareholders. Says State commissions have handled job of local regulation well and are working toward creation of public attitude favoring sound economics in regulation and are giving thorough analysis of basic problems. Points out difficulties of utilities in obtaining new equity capital and attacks Federal policies of taxation and ownership of public service enterprises.

Any long-range analysis of utility securities must consider the regulatory climate in which these securities must sprout and thrive. I am here today as one of a large group of public utilities commissioners who for many years have been attempting to improve that climate.

Harry M. Miller

When I speak of improvement, I have in mind not only the utility consumer in whose interest we serve but also the security holder whose protection in no small degree is entrusted to us.

The National Association of Railroad and Utilities Commissioners has, in recent years, conducted a vigorous program for the overall improvement of utility service and utility securities.

I can assure you, gentlemen, that that program will continue.

Speaking for myself, I believe there are four guide posts to action which should control our future course. First, we should clear the decks of jurisdictional disputes in order to devote our energies to more important things. Second, we should strengthen our commission staffs and improve our commission methods for the sake of sounder decisions and greater efficiency. Third, we should adopt sound economics as the controlling element in our decisions. And, fourth, we should exhaustively investigate the basic problems affecting utility service, operation, rates, and financing.

I will discuss each of these four points briefly, not for the purpose of arriving at answers, but to indicate to you that the state public utility commissions are both aware of their problems, and cognizant of the principles which should control their solution.

I

The Jurisdiction Problems

First, let us discuss the jurisdictional conflict between state and federal agencies.

For a number of years the NARUC's Washington Office has been spending a great amount of time on jurisdictional matters. Although primarily an association for the exchange of ideas, and the cooperation of members in solving rate, accounting and other matters, the NARUC has had imposed upon it a heavy burden of work from jurisdictional matters involving Federal encroachment on the accounting, rate making and other functions of the state commissions.

For example, the NARUC committees, officers and staff have worked on a number of amendments to the Federal Power Act in an attempt to clear up questions of jurisdiction. They have presented our views before House and Senate hearings which, as you know, requires a great deal of work beforehand.

The time consumed on jurisdictional problems raised by FPC's interpretation of the Natural Gas Act is another example. There is one case before the U. S. Supreme Court now (East Ohio Gas Co.) which involves a basic jurisdictional question. Prior to this, the Panhandle Case, on the right of a state to regulate industrial sales within the state, involved the NARUC, and a state commission too, in a great deal of time and effort.

Interpretation of the Federal Communication Act as brought out in the controversy surrounding the telegraph abandonment cases (Ohio and Georgia) has been a time consuming burden.

Then there are the Case Bill regarding railroads, the accounting intervention cases, and the Capital Transit Case re joint fare making, just to mention a few current jurisdictional problems.

Too much of the problem is caused by zealots in Federal bureaus who insist that the language of an Act should give to the Federal commission certain dual and overlapping jurisdiction over locally regulated utilities. In some instances they would have Federal control supplant traditional state regulation. In other cases it is simply a question of legal interpretation.

The work burden caused by these matters should not take up the time it does. We should resolve these jurisdictional matters to be able to give more time and attention to the basic needs of regulation which I call the "real" problems facing commissions today. Controversy over jurisdiction between Federal and State Commissions makes for poor regulation.

The problem of properly regulating intrastate utilities is basically a function of state commissions who are familiar with local conditions and with each utility, its history and operation. The greatest need in regulation today is for full cooperation between company and commission. This is necessary to obtain prompt rate settlements whether they be increases or reductions. We can't indulge in a "sparring match" without doing violence to the public interest and to our democratic way of life.

Contrast this with "blanket" rules of ratemaking devised for convenience in regulation by some Federal commission. There is neither the room for cooperation, or for the confidence and understanding, that "home rule" offers.

From the consumer's standpoint, it is more convenient and more equitable to have his complaints on service and rates handled by local men familiar with the territory and its people. It provides a climate healthy for the most efficient utility operation, and gives fair treatment to consumers.

The NARUC should be able to devote a major portion of its time to the function of coordinating actions and exchanging ideas developed locally by "home" commissions. This is a communities' rights, as well as a states' rights, problem.

The Federal commissions, of course, have their proper sphere in regulating operations of an interstate character. If we want effective regulation, then the intrastate utilities should be regulated at the local level, with cooperative Federal commissions performing the interstate regulatory function. In this manner only can vital utility services be expanded for consumers, while at the same time the utilities themselves remain vigorous and healthy. It is beyond the competence of any Federal agency to supervise and regulate effectively the multitudinous details of public utility regulation which the full assertion of Federal power (as now construed) would entail.

II

Organization to Do an Effective Job

This brings us to the next step in a sound, overall program, namely, the organization to do an efficient job.

Many of our state commissions have gone a long way in the development of modern methods of getting a job done. This means developing people. I am particularly interested in this phase as it offers the greatest possibilities of increasing commission efficiency. We realize the need to attract professional young men of high calibre to our staff and we are getting them.

Historically, one of the criticisms of regulation was the time lag between the filing of a rate case and its completion. The use of modern office and technical methods is doing much to overcome this criticism.

Today there need be no lag that would impair the credit of a utility seeking relief from declining earnings if that utility cooperates fully, presents all the facts quickly, and lays its cards on the table.

I would be less than frank with you if I did not indicate that government salaries must be fixed at a level which will attract the kind of people who will be capable of doing an effective job. The problems of utilities are too great and the public interest is too important and too far-reaching, to entrust their solution to incompetent help. The public must make up its mind to the fact that good government requires good people, and good people command good salaries.

May I say generally, however, that the trend toward better commission staffs is in the right direction.

III

The Creation of an Attitude Favoring Sound Economics

But a bright, hard-working, efficiently organized commission is not necessarily enough. Some of our most dangerous doctrines today come from our most brilliant and effective people. There must be a sound purpose, and a sound point of view, as well.

I believe there is widespread recognition among the state commissions of the need for application of sound economics in the solution of utility problems.

There have been some contrary trends in the last twenty years. I believe they have run their course; at least I think I see evidence to that effect in many quarters.

For example, one of the things I have in mind is the fact that administrative ease, and convenience, have sometimes been permitted to override sound economics.

This is an easy and popular thing to do. Simplicity has much attraction. Likewise, it has great political popularity when the penality of simplicity is imposed entirely on the utilities.

But in the long run, in a capitalistic system, the consumer is

(Continued on page 30)

*An address by Commissioner Miller before the New York Society of Security Analysts, New York City, Nov. 16, 1949.

Dealer-Broker Investment Recommendations and Literature

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

Connecticut Securities — Data —Chas. W. Scranton & Co., 209 Church Street, New Haven 7, Conn.

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.

Rail Stocks — Memorandum—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y.

Study of the Bonds of the State of California—Report on the recently authorized School Aid Bonds and the effect on the State's economy of the aged and blind program following the recent election; also covered are California Veterans Welfare Bonds, San Francisco Harbor Improvement Bonds, Highway Bonds, Olympiad, Building and Park Bonds and a summary of the State's financial statement and the financial position of the State General Fund—Bank of America, N. T. & S. A., 300 Montgomery Street, San Francisco 20, Calif.

Your Money's Worth — List of public utility stocks which appear interesting—Geyer & Co., Inc., 63 Wall Street, New York 5, N. Y.

* * *

Aluminum Company of America —Special Review—John H. Lewis & Co., 63 Wall Street, New York 5, N. Y.

American Power & Light—Memorandum and Opinion—Bache & Co., 36 Wall Street, New York 5, N. Y.

Central Public Utility Corp.—Memorandum—New York Hanseatic Corp., 120 Broadway, New York 5, N. Y.

Chicago Corporation — Bulletin —Hicks & Price, 231 South La Salle Street, Chicago 4, Ill.

Chicago Rivet & Machine Co.—Analysis—George D. B. Bonbright & Co., Powers Building, Rochester 14, New York.

Illinois Central Railroad—Detailed illustrated brochure studying the situation—Harriman Ripley & Co., Inc., 63 Wall Street, New York 5, N. Y.

Irving Trust Company—Analysis—The First Boston Corp., 100 Broadway, New York 5, N. Y.

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

Mexican Eagle Oil—Memorandum — Zippin & Company, 208 South La Salle Street, Chicago 4, Ill.

New England Public Service Co. —Booklet discussing interesting "workout" situation available for institutions and dealers — Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

***New England Public Service Co.**—Special survey—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Rockwell Manufacturing Company — Summary and Analysis—Hill Richards & Co., 621 South Spring Street, Los Angeles 14, Calif.

Seaboard Air Line Railroad—Analysis—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Texas Eastern Transmission Corporation — Analysis—Kiser, Cohn & Shumaker, Inc., Circle Tower, Indianapolis 4, Ind.

Texas Utilities Co. — Study—Dreyfus & Co., 50 Broadway, New York 4, N. Y.

Tidewater Power Company—Analysis—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

COMING EVENTS

In Investment Field

Dec. 2, 1949 (New York City)
Security Traders Association of New York Annual Election Meeting.

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.

Dec. 14, 1949 (New York City)
Annual Meeting and Election of the Investment Association of New York.

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

Sept. 26-30, 1950 (Virginia Beach, Va.)
Annual Convention of the National Security Traders Association at the Cavalier Hotel.

Shaskan & Co. Opens Local New York Branch

Shasken & Company, member of the New York Stock Exchange, located at 40 Exchange Place, New York City, announces the opening of a branch office at 100 Second Avenue between East 5th & East 6th Streets, under the supervision of Henry D. Shuldiner, resident partner. The office will be managed by David Adelman and Bernard Daniels.

With Shearson, Hammill

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—William T. Crawford has became associated with Shearson, Hammill & Co., 618 South Spring Street. He was formerly with G. Brashears & Co.

J. P. Morgan Co. Director

At the regular meeting of the Board of Directors of J. P. Morgan & Co. Incorporated held November 23, L. F. McCollum, President of Continental Oil Company, was elected a director.

With Slayton & Co., Inc.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—J. Wesley Neville is now with Slayton & Company, Inc., 135 South La Salle Street.

With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — William B. Westbrook is now with Waddell & Reed, Inc., 332 South Michigan Avenue.

15,520,000 Earn Less Than $2,000

By CHARLES G. BROPHY

Sparkman Report indicates substantial low income group. One-third of families and individuals earn less than $2,000 yearly. Writer contends aggregate income analysis exaggerates size of low income class.

Headlines this week report to the nation that one-fourth of the American families and three-fourths of the individuals (not in families or with relatives) are earning less than $2,000 yearly cash income, and that one-tenth of the families and one-half of the individuals, not in families, are earning less than $1,000.

The source of this news is the report entitled "Low Income Families and Economic Stability," released recently by Senator John J. Sparkman, Chairman of the Subcommittee on Low Income Families of the Joint Committee on the Economic Report.

This report gives the distribution of income among families and individuals to be:

Income Class	% of Total Families & Individuals	No. of Families & Individuals
Under $1,000	17	8,110,000
$1,000- $2,000	16	7,410,000
$2,000- 3,000	20	9,190,000
$3,000- 5,000	30	13,780,000
$5,000- 10,000	15	7,040,000
Over $10,000	2	1,140,000
	100	46,670,000

(Source—Bureau of Census).

On the surface, these figures reflect a substantial low income group within the borders of the United States. Of the 46,670,000 families and individuals, 15,520,000 or one-third, are receiving less than $2,000 yearly cash income, and 8,110,000, over one-sixth, are receiving less than $1,000.

However, closer inspection indicates that certain questions must be answered before it can be decided whether this large-scale low income group is a statistical myth or reality.

First, it must be remembered that a "minimum standard of living" is a sociologically (and often, politically) determined standard, which varies with the economic and political climate. The common belief that a minimum living standard, maintained by substantial governmental assistance, determines real per capita income reverses proper causality; the real per capita income is the predominant factor in the determination of minimum living standards.

The injection of non-scientific factors into minimal living conditions was pointed out by Dr. George J. Stigler in an article entitled "The Cost of Subsistence" ("Journal of Farm Economics," XXVII, No. 2).

Dr. Stigler noted that the cost of most yearly minimum diets was about $140 per person (1944 prices).

Using the production functions of the nutrients of various foods, Dr. Stigler determined a minimum cost diet per person to be yearly $59.88 (1944 prices). The difference was accounted for by the insistence of dieticians on variety of diet, prestige of various foods and palatability.

Dr. Stigler's concluding remarks might be directed to all planners of minimum living standards, as well as to dieticians. "There are two fundamental objections to so merging the physiological and the cultural components of diet. The first is that the particular judgments of the dieticians as to minimum palatability, variety and prestige are at present highly personal and non-scientific, and shold not be presented in the guise of being parts of a scientifically determined budget. The second reason is that those cultural judgments, while they appear modest enough to government employees and even to college professors, can never be valid in such general form. No one can say with certainty the cultural requirements of . . . 140 million Americans of transcendental variety of background, social position, and cultural value."

A second factor is that no one income level can be used as a division between an adequate and inadequate income. Here, the number of people in a family is certainly important. The Bureau of Labor Statistics considers an adequate income for two to be a minimal $1,365, and for four, to be a minimal $3,004 (1947 prices).

A third variable is the geographical differential in the price levels of various family budget essentials. A fixed money income spent in different areas will yield considerably varying real incomes.

In June, 1947, the last date for which such a study has been made, the price levels for these essentials in selected cities, varied as follows: With Washington, D. C. at 100, in each instance, the food price level varied 9%, from 105 in New York City to 96 in Indianapolis; clothing 18%, from 103 in Minneapolis to 85 in Savannah, Ga.; housing 35%, from 65 in New Orleans, to 100 in Washington, D. C. Total costs of budgets varied as much as 12%, a significant percentage in the determination of sub-standard income levels.

Furthermore, the cash incomes statistically reported by the Sparkman Committee, constitute, for a large segment of the populace, only a portion of total income, which is supplemented by income in kind. Farmers, farm managers, and farm laborers receive a considerable percentage of their income in kind so that the cash income level is not a significant criterion. This group, families and individuals, totals seven and one-half million.

In the case of this group, the value of non-money income received by farm operators averaged $604 in 1948, **at farm prices**. The income, **at retail prices**, is $1,138 average. This income in kind, added to the farmer's money income, will lift many low cash-income families and individuals out of the area of distress.

Added to this group are nurses waitresses, waiters, companions to the aged, and others, who ordinarily receive as income, food, lodging or both.

The turnover, or internal velocity, of the low income group has not been accurately determined, but the Federal Reserve Board reports that, of the spending units in 1948 with incomes between $1,000-$2,000, one-sixth had received incomes greater in 1947, and another one-sixth had received incomes less than this level in 1947. Subtracting from the low-income group the unemployables and aged, which are special problems, these ratios show the low income group to be remarkably unstable, dynamically shifting in its composition.

It cannot be denied that the United States has a poverty problem, and the Sparkman Report is the first step in estimating the size and condition of this group. However, those in dire need are substantially less than the 15 and one-half million families receiving less than $2,000 yearly.

In light of these objections to aggregate income analysis, one should be cautious in accepting conclusions based on this report. Senator Sparkman's committee has written a useful and intelligent work, but there can be no doubt but that it will be misused in the coming months.

Our Liberty and S-281

By GEORGE A. SLOAN*

Chairman of the Board, Southern Agriculturist

Stressing interdependence of Capital, Labor and Management, Mr. Sloan says major task before each of us is protecting and preserving our American way of life from regimentations and dictatorship. Scores industry-wide collective bargaining, and attacks Spence Bill (S-281) as causing abandonment of free enterprise system and increasing rather than ameliorating unemployment. Says Bill subjects entire American system to risks of mistakes of one person and his advisors.

There are three elements in our American life—Management, Labor and Capital—which are like the elements that together compose land, air and water. When combined in their necessary proportions they produce the proper balance. When separated into hostile groups there is no balance, no security and no usefulness for their common enterprise, whether in agriculture or industry.

Without the capital resources furnished by farmers, businessmen and from the savings of the public generally, there can be no fields to plow, no livestock to raise, no manufacturing plants, no machines or tools, no working capital from which pay rolls can be met, materials and supplies purchased, and taxes paid.

Without labor the farms and factories stand idle — the enterprise is useless to the community, the capital is depreciated or becomes a total loss; and management with its experience and skill is a wasted asset.

Without management both the investor who puts up the capital resources and the man who does the work are helpless to continue the complicated processes of production and distribution. Even a primitive society must have tools for men to use, whether tilling the soil, constructing shelters, or clothing themselves or children. And even a primitive society must have that direction which we call "management."

So the economic problem now revolves more and more about the inter-relationships of labor, management and investors. Shall they who are thus tied together by unyielding logic constantly impede and destroy one another? Or shall they recognize their dependence upon one another and, fused by common interest, become an invincible unit?

One conclusion is certain — no one member can find success, nor even survive in the long pull, unless there is understanding and consideration for the interests and reasonable objectives of the other two members. This is extremely important here in the South. In spite of our vast human and material resources the opportunity for large-scale industrial expansion may well be limited if labor and management fail to work together in a true spirit of interdependence.

In some occupations we still find capital resources, labor and direction combined, furnished by the same person or by a small homogeneous group such as a family owned and operated business. But in the complex situations which result in our present economy, the three elements are more and more furnished by three separate groups.

There has been another change which further emphasizes the pressing necessity for this spirit of understanding and inter-defense. Ultimate wage costs are the largest single element in the costs and therefore in the price of the products of our economic structure. Formerly the relative wage costs and therefore relative prices of the different productive areas of our economy, such as coal, textiles and automobiles, were determined by the free play of competition through the mechanism of supply and demand both as between different industries and within those industries. But all of this is being materially altered by the present trends of mass organization. The aggregation of employees into inflexible industry-wide organizations and industry-wide collective bargaining mobilizes tremendous power on the issue, not only of the relative share of employees in the income of a particular industry, but on the issue of the relative share of that industry in the national income. We have a striking example in coal. Despite the great technological improvements in coal mining which should have resulted in greater consumption and lower prices, the use of coal has remained static over two decades while its price has more than doubled. On the other hand the use of electric power has tripled in the same period with the price of electricity lower today than 20 years ago.

Further, industry-wide strikes and the resultant restraint of trade produce intolerable injury, not merely within the four walls of an industry, but to the entire public. The public can hardly be expected to tolerate permanently a system of this kind which dislocates its social and economic life. Already there is a tendency toward imposed settlements by governmental action affecting all companies of a particular industry alike—large or small or whatever their situation—with no standards to guide such decisions.

Do we want this threatened extension of governmental power into labor relations? Does any thoughtful employer or employee prefer governmental determination of wage and other employment costs to voluntary agreement through good faith collective bargaining? And if so, have they considered the implications as to where this will end short of statism?"

And what about the drastic invasion of government into certain

(Continued on page 32)

*An address by Mr. Sloan at Gulfport, Miss. on Oct. 26, 1949.

Central Republic Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Edward J. Barrett has been added to the staff of Central Republic Company, 209 South La Salle Street, members of the Chicago Stock Exchange.

Davis With Chesley Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Lambert L. Davis has become associated with Chesley & Co., 105 South La Salle Street. Mr. Davis was formerly with Adams & Co. and prior thereto did business as an individual dealer in Chicago.

Mutual Funds

By HENRY HUNT

Looking for More Income?

Wellington Fund has prepared for security dealers a special mutual fund sales program designed to appeal to the 16,000,000 ex-G.I.s, who early next year will begin to receive the $2,800,000,000 in dividends from their National Service Life Insurance.

The program includes a suggested letter to be sent veterans by dealers together with a new booklet, colorfully illustrated, which tells the mutual fund story in very simple language.

The current issue of "Wellington News," calling dealers' attention to the special sales program, says: "If you can get veterans in your community started now buying mutual funds through you, even though the initial order is small, you will have a continuing source of business. These young men have many years of earning power ahead of them."

The new booklet, entitled "Looking for More Income," is sized to fit into an ordinary business envelope and in its 11 pages tells what a mutual fund is and how it operates. The story is told in fast-moving, easy-to-understand, nontechnical language with the high points illustrated by lively pen-and-ink sketches. The booklet is of the type that can also be used generally.

Market Comment

"The present market, in terms of the averages, is substantially above the June lows. But the advances of the past several months seem to have been the result of investment buying. There is no evidence of public partcipation in a speculative sense. Loans against securities are insignificant. The available yields from common stocks, as against high grade bonds, continue to be exceptionally favorable on any historical basis—and this may well explain the flow of investment funds into the equity market. The capitalization of earnings in many instances is far from excessive.

"The summer recovery in business was fairly impressive and tended to show that inventories had been scaled down to a point where they had to be replenished. Employment and personal incomes while declining have been well sustained. On the other hand, business still has to reckon with serious labor disputes and the possible effects of devaluations as regards international trade and domestic prices. Also, there is the obvious possibility that further adjustments must take place in important industries such as automobiles and steel.

"The situation is not without its risks, but certain things seem to be clear. (1) The government authorities have indicated a policy of easy money under present business conditions. (2) The deliberate pouring out of Federal funds in excess of tax receipts adds to purchasing power. (3) Forced liquidation of commodities, real estate, or of securities is not imminent. (4) For the time being, many common stocks seem to be more desirable than cash."—Written by Edmund Brown, Jr., President of **Fundamental Investors.**

Three and One-Half Billion Dollar Expansion

The gas industry contemplates expenditures of $3,500,000,000 for construction in the five-year period, 1948-52, according to a recent economic survey conducted by the American Gas Association, Robert W. Hendee, President of the Association, told its convention on Oct. 18, 1949, in Chicago.

Mr. Hendee told the 5,000 persons present that the nation's total gas plant, valued at about $6,300,000,000 at the end of 1948, "almost certainly" would rise to $10,000,000,000 in the five-year period.

Of the $3,500,000,000 expenditure intended in the current five-year period, $1,800,000,000 is expected to go to expansion of natural gas transmission equipment and another $1,200,000,000 to other natural gas construction. Of the five-year total, about $770,000,000 was spent in 1948, and some $940,000,000 is expected to be spent this year.

Mr. Hendee said the industry had demonstrated its faith in the future by subscribing more than $1,500,000 a year to the Association for the next three years for the Association's Promotion, Advertising and Research (PAR) Plan. The objective of the PAR plan is to achieve better methods of producing and utilizing gas, and to foster an industry-wide, coordinated campaign of promotion to keep sales of gas appliances at the record levels established in 1948.—From a **Gas Industries Fund** bulletin.

The Modern Way to Invest

Arthur Wiesenberger's recent two-page ad in "Life" offers a free booklet called "The Modern Way to Invest." It commences:

"The last 10 years have brought a great change to most Americans. More of them have made money, and more of them have saved money, than ever before.

"One word sums up this great change in American life. The word is—investor. In the last 10 years, the average American has become an investor.

"Which means that most of us have a new and complicated problem on our hands—and we cannot afford not to solve it. How to invest our money? How to secure our savings? How to assure—and to increase—our income? How to make our savings grow?

"These are the questions of the day. Millions of families must learn how to answer them. They are modern questions, and they must be answered in a modern way.

"The modern way to solve problems is through organization. Organization created the mutual life insurance company and solved the problem of protection. Organization created the mutual savings bank, and solved the problem of safety for savers. Organization created the pool of War Savings Bonds, and solved the problem of financing and winning the war.

"Just so, organization has created the modern *Mutual Fund* in order that you may solve your problem as an investor.

"How? In a number of ways. By protecting the capital of your investments. By earning steady income from them. By earning capital gains as a by-product of security and income. This is not a hope. It is the record.

"You have had to work for your money. You have sacrificed to save. Now the time has come for your money to work for you—and to work efficiently. But making money work is just as hard to do, and calls for as much expert skill, as making machinery work. How can you put this expert skill to work for your money?

"More than a million Americans have found the answer in the shares of Investment Companies—also known as Mutual Funds. They have put 1½ billion dollars to work in these shares. Let us tell you how much security, income and gain this money is using investment company shares to produce."

IBA Reveals Grass Roots Education Program

Will conduct Public Education Forum on Dec. 3-4, at Hollywood, Fla., presided over by Joseph T. Johnson. Begins publication of Bulletin.

According to announcement of Hal H. Dewar, President of the Investment Bankers Association of America, and partner of Dewar, Robertson & Pancoast, San Antonio, Texas, a nationwide grass roots program has been projected to improve the public understanding of the essentiality of savings and investment, in addition to launching the "IBA Public Education Bulletin," a publication designed to assist IBA groups and individual member firms in their local public education projects. More than sixty investment brokers responsible for guiding the IBA Group public education activities will attend the IBA Public Education Forum on Dec. 3 and 4 at Hollywood, Fla., just prior to the opening of the annual convention of the Association. The Forum is under the direction of Joseph T. Johnson, President, the Milwaukee Co., and Chairman of the IBA Public Education Committee.

Hal H. Dewar   Joseph T. Johnson

In addition to prominent members of the IBA who are active in its public education program there are included on the Forum program the following guest speakers:

Emil Schram, President, New York Stock Exchange.

Holcombe Parkes, Vice-President in charge of Public Relations, National Association of Manufacturers, New York.

John B. Mack, Jr., Director, Public Relations Council, American Bankers Association, New York.

Dr. Rensis Likert, Director of the Institute for Social Research, University of Michigan, Ann Arbor.

Kenneth Dale Wells, Executive Vice-President, Freedoms Foundation, Inc., Valley Forge.

Everett M. Kassalow, Associate Director of Research, Congress of Industrial Organizations, Washington, D. C.

Ott H. Coelln, Editor and Publisher, Business Screen Magazine, Chicago.

During 1948 each of the 18 geographic Groups of the Association appointed committees to formulate Group public relations programs, and these committees will report on their activities. The programs sponsored by these Groups have taken a variety of forms which have been summarized in the IBA "Public Education Bulletin":

(1) Lecture courses open to the public or offered on a more restricted basis in cooperation with civic, social, trade or professional groups.

(2) Exhibits and booths at fairs, trade shows and conventions.

(3) Showing of educational films to various schools and educational groups.

(4) Radio and television advertising programs.

(5) Joint and individual firm advertising campaigns, using informative copy and attractive illustrations having verve, sparkle and a human touch as against the traditional unrevealing, deadpan, tombstone.

(6) Educational classes on investing for the individual, offered in cooperation with accredited institutions of higher learning.

(7) Enlisting the cooperation of the press in reducing financial illiteracy.

(8) Distribution of informative and educational literature helpful to the uninformed prospective investor as well as to the more seasoned securities buyer.

(9) Establishment of Group Speakers Bureaus.

(10) Cooperation with other divisions of the business community in a variety of programs.

(11) Use of carefully written and artistically prepared mailing pieces that have warmth and appeal in contrast to the professional jargon of earlier years.

(12) Window displays to familiarize the public with local industry.

(13) Formal education classes organized for member firm employees at more than twenty cooperating universities and colleges throughout the country.

(14) Providing articles on investing to editors of employee house organs.

These activities reflect, according to the "Bulletin," that a growing number of persons in the industry are taking to heart the fact that there is a big job to be done and that they are doing something positive about it.

Sterling, Grace Adds Three to Staff

Sterling, Grace & Co., 50 Broad Street, New York City, members of the New York Stock Exchange, announce that J. George Frings, Henry Bultman and Harold P. Moon are now associated with the firm as registered representatives.

Mr. Frings was formerly with Fitzgerald & Co., Inc.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Bank Stocks

The recent sale by Transamerica Corporation of 1,199,554 shares of its holdings of Bank of America National Trust and Savings Association provides an occasion for a few comments on some of the other investments of this bank holding company.

Possibly one of the most significant facts in the recent sale of stock so far as Transamerica is concerned is that it reduces the shares held in Bank of America from 2,336,321, constituting approximately 22.82% of the total number of the outstanding shares, to 1,136,767 or approximately 11.10% of the total shares outstanding.

The Federal Reserve Board has for some time been holding hearings on its charges that Transamerica's commercial banking activities may have assumed monopolistic tendencies in five Western States where Transamerica has large investments in banking institutions. The crucial issue revolves around whether or not Transamerica controls Bank of America. The contention of the Federal Reserve Board has been that Transamerica and Bank of America are one and the same. It has been conceded that the exclusion of Bank of America from the Transamerica banking group would remove all grounds for the proceedings.

Inasmuch as the recent sale of Bank of America shares reduced the holdings of Transamerica by approximately 50%, there have been reports that an agreement might have been or could be reached which would end the proceedings.

According to a recent announcement the Federal Reserve Board's anti-trust hearings against Transamerica will be resumed next week, Nov. 28. Because of the developments of the past month, some indication of the future status of the proceedings should be forthcoming at that time.

Regardless of the immediate outcome of these hearings, however, Transamerica as a holding company with substantial interests in Western bank, insurance and industrial companies is an interesting situation for investors.

Although the sale of about 50% of its investment in Bank of America substantially reduced its holdings in this company, the remaining 1,136,767 shares with a current market value near $50 million still constitutes the largest single investment of Transamerica. Another of its large commitments is in National City Bank of New York which, at the end of 1948, totaled 448,203 shares of the capital stock with a current market value of approximately $20 million.

In addition to these two large banking investments, Transamerica controlled 47 domestic banking subsidiaries operating 132 banking offices in the five states of California, Oregon, Arizona, Washington and Nevada. These investments were carried by Transamerica at a figure of around $25,700,000, whereas on an adjusted book value basis they were worth over $50 million.

Other interests of the company include insurance companies writing life, fire, automobile and inland and ocean marine insurance. These companies include, Pacific National Fire Insurance Co., Occidental Life Insurance Co. and Premier Insurance Co., and are also conservatively valued on the balance sheet, no consideration being given to the value of insurance in force with the life insurance subsidiary or the equity in the unearned premium reserves of the other insurance subsidiaries.

There were also other sizable investments including $14,369,637 in Capital Co., a real estate subsidiary, and $10,750,000 in Allied Building Credits, Inc., a wholly-owned home financing enterprise. A number of relatively small industrial companies engaged in the manufacture of diesel engines, castings and forgings, and aircraft accessories are also controlled by ownership of a large percentage of the capital stock.

In addition to the above, Transamerica has substantial blocks of marketable securities including 38,937 shares of Citizens National Trust & Savings Bank of Los Angeles, 34,897 shares of Fireman's Fund Insurance Co., 628 shares of First National Bank of New York, and 56,900 shares of Georgia-Pacific Plywood & Lumber Co.

A quick survey of some of the accounting practices of Transamerica shows that the carrying values of the foregoing subsidiaries and investments are substantially below reasonable realized values, possibly by as much as 35% to 40%. For example in the case of certain of its marketable securities, carrying values are based on the quoted market value as at Dec. 31, 1931 for securities then owned and still held or at cost or less if subsequently acquired.

Business and the Government's Program

By CLARK CLIFFORD*

Special Counsel to the President of the United States

Stressing mutual dependence of business and government, President Truman's advisor asserts goal of government is to have business prosper and, instead of being critical, business should therefore assist government. Explains basic principles of Fair Deal, and ascribes present business prosperity to Administration policies. Concludes we are in vital period of world's history, and with highest type of leadership nation can maintain its predominance.

We hear a great deal about the relationship between government and business. For a good many years we have heard it. It seems to me we might together look at some of the fundamental principles that exist. Perhaps this might seem elementary, but oftentimes it is wise to return to fundamentals.

I think it would be fair to say that business and government are here to stay. We can't get along without business, and I don't believe business can get along without government.

Also, I think in the past we used to hear comments that some day a problem would have to be resolved—that is, whether business would gain the ascendancy over government or government would gain the ascendancy over business. I think that we all agree that is tommyrot. There is a vital and absolutely necessary place in the economic life of this country for business and government to exist co-equally, so that as partners we can realize the great promise that exists in this great nation.

The major goal of business is to make profits. You want to prosper. That is one of the goals of government, that business should prosper. When business prospers, the country prospers. Sometimes we enter areas of stress and strain, when that goal of business encounters some conflict with other goals that the government has with reference to other segments of our economy.

Business Should Not Be Critical

I submit that that is not the time perhaps for business to be critical. That is the time for business to assist. Government needs the wise counsel of business. Government needs to draw on men in business for government positions. There are any number of places in government that can be filled only by men who have had the training that you men have had.

One of the major functions, it seems to me, of government is to maintain a reasonable balance among the various segments of our economy—business, the farmers, labor, the general consumers.

When that balance is maintained, we have a healthful economy. When one of those segments rises too much in an ascendency over the other segments, we get a state of imbalance which ultimately can cause damage to all of the segments of industry and labor and farmers and so forth.

It seems to me that at this particular time we can resolve that government will make a better effort and a stronger effort to understand the problems of business and that business will make the effort to understand the goals of government.

We are not oblivious to your problems. I think that it might come to you, perhaps, some of you, as a surprise to know the amount of time that is given. We are conscious of the fact, for instance, that the tax situation today is of vital importance to business, that it impresses itself upon every phase of your operations, that it affects particularly your ability to get risk capital; that is a matter that receives close and careful study, and at this particular time, thorough investigation of that is being made in order that we may have the best judgment possible when decisions have to be made at the next session of the Congress.

We are conscious of the fact that across the board there is a general increase in the cost of doing business—transportation cost, labor cost, so many of those costs over which you, as executives, have very little control, because they are fixed costs. Attention is being given to that.

You men in this particular industry have a particular interest in the relationship of the cost of farm products as related to the general standard of living and purchasing power of our people. That is being given attention as the farm program is being studied and unfolded.

I believe that perhaps if I can render some service this evening it would be to acquaint you with what your government has in mind. What are the basic aims of this Administration? I think there has been perhaps a good deal of misunderstanding of it. Perhaps there has been some distortion of it. Let me see if I might briefly relate to you what I conceive to be the aims of what we call the Fair Deal. That is an easy, popular, now-accepted expression.

The origin of it is interesting. In the State of the Union message in January, 1949, on the last page of that message appears the sentence, "Every citizen and every segment of our economy is entitled to a fair deal from this government."

It is right significant. It doesn't say that this particular segment of our economy or this particular group of individuals, or this particular pressure area is entitled to a fair deal. It says that every citizen and every segment of our economy is entitled to a fair deal.

The basic principles of the Fair Deal, it seems to me, are best stated in the President's State of the Union message in January, 1949. I refer to those because I have some acquaintanceship with those messages.

There the five basic goals are set forth:

(1) Secure the essential human rights of our citizens.

(2) Achieve and broaden our human and natural resources.

(3) Conserve and expand our natural resources.

(4) Strengthen and expand our domestic economy in order to achieve greater prosperity.

(5) Achieve a just and lasting peace.

Briefly, let's look at the significance of these five goals.

Since this nation was founded,

(Continued on page 33)

*Stenographic report of address by Mr. Clifford at the Annual Dinner of the Grocery Manufacturers Association, New York City, Nov. 15, 1949.

Kennedy Chairman of ABA Commission

James H. Kennedy, Vice-President and Cashier of the Philadelphia National Bank, has been appointed Chairman of the Bank Management Commission of the American Bankers Association, by F. Raymond Peterson, President of the Association.

The functions of this Commission are considered among the most important of the various association groups; its duties include the continuing improvements of bank operations as well as management.

Mr. Kennedy has served on the Commission since 1943 and as its 1949-50 Chairman, he succeeds E. V. Kirck, Senior Vice-President and Cashier of American Trust Company of San Francisco.

With H. P. Wood & Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Robert E. Burnett is with H. P. Wood & Co., 75 Federal Street.

Now Griffin & Co.

RALEIGH, N. C. — Announcement is made that the firm name of Griffin & Vaden, Inc., Insurance Building, has been changed to Griffin & Company, Inc. Officers are George I. Griffin, president and treasurer; E. J. Griffin, vice-president, and M. C. Markham, secretary. Charles J. O'Neill, Jr. is with the firm in the trading department.

Herbert Hunter to Speak Over Radio

DETROIT, MICH.—Herbert D. Hunter of Watling, Lerchen & Company, members of New York and Detroit Stock Exchanges, will speak on the subject, "How to Analyze a Financial Statement," at WWJ Auditorium on Monday, Nov. 28, at 8:15 p.m. This will be the last of a four-lecture series sponsored by the Michigan Association of Customers Brokers.

Mr. Hunter has been engaged in financial analytical work for the past 15 years. For two years during the war he was assigned to War Contract renegotiation. Griswold Street considers him an authority on the subject of financial statements.

The lecture is open to the public and complimentary admission tickets may be obtained from any broker or the Detroit Stock Exchange.

Edwin Gilroy Joins First Securities Co.

CHICAGO, ILL.—First Securities Company of Chicago are pleased to announce the election of Edwin L. Gilroy, as Vice-President of the company. Mr. Gilroy was with Halsey, Stuart & Company from 1921 to 1933, Vice-President of Webber, Darch & Company from 1933 to 1942. He reenlisted in the Navy right after Pearl Harbor and retired as a Commander in 1945. From 1945 to date he was with Brailsford & Company and Yantis & Company.

He has a statewide reputation as Traffic Commissioner of Highland Park in connection with accident prevention and has been prominent in civic and American Legion affairs in that city for the last 20 years.

With Hunnewell Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Conrad B. Shevlin has become affiliated with Hunnewell & Co., 49 Federal Street, members of the New York and Boston Stock Exchanges. In the past he was with Edward A. Monahan and R. A. Gallagher & Co.

Raymond & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Joseph C. Porreca has become affiliated with Raymond & Co., 148 State Street.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Prices of Treasury obligations continue on the constructive side in the wake of new tops having been made under the leadership of the longer-term issues. . . . Volume has expanded, although it is still not sizable enough yet to give the market the same breadth which has been present other times, when quotations have pushed on to new highs. . . . Also there seems to be more skepticism over the ability of the market to maintain the uptrend than has been around in previous strong and advancing markets. . . . Nonetheless, securities are being put away, with investors the largest buyers, although more professionalism appears to have been creeping into the picture recently. . . .

The pacemakers are the Victory bonds, as they have been in most of the market climb. . . The 2½s due 9/15/67-72 are the eligible leaders, with many buyers taking on the 2¼s due 1956/59. . . . The 2¾s due 1960/65 continue to rule the partially-exempts, although the 1958/63s are also being well bought. . . . Despite considerable switching from the short-term issues by certain deposit banks, there is still a good enough demand from other institutions to keep them in line with the rest of the market. . . .

STABILITY OF PRICE LEVEL QUESTIONED

Despite the new highs that have been registered in the government market, considerable caution still prevails. . . . There are many money market followers who believe the rise is not based upon substantial enough ground to carry much further. . . . It is being pointed out the market has been on the thin side, through most of the rise, especially as far as offerings are concerned. Large institutions have abstained from selling issues that have been in demand, particularly the longer ineligible obligations. . . . The authorities have supplied the market with only minor amounts of the longs more to keep certain issues from getting out of line than for general market stability purposes. . . . There has been, according to reports, more than a little bit of inventory building recently by dealers and traders and this does not mean that securities are passing into the strongest hands. . . .

It is also the opinion of some that large holders of Treasury obligations will be sellers of the more distant maturities, especially the ineligible, if prices should continue to move into new high ground. . . . Some of this is already going on with savings banks now letting out issues they acquired not so long ago. . . . The proceeds, it is indicated, are being put mainly into short-term issues. . . .

BULLS IN DRIVER'S SEAT

Insurance companies are sellers of the eligible issues, particularly the 2's, but the demand for these securities has been very substantial among the larger commerical banks, so that all offerings have been absorbed without making very much of a dent in the demand. . . . The 2¼'s due 1956/59 are also coming into the market, largely from out-of-town sources, but herein again the demand among the more sizable commercial banks is more than sizable enough to take care of all this bond that is offered. . . . This self-refunding operation by the deposit institutions has had a favorable influence upon prices of eligible issues, but will it contnue much longer? Some say yes, others say it is about over. . . .

Differences of opinion are what make prices fluctuate, and so far the bulls seem to have had the best of the argument. . . .

WILL FEDERAL ACT?

There is little doubt that selling by large institutions of the restricted issues along with a little more than token liquidation by the authorities could halt, if not reverse, the upward trend of the market. . . . However, there is nothing on the horizon yet to indicate this is going to take place immediately. . . . On the other hand, some are wondering if recent small sales of the longer-term obligations by the powers that be should be taken as a mild warning that more substantial offerings will be made, if prices should tend to move up sharply. . . .

As to the buying which has been going on in the market, pension funds, mainly those administered by trust companies, have been the principal buyers, along with savings institutions. . . . The pension buying has not been in large blocks, but a number of smaller ones, and there is no question these are the kind of purchases that mean the securities are passing into strong hands. . . . Savings institutions have been a little less vigorous in new money purchases than recently, although there has been considerable trading from the shorter taps into the longer issues. . . .

EYES ON TREASURY REFUNDING

Future refunding operations of the Treasury have been in for more than passing attention, with some followers of the money markets looking for the low-income short-term issues to be continued, with five-year maturities about the longest to be expected over the next few years. . . . This would keep interest cost down which is one thing the authorities seem to be very conscious of. . . . On the other side of the picture there are many who do not go along with these conclusions since they believe the short-term debt, which is very sizable, will not be allowed to increase too much more. . . . They look for issues other than bills and certificates to be used in future refundings. . . .

The opinion is held that maturities of five, seven, twelve years and even longer will be used to take care of called or maturing securities. . . . A definite pattern, including longer-term obligations, it is held, will be worked out and put in operation in order to be prepared for the heavy savings bonds and other maturities in 1951 and 1952.

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

The **Federal Reserve Bank of New York** in announcing the results of the election of directors to succeed Winthrop W. Aldrich, class A director, and Lewis H. Brown, class B director, whose terms expire Dec. 31, 1949, the bank on Nov. 18 stated that:

John C. Traphagen, Chairman of the Board, **Bank of New York and Fifth Avenue Bank, New York, N. Y.**, was elected by member banks in Group 1 as a class A director of this bank; and Lewis H. Brown, Chairman of the Board, Johns-Manville Corporation, New York, N. Y., was reelected by member banks in Group 1 as a class B director of this bank. Each was chosen for a term of three years beginning Jan. 1, 1950.

* * *

Harvey D. Gibson, President of **Manufacturers Trust Company of New York** announced on Nov. 17 that the four banking offices of **the National Bronx Bank, of New York,** which bank was recently acquired by Manufacturers Trust Company, would open officially as branch offices of the latter institution on Nov. 21. At the same time it was announced that the Manufacturers Trust Company branch office at 652 Pelham Parkway was being discontinued after the close of business Nov. 18. Customers of that office will henceforth be served at the former National Bronx Bank office across the street at 2196 White Plains Road. The four new locations of Manufacturers Trust Co. will be: 2196 White Plains Road, 360 East 149th Street, 1254 Southern Blvd. and 410 East 138th Street. The former Board of Directors of the National Bronx Bank will act as an Advisory Board for Manufacturers Trust Company Bronx offices. An item bearing on the acquisition of the National Bronx Bank by the Manufacturers Trust appeared in our issue of Nov. 3, page 1770.

The appointment of Franklin P. Johnson of the Security Analysis Department of the Manufacturers Trust Company as an Assistant Vice-President, is announced by Harvey D. Gibson, President of the trust company. Mr. Johnson is a native of Manchester, N. H. and a graduate of Washington and Lee University. After five years in the investment banking field he became associated with Manufacturers Trust Co. in 1934 and was appointed an Assistant Secretary in 1942. During World War II, he served with the Army Transportation Corps in the European Theatre of Operations.

* * *

N. Baxter Jackson, Chairman of the **Chemical Bank & Trust Company of New York** was host on Tuesday night, Nov. 22 at a dinner of the Quarter Century Club of the bank held in the Starlight Ball Room of the Waldorf-Astoria. The club has a membership of 215 of which 168 are actively employed and 47 have been retired. At an election which preceeded the meeting, Ralph G. Peterson succeeded Miss Edith Adams as President of the club. A feature of the evening was the announcement of the winners of the Essay Contest titled, "My Bank—My Job," held under the sponsorship of the club. Two classes of prizes were provided with those under 22 constituting one group and those over 22, the other. Contestants were limited to the clerical force. Prizes of $250.00, $100.00 and $50.00 respectively were awarded to the winners—three in each group.

Robert D. Scott of Summit, N. J., a Vice-President of **Chemical Bank & Trust Company of New York,** died suddenly on Nov. 17 at the age of 64. Born and educated in New York City, he entered the employ of the Citizens National Bank in 1906 and became associated with the Chemical Bank when these institutions were merged in 1920. Mr. Scott was a director of Doehler-Jarvis Corporation, New York, and Clinchfield Manufacturing Co. of Marion, N. C., and a Trustee of the Postal Life Insurance Co. of New York. He was a member of the Lawyers, Bankers and other clubs.

* * *

E. C. Gersten, President of **The Public National Bank & Trust Co. of New York,** announced that Raymond Clark, Thomas J. Eichler, Robert P. Graham and Henry E. Podsen, Executive Assistants, Credit and Business Development Division, main office, have been appointed Assistant Cashiers and that Herbert Griffin, Administrative Assistant, 161st Street office, has been appointed an Assistant Manager.

* * *

Approval was given by the New York State Banking Department on Nov. 10 to plans of the **Fidelity Safe Deposit Company of New York** to increase its capital stock from $200,000 to $300,000, par $100. On Nov. 14 the Department announced the filing by the Fidelity Safe Deposit Company of an agreement incident to the merger of the **Yorktown Safe Deposit Company** into the Fidelity Safe Deposit Company and authorization was issued at the same time for the opening of a branch of the Fidelity at 500 Seventh Avenue in connection with the merger of the Yorktown Company into the Fidelity.

* * *

The 79th Annual Statement of the **Dominion Bank, Toronto, Canada,** issued to shareholders today showing results of the Bank's operations for the year ended Oct. 31, 1949 indicates a strong cash position, substantially higher deposits and a notable increase in commercial loans.

After appropriations to Contingency Reserves, out of which full provision was made for Bad and Doubtful Debts, profits for the year amounted to $2,231,670 before deduction of $835,000 for Dominion and Provincial Government taxes and writing $395,475 off bank premises. After distribution of $700,000 in dividends at a rate of 10% per annum, the balance of $301,195 was carried forward to Profit and Loss Account which now stands at $1,355,705. Capital $7,000,000, reserve $10,000,000 remain unchanged.

Total deposits of $388 605,000 increased over $30,000,000 for the period under review.

Commercial loans and discounts in Canada aggregated $157,047.000 a record total for the Bank while Dominion, Provincial and other high-grade securities totalling $158,481,000 showed little change.

Cash assets totalling $83,009,000 represent almost 21% of the Bank's liabilities to the public and immediately available assets of $249 055,000 are over 62% of such liabilities. Total assets now exceed $426 000,000, the highest ever published in the history of the Bank.

The Annual Meeting will be held in Toronto, Canada, Wednesday, Dec. 14, 1949.

Wastefulness in Government Finance

By T. COLEMAN ANDREWS*
Member of Hoover Commission on Government Economy

Hoover Commission expert, asserting Federal Government has no financial policy, but continuously fluctuates between an inflationary and deflationary attitude, charges current taxation is destroying private wealth and destroying individual incentive. Deplores policy of setting class against class and gives illustrations of wasteful Federal expenditure. Estimates government waste at $3 billion annually, and concludes only item in Federal Budget that cannot be reduced is interest on public debt.

For 17 years we have had one emergency after another in our Federal Government, most of them spurious. Each of these emergencies has cost us a lot of money. The cumulative result has been to jump Federal spending from $4 billion per year to more than $40 billion. Now we really have a crisis—the greatest in all our history—one that threatens the very foundation of our system of government—one about which you and I have got to get mad—fighting mad—mad enough to cause us to start throwing our weight around as citizens.

T. Coleman Andrews

All of you know what the situation is: $256 billion of debt . . . surpluses in only two of those 17 years, and those two by accident rather than design . . . a deficit of $1.7 billion last year . . . an expected deficit of from $5 to $8 billion this year . . . another deficit of from $7 to $10 billion in the cards for next year . . . as clear a pattern as one could imagine of evolution from government for the benefit of the governed to government for the benefit of the governors—at first a creeping, but now a plunging, return to the tyranny and oppression from which the colonizers of our country fought themselves free only 168 years ago.

What irony, ladies and gentlemen! Less than 200 years of freedom after unreckonable ages of bondage; then back to bondage again! It doesn't seem possible, but that's the way it is. We have given up the vigil. No longer do we have a firm grip on our destiny as individuals and as a people. We have all but lost the will to be free. We are giving up our short-lived freedom. If there is a spark of resistance to slavery left in us it is indeed so dim a one as to be hardly discernible. Or can it be that we merely do not comprehend what is happening to us? Take your choice. We should be as ashamed of one as of the other.

No Financial Policy

Talk about government finance and economy? Where may we find either today? Our government has no financial policy. One day it talks about preventing inflation with deficit financing. The next it talks about using deficit financing to prevent depression. What a miracle-worker spending has become in the minds of the managers of our public affairs, and in the minds of all too many of the people as well. And to talk about government economy is farcical, because there isn't any economy in the management of our national affairs. Economy was lost in the shuffle long ago. I repeat, ladies and gentlemen: We are flirting with disaster, and the time has come to do something more than just talk about it.

Perhaps you think that I am just excited. I am excited, in all the meaning of the word; and I make no apologies for it. Moreover, I aim to get you excited if I can. One of Richmond's business leaders once told a group of half-hearted workers in an important civic project that they had to get excited about the project if they expected to accomplish what they had set out to do, because nothing worthwhile had ever been accomplished until somebody got excited enough about it to be moved to positive action. I think that there was a lot of wisdom in that statement. I also think that the time has come for us to get excited about the fiscal plight of government in this country, particularly that of the Federal Government.

Thomas Jefferson warned that "to preserve our independence . . . we must make a choice between economy and liberty or profusion and servitude." Jefferson and his co-founders of this government saw that down through the ages men had lived by and under the sword, and that the power of the sword was derived from control of the purse. Prior to the founding of this country, the only people who had sufficient funds for ample living were the kings, despots, tyrants and conquerors under whose rule the masses were forced to live. Thus, when the Constitution was written, it was deliberately framed so to limit the powers of the Federal Government that control of the purse strings would be in the hands of the people.

Jefferson and his contemporaries also saw that if the people ever permitted the Federal Government to get control of the economy of the land, individual freedom would disappear and the people would find themselves right back where they were before they won their independence.

This accounts for those provisions of the Constitution and the Bill of Rights whereby the right to acquire and feel secure in the ownership of property was assured. This right is being openly challenged all over America today, but nowhere so vigorously as in Washington.

Taxing Away Private Wealth

The Federal Government's gift and estate tax laws were deliberately framed to destroy personal wealth and bring us to the point where every generation would have to start from scratch. The income tax laws make such tremendous exactions that little is left for the accumulation of savings, by which the growth of private enterprise has been traditionally financed.

In England private wealth has been destroyed to the point where it is incapable of further promotion of private enterprise. Of all the 50-odd million people in the British Isles, less than 250 of them have an income of $20,000 per year or more. Think of it, ladies and gentlemen! That's only one in every 200,000 people! We are rapidly coming to this point in America, and when it is reached, we will as certainly find ourselves bereft of individual freedom as the people of England are today.

Private enterprise is under attack even by many who profess passionate devotion to our system of government. To be personally successful is to be suspected of fraud, corruption and exploitation of others. Big business, regardless of its virtues, and in spite of any benefits that it confers upon the people as consumers, is regarded as being evil merely because it is big. Yet those who advocate the destruction of big business are the most vociferous advocates of big government, notwithstanding the fact that the government has already reached proportions that take from the people a greater part of their income than any segment of industry or commerce.

Jefferson also left us the priceless observation that he knew of no safe depository of the ultimate powers of society save the people themselves, and that, if we should ever think the people not sufficiently enlightened to exercise their control with a wholesome discretion, the remedy would lie not in taking the people's discretion from them but in informing their discretion by education. Here again was another conviction that led to the establishment of the government of this country as one of limited powers.

Jefferson and his contemporaries foresaw the probability that we would lapse into some degree of acceptance of the kind of illusory propositions with which we presently are toying; and they were convinced that if we accepted the philosophy of the advocates of these propositions and allowed the government to gain control of the production and distribution of goods, the rights of the individual citizen would disappear and the government would emerge as the master of the people. This already is happening.

There are many who say that the paramount issue of the day is whether the government will be the servant of the people or the people will be the servants of the government. That is the fundamental issue, but it is not the immediate one. We already are far under the yoke of compulsion. We have given up our rights one by one until today the government is so firmly entrenched in control of the factors that determine our destiny that the immediate issue is whether we can save ourselves from ultimate complete loss of self-determination. I think we can, but it is going to take a lot more intestinal fortitude than most of those from whom the people have the right to expect leadership have shown thus far.

Setting Class Against Class

We cannot long hold on to what is left of our rights as individuals—and we certainly cannot hope to regain any of those rights that already have been taken from us—if we continue to tolerate a government that not only smiles upon, but brazenly practices, discrimination . . . that sets class against class . . . that forcibly takes from one class to curry the favor of another . . . that claims to be abolishing poorhouses while rapidly qualifying itself to become an inmate . . . that makes a myth of social security while squandering the people's substance to such an extent that there can be no security, social or otherwise, worthy of the name . . . that essays to save the rest of the world from economic disaster while spending itself into bankruptcy at home.

About three years ago, Congress became sufficiently concerned about the country's financial plight to authorize the appointment of a Commission to study the organization of the Executive Branch of the Government, report its findings, and make such recommendations as it deemed necessary and desirable. The bill creating this Commission provided that it should consist of 12 members — three members from the House of Representatives, three from the Senate, three career officials of the government, and three citizens. Thus the Commission was to be non-partisan, and, while it may be, as some have alleged, that some of the dissents from the Commission's findings and recommendations were inspired by political considerations, the Commission nevertheless turned in a thoroughly objective report.

As most of you know, ex-President Herbert Hoover was one of the members of the Commission and became its Chairman, and the Commission, officially designated The Commission on Organization of the Executive Branch of the Government, became familiarly known as the Hoover Commission.

Mr. Hoover began the work of the Commission by gathering around him a group of more than 300 business and professional men, each chosen for his knowledge of, or experience in, some particular aspect of the government's affairs. He then divided this group into task forces and made the surveying of one or more departments the responsibility of each task force.

The result was the most thorough and comprehensive inquiry

(Continued on page 35)

*An address by Mr. Andrews before the Virginia Manufacturers Association, Richmond, Va., Oct. 22, 1949.

Canadian Securities

By WILLIAM J. McKAY

It is now more clearly apparent that pressure of events, both political and economic, is forcing a change in the status of Canadian international relationships. The time is gone when Canada could steer a middle course between the British Commonwealth on the one hand and her great southern neighbor on the other. In the past decade the Dominion has attained national adulthood and the resultant new independence of outlook in itself militates against the acceptance of a completely subordinate role in international affairs.

Canada moreover can no longer count on the previous system of agreements and conditions that formerly safeguarded her economic future. Following the breakdown of the historic U. S.-British-Canadian exchange triangle Canada is faced with a serious problem in the settlement of her international balance of payments. The Hyde Park Agreement no longer serves as an automatic adjustor of the U. S.-Canadian trade account. ECA offshore purchases in the Dominion have ceased to constitute an important Canadian export item. The end of the period of war-induced shortages in this country now further operates to reduce the volume of Canadian exports. On the British side the dollar-shortage has led to drastic cuts in imports from the Dominion and it now appears that it might not be possible even to fulfill the terms of the U. K.-Canadian Wheat Agreement.

Great as is the desire here to satisfy Canadian requests for a bilateral trade agreement, political and economic conditions no longer permit the implementation of special arrangements of this kind. When consideration is given to the British side of the picture the prospects for success in obtaining economic safeguards appear even dimmer. Until recently the Dominion was separated from the British Commonwealth and the Sterling Area virtually only by the difference of currency. Now to all intents and purposes Canada is completely divorced from the British economic and financial system. Henceforth it would appear that Canadian-British Commonwealth economic relations will be on a purely business basis.

The weakening of these traditional links and the recent change for the worse in the U. S.-Canadian economic atmosphere thus calls for a reorientation of Canadian economic and financial policy. With greater obstacles ahead in the path of an expansion of foreign trade it is now more than ever necessary to take steps to broaden the totally inadequate domestic market; this can best be accomplished by the adoption of a more vigorous immigration policy. An increase in population will lead to more intensive exploitation of the Dominion's enormous wealth of natural resources. This in turn will place greater emphasis on the necessity to attract U. S. investment capital.

There is little doubt that this could be readily achieved by the removal of the restrictions that now impede the free movement of funds across the border. It might also be advisable, especially in view of the impact of the drastic devaluation of the pound, to make a further adjustment of the parity of the Canadian dollar. A lower exchange level would stimulate the influx of new foreign investment funds and would tend to deter the repatriation of existing capital. Canada moreover is at a youthful stage of development where an expansion of foreign indebtedness is by no means detrimental. Instead of resort to exchange controls and trade restrictions for the protection of exchange reserves and the maintenance of a stable exchange level, Canadian long-term interests would be better served by recourse if necesary to direct external loans. Canada furthermore offers an unrivalled field for investment not only in view of her wealth of undeveloped resources but also on the merits of the Dominion's unblemished debt record. The experience south of the border amply demonstrates the efficacy of the open door to immigration and foreign capital.

During the week the external section of the bond market remained steady but inactive. The internals also displayed little animation but there were indications of a weaker undertone. Free funds broke sharply from the recent peak level and the corporate-arbitrage rate was also lower. It would appear that the period of sustained strength of the Canadian free dollar during the summer months as a result of tourist demand, in conjunction with the extraordinary flow of U. S. funds to the new Alberta oil-fields, is now being replaced by a seasonal reaction aggravated by rumors of a further devaluation of the official dollar. Stocks after displaying strength in the earlier sessions especially in the paper, base-metal, and Western oil groups, subsequently reacted following mild selling pressure. The papers however, led by Abitibis, held firm and Consolidated Smelters, on stock-split rumors, also moved against the general trend.

Keller & Mersereau With Crowell, Weedon

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Thomas H. Keller and Dale B. Mersereau have become associated with Crowell, Weedon & Co., 650 South Spring Street, members of the Los Angeles Stock Exchange. Mr. Keller was formerly in the trading department of Morgan & Co., with which Mr. Mersereau was also associated.

With Waddell & Reed, Inc.

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CALIF.— Raymond B. Reis is with Waddell & Reed, Inc., 8943 Wilshire Boulevard.

Federal Reserve Can Create Greater Economic Stability!

By W. RANDOLPH BURGESS*

Chairman of the Executive Committee, The National City Bank of New York

Prominent New York banker, reviewing methods used in recent years to check booms and depressions, holds traditional method of central banking, practiced for years by Bank of England, can be made most effective. Says, in order to realize high purpose of its creation, Federal Reserve System requires: (1) prestige to attract able men; (2) independence in its actions; and (3) a certain measure of cooperation from other government agencies. Holds system needs no new powers.

In today's search for economic stability we ought to reassess the position and operations of the Federal Reserve System, for I believe it can be the most powerful instrument the government possesses for avoiding booms and busts. Properly used, it can be more effective than fiscal policy or any of the newer gadgets which have been highly advertised, but have never proved themselves.

W. R. Burgess

This and other countries have today committed themselves to the principle that the Government must intervene in economic life, not only to see that the game is played according to rules that are fair for all, but also to seek to avoid sweeping instabilities which bring with them the excesses of speculation on the one hand, and the distress of unemployment on the other. By education and the accumulation of experience and wisdom the business and agricultural communities ought by themselves to reduce some of the causes of instability; since the war they have demonstrated their ability to do so. Nevertheless, Government has a duty to exert a positive influence for greater economic stability. Too often, alas, Government has been the chief offender in creating instability.

Our own and other Governments have tried in recent years three different methods for checking booms and depressions. One of these is establishing direct control — somebody at headquarters makes a plan of fixing prices and wages and rationing goods, and compels the people to follow it. Except in a completely totalitarian country like Russia or in war time these methods don't work well. They grow more and more difficult to enforce, and they gradually choke off the free flow of initiative and enterprise which are the life-blood of our economic system. They are abhorrent to our democratic notions of the freedom of the individual.

The most fashionable recent idea in this country for combating economic instability is the "compensatory spending" theory. A whole metaphysics has been developed on precisely how to manage fiscal policy in a way that will stabilize the economy.

The Federal budget is of course an important economic influence, but not always a salutary one. Experience of recent years is discouraging to the belief that the budget can be so subjected to economic control that its fluctuations will become a stabilizing influence in the business cycle. According to the theory, spending should be reduced when the economic goose hangs high, and increased in depressions. So far, about all we have succeeded in doing since this theory gained official sanction has been to increase the budget in both booms and depressions. Budgets are instruments of politics, and to make them also economic tools is asking much of human nature. The best practice will be to fortify insistently the old tradition that budgets are to be balanced. Circumstances themselves will unbalance them often enough despite all that can be done.

The third of the traditional methods of affecting business fluctuations is the regulation of money through changes in the supply and cost of money. History records many instances of the successful use of this instrument. For years, the Bank of England, by changes in its discount rate, or by its purchase or sale of bank acceptances or Treasury obligations, influenced the flow of funds in and out of the London market. More important still, it influenced the activity of the investment market. The Federal Reserve System now has a long history of attempts at credit control—some more, some less successful.

There are great advantages in trying to influence economic fluctuations through the money supply. In the first place, it can be done. The central banking system has the power to change the price of money and to influence the volume of money.

The second advantage of using monetary action as a method of influencing business is that this method is consistent with democracy. You don't have to tell the individual borrower or lender what to do, but you create the conditions under which he makes his own decision. If we must have some form of government control the best form in all our experience is control through money because that involves the least interference with the freedom of the individual to make his own choices in his economic life.

Any skeptic as to the power of money in any economy does well to examine the dramatic illustrations of the results of recent basic changes in money values and credit policies in Belgium, Germany, and Italy. These were extreme cases, but they revealed vividly the improvement that can follow large doses of good old-fashioned monetary medicine.

The Federal Reserve System is our mechanism in the United States for money management, and I suggest that today it offers a better hope for successful Government influence toward business stability than any of the newer products of the economic laboratories.

But if the Federal Reserve System is to realize the high purpose for which it was created, it will require from the American people, and more directly from the Congress and from the other arms of Government, better support and cooperation in three special directions.

(1). *The prestige to attract able men.* The symbol of the standing of the System is the salaries which are paid the Federal Reserve Board. The salaries recently approved by the Congress would condemn the System to a position as simply one of many Government regulatory agencies. They should be higher.

(2). *Independence of action.* During the war the System necessarily became an instrument for enabling the Government to finance the war swiftly, surely, and economically. That role has been continued too long into peacetime. If the Reserve System is to act vigorously and effectively to check inflation or deflation it must be free to take action in controlling credit volume which will inevitably raise or lower interest rates, and hence the prices of Government securities. There can be no tightening or loosening of credit without affecting interest rates. They are the thermometer of credit.

Neither can the Reserve System be treated as just one of the political instruments of the Administration. The wise executive will yield to the Reserve System a substantial measure of independence of action so that its judgments can be objective and free from political bias. Only so can it do promptly some of the hard things that have to be done if inflationary tendencies are to be checked before they blossom into the booms that so often induce depressions.

(3). *The Reserve System needs a certain measure of cooperation from other Government agencies.* In the recent inflation, for example, the Reserve System and the commercial banks were conducting a vigorous campaign to resist inflationary extension of credits. At the same time other Government lending agencies were pumping out credit vigorously and freely. The activities of these other agencies partly offset restraining action taken by the Reserve System. Some plan of coordination of the activities of lending agencies along the line of the proposed credit council warrants thorough examination.

If we will act to restore the prestige of the Federal Reserve System, to give it greater independence and better cooperation from other Government agencies, I believe it does not need any new powers. It has at its command in open market operations and the discount rate instruments of tested worth which have been used in country after country with success. There must be freedom—and courage—to use them. I am here expressing agreement with the statement by Allan Sproul on page 156 of this Committee's recent report. ". . . for the type of inflationary situation through which we have just passed, I should think our present powers are adequate, provided they are used to the necessary extent." With respect to the requests which were made for more powers over reserve requirements, Mr. Sproul said, "a request for more powers was sidestepping the real issue, an issue which would have remained, and reemerged, once any new powers had been granted and put in operation." Mr. Sproul further says, "So long as the System cannot allow moderate changes in rates to occur, as a result of its decisions to ease or tighten credit, then it cannot in fact accomplish an easing or a tightening of credit. . . . A resort to special powers to increase reserve requirements would, in my opinion, only conceal or delay recognition of this central fact."

*A statement by Mr. Burgess submitted to the Committee on the Economic Report, Washington, D. C. Nov. 18, 1949.

Added Powers of Federal Reserve—No Threat to Dual Banking System

By MARRINER S. ECCLES*
Member, Board of Governors of Federal Reserve System

Former Chairman of Federal Reserve System scores opposition of banks to proposed enlargement of Federal Reserve powers. Recommends: (1) removal of discrepancies and unification in reserve requirements for all banks; (2) clarification role of Federal Reserve System in relation to government lending to business; and (3) unification of agencies concerned with bank supervision. Says FDIC has been used to discourage membership in Reserve System and to weaken monetary policy. Advocates reducing Federal Reserve Board to five members and increasing their salaries. Supports proposal for National Monetary Commission.

I am here as you know in response to the invitation to discuss issues that have been raised during the study initiated by your Subcommittee in the field of monetary, credit and fiscal policies. I shall be glad to try to answer such questions as may be uppermost in your mind, but I should like first to present for your consideration a short statement which I hope may anticipate and answer some of your questions. My views are the cumulative results of 15 years of participation in developing and carrying out policies of the Federal Reserve System, preceded by long experience in private banking under State as well as national authority and membership in the Federal Reserve System.

Marriner S. Eccles

I therefore could not fail to be aware of the vigorous opposition that has so often been voiced against new proposals with respect to Federal authority over banking. In recent years it has seemed that nearly every recommendation emanating from the Federal Reserve Board has been assailed as a threat to destroy the dual banking system. As one who has spent his business life in that system, I have been unable to see the justification for such agitation.

Our commercial banking system is composed of banks that receive deposits subject to withdrawal upon demand, make loans, and perform other services. About half of the total dollar amount of bank deposits are insured up to $5,000 for each depositor by a Federal agency, the Federal Deposit Insurance Corporation. Banks holding 85% of the resources of the banking system are in the Federal Reserve System another Federal agency. Approximately 5,000 of these banks operate under Federal charters, issued by the Comptroller of the Currency, and about 9,100 under charters from the 48 states. This is the dual banking system. While I am sure that those who are its most vociferous supporters would not seriously contend for the abolition of the Federal Reserve System, with the consequent restoration of the intolerable conditions that prevailed before its establishment, they nevertheless constantly oppose measures that would enable the Reserve System to be far more effective in carrying out its intended functions—functions that help to protect not only all banking but the entire economy.

Banking Opposition to Proposals

Two proposals—more than any others—stir up this agitation. One is the proposal for the equal application of a fair and adequate system of reserve requirements to all insured commercial banks. The other proposal is that the Federal Government apply the principles and objectives of the Hoover Commission to the Federal agencies concerned with banking, monetary and credit policy. Bankers believe in the objectives of the Hoover Commission, at least as applied to all other activities of the government—why not the banking activities?

The red herring of the dual banking system is always brought up to obscure the real merits of the fundamental questions involved in the proper administration of fiscal, monetary and credit policy, which concerns commerce, agriculture, industry and the public as a whole; it is by no means the sole concern of bankers.

The major responsibility of the Federal Reserve System is that of formulating and administering national monetary policy. It does this chiefly through the exercise of such influence as it may bring to bear upon the volume, availability and cost of commercial bank reserves. It must operate through the commercial banks of the country because they, together with the Federal Reserve Banks, are the institutions through which the money supply is increased or decreased. It is of paramount importance to the entire country that someone have the means as well as the ability to discharge this responsibility. It cannot be left to the voluntary choice of some 14,000 individual and competing banking institutions. It cannot be split up among the various agencies of the Federal and State Governments. The framers of the Federal Reserve Act undoubtedly intended that it should be in the Federal Reserve Board under the direct control of Congress.

Defects of Existing Reserve Requirements

Others have pointed out that existing bank reserve requirements are inequitable, unfair and ineffective at the very time when they are most urgently needed to restrain excessive expansion of bank credit. They should not depend as they do now on whether a bank is located in a central reserve city or in a reserve city or whether it is outside of one of these cities or away from its downtown area, nor should they depend on whether a bank is a member or a non-member. There is no good reason for such distinctions from the standpoint of effectuating monetary policy.

Discrepancies in Reserve Requirements

In addition to other handicaps of membership, members of the Federal Reserve System are subject to much more onerous reserve requirements than non-member banks. Member banks are required to carry certain percentages of their demand and time deposits in non-interest-bearing cash balances with the Federal Reserve Banks. Apart from these required reserve balances, member banks necessarily carry some vault cash to meet deposit withdrawals, and in addition they carry balances with correspondent banks, none of which can be counted toward statutory reserve requirements. On the other hand, non-member bank reserve requirements not only are generally lower in amount but may also consist entirely of vault cash and balances carried with city correspondents. In some instances reserves of non-member banks may be invested in U. S. Government and other specified securities. Thus to a considerable extent nonmember banks may receive direct or indirect compensation for a substantial part of their reserves. These discrepancies are most obvious and difficult to explain when two banks, one a member and the other not, are doing the same kind of business as competitors on opposite corners of the same town. Member banks therefore bear an undue and unfair share of the responsibility for the execution of national credit policy.

There should be a plan under which the responsibility for holding reserve to promote monetary and general economic stability would be as fairly distributed as possible. This would require a fundamental revision of the existing basis for bank reserve requirements. They should be based on the nature of deposits rather than mere location; they would be somewhat higher upon interbank deposits than upon other demand deposits. Vault cash should be given consideration because it has much the same effect as deposits at reserve banks.

In any such revision of reserve requirements it is of primary importance to take into account the fact that they are a means of contracting or expanding the liquidity position of the banking system and of making other credit instruments more effective. Reserve funds of banks may expand through large gold inflows or silver purchases, or return of currency from circulation, or borrowing from Reserve Banks, or Federal Reserve purchases of government securities through necessary open market operations. There should be sufficient authority over reserve requirements to permit taking such developments into consideration when necessary.

There is widespread misunderstanding even among bankers of the function of reserve requirements as a means of expanding or contracting the supply of bank credit. In sharp contrast with State reserve requirements, those applied to member banks under the Federal Reserve Act are primarily designed to affect the availability of credit—that is to say, the money supply. The Federal requirements are not primarily applied for the purpose of providing a cushion to protect the individual bank. They are not basically reserves in that sense at all, but incidentally the Reserve Banks do not and can not use them to buy government securities.

Federal Reserve Handicapped

The Federal Reserve System is a creature of the Congress. You can make it weak or you can make it strong. We have recited to the Congress over and over again the dilemma that we face. It is perfectly simple. So long as the Reserve System is expected to support the government bond market and to the extent that such support requires the System to purchase marketable issues, whether sold by banks or others, this means that the System is deprived of its only really effective instrument for curbing overexpansion of credit. It means that the initiative in the creation of reserves which form a basis on which credit can be pyramided rests with banks or others and not with those responsible for carrying out national monetary policy. To the extent that banks or others can at will obtain reserves they are thus able to monetize the public debt. In view of this situation, if the Congress intends to have the Reserve System perform its functions, then you should by all means arm it with alternative means of applying restraints. The only effective way to do that is through revision and modernization of the mechanism of reserve requirements. The Congress will not have done the job at all if it fails to include all insured banks. Reserve requirements that are limited only to member banks of the Federal Reserve System impose upon them a wholly unfair and inequitable burden which becomes the more intolerable as the need arises to increase reserve requirements as a means of curbing overexpansion of credit. Of course, organized banking and its spokesmen, chiefly large city banks, do not want any change. They never do. Throughout the long history of banking reform in this country—and it is still very far form complete — the same bankers or their prototypes have been for the *status quo*. Beginning with the National Banking Act they have fought every progressive step, including the Federal Reserve Act and creation of the Federal Deposit Insurance Corporation. If you abide by their counsels or wait for their leadership you will never do anything in time to safeguard and protect private banking and meet the changing needs of the economy in such a way as to avoid still further intrusion of the government into the field of private credit—to which I am really very much opposed — an intrusion which the public has demanded in the past because private banking leadership failed.

I may add that whenever Congress sees fit to enact into legislation the principle of equitable reserve requirements applied uniformly without regard to membership in the Federal Reserve System, there might well be changes in other relations of the Federal Reserve System which would be of benefit to all commercial banking as, for example, to offer the credit facilities of the Reserve Banks on equal terms to all banks which maintain their reserves with the Reserve Banks, together with further improvements in the check collection system. These and other beneficial changes could well be brought about with great advantage to banks and to the public in general.

Clarify Federal Reserve Role in Business Borrowing

The role of the Reserve System in relation to government lending to business also should be clarified. This is particularly important as to the functions exercised in that field by the Reconstruction Finance Corporation and with respect to the authority of the Reserve Banks to extend credit to industrial enterprises under section 13b of the Federal Reserve Act. The latter should be modified as proposed in S. 408, the bill favorably reported by the Senate Banking and Currency Committee in 1947, and the enactment of which was again recommended by the Board in 1948.

There is unquestionably a need for such an agency as the Reconstruction Finance Corporation in emergency periods for direct government lending for projects outside the field of private credit, but I have always taken the position that the government should not compete with or invade the do-

(Continued on page 16)

*Statement by Mr. Eccles before Subcommittee on Monetary, Credit and Fiscal Policies of the Joint Committee on the Economic Report, Washington, D. C., Nov. 22, 1949.

Added Powers of Federal Reserve— No Threat to Dual Banking System

(Continued from page 15)

main of private banking and credit institutions. When aid is necessary to facilitate the functioning of private credit, then such aid should take the form of guaranteeing in part the loans made by private institutions, just as was done in the V-loan program of the Federal Reserve for financing war production. That is what S. 408 proposes. The profound difference in the principle at stake here ought to be obvious.

Unification of Banking Control Agencies

In relation to the second question, that of organization, which I mentioned at the outset, I feel that students of Government and particularly those who endorsed the objectives of the Hoover Commission ought to be more interested than they appear to have been in the problems of organization of the agencies of Federal Government concerned with bank supervision. Some, however, may have been misled into thinking that there is no problem in this field because the expenses of these agencies are not paid from governmental appropriations.

The establishment of a system of insurance of deposits by the Federal Government was one of the great accomplishments of the Congress in the direction of fostering public confidence in the banking system. I favored Federal Deposit Insurance legislation at a time when most of my fellow bankers were denouncing it. But I never expected, and I am certain Congress never intended, that this protection for depositors would be used either to hamper effective national monetary policy or to give any class of banks special advantages over others. I regret to say that the Federal Deposit Insurance Corporation has been used to discourage membership in the Federal Reserve System and to weaken effective monetary policy.

There is no logic whatever in the present provisions of law which say, in effect, to a bank: "You can't join the Federal Reserve System unless you also join the Federal Deposit Insurance Corporation, but you can join the Federal Deposit Insurance Corporation without joining the Federal Reserve System." The law compels a national bank to join both, but a State bank has the option of joining one or the other, or neither. I should like most earnestly to urge upon you the importance of making this a two-way street by providing that a bank can be a member of the Federal Reserve System without joining the Federal Deposit Insurance Corporation, in the same way that a State bank is now privileged to be a member of the Federal Deposit Insurance Corporation without being obliged to join the Federal Reserve System.

The Federal Deposit Insurance Corporation was designed in the public interest and it should be maintained for that purpose, but this is not to say that the continued existence of three Federal agencies performing similar or allied functions in the field of bank supervision, regulation, statistical and other services is justifiable. There is unnecessary duplication and triplication of offices, personnel, effort, time and expense. While the maintenance of separate and often conflicting viewpoints may serve selfish interests, on the old principle of "divide and conquer," it seems to me that this should not prevent improvements wherever possible in the organization of a government already overburdened with complexity and bureaucracy.

In this connection various suggestions as to where responsibility should be lodged for the examination of banks subject to Federal supervision have been offered, ranging from the setting up of a new agency, with no other responsibility, to maintaining the *status quo.*

The Reserve System must have currently accurate information, procured through examination, bank condition reports, special investigations, constant correspondence and contacts with the banks. The System must have examiners and other personnel responsible to it, specially trained and directed for the purpose of procuring such information. The Reserve System is in position to determine policies to be pursued by examiners; to coordinate them with credit policies; and at the same time decentralizes the actual administration by utilizing the facilities of the 12 Reserve banks and their 24 branches. They examine all State member banks, receive copies of examination of all national banks, are in close touch in this and in other ways with all member banks, as well as the State and National supervisory authorities. Through their daily activities of furnishing currency, collecting checks, seeing that member banks maintain their reserves, and extending credit to them, the Reserve banks obtain current information about banks which is invaluable for purposes of bank supervision. The Federal Reserve is and must be at least as vitally concerned with the soundness of the individual bank as any one in the organization of the Comptroller or the Federal Deposit Insurance Corporation. The Federal Reserve Act places in the Federal Reserve a specific responsibility for effective supervision over banking in the United States. Soundness of the individual bank and soundness of the economy must go hand in hand. Therefore, Federal Reserve concern with the maintenance of stable economic conditions should be and is in the interest of sound banking as well as the public welfare. It has not destroyed the effectiveness of Federal Reserve supervision over State member banks, and it is absurd to think, as I understand has been suggested to you, that it would destroy the effectiveness of supervision or examination of other banks. Moreover, is it reasonable to believe that the intelligence of the officials of the Federal Reserve Banks combined with the judgment of a seven-man board appointed by the President, confirmed by the Senate, responsible to the Congress, should be regarded as less independent than a Bureau in the Treasury under one official whose deputies are appointed by the Secretary of the Treasury. No single individual in the Federal Reserve System determines its policies.

Since examination supplies information essential to the right conduct of the business of the Reserve System and since the Reserve authorities must review reports of examination of all member banks, it is illogical to argue that they should be deprived of all examination authority. Examination procedure is a tool of bank supervision and regulation which should be integrated with and responsive to monetary and credit policy. If directed as though it were not concerned with such policy it could nullify what otherwise could be effective monetary and credit policy. In fact, too often in the past, bank examination policy became tighter when conditions grew worse, thus intensifying deflation, and conversely examination policy has gone along with inflationary forces when caution was needed.

Prime Responsibility of Federal Reserve

Only one of the three Federal supervisory agencies, the Federal Reserve System, is charged by Congress with responsibility over the supply and cost of credit, which is directly affected by reserve requirements, discount policy, and open market operations. The Reserve System views the economic scene principally from the standpoint of national credit conditions as effected by monetary, fiscal and related governmental policy. Other agencies do not have these responsibilities. Their differences of interest often lead to prolonged discussions which delay or prevent agreements.

Let me turn now to the question of the composition and responsibilities of the Board of Governors and the Open Market Committee, which Committee is composed of the seven members of the Board plus five Reserve Bank Presidents. I do not suggest that the present system has not worked. It was a compromise and your Committee is interested, and properly so, in the question whether the present structure could be improved. I feel that I should point out its defects and how they could be remedied.

While the Board of Governors has final responsibility and authority for determining, within statutory limitations, the amount of reserves that shall be carried by member banks at the Federal Reserve Banks, for discount rates charged by the Federal Reserve Banks for advances to member banks, and for general regulation and supervision of the lending operations of the Reserve Banks, the responsibility and authority under existing law for policy with respect to the government security market, known as open market operations, is vested in the Open Market Committee. These operations have become an increasingly vital part of Federal Reserve policy. In practice they are the principal means through which debt management policies of the government are effectuated. They are the means by which an orderly market for government securities is maintained. With the rapid growth of the public debt, chiefly as a result of wartime financing, with the continuance of a budget of extraordinary size, with major refunding operations in view and the prospect of deficit financing, there can be no doubt of the responsibility that will continue to rest with the Federal Reserve System for open market policy.

Reduce Membership of Federal Reserve Board

Suggestions have been made and I believe will appear in answers to your questionnaire, with a certain degree of logic in their support, that the interrelations between the considerations of policy governing open market operations and those governing reserve requirements, discount rates, and perhaps other functions, are such as to justify transferring these major instruments of policy to the Federal Open Market Committee, leaving to the Federal Reserve Board as such only matters of secondary importance. This would not justify the continued existence of a seven man Board of Governors. To the extent, however, that such suggestions recognize the principle that responsibility for overall credit and monetary policy should be fixed in one place, I would agree. On the other hand, they accentuate the major inconsistency in the present setup.

It should be noted in this connection that the President of a Federal Reserve Bank is not a director of that bank but is its chief executive officer. He is elected for a five-year term by a local board of nine directors three of whom are appointed by the Board of Governors and the other six by the member banks of the district. In addition to making the appointment, the directors fix his salary. Both of these decisions are subject to approval of the Board of Governors. Neither he nor the directors of the bank have any direct responsibility to the Congress. When a Reserve Bank President sits as a member of the Federal Open Market Committee, however, he participates in vital policy decisions with full-time members of the Board of Governors, who are appointed by the President of the United States and confirmed by the Senate and whose salaries are fixed by Congress. Those decisions, which must be obeyed by his bank as well as by the other Federal Reserve Banks, affect all banking. So far as I know, there is no other major governmental power entrusted to a Federal agency composed in part of representatives of the organizations which are the subject of regulation by that agency. President Woodrow Wilson expressed himself very vigorously on this subject when the original Federal Reserve Act was under consideration. If this principle is not to be discarded, it follows that further inroads should not be made into the functions of the Federal Reserve Board and on the other hand that responsibility for open market policy should be concentrated in the Board. I am convinced in this connection that there is no need for more than five members, instead of seven as at present, and that the Congress should recognize by more appropriate salaries the great importance of the public responsibilities entrusted to the Federal Reserve System, of which the Federal Reserve Board is the governing body. Such recognition would be more likely to attract to the membership of the Board men fully qualified for the position.

If, however, it is believed preferable for national credit and monetary policy to be determined in part by some of the Presidents of the Reserve Banks, then the Presidents of all twelve Reserve Banks should be constituted the monetary and credit authority and they should take over the functions of the Board of Governors, which body should be abolished. The governmental responsibility of such a body should be recognized by requiring their appointment by the President of the United States and their confirmation by the Senate; their salaries should be fixed by Congress, to whom they should report. May I point out that if the Presidents of the Reserve Banks can, in addition to performing their manifold duties as chief executive officers of these very important institutions, take on in addition the principal functions of the Federal Reserve Board, it must be that these functions do not justify a full-time seven-man Board, and this would be another reason for abolishing it, and substituting a part-time Board composed of the twelve Presidents.

The views I have expressed have developed out of a long experience in and out of Government and they have not been altered by the fact that I have ceased to be Chairman of the Board after serving in that capacity for more than twelve years or by the fact that I expect sometime to return to the field of private banking.

In the foregoing I have not attempted to include some other important matters which may be of interest to the Committee in its deliberations and might well be considered by a National Monetary Commission such as that proposed in S. 1559 which I strongly support. Accordingly, I would appreciate it if you would permit me to file a supplemental memorandum for the record in the event that it appears to be desirable to do so in order to complete my statement.

Nadler Sees Slight Change in Banking Situation

N. Y. University economist looks for only minor expansion of deposits and moderate increase in loans. Foresees no immediate change in dollar gold value.

Speaking to the Bank Correspondents group in St. Louis, Mo., on Nov. 16, Dr. Marcus Nadler, Professor of Finance at New York University, predicted only minor changes in the banking situation. "The volume of deposits of the banks should witness a minor expansion, caused primarily by the increased holdings of securities by commercial banks and by a moderate increase in the volume of loans," Dr. Nadler stated. "In granting loans, banks should exercise considerable care because competition will be keener than before and the number of failures is likely to increase."

Dr. Marcus Nadler

"There is no danger that the gold content of the dollar will be changed," Dr. Nadler added. "Such a measure is highly unnecessary and under present conditions could do much more harm than good. The devaluation of the various currencies in Europe will not exercise any great influence on economic conditions in the United States. A moderate decline in exports from the United States may be expected. The drop will not go far, however, because a large portion of the exports from this country is now financed by the United States Government. While a moderate increase in imports from abroad may be expected, the fact should not be overlooked that even under the most favorable conditions imports have constituted only a very small fraction of the total national output.

"One of the great problems that confront the country is that of balancing the budget and of taking measures to reduce the public debt. If we cannot balance the budget in periods of relative prosperity, then obviously the outlook for debt reduction is not good. A continued deficit and a constant increase in the public debt ultimately lead to a decline in the purchasing power of the dollar. This has an adverse effect on all those who have savings or live on their savings or on a fixed income."

Faroll & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Nicholas Roth has joined the staff of Faroll & Company, 208 South La Salle Street, members of the New York and Chicago Stock Exchanges.

With Harris, Upham

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Robert L. Block has become associated with Harris, Upham & Co., 135 South La Salle Street. He was formerly with Wayne Hummer & Co. and John Nuveen & Co.

Public Utility Securities

By OWEN ELY

Niagara Mohawk Power

Niagara Hudson Power's dissolution plan, which involves the merger and recapitalization of its three major operating subsidiaries in New York State, was approved by the SEC in August and by a Federal Court Nov. 1. The SEC made only slight changes in the plan as previously submitted, the principle one being conversion of Niagara's second preferred stock into 3.9 shares of the new class A convertible preference stock compared with 4 shares for the first preferred.

The plan is scheduled to become effective Jan. 3, and the stock of the new merged company (temporarily named Niagara Mohawk Power) is now traded over-counter on a when-distributed basis around 21½. The old stock is at 15½, which reflects a close arbitrage basis, since each share of old stock is exchangeable for 78/100 new on payment of an assessment estimated at about $1.10-$1.20.

The new stock is expected in future to earn an average of about $1.90 per share (as estimated by the SEC) or about $1.72 after complete conversion of the class A into common stock. It is expected to pay $1.40 per annum initially, which would represent pay-outs of about 74% and 81% of these earnings, respectively. The SEC forecast the "prospect of a slightly higher level of dividend payments in the future when the construction program requirements and the need for retained earnings in connection therewith may lessen."

At 21½ the new stock is selling at a 6½% yield basis, assuming that the $1.40 rate is maintained. When fully seasoned, and based on continuance of present market conditions, the stock might logically be expected to sell between a 6% and a 5½% basis, which would mean prices of 23⅜-25½, respectively. Stocks of companies of comparable size are currently selling to yield 4.8-6.6% with an average of about 5.7%.

Of course, yield is dependent on other factors than size, such as the equity ratio, the percentage pay-out, the return on the rate base, the price-earnings ratio, and other factors. No mechanical formula for determining yield is possible, because there are always individual variations in the investment picture. For example, Niagara Mohawk's convertible preference common is a negative factor, while the fact that the company has compiled with the strict requirements of the New York Public Service Commission in writing down plant and increasing the depreciation reserve, is a plus factor. Marketwise the fact that United Corporation will release about 1,453,000 shares of stock of Niagara Hudson to its own stockholders Dec. 1 is an adverse factor. Nevertheless, judging from experience with other utility stocks, it appears likely that Niagara Mohawk's yield will improve somewhat in relation to the average utility yield as time goes on and the stock becomes better known to investors.

* * *

Proposed Merger of Ohio Edison-Ohio Public Service

Ohio Edison recently proposed, subject to regulatory approval, to acquire the two million shares of Ohio Public Service held by Cities Service Company, the latter being required to dispose of it to comply with the Holding Company Act. The price would be $35 million, or $17.50 per share, payable by an underwriting group which is raising the money for Edison. First Boston Corp., Lazard Freres & Co., Union Securities Corp., and Wertheim & Co., have been selected to form a group to underwrite up to 1,144,000 additional shares of Edison common stock, which will be offered to Edison stockholders on a 1-for-2 basis. Ohio Edison is currently quoted (Nov. 21) at 31¼ and before the recent announcement it sold at 33.

After the acquisition from Cities Service is completed, Ohio Edison will make an exchange offer for the one million remaining shares of Public Service held by the public, on somewhat similar terms. Details of the exchange offer are not yet available. Eventually it is contemplated that the two companies will be merged.

Based on the pro forma earnings statements in the preliminary prospectus, which makes allowance for increased Federal Income taxes payable after Ohio Public Service leaves the Cities Service System, it is estimated that earnings on the fully merged company for the 12 months ended Aug. 31 would have approximated $2.82. This compares with earnings on Ohio Edison stock for the same period of $2.95 and on Public Service of $1.53 after 13 cents deduction for the higher taxes.

The combined pro forma capital structure would approximate 55% debt, 15% preferred stock and 30% common stock equity. Adjustment for known intangibles would reduce the equity to 26%. Ohio Public Service plant account has not been reduced to original cost since utility regulation in Ohio does not require original cost as a rate base. Eventually, over a period of years, the entire plant account might be placed on a uniform original cost basis, however, to meet possible requirements of the Federal Power Commission.

Walston, Hoffman Co. To Admit Wells

LOS ANGELES, CALIF.—William S. Wells, sales manager of the Los Angeles office of Walston, Hoffman & Goodwin, 550 South Spring Street, members of the New York Stock Exchange and other Exchanges, will be admitted to partnership in the firm Dec. 1. Admitted to limited partnership in the firm, whose main office is in San Francisco, will be Gordon E. Behr, Clarence J. Coberly, and Minna Gombell, Clarence P. Cuneo will retire from the firm Dec. 1.

Investors League, Inc. Elects Directors

At the annual meeting of the Investors League, Inc., the following board of directors was elected: C. Canby Balderston; Daniel W. Bell; G. Rowland Collins; Capt. Thomas B. Doe; B. C. Forbes; Mrs. Jessie R. Muni; Col. Allan M. Pope; Edward V. Rickenbacker and Mrs. M. C. Walther.

An active opposition was led by Mr. Benjamin A. Javits who interposed a challenge to the proxies held by the majority as a basis for a possible contest.

Private Enterprise On the Run!

By BRUCE BARTON*

Batten, Barton, Durstine & Osborn, Inc.

Asserting we are in midst of social and economic revolution, prominent advertising executive and former Congressman cites as outstanding tremendous changes: (1) end of the American Republic; (2) declining private enterprise system; and (3) "political power has moved across the railroad tracks," i. e. labor dominates political action. Urges business, in relation to employees and government, cultivate "sweet and reasonable spirit of humility."

Too many speeches about public relations are unrealistic. They do not face the facts. What are the facts?

We are living in the midst of a social and economic revolution. We don't like to admit what has happened and is happening, but when we do admit it and face up to it, and revise our thinking and our programs, we shall make faster progress.

Bruce Barton

The three tremendous changes which the revolution has brought, and which historians will be writing for a long time, are these:

(1) The end of the American Republic.

Representative government as conceived and established by our forefathers began to fade out with the adoption of the 17th Amendment to the Constitution in 1913. That amendment, as you know, wiped out the Senate as a deliberative body representing the States, and made it simply a second popular assembly.

The Republic ended in 1940 with the third election of Franklin D. Roosevelt.

What we have now is not a republic, but a democracy—something very different. The Founding Fathers had two great fears which were almost equally intense. The fear of autocracy, engendered by their sad experience with the kings of England; and the fear of democracy, which is rule by pressure groups.

When I first went to Washington, I spent some interesting evenings with the principal New Dealers. I was genuinely curious and eager to understand their point of view. I did not admit for one minute that I and men like me were in the slightest degree less interested in the average American man and family than they were. I said to them:

"I am prepared to join you fellows if you will just give me an honest answer to one question: 'How, in a democracy, which is government by pressure groups, are you ever going to stop deficit financing?'"

They gave me plenty of talk, but they never gave me any answer.

So the first fact for us to face and make our peace with is that we have ceased to be citizens of a republic and are citizens of a democracy in which the place and the prerogatives of businessmen are vastly changed and restricted.

The best article I have read in a long time is Professor Sumner H. Slichter's "The Businessman in a Laboristic Economy," in the September number of "Fortune." I have said we are living in and under a "pressure group" state; he calls it a "handout" state.

Private Enterprise Not a Reality

(2) The second fact is that when we talk about the private enterprise system we are talking history, not reality.

The private enterprise system began to decline with the passage of the income tax in May, 1913. When once the government had the right to come into your office, examine your personal accounts, take whatever share of your earnings it decides to appropriate—you still have the opportunity and right to exercise a considerable amount of enterprise, but your business is certainly no longer private.

You may recall that, in the debate on the income tax in 1909, someone—it may have been Joseph H. Choate—argued that if the State can take 1% of a man's income it can take 10% or 20% or 50%.

Senator Borah retorted angrily that this was stuff and nonsense. He cried: "The American people would never stand for a 50% income tax." He said there would be a revolution.

Well, there has been a revolution. But we are standing for a 50% income tax. And some of us for much more. Says Professor Slichter:

"Let there be no mistake, therefore, that a revolution has occurred in the economy of the U. S. and that it is still going on. The present economy is quite different from free private enterprise and is based on a different principle. Free private enterprise operated on the principle that ability and willingness to buy determined what was produced and who got it. The new economy operates on the principle that fundamental decisions on who has what incomes, what is produced, and at what prices it is sold are determined by public policies. Ten years from now the framework of government rules and public policies will be more elaborate than it is today and will limit the discretion of management at many more points."

Political Power Is "Across Railroad Tracks"

(3) The third stubborn fact, which most of us are still too stubborn to admit, is that political power has moved across the railroad tracks.

We in organized business pay 64% of all wages and salaries in the United States and 75% of all wages and salaries in industry. We produce roughly 57% of the national income. So we are a vital and indispensable part of America's economic life.

But as a factor in America's political life we are few in numbers (six or seven million stockholders as against 15 million unionized workers); we are unorganized and ineffectual. When we talk about public relations at a convention of businessmen like this, we think in terms of speeches, pamphlets, advertisements and so forth. Most of such activity is what used to be described in my childhood as "hollering down the rain barrel."

Let's say it right out loud—in a pressure group state we must either be a pressure group or we must have as allies enough dominant pressure groups to bring political action and law into some sort of working harmony with economic law.

The reigning pressure groups in this country are, of course, the A. F. of L. and C. I. O., the five major farm organizations and the American Legion. If we are to have these as allies it means honest-to-goodness personal, modest, day-to-day, face-to-face contact with employees, with the men and women who grow the food you sell, and with the political forces in the communities where we live.

This is not easy work. It is much easier to hire an advertising agency to write some ads and run them in the newspapers. It is much easier to get up, the way I am now, and hand out good advice at a convention. But if America is to be the kind of country we all want it to be—and don't for a minute think I am a pessimist—it can achieve and maintain that character only if all of us begin to think not how much more can I get from my country, but how much more can I give to my country.

If business is to play any successful part in persuading the pressure groups to ask less and give more, it must first sit down and decide how it can give more, and whether, at some points, it can and ought to ask less.

We have changed our attitude a whole lot since 1932. We are all thinking different thoughts and making different speeches than we did in the first days of the New Deal. But our trouble is that we have changed too little and too late. By and large, we have been two years behind the march of events.

Professor Slichter says: "While winning a large part of the battles, business is losing the campaign."

In our approach to our employees, to our suppliers, and to the agencies of government let us, first of all, cultivate a sweet and reasonable spirit of humility.

We are a very favored group.

We are a decidedly minority group.

The people we want as allies are the people who, in a democracy, are going to decide who of us shall be allowed to do business, how much business we shall be allowed to do, and how much money we shall be allowed to make.

Let us stop talking about that part of the social revolution which is gone beyond recall.

Let us face the facts, and plan courageously for the future.

*An address by Mr. Barton before the Grocery Manufacturers Association of America, Inc., New York City, Nov. 14, 1949.

Dr. Nourse to Address On Economic Policies

Dr. Edwin G. Nourse, who served until recently as Chaiman of the Council of Economic Advisers, Executive Office of the President of the United States, will be guest speaker at the annual dinner of the New York Security Dealers Association to be held Dec. 9 in the Hotel Pierre, it was announced.

Dr. Nourse's talk will be of definite interest to all concerned with the economic policies of this country, the announcement said.

Present at the dinner as guests of honor will be leaders in the fields of finance and industry.

Donald G. Geddes Dead

Donald G. Geddes, limited partner in Clark, Dodge & Co., New York City, died at his home at the age of 80. Mr. Geddes had been in the investment business for 59 years.

Devaluation—A Potential Boomerang!

By SIMPSON E. MEYERS*
Vice-President, Foreign Division,
The Brunswick-Balke-Collender Company

Mr. Meyers, stressing uncertainty of effects of currency devaluation, points out its inflationary forces and thus sees in it a potential boomerang. Cites its effects on prices in Argentina and Mexico, and contends devaluating countries, including England, must reduce their standards of living in order to reap benefit from devaluation.

No one in all this world is in a position to evaluate at this time, with any degree of accuracy, the international monetary situation as a result of devaluation. One appropriate analysis would be "SNAFU"—you all know that this simply means "Situation Normal—All Fouled Up".


Simpson E. Meyers

Devaluation of currency is not a new experience. This device has been used from time to time for various reasons and due to diverse causes. England devalued its pound back in 1931. This action was relatively successful as pointed out by Professor Seymour Harris, Professor of Economics, Harvard University, in his recent article in the November issue of the Harvard Business Review, for the reason that their domestic economy at that time required an expansionist hypodermic provided by depreciation. He pointed out that at that time the British could produce additional exports out of unemployed resources. Now with overfull employment (and with guaranteed security from the cradle to the grave) the most that can be expected is a moderate rise in their total output.

He makes the further important point that unless Britain is able to produce more for export to the dollar area without permitting a rise in its sterling costs, the additional quantity of exports required would be smaller and would be that much harder to move. That is, said he, it would be that much more difficult to make additional sales above what could have been secured under pre-devaluation conditions, since the competitive advantage resulting from the lower dollar price of sterling would be cancelled to the extent of the rise in sterling prices of goods.

A Potential Boomerang

Here we have in a nutshell the one potential boomerang to any nation which endeavors to balance its international trade by devaluation of its currency. I now refer to the ugly spectre known as inflation.

I have heard many definitions of the word inflation, but the best explanation I have yet heard is in a story told about two prominent financiers who were talking things over during the lush 1920's. One of these gentlemen had finished telling his pal about a deal just completed. It seemed he had sold a highly pedigreed hunting dog for $100,000 and upon being asked whether or not he had received cash for his purpose, his reply was "Oh, now, but I did receive two beautiful $50,000 cats."

I have seen actual evidence of what devaluation has done to the peoples of two countries. One is Argentina and the other is Mexico.

I visited Argentina on one of my trips in 1947. My hotel room at the Alvear Palace Hotel cost me the equivalent of $4 U. S. per day, including a light breakfast. The identical room on my trip last winter cost $7.50, and if you wanted breakfast, you could enjoy it at a cost of 75c. In 1947 a steak weighing one kilo (which is equivalent to two pounds two ounces) could be purchased for 85c. The same steak, despite the overbundance of meat in Argentina, costs $1.50. Scotch whiskey was procurred at $2.50 per bottle, and now costs more than $5.00. Labor rates for the working classes, as well as the white collar workers, have more than doubled since 1947, and yet the working people have less left after paying their increased costs of living.

As you all know, one of the major reasons for President Peron's solidity with the Argentine masses is due to the many benefits he has secured for the lower classes. One was the arbitrary wage increase decrees issued from time to time. He took a page from President's Roosevelt's political philosophy and went him one better. President Roosevelt promised the voters two full lunch buckets, but President Peron merely issued a decree (and made it retroactive in many instances) whereby industry was forced to increase wages. Not to be outdone, President Truman borrowed a page from England's Labor Party political philosophy, which really got them all the votes they needed, and is telling the American people that if we perpetuate the Fair Deal party in office, every citizen in the land can relax since in addition to security from want and fear, they don't even have to work to get it.

The situation in Mexico, while not as acute as in Argentina, is somewhat comparable. I visited Mexico in August of last year, which was thirty days after Mexico decontrolled its peso. The peso went from 4.85 to approximately eight to one U. S. dollar. Although nary a single locally manufactured or processed commodity had increased a fraction of a cent in cost to either the producer or the seller, practically every store in Mexico raised its retail prices not less than 20% within the first month of devaluation. Naturally, this resulted in a request for increased compensation to all employees, and such requests could not be denied. As a result, costs to produce were increased, which in turn served to further raise the selling prices, which again increased the cost of living index. Truly a vicious spiral. Fortunately, Mexico recognizes the great value to her dollar economy as a result of tourist dollars spent in her country. She ordered all hotel rates frozen at pre-devaluation prices, Therefore, hotel accommodations in Mexico at this time are truly a bargain, but in general, all other costs have risen appreciably since 1948.

The October issue of "Business Conditions," issued by the Federal Reserve Bank of Chicago, which discusses the British pound devaluation, points out that within two days after devaluation, wholesale prices of many important industrial commodities, including cotton, non-ferrous metals and rubber, rose 15% to 20% in terms of sterling. Therein lies the greatest danger, in my opinion, to the success of devaluation.

Unless all the devaluing countries, including England, are able to take the necessary steps, distasteful as they might prove to the electorate of their countries, to reduce their standards of living, they will then, and only then, be able to stave off the natural inflationary tendencies, and thus secure beneficial results from their currency changes.

In view of these things which have already happened, as well as unforeseeable events to follow, the international monetary situation is chaotic. In my opinion, it will remain in that state until the day comes when all the world currencies are stabilized in such a fashion as to permit free convertibility from one currency to another.

In conclusion. I reiterate that no one knows the answers. We do know that unless Britain, as well as other dollar starved countries, are able to sell more to the United States, they will be unable to balance their international accounts. In this event, the U. S. A. has a most unappetizing choice of either continuing dollar aid, such as the Marshall Plan, or letting all these countries, which are equally opposed to Communism as we are, fall by the wayside. Possibly it would be more appropriate to say, let them fall into the hands of Communist Russia. The wisdom which the American people employ in solving this problem, will determine the outcome of our struggle to live as free men.

*Talk by Mr. Meyers before the Illinois Manufacturers Association World Trade Forum, Chicago, Ill., Nov. 16, 1949.

Thos. Alcock Joins Schwamm Co. Dept.

Announcement is made of the association of Thomas R. Alcock


Thomas R. Alcock

with Schwamm & Co., 50 Broadway, New York City. Mr. Alcock will be in charge of the firm's sales and new business department. He was previously associated with the New York office of A. M. Kidder & Co. where he organized and managed the municipal bond department.

Keller & Ratliff Form Own Firm in Ft. Worth

FT. WORTH, TEXAS—Henry Keller and Harry Ratliff have formed Keller & Ratliff with offices in the Sinclair Bldg. to act as underwriters, distributors and dealers in Texas municipal bonds. Mr. Keller was formerly Executive Vice-President of William N. Edwards & Co. Mr. Ratliff was with the First Texas Corporation and prior thereto was with William N. Edwards & Co.

Railroad Securities

Western Maryland Exchange Offer

The terms of the exchange offer to holders of Western Maryland 1st 4s, 1952 were released officially last week. They were somewhat more liberal than had been discussed with institutional holders a few weeks earlier. The plan will be entirely voluntary. Those who do not accept the offer will retain their mortgage security unchanged and will preserve all of their present rights. The offer will remain open at least until the close of business Dec. 19, 1949 and may be terminated at any time thereafter by the Board of Directors. The offer is contingent upon being declared operative by the Board of Directors on or before Jan. 17, 1950 and subject to authorization by the ICC and stockholders.

Considering the nature of the exchange offer terms, and considering that the whole matter has been discussed in detail with large bondholder groups for a period of months, it is believed in most quarters that success of the plan is virtually assured. It is expected that holders of a large majority of the bonds will deposit their holdings. Success of this plan, with the consequent alleviation, if not elimination, of the 1952 maturity problem should have a highly beneficial effect on the overall credit standing of the road. It has long been held by many rail analysts that as a 20-year bond the 1st 4s, could be regarded more highly from an investment viewpoint than they could be as a three-year bond.

There are a number of favorable angles to the exchange offer. For one thing, the interest rate is to be 4½% for three years—to Oct. 1, 1952 which is the maturity date of the present bonds. Thereafter, to Oct. 1, 1969, when they mature, the new bonds will carry a coupon rate of 4%. Secondly, the new bonds will have the benefit of a sinking fund which the present bonds do not have. There will be a prior sinking fund of 1% of the maximum amount of bonds theretofore outstanding. This sinking fund will be contingent on earnings but will be fully cumulative.

In addition to the prior sinking fund there will be a secondary sinking fund equal to 20% of the net income of the preceding year. However, the company may, at its option, deduct not exceeding $1,250,000 from said net income before computing the amount of the payment due. Net income over the past 10 years has averaged $3,681,000. After deducting the optional $1,250,000 provided in the plan this would have left an average of $2,431,000 net for computing the secondary sinking fund. The secondary sinking fund of 20% of net would have averaged some $486,000 per annum, equivalent to slightly more than 1% of the maximum amount of new bonds to be outstanding.

Another incentive to accepting the exchange offer is that the mortgage position of the new bonds will be stronger than that of the present 4s, 1952. In addition to $44,177,000 of the 4½s-4s, 1969 provided for exchange of the 4s, 1952 the company proposes to sell $2,000,000 additional par value for cash. Funds from this sale will be used, along with treasury cash, for the redemption or payment of all of the balance of the non-equipment debt of the company. This debt, including Collateral Trust bonds and liens of the Greenbrier, Cheat & Elk Railroad, are outstanding in the aggregate amount of $6,544,000. In the present operation, then, the company contemplates reducing its non-equipment debt by $4,544,000 to $46,177,000.

With the retirement of the Collateral Trust bonds and the Greenbrier, Cheat & Elk liens, the new bonds will succeed to a first lien on the property covered thereby. In all, the new General Mortgage 4½s-4s, 1969 will have a first lien on about 210 miles of road not covered by the lien of the present 1st 4s, 1952. Parts of this additional mileage to be covered are highly important. Included is the Connellsville Extension which provides a connection with Pittsburgh & West Virginia. Also included is the line which enables the company to reach the important and productive Sewell Seam of bituminous coal in West Virginia.

Department Store Sales Rise Forecast

Fred Lazarus, Jr., President of Federated Department Stores, Inc., says outlook is for full comeback from low point of July, 1949.

Top executives, economists and directors of Federated Department Stores, Inc., one of the nation's retailing groups, meeting in New York on Nov. 8, predicted that the "next six months would show no further drop in employment and production and that business in 1950 would more than recover from its low point of July, 1949."

According to Fred Lazarus, Jr., Federated president, business will recover from its pre-strike low point of July, 1949. The U. S. will not be faced by a further drop in employment and production. However, it will not show a large increase, he said. Business will be competitive instead of "booming." Mr. Paul Mazur, member of Federated's Board of Directors and senior partner of Lehman Brothers, investment bankers, stated business in the period ahead might even improve slightly, adding: "Most unlikely possibility of all is that business will go into a drastic tailspin during the next six to twelve months."

Factors which still call for caution, the retail executives point out, include rapid reduction of the housing shortage; declining demand for autos; tremendous crops which hang ominously over markets, and high taxes which decrease personal expenditures and business expenditures for capital purposes.

Phila. Bond Club Gets Slate for Officers

PHILADELPHIA PA. — The nominating committee of the Bond Club of Philadelphia has named Willard S. Boothby, E. H. Rollins & Sons, Inc., for President. Nominated for other offices were Norbert W. Markus, Smith, Barney & Co., Vice-President; Gordon Crouter, DeHaven & Townsend, Crouter & Bodine, Secretary; and Russell M. Ergood, Jr., Stroud & Co., Inc., Treasurer.

Named for governors were: Loring Dam, Eastman, Dillon & Co., one year; Lawrence M. Stevens, Hemphill, Noyes, Graham, Parsons & Co., and Raymond J. Kerner, Rambo, Close & Kerner, Inc., the latter two for three year terms.

Securities Salesman's Corner

By JOHN DUTTON

IS IT LISTED?

(Fourth Article)

Last week we pointed out that a policy of salesmanship which is based upon the ultimate in service to your clients will enable you to control the entire account. When this desired end is achieved you can then place in that account almost any security that you deem desirable. Whether or not the security in question is listed or unlisted becomes of only minor importance to your customer.

However, when such confidence is established it is naturally even more important that you *continue to maintain* such a relationship. This can only be accomplished by GOOD PERFORMANCE. It is also necessary to constantly educate your customers. They should understand the meaning of over-all management of a diversified list of securities. They should know and understand the meaning of stable assets which you will constantly advise them to keep in high grades and government bonds. They will know that fluctuations are to be expected. These are academic considerations but it is surprising how few investors have such a clear view of their assets which are invested in securities.

But after this is accomplished, you are faced with the selection of the over-the-counter securities that you want to sell to your customers. Remember you must sell either unlisted or the funds, or else make a set service fee, or charge an extra commission on listed issues, if you are going to make a profit out of your business.

Certainly it does not rest as a pleasant task upon the writer of this column to bring up unpleasant facts concerning unlisted issues. But UNDER TODAY'S CONDITIONS it is either FACE THE FACTS OR SOONER OR LATER YOU WILL LIVE TO REGRET IT. There are certain common stocks of smaller companies that today just do not have a chance. When you see that the Federal government alone is taking 38¢ out of every dollar of net from these small struggling business firms that in many cases are trying to build up a new product and a prosperous business they are practically licked before they start.

Go through the unlisted quotation sheets and pick out the issues of companies that are capitalized at $1,000,000 and under, check their records during one of the most unprecedented periods of prosperity this country has ever known (which covers the period of the last three years). See how much more they have had to borrow to enlarge inventory; see how much even the successful ones have had to pay over to the tax eaters in Washington, and to their state and local governments. See how many have had to go to the banks and borrow to meet enlarged payrolls, buy new machinery, and carry increased inventories. Read the letters of their presidents to their hardy stockholders who bought these shares with the hope that they would someday reap a large return for the greater risk they have taken. Mark well the lines which state, "Our sales are up, our net profit is up, but taxes have taken so much of our working capital that we have made bank loans to handle the increased business and for that reason dividends cannot be paid, at this time." Unless tax policies change, I am afraid these companies had better put it straight before their stockholders and say, "And unless tax policies of our government change we cannot tell you when we can pay dividends, if ever."

That is the situation regarding small companies. That is why you see no new financing for small business. That is why dealers who know the risks involved in this business today are shying away from speculative stocks. And remember this, someday there is going to be another business depression in this country. There is nothing the politicians who now control this country will be able to do when it comes. They will be snowed under in an avalanche of economic realities that will not be denied. The law of action and reaction will prevail despite all the managers and their nonsense in Washington. When this time comes, when even a smaller business recession comes about, as it may in the next year or two, it certainly would be unwise to have your clientele loaded up with stock issues of small, struggling companies that for years have been bled to death by an iniquitous federal tax on their earnings, and that are left high and dry without sufficient reserves to meet payrolls and stay in business during times of slumping sales and falling prices.

THIS CONCLUDES THIS SERIES ON CERTAIN ASPECTS OF THE UNLISTED MARKETS. Beginning next week we go back to some selling procedures that are now working well for certain dealers.

Cashing of Savings Bonds Exceeds Sales

September and October redemptions were around $807 million, while sales in period were $786 million.

It has been revealed that during the months of September and October, redemptions of all series of savings bonds exceeded sales in the same period. Sales for the two months are estimated at around $786 million, while redemptions amounted to approximately $807 million. This is a reversal of the situation for the two years 1947 and 1948 when sales are computed at approximately $12,249 million and redemptions at $10,249 millions. In view of the fact that about 25% of the gross national debt is subject to redemption by holders of obligations, the current excess of redemptions over sales may require some new financing by the Treasury and a likely increase in the holdings of government obligations by the commercial banks. Inasmuch as the objective of the Treasury Department is to hold down the amount of bonds owned by the banks to prevent a resurgence of inflationary forces, it may mean the undertaking of the serious task to increase savings bond sales. Postwar campaigns to promote the sales of savings bonds, particularly under present conditions when goods are plentiful and prices falling, have not had the success experienced during the war or the immediate postwar years.

Masius to Be Partner in McManus & Mackey

Harold M. Masius, member of the New York Stock Exchange, will be admitted to partnership in the Exchange firm of McMannus & Mackey, 1 Wall Street, New York City, on Dec. 1. Mr. Masius has recently been active as an individual floor broker and prior thereto was a partner in J. F. Reilly & Co.

Britain's Devaluation—Proof of Incompetence of International Monetary Fund

By H. A. STEVENSON*

President, Barclays Bank (Canada)

Canadian banker reviews circumstances which led up to Britain's currency devaluation, and concludes it is indication of ineffectiveness of International Monetary Fund as an instrument in producing international exchange stability. Says British exchange regulations were circumvented, and contends legislated currency devaluations merely foster international political controversy and ill-will. Scores attempts to force rigidity by exchange controls and urges U. S. to reverse its potectionist policy.

In the United Kingdom the year 1948 was notable for the substantial recovery from the crisis of 1947. There were grounds for satisfaction in that industrial production was running well, the overall export trade was making great strides and the overall balance of international payments was within reasonable sight of achievement.

H. A. Stevenson

It is true a dollar problem existed but the United Kingdom and sterling area deficit with the dollar area was roughly covered by Marshall Aid funds and other dollar assistance. The main preoccupation was to reduce the dollar gap quickly enough in view of the fact that Marshall Aid was to taper off and was scheduled to cease in the middle of 1952.

Contrasted with the 1948 picture, developments in 1949 were, however, extremely disappointing. The disinflationary policy inaugurated in April, 1948 was continued but with less emphasis and, in fact, soon spent its force. Moreover, the general attitude of labor left much to be desired. There were many unofficial stoppages and strikes and also grounds for holding the view that there was much concealed under-employment and misdirection of labor.

On top of this, government expenditures continued at a high level with vast outpourings on social services. It was not surprising, therefore, to see the United Kingdom become a high cost area, a condition that was aggravated to no small extent by a commercial policy which canalized trade with sterling area and soft currency countries. The United Kingdom income and price structure tended to become too high vis-a-vis the dollar area.

Thus, while the overall balance of payments ceased to be a problem—deficits were reduced from £630 million in 1947 to £110 million in 1948 and only £10 million in the first half of 1949—the dollar gap, despite Marshall Aid, became a pressing one. To meet it, drawings on Britain's gold and dollar reserves steadily reduced her holdings below what could be considered the minimum level of financial safety. They ebbed from £471 million at the end of March, 1949 to £406 million at June 30 and, at the date of devaluation, were as low as £330 million. An improvement to the tune of approximately £20 million was reported as at Sept. 30, largely due to the covering of short sterling positions.

Faith in the exchange value of the pound never really recovered from the serious blow it received in 1947, when inconvertibility of currently-earned sterling was decreed.

From then onwards there were occasional rumors of an eventual rate cut and these recurred more frequently with the passing of time. They were met by persistent denials in official quarters in England but confidence continued to wane.

Recession in U. S. a Contributory Factor

Throughout the period mentioned, and more particularly after the late 1948 business recession in the United States set in—this was in fact a contributory factor—ominous signs of international apprehension recurred. These were demonstrated in a practical way by heavy international divestment of sterling, accomplished through divers ingenious circumventions of controls. In respect to these circumventions, authorities in Continental and other countries failed sadly in their support of the British Control system. Black market and "free market" transactions increased and goods purchased with cheap free market sterling were diverted to the United States and other territories and sold there at sacrificial dollar prices. On top of this, legitimate hard currency buyers of sterling goods, anticipating the exchange cut, postponed their purchases hoping for a more favorable rate of exchange.

All this added fuel to the fire and when early in the year the discount for future sterling in New York swept far beyond the normal, and finally approached 20% per annum in August, the picture of a strong speculative movement was complete.

This drive against the pound made eventual sterling devaluation almost inevitable, and final enactment of it did not surprise.

To what extent, if any, United States political advice to encourage devaluation was offered, one cannot say, but, as the dollar shortage is a world problem and the United States is playing the part of world banker and helping generously to carry the load, a tendency to call the tune would be understandable, even if regrettable in principle.

The immediate consequences of Britain's drastic step were most disturbing. In some parts of the globe banks and stock exchanges temporarily suspended activities, and merchants, traders, industrialists and business people of all descriptions found their affairs turned into a state of serious disruption overnight. Personal hardship was also brought to the doors of many.

Extent of Devaluation a Shock

The extent of the devaluation was itself a further shock and gave rise to resentment and open criticism in other countries that were forced to resort to defensive action. Within a few days all the sterling area and sterling-tied countries, as well as several non-sterling area ones, followed Britain's lead and lowered the official dollar exchange price of their currencies, not all, however, to the same degree as Britain.

Whether this wholesale exchange rate juggling will achieve its objective of arresting the world's amounting dollar indebtedness and put a rosier complexion on the balance of international payments is a question of such complexity as to defy a really logical answer.

In Britain's particular case and in her role of leader of the sterling group, a few salient points immediately strike the mind.

By a stroke of the pen she has increased the sterling balance sheet cost of all her long-termed and current indebtedness to the United States by approximately 40%, and to other countries, such as our own for example, by that same percentage less the offsetting percentage of their own devaluations.

She has gained no worthwhile or lasting export trade advantages over other soft currency competitors, as the bulk of the latter have also devalued protectively. Devaluation to secure export advantages is no new device but an old game that all can play.

The sterling cost of United Kingdom imports from dollar and hard currency areas, upon the physical volume of which her own ability to export has largely depended, will, for purposes of rough discussion, cost her around 30% to 40% more than heretofore, and the dollar and hard currency revenue derived from her exports will, in relation to the physical volume of such exports, suffer declines around these same percentages. Seemingly she can, therefore, but pursue her intentions to purchase more from the sterling area and sell more to the dollar one, and this would tend to enlarge the economic rift already existing between those two areas and redound to the benefit of neither of them in the long run.

The Inflationary Aspect

There is also the inflationary aspect and, as devaluation is inflation of the first order, one can but view with concern the United Kingdom's deliberate self-exposure to the insidious risks of this financial policy, to say nothing of its deleterious reaction on the affairs of other countries. The rise in the price of the British loaf, which synchronized with the drop in the price of the pound, was a significant omen. Prices of several other commodities have subsequently been raised and labor is already showing additional restlessness. It will be interesting to see whether the spiral of inflation, which unquestionably threatens to defeat the whole devaluation plan, can be averted by the unpopular methods the country's leaders are proposing and which have already caused internal dissention and dispute.

In the meantime, and as a possible criterion for the future, sterling in some of the world's "free markets" has been changing hands at rates somewhat cheaper than the new officially fixed one. From this it can be concluded that there has been no immediate return of confidence in that currency.

The pros and cons of devaluation have been discussed *ad nauseam* but it is difficult to subscribe to the theory that this manipulative device of placing a revised and dearer exchange rate tab on the dollar really gets down to the roots of the problem.

At best it seems but to offer possibilities of fleeting advan-

(Continued on page 31)

*Part of the address of Mr. Stevenson at the 22nd Annual Meeting of Shareholders of Barclays Bank (Canada), Montreal, Can., Nov. 15, 1949.

Increased Production at Lower Prices More Desirable Than High Dollar Value Output

By EDWIN J. SCHLESINGER
Investment Counsel

Mr. Schlesinger contends what is needed to maintain prosperity is increased unit production with sound, slow price declines. Points out increasing dollar value national output may mean merely more inflation, and that prime economic objective should be to return to normal postwar price plateau. Lists matters investors should keep in mind.

It may be appropriate at this time of the year to refer to some past occurrences and to try to project one's mind into 1950 with the thought of what may be anticipated during the next 12 months.


Edwin J. Schlesinger

The bulk of the major corporations used real statesmanship during 1948 in keeping dividends down, in the face of the heavy net earnings of that year. Had the 1948 dividends been commensurate with earnings, it is not difficult to imagine (1) how disappointng the 1949 dividends would have been by contrast and (2) how stocks might have advanced in 1948 with a resultant spectacular decline in 1949.

While the handling of the dividends was with a high degree of finesse, unfortunately the same cannot be said about the way interest rates have been handled by the government. When the government started pegging interest during the earlier years of the 1930's, a strong and sustained protest should have been made by those in the business of underwriting securities. The protests, if any, were hardly audible and interest for a period of years steadily declined. Of course, the huge refundings offered nice profits with little risk, but the long-term future of the country called for some real opposition to interest rates kept artificially low. While it is true that the government is saving a considerable amount of money annually by the low interest its bonds carry, the net savings to the people of the United States would be many times greater were government bonds presently on a 3% to 3¼% basis. This is for the reason that a much larger part of the financing would then have been done through sources other than commercial banks, with the result that the country right now would be in a very much less inflated condition.

We hear considerable these days about the hope of raising the national output to $300 billion. Nothing, however, is said that this figure, if attained, would most probably be based on still further inflation. While one is at it, why stop with the figure of $300 billion and not go on to $500 billion, or even more? It would seem that the sound thing to do would be to try to hold the national output around the present dollar level with a steady increase in unit production. This surely would be much healthier than to seek a constantly higher dollar volume, with a likely decline in unit production, and would work in the direction of gradually squeezing inflation out of the economic picture.

A Normal Postwar Price Level

One of these days, the country will reach a postwar level of prices, as it must be apparent that a certain amount of price stability must be ultimately attained. This postwar plateau of prices may not be more than 20% or 25% above the 1939 level, if that much. The fact that wages have been steadily increasing, and may increase still further because of the steel and coal strikes, does not mean that prices will have to head upward indefinitely. With the new machinery installed since the end of the war and with the increase in the know-how, it seems reasonable to anticipate that unit costs, instead of advancing, may decline by a much wider margin than now appears likely. A case in point is a power blast cleaner, developed by a subsidiary of Pullman, Inc., for use in the maintenance of railroad track, which is estimated to result in a saving of $965 to $1,047 a mile compared with costs of laborers using pneumatic hand tools.

It may be asked how it will be known when we reach the postwar plateau of prices. The answer is when the consuming public is convinced that the best possible goods are being produced for the least possible money. And it might be noted that the consuming public possesses more sound common sense than is generally accredited to it.

In 1950, business could easily reach the 1949 dollar volume, but the unit volume will depend upon the price level. Profits in 1950 may closely approach the 1949 figure. However, these predictions are likely to be knocked into a cocked hat if deficit financing continues. Deficit financing is inexcusable during times other than war and serious depressions. In fact, a continuation of deficit financing during other times can only result in sapping the vitality of the nation's economy and ending in financial disaster.

Matters of Interest to Investors

Now, with an eye to 1950, here are some of the matters an investor should have in mind:

(1) With competition becoming steadily keener, the question of maintaining unit volume has become much more important. During the lush years ending November, 1948, little thought was given to unit consumption, but since then a changed outlook has developed.

(2) Things are never as good nor as poor as they are made to appear.

(3) A decline in commodity prices should be welcomed instead of feared, since this is less dangerous than a price advance.

(4) A portfolio should be in shape to withstand foreign and domestic disturbances.

(5) The lows of 1932 need not be anticipated; on the other hand, the lows of 1942, if reached, need not be feared.

(6) Seasoned common stocks bought at attractive prices have, over the years, given a much better account of themselves than low grade stocks.

(7) The purchases of seasoned stocks of soundly managed corporations are more attractive buys when selling at depressed levels than when enthusiasm carries them to the higher ranges. Experienced investors like the Swiss, Dutch and British have the fortitude to follow this policy in acquiring securities.

(8) Individual investors are more fortunately situated than they may realize in that they can put their money in savings banks, currently paying 2%, awaiting investment opportunities.

(9) Interest is a commodity and subject to the laws of supply and demand.

(10) The resumption of prewar competition from foreign countries will influence the prices of American securities.

(11) Very questionable whether there will be any gain to the country's economy by governmental insistence on the use of artificial means to stem a normal and healthy downward price trend.

(12) The 1948 earnings should not be used as a yardstick in determining whether to buy or sell securities, as many such earnings were fantastic.

(13) In weighing the retention, sale and purchase of securities, thought should be given to (a) purchasing power risk, (b) interest rate risk, (c) credit risk, and (d) equity risk.

(14) Barring war, the country's long-term future may be viewed optimistically. In respect to the near-term future, it may prove best to proceed carefully although in no sense timidly.

(15) In the face of the economic excesses and abnormalities during the period from April, 1942 through October, 1948, a decline in business should be recognized as a normal development.

(16) Since Labor Day, 1946, the stock market has given indications of considerable confusion, with inflationary and deflationary forces at work simultaneously.

(17) Well to be alive to the fact that investors are subject to a steady flow of propaganda.

(18) Stocks possess a factor of style with corresponding influence on prices.

(19) The law of supply and demand still continues to function.

(20) The yardsticks used to measure the desirability of stocks change with the investors' emotions.

(21) Inflation does not necessarily follow deflation, but deflation must follow inflation.

(22) With the tightening up of America's give-away policy, exports may be expected to decline.

(23) Interest rates play a more important factor in the country's economy than may be presently realized.

(24) The size of the national debt, which seems to be accepted as entirely normal, is an unsound plank in the country's economy.

(25) With the population approaching 150 million, a huge call for correctly priced merchandise will exist even during temporary business declines.

(26) A predetermined investment policy should be followed which does not shift with each turn in the market.

(27) The percentages invested in common stocks, preferred stocks and bonds, together with the cash on hand, need most careful consideration.

(28) The importance of sitting with cash awaiting buying opportunities has worked out well over the years.

(29) Until prime corporate bonds with from 15 to 25 years to run sell on a 3¾% to 4% yield basis, part of an investor's cash should be considered as though presently invested in such bonds.

(30) In considering the purchasing power of the dollar, which stood at $0.66 during August, 1949, it may be well to remember that in 1814 the dollar bought $0.66, in 1965 $0.77, and in 1920 $0.66. On the other hand, in 1896 the purchasing power was $2.18, in 1929 $1.07, in 1932 $1.57 and in 1939 $1.32.

(31) Some of the money going to veterans after the first of the year will be used to pay off obligations previously incurred and to that extent add no further fuel to inflation.

(32) Whenever Russia becomes less aggressive, smaller sums will be used in this country for defense purposes with a consequent slowing down of such business.

Alfred Sloan Notes Expanding Duties of Mgt.

Chairman of the Board of General Motors, in acknowledging award of Society of Industrial Realtors, says management can no longer limit itself to mere production of goods and services, but has further responsibility of promoting economic progress and stability of community.

On the occasion of receiving the 1949 Industrial Award of the Society of Industrial Realtors in Chicago, on Nov. 19, Alfred P. Sloan, Jr., Chairman of the Board of General Motors Corporation, outlined the expanding responsibilities of industrial managers. "The time has long since passed — and this is realized today as never before — when management operating in a free society can limit itself to the production of goods and services," Mr. Sloan commented. "It has expanded its responsibilities. It now considers the impact of its actions at the policy level upon society as a whole in terms of the economic progress and stability of the community. A great change has taken place. To produce more and better things more efficiently, is the economic formula for material progress. To accomplish the objective, at the same time recognizing the human values and relationships involved, is the formula for social gain. Expressed otherwise, management now recognizes and accepts the fact that there is something in business beside business itself."


Alfred P. Sloan, Jr.

Continuing his address, Mr. Sloan said:

"Human progress may be broken down into various components, economic or material progress and social and political progress. They are interwoven. Now let me ask: What is the foundation or keystone upon which human progress rests? Of course, opinions differ. But from my point of view the answer stands out crystal clear. It is KNOWLEDGE. By this I mean, the expansion of the existing frontiers of fundamental knowledge and the dissemination among the greatest number of the rules of life by which we live and prosper.

"Economic relationships govern the course of human progress in a material sense. In a free society the climate in which enterprise operates influences the effectiveness of the production system. And to a large extent it is created by political action. However intelligent our people may be—and they are intelligent; however patriotic they may be—and they are patriotic; however they may believe in the American system—and they so believe—nevertheless far too many find themselves largely illiterate in economic matters; that is, in their understanding of the fundamental facts by which we live and progress.

"I believe there is a real danger here. Human progress today is very definitely in jeopardy by the progressive encroachment on its greatest asset — FREEDOM. We are losing gradually, but surely, our liberties. We are moving down the ROAD TO SERFDOM. It is not so much today that we are concerned with, but it is the trend of today as it will surely affect tomorrow that causes us concern and weakens our confidence in our future. And we are told that all this is the cause of greater progress and security.

"If we turn back the pages of history we find indelibly inscribed thereon the fact that human progress is synonymous with human freedom. It is only when men were free to exercise their initiative, their talents, their ambitions and the incentive of individual advancement that civilization really began and has since developed. Can it be possible that this was all wrong? Can it be possible that now we shall be better off in terms of human progress if we surrender our freedom, to an all-powerful state? We must remember that economic freedom, political freedom and individual freedom are, to a large extent, inseparable.

"To my mind there is a great need for techniques that will tell the people at the grass roots level, in language they can understand, the simple economic truths that govern our well being. It must be told time and time again, and in many different ways. By so doing we not only make a contribution toward the acceleration of human progress but, of prime importance, we preserve the gains already made.

High Place of Research

"I have mentioned the importance of expanding the frontiers of fundamental knowledge — pure research, in other words. Whatever wealth we may produce can be distributed according to any pattern we may elect to use. But all we can do is to take from some and give to others. The only way we can expand the volume of wealth for the progress of all humanity is through technological progress, capitalized by a virile industrial economy operating in a healthy economic climate. And right there a great opportunity unfolds itself. The achievements of atomic energy, electronics and the like have captured the imagination of the people. They see as never before the wonders of science. The postwar era is to be a research age. The possibilities — yes, the probabilities — of tremendous developments are before us. Medical research is accomplishing miracles in promoting better health and extending the span of life. Even cancer, the greatest curse levied by nature on humans, is now for the first time under heavy scientific attack. Given talent, facilities, resources and time, does anyone dare to say that cancer can survive, in the final analysis, the challenge of concentrated, coordinated and persistent scientific efforts? Advancing technology is accomplishing wonders in better living. Better understanding of the relationships of economics and the processes of production insures greater stability. The problem is not the possibilities, but to adjust our national policies in order that the potentialities can be capitalized in terms of human progress and happiness.

Creators, Not Exploiters

"But MORE must be done. Too much of our fundamental knowledge on which we have relied for human progress has been associated in the past with foreign names. We have been better exploiters than creators. Somehow we have failed apparently to fire the imagination of our brilliant young minds with an urge to devote their lives to the cause of fundamental science.

"Such is my philosophy as to the real purpose of life. Human progress is the final objective. Expanded knowledge is the catalyst. A free society is the field of opportunity. The incentive is twofold: individual progress and a responsibility to the society of which each of us is a part.

"That is the formula as I see it. But there is one highly significant factor of great influence which I have not mentioned. It involves the relationships between nations; of groups within nations; of individuals, and in many other ways. And it stands out dramatically in everything we see; in everything we read; in everything we hear, and wherever we go. It has the power to accelerate human progress. It has the potential power to destroy civilization. Such is human behavior. To appraise it requires the services of a social philosopher who can penetrate the intangibles rather than of an industrialist who must confine himself more to the realities. Suffice it for me to say that it seems clear that the evolution of human progress has far outdistanced the progress of human behavior. The reason for that I believe to be apparent. Human progress has been dominated by scientific discovery—the abstract—while human behavior is subject to all the weaknesses, the vicissitudes, the emotions and, let me add, the greatenesses of human reactions."

W. E. Hutton Co. Expresses Faith In the Future

W. E. Hutton & Co., 14 Wall Street, New York City, members of the New York Stock Exchange, has announced its faith in the future of the investment business by adding 13 registered representatives and trainees to its staff. Mark H. Brown, Harris J. Martin, and Robert E. Buchsbaum have joined the New York office as trainees. E. I. Byeresdorfer and J. O. Sikes are with the Cincinnati office, First National Bank Building, as registered representatives. E. J. Griswold and Frank Kates, Jr., are with the Philadelphia office, 1421 Chestnut Street, as registered representatives. William G. Brooks in a trainee in the Baltimore office, First National Bank Building. Laurence Staples is a registered representative in the Portland, Maine office, Bank of Commerce Building. and Millard H. Dow and A. H. Dow in the Lewiston, Maine office, DeWitt Hotel. C. D. Etzler is a registered representative in the Dayton, Ohio office, 42 North Main Street, and A. J. Krabill is a trainee in Lexington, Ky., Hernando Building.

Retires From Frankenbush

Henry Leon withdrew from limited partnership in Frankenbush & Co., New York City, on Oct. 31.

Rich'd J. Hannaway Opens

Richard J. Hannaway has opened offices at 220 Broadway, New York City, to engage in a securities business.

British Fears of Dollar Devaluation

By PAUL EINZIG

Dr. Einzig, noting British interest in discussions regarding dollar devaluation and campaign against it by Economists' National Committee on Monetary Policy, says, with exception of few ultra-orthodox members, most British economists regard gold convertibility arguments hopelessly out of date. Points out London premiums on U. S. shares may indicate fear in British financial circles of a second sterling devaluation.

LONDON, ENG.—The lively controversy that has developed in the United States over the question whether or not the dollar should be devalued is followed in London with considerable interest. But while American opinion had been practically unanimously in favor of a devaluation of sterling, British opinion is sharply divided as to whether a devaluation of the dollar would be a good thing from a British point of view, from an American point of view, or from the point of view of international economic recovery. And while throughout 1949 American opinion had considered a devaluation of the pound a mere question of time, British opinion is now as much divided on the question whether the dollar is likely to be devalued as on the question whether it should be devalued.

Dr. Paul Einzig

While many British economists of the orthodox school fully agree with the objective of the campaign waged against dollar devaluation by the American Economists' National Committee on Monetary Policy, most of them consider some of the main arguments of that campaign as distinctly antediluvian. In particular Professor Spahr's favorite "moralistic" argument pleading for upholding the "honesty" of the dollar amidst a world of "dishonest" currencies is considered mildly amusing by those who remember that the same plea for an "honest" dollar was put forward not so very long ago with equal enthusiasm and sincerity by the late Professor Irving Fisher when arguing in favor of a dollar of fluctuating gold value and stable commodity value. The Conservative wing of British economists is in sympathy with the general trend of the argument of their American opposite numbers against monetary expansion implied by a devaluation. Even they consider, however, the movement in favor of restoring free convertibility into gold as hopelessly out of date for a country which in so many respects rightly claims to be the spearhead of material and intellectual progress.

In official as well as in business circles in London the argument in favor of a devaluation of the dollar on the ground that it would restore the competitive capacity of American goods is causing much concern. It is feared that the combined influence of American producers and exporters concerned might result in a decision raising the sterling-dollar parity to somewhere between \$3.00 and \$3.50. While it is generally admitted that the rate of \$2.80 allows for a fair safety margin, it is expected that in the course of the next few months that margin will become materially reduced through a rise in British prices and through a fall in American prices. This would mean that a rate of \$3.50 would be as unsatisfactory as the rate of \$4.03 was a few months earlier. It is pointed out that, after all, Britain devalued on the urgent insistence of the United States Treasury and under moral pressure by American opinion, for the purpose of balancing her trade with the Dollar Area, and that it would be absurd if the United States were now to take steps to counteract that effect of sterling devaluation by devaluing the dollar.

When at a Press conference on the day after the devaluation of sterling a journalist asked Sir Stafford Cripps whether there was a possibility of the United States introducing countervailing duties to offset the increased competitive capacity of British goods on the American market, the Chancellor sought to ridicule the idea In the meantime, however, President Truman removed the 50% limit to the subsidy to American shipbuilding for that very purpose. It is no longer considered impossible, therefore, that the dollar might be devalued for the sake of protecting American business interests, even though this would tend to perpetuate the present abnormal "dollar gap" of Britain and of most other countries.

On the other hand, in many quarters in Britain it is believed that the advantages of a dollar devaluation, even from a purely British point of view, would more than outweigh its disadvantages. The possibility that, in the absence of a devaluation of the dollar, the American economy would drift into a vicious deflationary spiral, is causing much concern It is feared that a depression in the United States would have world-wide adverse repercussions on business, and that it would affect Britain's dollar position even less favorably than a devaluation of the dollar. During the first half of 1949 Britain and the Sterling Area had a foretaste of what effect an American trade recession is liable to produce on their exports to the Dollar Area.

Generally speaking it is not considered here likely that Congress would agree to a dollar devaluation even if the Administration were to decide in its favor, which, in view of President Truman's statement, seems unlikely. Hopes are entertained, nevertheless, in official circles in London that during 1950 dollar devaluation scares might help to bolster up sterling, which is in need of such support, as it is already losing ground on the unofficial markets abroad. The fact that American stocks are quoted in London at a premium of over 20%, compared with the corresponding quotations in Wall Street seems to indicate that in British financial circles a second devaluation of sterling is considered more likely than a devaluation of the dollar. There is, of course, no likelihood of another unilateral devaluation of sterling, at any rate not for years to come. Possibly if the Labor Government should win the general election next year, and if it should pursue more or less the same policies as it did during 1945-49, there might be a second devaluation after some years. But the pessimism indicated by the premium on dollar securities quoted in London is, to say the least, grossly premature.

Most people when talking about a dollar devaluation have in mind a devaluation in terms of gold as well as sterling and other currencies. Few people envisage the possibility of a dollar devaluation in terms of gold only, linked up with a corresponding devaluation in terms of gold of sterling and the currencies of all countries represented on the International Monetary Fund. The experience of the unilateral British decision weakened the belief in the possibility of co-ordinated devaluations envisaged under the Bretton Woods scheme. Yet such an all-round devaluation would prevent a deflationary recession in the United States, without nullifying the effect of the devaluation of sterling on Britain's dollar position.

Devaluations and Currency Convertibility

Survey of National Association of Manufacturers says eventual results of recent currency devaluations will depend on fiscal and economic policies of devaluing nations.

According to the Research Department of the National Association of Manufacturers, although attention has centered upon how much the recent currency devaluations by Great Britain and other nations may help those countries' exports, a more important question is whether devaluation will lead to greater currency convertibility.

Eventual results of the move will be decided largely by domestic fiscal and economic policies of the devaluing nations, it was emphasized. In a study on devaluation, prepared by Erik T. H. Kjellstrom, associate director of research of the NAM, it was pointed out that with only minor exceptions, the foreign exchange control systems are being maintained, and in this respect the devaluations have not as yet eased the flow of trade markedly.

The study said that because the devaluations were "drastic" black market transactions virtually have been eliminated. Therefore, it explained, the central banks were put in a far better position to exercise control over a nation's foreign exchange holdings—which should tend to strengthen the reserve positions of these banks and "thereby better the opportunities for free currency convertibility."

However, free convertibility requires more than that, continued the study; it requires that costs and prices are allowed to be established by competitive forces, which in turn "implies that the quota system, and import and export licensing, are eliminated."

"Devaluation is a long step toward this goal, as it will tend to increase competition on the international markets," the NAM report said. "But this effect of the devaluations may readily be offset if the inflationary pressures on the domestic markets, caused by the devaluation, are allowed to assert themselves.

"It is for this reason that the domestic fiscal and financial policies are so important. If further government restrictions and regulations become necessary as a result of devaluation, then of course the difficulties of achieving free currency convertibility are increased."

"The impact of devaluation" the study said, "should not be analyzed in terms of export possibilities merely, but rather in terms of greater opportunities for currency convertibility. If this is not achieved, little has been gained by the 'drastic' devaluations."

A number of factors indicate that the volume of exports and imports may be affected less, relatively, than indicated by the devaluations percentages, the NAM study found.

Production-cost increases may offset, wholly or partially, the sales-price gains, it pointed out. High import prices from "dollar areas" may tend to shift some purchases to less "expensive" countries, the study continued. and in the case of the United States, the volume of imports of goods from countries that have devalued is likely to be influenced more by consumer choice and sales efforts than by currency depreciation.

This is especially so, the report added, because "customs duties, transportation costs and insurance charges continue to play a vital role in the prices the American consumer has to pay."

The study noted that a substantial percentage of our exports is now paid for by American taxpayers. When this aid ends, it said, "the export volume automatically will decline, unless foreign nations can earn dollars or private American foreign investments are made—or both."

Theodore Young To Form Own Inv. Firm

Theodore R. Young is forming Theodore Young & Co. with office at 40 Exchange Place, New York City, to engage in the securities business. Mr. Young was formerly with Young & Gersten and Young, Aal & Golkin.

T. R. Young

Frank Brophy, V.-P. Of R. S. Dickson Co.

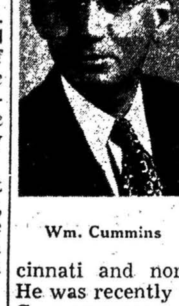
R. S. Dickson & Co., Inc., announce that Frank J. Brophy has been elected a Vice-President. Mr. Brophy has been Assistant Vice-President in charge of the municipal department of the firm's New York office, 30 Broad Street.

American Securities Corp. Enlarges Sales Staff

American Securities Corporation, 25 Broad Street, New York City, announces that John I. Bentley and Allyn A. Bernard have joined the firm's sales department. Mr. Bernard was formerly with Graham, Parsons & Co.

Wm. Cummins Joins Edw. G. Taylor Co.

CINCINNATI, OHIO—Edw. G. Taylor & Co., Inc., St. Paul Bldg., dealers in municipal bonds, announce the appointment of Wm. Cummins as Secretary. He will also act as Manager of the Sales Department.



Wm. Cummins

Mr. Cummins has had 31 years' experience in the security business and is well known in Cincinnati and northern Kentucky. He was recently with A. E. Aub & Co. as manager of the trading department. He is a resident of Covington, Ky.

How European Adjustments and U. S. Aid Affect Our Economy

By SEYMOUR E. HARRIS*
Professor of Economics, Harvard University

Dr. Harris contends a decline in our export surplus, through European adjustments and our foreign aid, will cause a loss of sales by American producers of as much as 20%, and still would not remedy dollar shortage. Foresees in future intensified competition through rebuilding European industries under Marshall Plan and looks for agitation to increase tar ffs and other devices to keep out exports. Holds it is doubtful Western Europe can solve imbalance in international trade through devaluations.

I
The Issues

(1) *Who Is to Bear the Brunt of the Adjustments?* The choice that lies before this country is between putting the burden of the large adjustments in international economic relations upon the taxpayer (continued foreign aid by government), or upon private investors (with some support by government), or upon American manufacturers and merchants (through losses of sales in this market and especially abroad).

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(2) *The Magnitude of the Adjustments* — We compare 1947 and, say, 195x. From an excess of $10 billion of exports to an excess of imports of $2 billion in 195x is a measure of the adjustment required. This means that industry will have to make these large adjustments telescoped within relatively few years. (The government is protecting the market of farmers.) These $12 billion may be put against about $60 billion of income originating in manufacturing. The average loss of sales would be 20%; and in many industries the proportion would be much higher. A loss of sales of this magnitude would bankrupt many firms and even industries.

(3) *Leavening Factors*—A rise in total sales at home would facilitate the adjustments. Continued prosperity in 1948 reduced the strain associated with a decline of $5-$6 billion in the excess of exports in that year. A problem of adjustment which might be insoluble under depressed conditions might become soluble under continued prosperity. Again, in so far as agriculture will bear part of the burden, the strain on industry would be reduced. Actually, agricultural exports would decline; this might be offset by increased pressure to cut agricultural imports.

(4) *Directed Allocation of Factors of Production*—At the very least, the government should help industry and labor make the required adjustments; movement of labor and capital into domestic industries and discouragement of flow of labor and capital into export and import competing industries.

(5) *The Case for a Long-Term Aid or (and) Loan Program*—It would be easier to make the required adjustments of $14 billion in trade 20-50 years than $12 billion over five years. (The more that is advanced, the larger the rise of imports required to cover financing charges.) The more concentrated adjustment over five years puts the responsibility upon a limited segment of American economic life—export industries and those competing for imports. Unfortunately, the long-range program is likely to mean additional burdens on the taxpayer; and so long as government spending remains at high levels, the additional pressure on government for foreign aid is not likely to yield increased demand and output. In fact, one of the peculiarities of our foreign aid program over the last 35 years is that it has not greatly contributed to an increased output; for the major gifts and loans were made in inflationary periods. Should depression develop in the fifties and sixties, then any rise in output associated with increased foreign aid and loans would be offset.

(6) *The Required Adjustments Are Not Likely to Be Made by 1952 Without Further Aid or Loans*—First, because past experience does not suggest it. Not the long period of dollar shortage, the rise of Europe's exports to the United States of but $160 million in 1948 against a rise of national income for Europe (exclusive of USSR) of $9 billion, or roughly but 1%; or the rise of U. S. imports of 5% against a rise in real terms of income of 67% since 1938; or the required rise of U. S. imports from Europe of 400% (with a reduction in dollar prices of 20%) to balance Europe's accounts; or should the balancing occur largely in other overseas countries, the terrific pressure here to devalue as our exporters lose markets.

(7) *Dollar Shortage the Perennial Problem*—Of more than $100 billion excess of exports since 1914, this country has given away at least four-fifths. (I include a net inflow of gold of more than $15 billion.) Despite the large reduction in tariffs here and increased restriction abroad, which should have facilitated European exports and depressed their imports; despite the widespread use of controls abroad to raise exports and reduce imports; despite the much larger rise in money wages here—despite all of these the United States has been flooded with gold and the world is short of dollars. Europe's failure to cut costs and prices; the United States absorption of gold in increased transactions and monetary hoards rather than in required rise of prices; the continued gain of productivity here; the unwillingness to allow Europe to devalue vis-a-vis United States; the political and military turmoil in Europe with accompanying destruction of industry and loss of foreign earnings; the tendency in an advancing economy to spend more on services and less on goods (and hence less relatively on imports)—all of these and other factors clarify the persistent dollar shortage; but do not solve it.

(8) *The Crucial Issue*—We have to export less and import more vis-a-vis the rest of the world. Europe's competitive position and markets must improve. This is the way to solve the problem. But we are not prepared to take the consequences of this policy—and hence, increased exports by Europe and reduced imports bring forth pressure to devalue here, agitation for higher tariffs, subsidies to exporters, etc. The unwillingness to swallow the pill of increased competition from outside strengthens the case for stretching out the adjustment period.

II
Continued Aid or Trade Adjustments?

A crucial problem confronting this country is the manner in which the United States will balance its accounts with other countries. Three ways are open to the interested countries. First, foreign countries may restrict their imports and thus save scarce dollars. This is not the best possible solution, for the resulting decline in trade impairs living standards abroad and deprives exporters in the United States and other dollar countries of markets. Second, the foreign countries may expand their exports and thus earn the dollars they need. European countries are charting their economies with a view to equilibrating their accounts largely in this manner. But cries are already being raised in this country against the intensified competition from abroad by American export interests and even American import competing industries.

The fact is that the American voter shows schizophrenic tendencies in his espousal of foreign economic policies. He does not want to foot the bill as taxpayer and, therefore, wants to terminate foreign aid as soon as possible. But he also resents the dollar deficit being made up by a reduction of sales by American business whether the occasion is a curtailment of foreign imports or an expansion of foreign exports at the expense of domestic sales or exports by American sellers.

For example, before the Senate Appropriations Committee, Senator McKellar, defending the tobacco growers in his state, was indignant that the French would not use ECA funds to buy American tobacco; the typewriter manufacturers, professing strong support for the ERP, were equally irritated at the loss of markets in Europe; and Senator Wherry denounced the unfair competition of European textile manufacturers in the United States and elsewhere.[1]

Undoubtedly the unwillingness of the American businessman to be ousted from his markets accounts in part for the acquiescence to large amounts of foreign aid. Those who profit from increased sales abroad, and protection of domestic markets gain more *qua* sellers than they lose *qua* taxpayers; and they can make more noise than the large and less vocal group of taxpayers.

I am not implying that the adjustment problems for American business injured by intensified foreign competition are not serious. Those who watch the ECA build up competitive industries abroad which are ultimately destined to take away their markets are indeed not happy at being thrown to the wolves. They are asked to stand by while Europe, after a 60% gain in exports in two years (1947 and 1948), is preparing for an equally large proportionate gain in the next few years which will enable them to pay for their current imports. Unfortunately, this will not solve the problem of dollar shortage unless Europe's earnings in non-dollar countries can be converted into dollars, or unless export trade to the United States rises by 300%. From 1947 to 1951-53, the OEEC (Marshall Plan) countries propose to raise their exports (1948-49 dollars) to non-participating countries 5.4 to 10.3 billion dollars, the proposed rise to North and Central America being from 1.05 to 2-10 billion dollars.[2]

That serious adjustments are required, is suggested by the following: Imports of bread grains from OEEC countries from North and Central America are to decline from $1,216 million in 1947 to $633 million in 1952-53 (1948-49 prices); of meat and dairy products, from $277 to 338 million, of tobacco, from $222 to $151 million. Nor are producers of petroleum products in this country likely to be pleased with a rise of petroleum production from 102 in 1947 to 463 in 1952-53 (prewar=100); nor producers of relevant items in the United States at a rise of production by OEEC countries in machinery and equipment of 47% over prewar; of machine tools, or 39%; of dyestuffs, of 42%; of aluminum, of 110%; of crude steel, or 30%; of cotton piece goods, or 18%.[3]

Over the years 1947 to 1952-53, OEEC countries seek an expansion of exports of $1.05 billion in North and Central America, $1.25 billion in South America and $1.1 billion in the non-participating sterling area. A resultant loss of $1 billion of sales in our market and of $2 billion of sales in other markets to European competitors telescoped within a period of a few years may very well bankrupt many American firms and seriously damage the status of industries dependent upon foreign markets for 10% or more of the markets—e.g., fruits, dairy products, bread grains, tobacco, typewriters, machine tools, cinema products, textiles. Agricultural industries are indeed not so vulnerable as non-agricultural for the government is committed to a farm support program at the expense of the taxpayer and consumer. In fact, the widespread support for foreign aid programs in agricultural areas stems, in part, from the favorable effect of these programs on demand for agricultural products.[4]

The effects of the loss of domestic and foreign markets upon American industries is another matter. Even under relatively prosperous conditions, the American manufacturer is not likely to stand by as he loses $2 billion of $8 billion of foreign sales and about $3 billion sales out of a total production of $60 billion of manufactured goods. Actually, as we shall see, the adjustments required are much larger.

Perhaps the strongest case for continued financing of the rest of the world through gifts and, better, loans arises from the possible difficulties of the transition of this country from a net exporting to a net importing nation. For example, it may be necessary for this country, with an excess of exports of $11.3 billion in 1947, eventually to countenance an excess of imports of $2-$3 billion, the excess of imports to cover payment for financing past loans by this country. This vast change would reflect the effects not only of Europe's attempts to balance her accounts but also those of the rest of the world. The brunt of the adjustment would have to be borne by the manufacturers who today produce $60 billion worth of goods, and the amounts involved may be 20% of the total output. By continuing the ERP on a reduced level for the years 1952-56 and preparing a large loan program, this country might stretch out the transition from the 5 years now required to 20-50 years; but with the longer period, the ultimate reduction of exports and rise of imports would have to be $2 billion (say) more than in the absence of continued foreign aid or (and) loans.

The difficulties of these adjustments can be exaggerated. From 1947 to 1948, the United States excess of exports declined by $5 billion, or almost 45%; and at unchanged prices the decline was at least $6 billion, or more than one half.[5] This transition was, however, achieved in a period of prosperity and rising prices; and in fact the U. S. Government through controls in part forced reductions of exports upon the economy. In general, the problem of wiping out an excess of exports of $11 billion (or $6 billion currently) will not be nearly so serious under conditions of high employment as under those of depression.

III
Persistence of Shortage of Dollars

This problem of dollar famine is an old one. Why has the United States exported more than $100 billion of goods (4% of the income of the period) in excess of imports over the last 35 years and received in payment less than one seventh. (I exclude imports of gold which are of little use to us.)[6]

Why do not prices fall abroad and rise in this country, with corrective expansion of exports and declines of imports abroad and declines of exports and rise of imports in this country. This failure of adjustment is the more difficult to understand since this country, especially in the last 15 years, has experienced a vigorous trade union movement and rising wage rates; and since during this period the outside world has seriously increased its restrictions on trade whilst this country has reduced tariff barriers substantially. In the last 10 years, for example wage rates rose much more rapidly in this country than in Europe; and by recourse to controls and especially exchange control the outside world stimulated its exports and import competing industries. It did not rely exclusively on price adjustments. All these factors should have reduced dollar deficits.

Among the explanations of this apparent failure of Ricardian gold movements to correct the persistent shortage of dollars are the following:

(1) The unusual demand for dollars has largely been met by putting dollars at the disposal of countries short of dollars. Loans in World War I, Lend Lease in World War II, and various foreign aid programs in post-World War II are the most important instances. In addition, the large outflows of long-term capital, from this country, and notably in the twenties provided the outside world with dollars. Insofar as foreign countries obtained dollars through gifts and loans, they did not have to bid up the price of dollars and did not have to release gold. To that extent the dollar shortage was concealed and treated, and the required adjustments were not forthcoming. Provisions of gift dollars or loaned dollars reduces the pressure to

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*An address by Dr. Harris at Fall Meeting of the Academy of Political Science, New York City, Nov. 10, 1949.

1 Senate hearings on *Foreign Aid Appropriation Bill*, 1950, June 1949 (81:2), pp. 46, 70-75, 194-200, 340.

2 United Nations Economic Commission for Europe, *Economic Survey of Europe in 1948*, pp. 192, 216. Actually, should devaluation reduce dollar prices of Western European products by 20%, the required increase would be 400% ($80 million to $400 million).

3 *Ibid.*, pp. 182-3, 192.

4 Although total export trade was only about 5% of national income in 1948, exports of nonagricultural products were about 15% of income originating in manufactures; and for individual items the percentage was of course in many cases much larger.

5 *Midyear Economic Report of the President*, July, 1949, p. 39. Adjustments for price changes mine.

6 See my *European Recovery Program*, p. 5.

Monetary Management Abroad and at Home

By M. S. SZYMCZAK*
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Federal Reserve Governor reviews postwar monetary problems and indicates how financial instability in one country may affect entire world economy. Says curbing of expansion in money supply does not complete task of monetary management, since stability in money supply may lead to recession, and quality as well as quantity of credits affects economic progress. Stresses international aspects of U. S. monetary management and warns we are confronted with difficulties which monetary management alone cannot solve.

There are many different attitudes toward the role and importance of what is called monetary management. If we assume that money leads the way in economic development, then the administration of money is about the most important task of government. On the other hand, if we assume that money follows rather than leads in economic change, then the function of monetary management is to keep money in its proper and subordinate place. If we assume that the function of money in the economy lies somewhere between these two extremes—probably the more correct view to take—then the monetary policy is one of several important factors that influence the course of economic development and the degree of stability which characterizes such development.

M. S. Szymczak

Monetary Postwar Problems

There is general agreement today, I believe, that monetary management is essential to economic stability. And for good reason. We have recently passed through an extended and disruptive period of world-wide war. Like all major wars in history, the Second World War was partly financed by the creation of money—in short by inflation. Since the war, all the major participants have been seeking to adjust their economies to swollen money supplies. They know from hard experience that stable progress is impossible when economic activity is driven and distorted by inflationary pressures.

Attainment of postwar financial stability has been difficult enough in the United States. But our wartime monetary expansion, although dramatic, was moderate in comparison with that of the war ravaged countries of Europe. Also, our productive capacity was not subject to wartime destruction and our output is now greater than it was before the war. Consequently, we in the United States, were subjected to neither unduly repressive postwar measures, like the price controls or rationing, nor excessive open price and wage inflation. The problem of dealing with monetary expansion becomes extremely difficult only when accompanied by a sharp drop in the available supply of commodities, such as occurred in most countries of Europe and the Far East.

After the First World War, in most countries of Europe, monetary management had been confronted with a similar situation. It took more than half a decade to restore some kind of monetary stability in the most important countries of Continental Europe. That stability was reached only after a number of nations, and especially Germany, had experienced uncontrolled hyper-inflation that reduced the value of money almost to zero. By comparison with the events following the First World War, the results of monetary management following the Second World War have been very good indeed. This time, inflation was curbed in most countries within three years after the end of hostilities, and there are reasons for believing that postwar inflation has been curbed for good.

*An address by Mr. Szymczak at the National Convention of the National Association of Bank Auditors and Comptrollers, Philadelphia, Pa., Oct. 24, 1949.

Monetary Stabilization in Western Germany

The most noteworthy example of success in monetary stabilization is that offered by Western Germany. In that country wartime government expenditures had expanded the supply of money to about ten times the amount that would have been needed under normal economic conditions, and perhaps twenty times the amount consistent with the level of economic activity actually existing immediately after the war. Western Germany's currency reform of June, 1948 reduced the existing supply of money by more than 90%; most holders of currency and bank deposits received only one new mark for 16 old ones. Economic activity picked up immediately. Previously, with money virtually worthless, incentives for harder work and better management were almost entirely lacking. Restoration of a sound monetary system provided fresh incentives for both, raising the level of production by two-thirds within less than a year.

While Western Germany still has a long way to go to complete economic recovery, the standard of living of its population at present is probably not appreciably lower than that of other Western European countries. Furthermore, the country is well on its way to becoming again a leading industrial nation, and should be able to contribute to the general rehabilitation of Continental Europe. Monetary stabilization, of course, was not the only reason for that sudden change. Stabilization was accompanied by a radical reduction of government restrictions of economic activity and by substantial grants under the European Recovery Program. Without financial stabilization, however, action to decontrol would have been impossible and our economic aid would have been largely squandered.

Monetary Stabilization in France and Italy

In a less spectacular way, similar developments have taken place in France and Italy. In both countries, monetary over-expansion had been about as bad as in Germany, but the economic consequences were less disastrous, mainly because controls hampered economic activity less seriously. In Germany, inflation was "repressed"; that is to say, effective controls prevented prices and wages from rising. In France and Italy, inflation came more into the open; the authorities were unable to keep prices stable. The continuous rise in prices hampered the revival of production less than the "repressed" inflation of the kind that prevailed in Germany. However, the rise in prices impaired the competitive position of French and Italian export industries in world trade and thereby intensified balance-of-payments difficulties. These difficulties, arising from having to pay more foreign exchange to other countries than was received from them, have plagued all European countries since the war.

In France, postwar inflation was stopped after the middle of 1948. This was accomplished in part by restrictive credit policies and by fiscal measures; in part it reflected the effects of a good harvest. Between that period and the middle of 1949 industrial production rose by about 25%. In an even more decisive movement, the volume of exports rose by 40% while imports remained approximately constant. As a result, the deficit in the balance of trade was cut to one-fourth, from a monthly average of $110 million in 1948 to $28 million in the Summer of 1949.

In Italy, financial stabilization was virtually achieved in 1947, as the result of the strict monetary policies of the government. Between 1947 and 1948 the volume of exports increased by 40%, with imports remaining constant. Thus the excess of imports over exports was cut in half, from $800 million to $400 million per year. In both countries ERP assistance was essential to bridge the remaining gap and was helpful in blocking further inflation; but that aid would have been largely dissipated if it had not been accompanied by financial stabilization.

Monetary Difficulties in the United Kingdom

An example of a different kind is provided by the United Kingdom. The economic situation in that country, which is more dependent than any other upon foreign trade and international finance, is too complicated to permit easy generalization. Few observers doubt, however, that the repressed inflation from which the country has been suffering since the end of the war has played an important role in its economic difficulties. Between 1938 and 1946, the supply of money in the United Kingdom rose about three times as much as prices and wages, while production remained virtually unchanged. A large inflationary potential thus remained unabsorbed and made necessary the continuation of stringent wartime controls. Between 1946 and the present, production increased by one-third. Even so, upward pressures on prices and wages remained a factor disturbing not only the possibilities of domestic progress but especially the prospects of attaining a balance in Britain's international trade.

The inflationary situation in Britain, as usual, reflected an excess of consumer capacity to buy over the available supply of commodities and services at prevailing levels of prices. As a result, there was a particularly strong demand for imports and for the domestic use of exportable goods. Since a hard core of imports is essential for the very existence of the British people, Britain has experienced great difficulties, despite stringent controls, in keeping imports from rising. At the same time, the country has been confronted by a growing inability to meet the competition of other exporting nations on foreign markets. As long as the world-wide scarcity of goods was so pressing as to permit the sale of virtually any exportable surplus, there was no serious problem of finding markets for exports. When the world export boom began to slacken, however, the rise in exports which had been the just pride of Britain's economic management, slowed down and exports to the dollar area fell substantially. Unfortunately, it was impossible to bring about a drop in imports. The balance-of-trade difficulties and the so-called dollar shortage in the countries that use sterling currency (the sterling area) thus can be at least partly explained by the difficulties which the United Kingdom encountered in its effort to stabilize its domestic monetary system.

Change in Dollar-Sterling Rate

Repressed inflation in the United Kingdom was a very important element in precipitating the recent wave of currency devaluation. What happened may be explained this way. It was impossible, as a matter of practical politics, to adjust the swollen domestic money incomes plus the accumulated buying power in the form of liquid asset holdings to the available supply of real goods and services—either by cutting down the volume of money through a currency reform of the German type, or by permitting the price level, but not the wage level, to rise as in France and Italy. Therefore, the only alternative for Britain was to reduce the entire monetary level of the domestic economy in relation to world market prices by curtailing the value of the domestic currency in terms of the world's most stable currency, the U. S. dollar.

Reestablishment of Britain's international balance may be achieved through the effects of this action on imports and exports. On the import side, the rise in the domestic price of dollar imports may keep dollar imports down by increased reliance upon the market mechanism rather than by arbitrary and disturbing rationing. In other words, people will buy fewer imported goods because imports have become too expensive, not because of government controls. On the export side, the main result is an inducement to producers in Britain and throughout the sterling area to divert a larger part of their total production to the export market at existing dollar prices. In other words, since the equivalent of say 100 dollars now yields about 36 pounds to the British producer, instead of 25 pounds, exports to the dollar area have become more profitable. Moreover, by increasing the margin between costs and prices, devaluation makes possible more aggressive competitive efforts, including price competition. British domestic costs have been cut, if not in comparison to British prices, at least in relation to international dollar prices. It is true that these results might be endangered if British labor were to insist on increasing wage rates in proportion to the devaluation, or if increased taxation counteracted the incentives for management to raise exports. But if a substantial rise in British domestic costs is avoided, there is indeed hope that devaluation may contribute towards the realization of British financial stability.

It is pertinent to observe that many other countries decided to join the British in devaluation, including such countries as France and Italy which had already curbed the danger of inflation. If they had not so joined, the improved competitive position of the British exporters would have threatened the success which French and Italian anti-inflationary policies have had to date. In both countries, monetary stabilization has been too recent and is still too precarious to withstand great shocks. This development indicates plainly how problems of financial stability in one country affect not only that nation itself but the entire world economy.

Problems of Excessive Monetary Stability; Supply and Composition of Credit

Recent European monetary experience gives ample proof, I think, of the crucial role that attainment of financial stability must play in economic rehabilitation. It further shows, in my opinion, that curbing of expansion in the money supply does not complete the task of monetary management. Two additional problems are particularly important.

The first problem grows out of the danger that too great a stability in the supply of money and credit may lead to recession, or at least to an unwarranted slowing down of economic progress. An expanding economy needs an expanding supply of money and credit, and the lack of necessary expansion may bring about a deflationary situation.

The second problem relates to the fact that not only the quantity but also the composition of credits affects an economy's progress. It often happens that short-term credit is ample but long-term credit insufficient. In that case, the oversupply of short-term credit may lead to inflationary symptoms in some parts of the economy while the scarcity of long-term credit may lead to recession in other parts.

Deflationary Tendencies in Western Germany and Italy

Some observers believe that in Western Germany and in Italy monetary management has recently over-emphasized the objective of stability of the money supply, and that the gains of stabilization may thus have been jeopardized to some extent. These two countries have received high praise because of their management of money and credit. Both nations have been able to end a period of inflation without catastrophic disorganization of their economic structures. In both countries, however, some recent tendency toward a slowing down of recovery and a re-emergence of unemployment has appeared.

In neither of these countries could this tendency be explained mainly by ultra-prudence in monetary management. Italy has suffered from overpopulation for many years, and unless it finds new ways of utilizing its excess manpower, the problem probably will not be solved except by large-scale emigration. Just for that reason a rapid rate of industrialization is extremely important to Italy's further recovery. Weather conditions, affecting the supply of hydro-electric power, may also to some extent be responsible for temporary stagnation. Some critics contend, however, that the disinclination of the central banking authorities to refinance sufficient credits bears a share in the responsibility, and that as a result of this policy, Italy has not been able to utilize all the possibilities opened by the aid granted under ERP.

The situation is similar in Germany. After the astonishing success of the currency reform of June 1948, production moved at a breath-taking pace until March 1949, when it reached 90% of 1936. By that time the fear of renewed inflationary developments had induced the central banking authorities to concentrate upon the struggle against over-expansion of money. Monetary management, aided by other contributing influences, indeed succeeded in preventing inflationary tendencies during the fall of last year from developing further. But industrial production soon stopped its rise and did not reach the March level again until August 1949. Unemployment increased to more than 1.2 million,

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or 9% of the employed labor force.

As in Italy, the rise in unemployment in Western Germany is attributable in large part to causes which could not be remedied by monetary management. The inflow of 8 million refugees from Eastern Germany has disturbed the balance of the population, and unemployment is particularly strong in those areas in which the refugees have settled. Some analysts believe, however, that not more than one-third of the total unemployment could be explained in this way and that it would help to eliminate at least part of the remaining two-thirds if appropriate credits were being made available to German industries.

The management of the German banking system has good reasons to beware of credit policies that might again bring about the slightest trace of new inflation. In view of the extremely unstable domestic and international political situation in Germany, however, the recent rise in unemployment, with its accompanying social tensions, is particularly dangerous. Reemergence of the spector of unemployment that haunted Germany in the thirties might sooner or later lead to an overthrow of the present administration and to dangerous monetary experiments. On the other hand, the recent development may be nothing more serious than the inevitable consequence of the transition from an inflationary to a reasonably balanced situation.

Long-Term Credit Problems in Western Germany

The example of Western Germany also shows the importance of the composition of the supply of new credit. Most economists agree that lack of sufficient investment is frequently the cause of unemployment. Often the insufficiency of investment is due to lack of opportunities for profitable expansion, or to a scarcity of manpower and natural resources; but under present conditions it is often ascribable to the lack of long-term credit. In countries which suffered from wartime destruction and from inflationary developments in the postwar period, private savings—which normally form the basis of long-term credit funds—are generally at a low level. The gap therefore has to be closed either by the banks with the help of the central banking system, or by public authorities. Large-scale creation of long-term credit by the banking system is generally considered to be unsound and unsafe banking practice. It has inherent dangers of inflationary over-expansion and is likely to be followed by a period of contraction, made more difficult by frozen bank assets. Large-scale credit creation by public authorities usually either has inflationary implications (if based on deficit finance) or requires that taxes be maintained at, or increased to, very high levels. But high taxation tends further to reduce private savings and investment. Both methods have to be used with the greatest caution, and are at best poor substitutes for the formation of capital out of private savings.

In Western Germany the central banking authorities have been extremely reluctant to extend rediscount and similar facilities to long-term credit institutions. Very recently, the central banking system, after long deliberation, has been permitted to refinance 300 million marks, or about $72 million, of medium and long-term credits, but this sum is very small in relation to needs. The Reconstruction Loan Corporation, which has the function of financing investments, has so far received loan applications for 7.4 billion marks, but has been able to grant loans of only 0.4 billion. This situation has led to an increasingly large role by public authorities in financing new investment, largely out of current tax revenues. The prominence of government financing contrasts heavily with the intention of the German government to return as fully as possible to a free economy based upon private initiative. Moreover, the government itself has recognized that the existing level of taxation is a serious obstacle to further economic progress, sapping incentives for both labor and investment. The only part of public investment that is not based on taxation utilizes the so-called counterpart payments, namely the payments received by the local government from purchasers of goods imported by means of U. S. aid. These funds, however, can be invested only according to a program which has to be approved by our Economic Cooperation Administration. Accordingly, the release of these funds is a complicated process. Counterpart funds, moreover, will not be available after the end of the European Recovery Program. Reestablishment of a well-functioning domestic capital market is thus one of the most important goals of fiscal and credit policy in Germany, as it must also be in many other European countries which seek to recover from the distortions caused by the recent war.

Long-Term Credit Problems in Low Countries

Another example may help us to understand the importance of the problem of long-term credit utilization. Belgium and the Netherlands are two neighboring European countries very similar in size, population, and economic, social, and political conditions. Not long after the war, they reached an agreement to form an economic union. Since then, their economic fates have taken very different turns. It is true that a large part of these differences may be explained by events beyond their control. Belgium was liberated in 1944 and suffered very little war damage while the Netherlands was liberated many months later and only after heavy destruction. Belgium's colonial possession, the Congo, remained under Allied administration throughout the war and in postwar years has become extremely prosperous. Indonesia, the main overseas territory of the Netherlands, was for many years under Japanese domination and has been ravaged by civil war ever since the end of the Japanese rule so that it has become a burden rather than an economic advantage to the mother country. Moreover, the Netherlands has been hit far more severely than Belgium by the impoverishment of Germany, with which it had very close economic ties.

It is therefore not surprising that Belgium has recovered more fully and more rapidly than the Netherlands. To some extent, however, the difference in development also may be due to a different course of economic and financial management. The Belgian authorities promptly adopted a successful currency reform in 1944, which set the pace for all other Western European attempts of that kind and also permitted Belgian industry to become geared to the satisfaction of consumer demands rather than to a high degree of investment. The Netherlands' authorities, on the other hand, embarked on one of the most ambitious investment programs of Continental Europe, destined to overcome as rapidly as possible the destruction caused by the war and also to provide for a rapidly increasing population.

As a result of all of these factors, Belgium soon was able to regain a higher degree of financial stability than most of its neighbors and to dispense with virtually all wartime controls of private economic activity. As in so many other countries under conservative financial management, however, there have been some recent signs of slackening progress and rising unemployment. These developments may be interpreted either as reflecting deflationary troubles or as indicating a transition to a normally balanced economy. In any case, the Belgian currency is today, next to the Swiss franc, the most coveted European currency.

The Netherlands, on the other hand, has been confronted with great difficulties in meeting the capital requirements of its investment program and has felt compelled to retain a system of strict government controls over most phases of its economic life. Furthermore, it has been allocated a very large amount of aid under the European Recovery Program while Belgium not only has not received any net assistance but has undertaken to provide credits for less fortunate European nations. Despite that aid the Netherlands must still follow a policy of strict austerity and has shown until recently familiar symptoms of repressed inflation. Advantageous as its large investment program may prove to be in the long run, it certainly has outrun the country's capital resources. Only as a result of truly heroic efforts have the Netherlands people in recent months come somewhat nearer to internal and external financial stability.

Conclusions: Monetary Problems of the United States

Let us now recapitulate the results of our hurried review of monetary management in Europe. The example of Western Germany, France, Italy, and Belgium has demonstrated the overwhelming importance of financial stability for achieving and maintaining prosperity. The case of the United Kingdom has shown us how fundamentally a financial disequilibrium in a major country effects the international financial relations of the entire world. However, the examples of Western Germany, Italy, and Belgium have indicated the necessity for supplementing stability by the guaranteeing of a steady flow of credit so as to avoid the danger of interrupting economic growth. Finally, the development of Western Germany and the Netherlands has shown the special importance of a sufficient supply of long-term credit as a source of expansion and progress.

Each one of these countries has tried to solve its problems in a different fashion. I am anxious to emphasize that my discussion of these differences should not be interpreted as criticism. Every government must deal with a complex social and political situation, and a policy that seems best to the outsider may be impossible to pursue. The danger of inflation, for instance, appears in a very different light in Germany after two hyper-inflations in one generation, and in Britain, where the currency has never become worthless. France, which has also suffered from inflation in the past, nevertheless seems to prefer inflation to government controls, in contrast to the Netherlands, which has not had a serious inflation. While the problems themselves are the same the world over, the solution that would be right for one country might be wrong for another.

It remains only to consider very briefly the application of these results in our own country. The United States, like all other countries involved in the Second World War, had to finance the war to a large extent by inflationary methods. Postwar readjustment of our economic system, despite the vast monetary expansion during the war, has been greatly facilitated not alone by our tremendous productive capacity but also by the high degree of public confidence in money and government bonds and the willingness of the public to hold large amounts of these assets as liquid reserves. This willingness to hold liquid reserves permitted a rapid reconversion and a tremendous increase in civilian output during the years following without completely upsetting our price system. We are all aware that we did have a substantial rise in prices and wages, but it might have been much greater if monetary management had not taken measures to keep the inflationary tendencies under control.

International Aspects of U. S. Monetary Management

Domestic monetary management in this period could not concentrate exclusively upon our domestic problems. The United State could re-establish a lasting prosperity only in a world which in turn enjoys a reasonable degree of stability and prosperity. It was therefore vital for the success of our own financial reconversion from war that we aid in the rehabilitation of the chief trading countries of the world. To this end, we made very substantial loans and grants to European and Far Eastern countries. Moreover, in order to ensure the adequate utilization of these loans and grants, we had to interest ourselves in the problems of domestic financial stability of the countries to which we extended our aid.

Our influence upon financial developments in foreign countries rests in considerable part upon our voice in the use of the counterpart funds. These funds represent the payments in local currency made by the purchasers of the goods imported under our relief programs and especially under the grants of the European Recovery Program. The counterpart funds are legally the property of the local governments. But the governments are pledged to dispose of them only with our expressed approval. In many countries these funds are large enough so that decisions as to their use or non-use have fundamental effects upon financial stability, expansion, or stagnation.

In these decisions we are confronted with the very problem which was the main subject of our discussion, namely the choice between insisting upon strict stability in the supply of money or permitting a moderate expansion. In the first case, we may invite stagnation. In the second, expansion may go too far and end in an inflationary spiral. Wise decisions involving the use of counterpart funds can claim some credit for stopping inflation in Europe, but difficult questions remain to be solved in countries now threatened by a stoppage in progress and by rising unemployment.

Domestic Aspects of U. S. Monetary Management

To a lesser degree, these same problems confront monetary management at home. The threat of inflation, which darkened our economic prospects in the prosperous years from 1946 through 1948, was followed by a slight downtrend in our economic activities, which began in the Winter of 1948-49. This downtrend, however, may be hailed as a necessary and inevitable readjustment. The pent-up demand for goods and services that had not been available for many years was bound to disappear. Labor and management have been making adjustment to a more normal level of demand, entailing a reduction in output and prices that had risen out of proportion to the development of the economy as a whole. The supply of money has been more stable between the middle of 1948 and the middle of 1949 than at any other time since the beginning of the Second World War.

It is true that during the past twelve months our industrial production declined by 12% and the number of our unemployed, although still at a low level, was almost doubled. In recent months, however, an upturn in sales and in production has been evident, although output is now being curtailed by strikes. The devaluation of many foreign currencies may pose some short-run problems in our international trade before its long-run benefits become apparent. These facts indicate the difficulties of the task with which we are confronted.

From our domestic as well as our foreign experience it has long been recognized that the objective of monetary management must be to regulate the supply, availability, and cost of money with a view to contributing to the maintenance of a high level of employment, stable values, and a rising standard of living. Economic progress involves the absorption of an ever-increasing number of workers together with an ever-increasing productivity per worker in a way that will not lead to unsustainable expansion. Monetary management alone cannot achieve these results, but without monetary management they are not likely to be reached at all.

The United States is at present the leading country of the free world, both because of its material resources and because of dogged adherence to the principles and practices of free enterprise. Our economic fate will determine the economic and political future of many other nations. We must achieve steady economic progress, without inflation or serious depressions, not only for our own sake but also to reinforce the faith of the rest of the world in the economic and social principles for which we stand.

G. Harold Pearson With Rauscher, Pierce & Co.

DALLAS, TEX. — G. Harold Pearson has become associated with Rauscher, Pierce & Co., Mercantile Bank Building, as corporate trader. Mr. Pearson was formerly with Merrill Lynch, Pierce, Fenner & Beane and prior thereto was with Dallas Rupe & Co.

G. Harold Pearson

C. R. MacGregor Opens

MENDHAM, N. J.—C. Russell MacGregor is engaging in a securities business from offices on Corey Lane. Mr. MacGregor in the past was a partner in Auchincloss, Parker & Redpath.

Arthur Hess Dead

Arthur M. Hess, a former member of the New York Stock Exchange and a director of the New York Hanseatic Corporation, died at his home of heart disease at the age of 74.

What Will Compulsory Health Insurance Cost?

By ADOLPH SCHMIDT*
Vice-President, T. Mellon and Sons
Pittsburgh Representative, A. W. Mellon Educational and Charitable Trust.

Spokesman for A. W. Mellon Charitable Trust, commenting on recent proposals for compulsory health insurance and their estimated costs, concludes all estimates are faulty and such costs for future are not capable of calculation. Warns placing burden of cost on business by more taxes will have deadening effect on incentives, but urges industries secure old time loyalty of workers by instituting their own health insurance programs.

In its annual review of 1947, the Rockefeller Foundation stated, "One of the troublesome problems of our generation is how we are to make available to the entire population the preventive, diagnostic and curative services of modern medicine." This problem has had the earnest attention of many groups in the United States for a long period of time. It has produced an extensive literature and many legislative proposals. The Administration's current compulsory health insurance bill (S. 1679 and H.R. 4312) has been before Congress in many forms for the past 13 years. Insistence by the President and the sponsors that this bill is "must" legislation has drawn from opponents of the Administration measure a number of counterproposals based on a "voluntary" rather than a "compulsory" approach. The National Health Bill (S. 1581), sponsored by Senators Taft, Smith and Donnell, would make available Federal grants (not to exceed $200,000,000 in the initial year) to the states on a matching basis "for extending medical, hospital and dental services to individuals unable to pay the whole cost thereof." The Hill and Flanders Bills (S. 1456 and S. 1970) call for Federal-State subsidies to voluntary, non-profit health insurance programs to increase enrollments and to encourage the creation of new voluntary plans.

Adolph Schmidt

Because of the heated controversy over compulsory health insurance, it is surprising that the Administration, the American Medical Association and the numerous other groups with health proposals agree on many more things than they disagree on. They agree that:

(1) We have well-trained physicians, well-equipped hospitals, and that our medical services and skills are technically as good or better than any in the world.

(2) We need more physicians, more dentists and nurses, more hospitals, and a nationwide coverage of public health units.

(3) Our existing medical services are not evenly distributed throughout the country.

(4) A system of prepayment or insurance is the best way of handling the costs of medical care.

There is a sharp difference of opinion, however, as to whether everyone shall be left free to choose whether he wishes to join an insurance or prepayment plan or whether the arrangement shall be compulsory as part of the social security systems. Mr. Oscar Ewing, Federal Security Administrator, argues that experience shows that many of the families that need the protection of health insurance most are not getting it today and will not get it if it is left entirely up to them. The American Medical Association, however, fears that compulsory sickness insurance, which it defines as taxation, would eventually place the practice of medicine under more or less complete government control, would create serious deterioration in the quality of service, and would strifle research and the development of new techniques in medical care. The Administration and the AMA also differ sharply on the relative cost of voluntary and compulsory insurance.

*A report by Mr. Schmidt at the Industrial Hygiene Foundation's 14th Annual Meeting, Pittsburgh, Pa., Nov. 17, 1949.

The Cost Estimates

In estimating costs, the sponsors of national health insurance begin with an assumption that the public would be willing to pay at least as much under a compulsory payroll deduction scheme as they are spending for medical care now. In May, 1949, the Division of Research and Statistics of the Social Security Administration released a comprehensive estimate of expenditures for a National Health Insurance Program at late 1948 price and income levels.[1]

The estimates of this study included the following services: (1) Physicians' services; (2) Hospital services; (3) Dental care; (4) Home nursing; (5) Laboratory, medicines and appliances; and, (6) Research and Education. In the estimate of the cost of each item of service there was included an allowance of 5 to 7½% for administrative costs. Estimates of costs for these services were furnished for late 1948 and also for a future year, 5, 10 or 15 years after benefits first became available, designated as 195x; when the benefits were expected to have increased by reasons of enlarged resources of personnel and facilities, and increased public demand for service. The significant cost data may be summarized as follows:

	—1948—	—195x—
Per capita	$36.81	$49.83
Tot. civilian population (146 million persons)	$5.37 billion	$7.27 billion
Per cent of national income[2]	2.39 %	3.24 %
Labor force coverage (125 million persons)	$4.59 billion	$6.22 billion
Per cent of covered earnings[3]	3.10 %	4.20 %

In comparison with these official estimates, actual expenditures for medical care during 1948 were $7.41 billion.[4] This was 3.28% of $226 billion of national income, a per capita cost of $50.70, and a per family cost of $185.00. The $2 billion difference between this figure of $7.41 billion and the estimated cost of $5.37 billion above is accounted for by about $1.4 billion of drugs, eye-glasses, appliances and some $0.6 billion of voluntary health insurance payments which are excluded under the compulsory program in the initial year.

It is from these basic studies that the Administration has developed the financial proposals in its most recent compulsory health insurance bills S.1679 and H.R. 4312. Total compulsory coverage would embrace initially 80-85% of an estimated 150 million population in 1950. Counting only the first $4,800 of an individual's earnings in a year, the estimated amount of taxable earnings on which payroll taxes would be levied in 1950 is $133.7 billion. In the first three benefit years, 3¼% of this sum or $4.7 billion would be paid into the Personal Health Service Account. The sponsors indicate 1½% from workers, 1½% from employers, and not more than ½% from general revenues. In each of the next three benefit years, an additional ½% is taken from general revenues and coverage is estimated to expand to 85-90% of the population. Such 4% of the same taxable earnings would produce $5.3 billion for the Personal Health Services account.

Th Social Security Administration admits that the total cost of national health insurance cannot be determined with accuracy until the system has been in operation for some time. It contends, however, that pay roll deductions should be sufficient to meet the major portion of the basic costs. Whatever difference was involved, the government would make up as underwriter, although it believes definite limits to this obligations—ranging from 15% to 25% of the total cost of the program—will undoubtedly be set by Congress.

1 This study was developed by revision of data contained in a 1946 report entitled "Medical Care Insurance—A Social Insurance Program for Personal Health Services. Report from the Bureau of Research and Statistics, Social Security Board, to the Committee on Education and Labor, U. S. Senate, July 8, 1946. Seventy-Ninth Congress, 2nd Session, Senate Committee Print No. 5." The 1948 report allows for a 6 million population increase and an over-all 33% increase in the Bureau of Labor Statistics Consumer Price Index from early 1946 to late 1948.

2 At the rate of $224.5 billion in late 1948.

3 $148 billion with a $4.800 maximum.

4 Survey of Current Business—U. S. Department of Commerce. July, 1949, p. 23.

Numerous organizations and individuals take exception to the Administration estimates, although they provide the only comprehensive documented study available. Unfortunately, opposition figures are rarely documented either as to source or method. Dr. George F. Lull, Secretary, American Medical Association, has recently stated, "In the opinion of numerous qualified and realistic students of the subject, compulsory health insurance in the United States would involve: Ultimate annual costs ranging from $10,000,000,000 to $18,000,000,000; a 6% paycheck tax just to get the system in operation; and an eventual 8 to 10% bite out of the people's take home pay."[5] He believes that the administrative costs alone would run from $2,000,000,000 to $3,000,000,000 or more annually. The $18,000,000,000 figure is apparently arrived at by assigning the 1948 per capita costs of Veterans Administration medical care in all categories to an anticipated national population of 152,000,000. The deluxe Veterans Administration standards, of course, include much more medical care than has been contemplated in any Administration estimates made to date.

One check on the Administration figures is provided by the computations of the Michigan Medical Service, the largest voluntary prepaid medical care group in the country, with 1,300,000 subscribers and 10 years' experience. Jay C. Ketchum, Executive Director, says it is impossible for either voluntary or compulsory insurance to offer comprehensive medical care at low cost and still remain solvent. Their figures show it would cost about $180 a year to prepay full medical care for Detroit families earning up to $4,000 a year—or $228 including Blue Cross hospitalization — a total cost of nearly 6%. Ketchum regards this figure as too high to attract many takers. Ewing offers the same package for $160 a year and throws in dental and home nursing care, drugs, and appliances.

5 Public Affairs Pamphlet No. 152, p. 21, September, 1949.

On the other hand, the current charges of the Health Insurance Plan of Greater New York, after two years successful experience, confounds both of these figures. HIP delivers comprehensive medical care at a price of $132 per family per year, including Blue Cross charges of $45, or $11 per month. It accomplishes this by administrative efficiency through panel capitation and prepayment of physicians associated in group practice.

Experience in Germany, New Zealand and European countries generally, indicates a substantial increase after the initial years in the cost of tax paid health services administered by governments. But the cost figures are influenced not only by increasing benefits but by inflationary forces resulting from World War I or World War II. Hence, they can be used or quoted only with great care. Also, conditions in other countries in past years are not comparable to those in the United States today.

On Oct. 6, 1949, Aneurin Bevan, Health Minister, disclosed that the British National Health Service is costing the British taxpayer £300,000,000 a year. The original official estimate of cost for the first year of operation of the over-all compulsory system inaugurated on July 5, 1948 was £264,500,000. Costs will continue to rise in future years since the Health Ministry is planning to construct 2,000 health centers at £187,000 each and 69,000 additional hospital beds at £5,000 each. These two items come to £719,000,000. At present British per capita health expenditures are approximately one-half those of the United States.

In 1947, the Twentieth Century Fund published a monumental survey entitled "America's Needs and Resources." By projecting long-term trends in many segments of our national life, this study endeavored to forecast what levels our economy might reach, barring war and further inflation, in the years 1950 and 1960. In regard to medical care, the prediction for 1950 was that we would be spending $8 billion (at 1947 prices) but should be spending $10.6 billion to do an adequate job. By 1960, this study estimated that we would be spending nearly 9.2 billion a year on all forms of medical care. But to make it possible for all 155,000,000 Americans living at that time to have a minimum standard of medical care would mean an expenditure of $11.7 billion, or $2.5 billion more. This study concludes that with only an 8% increase added to what we are likely to produce in 1960, this matchless economic machine of ours could turn out enough goods and services to provide adequate food, clothing, housing and medical care for every living American, get rid of our slums, take all our children through at least two years of high school, develop our river valleys and make our forests self-perpetuating. This study further pointed out that we have more than enough basic resources, manpower and equipment to do this; that the answer lies in steadily increasing man-hour output, which in turn means permitting and encouraging industry to put more and better machines to work.

Health Insurance Costs and Social Security

The financial cost of compulsory health insurance must of necessity be considered in conjunction with the future costs of the Old Age and Survivors Insurance program, since both would be financed through the Federal Security Agency by a pay roll tax. On Oct. 5, 1949, the House of Representatives passed, by a vote of 333 to 14, a liberalized and expanded Social Security Act, adding disability to the pension features. It must be remembered that the cost of Old Age and Survivors Insurance will rise steadily for about 50 years until it stabilizes. Sumner Slichter of Harvard, and a member of the Social Security Advisory Council, puts the cost of this most recent bill at roughly 8% of pay rolls.[6] Acturial estimates of the Social Security Administration pertaining to this bill show an ultimate tax rate on pay rolls of 6% minimum and 10% maximum, depending on coverage and benefits. Even this is not the total cost, since these estimates anticipate that a government contribution will be necessary to supplement the pay roll taxes. Total ultimate cost is estimated at from 8% to 14%. If Congress should pass a National Health Insurance Act, an estimated additional 4% pay roll tax must be added to cover the initial cost. The resulting total tax estimate of 12% to 18% on covered pay rolls of $150 billion would amount to $18 to $27 billion a year. In this connection it is interesting to recall that 18% is the rate which Senator Wagner admitted would be necessary to finance his original comprehensive social security bill covering health, disability, welfare, and old age pension benefits.[7] The magnitude of such an $18 to $27 billion pay roll tax is apparent when we realize that it amounts to 45% to 67.5% of the $40 billion of total government revenues now obtained from taxes on individuals and corporations, and from excises and customs.

From the economic standpoint, it is most unfortunate to find the notion so widely prevalent that governmentally provided medical and health services would be "free." The program as envisaged in the proposed legislation is to pay for hospital and medical care through taxes. And taxes must come from the people and the productivity of the economy. The proposed initial 1½% levy against the employer would have to be added to his costs of operation. It seems certain that a good portion or all of this increased expense will find its way into his selling prices, and the general public largely composed of people of moderate or small income, would thus be taxed indirectly through increased prices. The employees' take-home pay would be decreased by 1½%, so that they would have that much less money with which to pay the increased prices. The consuming public as a whole would have that much less money to voluntarily spend on other commodities—possibly better nutrition, in itself an important safeguard of health. Then there is the unknown amount to be supplied by the government from general revenues, which would of course have to be derived from further increases in personal income taxes, excises, customs, and corporate income taxes. The important point is that the incidence of these taxes would be so wide-spread over the entire economy, that the medical services would be anything but "free."

Good health and the avoidance of ill health are dependent on

6 New York Times Magazine, Oct. 18, 1949, p. 9.

7 "Social Security Taxes"—Publication No. 21, Research Council for Economic Security, 105 West Monroe Street, Chicago 3, Ill.

(Continued on page 26)

What Will Compulsory Health Insurance Cost?

(Continued from page 25)

many other factors than medical care to individuals by physicians and hospitals. The prevention of disease, lessening the risk of illness, proper nutrition and diet, sanitary housing, opportunities for healthful recreation, social and economic factors, education, and a personal willingness to take proper care of oneself, are examples in point. All of this is the role of public health. Its goals are the prevention of disease and the proper organization of all community services to foster the positive health of the people. In essence our whole standard of living is involved in this question of good health.

With the multiplicity of taxes which now confront every business undertaking, and their deadening effect on incentives, it is a serious question of how much further we can go in adding on burden after burden without bringing on enough breakdowns in our structure to jeopardize our high standard of living. If that should happen, there is little use of talking about expanded medical care, better housing or more of anything else that contributes to good health. On Oct. 24, 1949, Prime Minister Attlee of Great Britain announced that the Labor Government would trim its expenses by $784 million in order to head off inflation and reduce the costs of production so that Britain's manufactured products could compete in the world markets. One of the economy moves affecting the British National Health Service was the abolition of free prescriptions, estimated to save $28 million a year. Britons henceforth will have to pay 14 cents for each prescription received.

An individual must balance his liabilities against his assets if he is to remain solvent. Does this apply to governments? If a balance sheet could be struck for the United States, what would it look like? A comprehensive appraisal of the physical assets of the United States has never been made and if done with great accuracy would take so long as to be outmoded when completed. Nevertheless, a recent study made by Robert R. Doane, Chairman of the World Assets Audit Association, Inc., and published in the March, 1948 issue of "Dun's Review," provides a possible clue to the over-all figure. His study shows that our private productive, public, institutional, and individual consumer physical assets in the United States were valued at $501 billion in 1946. Against this figure, the net public and private debt of the United States (i.e., gross debt less Federal trust funds and state and local sinking funds) stood at approximately $400 billion in 1946.[8] This net debt was composed of Federal—$230 billion; State—$2 billion; Local—$12 billion, and Private—$156 billion. This ratio of debt to physical assets is 80%. On the basis of 39,138,000 families in the United States in April, 1947, it amounts to an over-all average debt per family of $10,200 against over-all average assets of $12,800.

Future Costs Are Not Calculatable

From the evidence available to date, it is apparent that the cost of over-all compulsory health insurance cannot be determined with any degree of accuracy. A letter recently received from Frank G. Dickinson, Ph.D., Director of the Bureau of Medical Economic Research of the American Medical Association, stated, "Nobody knows what compulsory sickness insurance will cost. I believe I can defend an estimate of $10 to $15 billion at present price levels for a thoroughly comprehensive program of compulsory sickness insurance. It would seem to require a contribution from all gainfully employed people of at least 3% from the employee and 3% from the employer, or 6% from those who are self-employed. I wish I could be more definite."

Cost will depend primarily on the quantity and quality of medical service to be delivered and this has not been specified in pending bills. Where cash sickness benefits are introduced, malingering increases markedly and adds to cost. It will depend on such variables as the method of payment of physicians, whether by fee-for-service, capitation or salary. The first is regarded as the most expensive, and it is believed that one of the reasons for the current financial problem of the United Mine Workers Fund is that physicians were paid by the fee-for-service method. Capitation is the method which would most likely be adopted by the participating physicians themselves after the program was under way. Payment by government salary would be the ultimate in nationalization of the medical profession. Further currency inflation by means of continued deficit financing would render both present and future estimates of cost unreliable.

The United States today has more physicians, dentists, nurses and hospital facilities per capita than any other large nation in the world. Even so, competent authoritiese have warned that if Congress should legislate a compulsory system, the effective date of the program should be set at least 10 years later than the date of adoption of the act. They believe this would be a minimum period required to train the additional personnel and construct the expanded facilities without which the promised services could not be delivered.

Because of the substantial difference of opinion which exists between various groups regarding method and results, it would seem wise that a further period of study and experimentation be gained before any final decision is attempted. Once the important step is taken it would be almost impossible to reverse it because of the vested interests which are rapidly created. Prior to taking such a fateful step it might be better to learn to walk before we run. The Brookings Institution has announced that it is undertaking a two-year comprehensive study of medical care which should shed additional light on the problem. Let Rhode Island and California continue to experiment with their limited-benefit compulsory systems now in effect. Let Kansas further develop its excellent program of building rural clinics and attracting doctors to them. Let Washington state taxpayers appraise the results of providing free comprehensive medical care to some 144,000 persons on their state welfare rolls. Let us continue to study the British experiment for several years before we think of taking the plunge ourselves. If the Administration believes that the need is urgent, let it stimulate and encourage the various states and private organizations to experiment with different administrative methods to the end that sound solutions to a national problem may be obtained sooner.

It would seem sensible to observe the further development of the numerous voluntary health insurance plans. Their growth in recent years has been spectacular. Starting from scratch in 1930, the Blue Cross plans have now enrolled over 31,000,000 people. The gain in 1948 alone was 3¼ million. The Health Insurance Council of the Institute of Life Insurance released a report in August, 1949, which estimated that the number of persons covered in various categories of voluntary insurance had shown these statistical gains between the end of 1947 and 1948:

(000's Omitted)

	1947	1948
Hospital expense	52,584	60,995
Surgical expense	26,247	34,060
Medical expense	8,898	12,895

This is an excellent illustration of the way in which the American people through voluntary action meet their own problems. Furthermore, these voluntary plans are true insurance. For a specified premium, definite medical benefits are guaranteed by contract. They are competitive and experimental, hence dynamic and progressive. It is an interesting point that no benefits whatever are guaranteed under any of the compulsory bills. Services may be granted or withheld by the regulations of the Administrator, but there is no tax limit. Adoption of the compulsory program would drive the voluntary programs out of business because it is unlikely that the majority of people could afford both. A constructive American approach would be to make voluntary prepayment plans so attractive in every way — through all-out cooperation of doctors, elimination of unnecessary "jokers" in service contracts, and offering membership to farmers, the self-employed and individuals who are not in occupational groups—that arguments for a government-operated system will fall of their own weight. It would also be constructive if the voluntary organizations could develop plans for those individuals and families of the population who cannot now afford to join these voluntary plans. They should also strive to find the answer to the question of how premiums will be paid by unemployed members during depression periods.

It would be well to experiment further with the program recommended by the Committee on Medicine and the Changing Order established by the New York Academy of Medicine. This program would combine voluntary prepayment insurance plans with group practice by physicians, to provide comprehensive diagnostic, curative and preventive services to the covered members. Such a program, known as the Health Insurance Plan, whose per family cost of $132 was mentioned earlier, has been in operation in all the boroughs of New York City since 1947, has approximately 200,000 subscribers and is operating in the black. This is a pattern which may have a great promise for other communities and for industry.

The degree to which health insurance has already been taken care of for the workers in industry is indicated by the fact that 60% of the sample panel members for the Wage Earner Forum, sponsored by the McFadden Publications, report that their companies have group health insurance programs for the employee and his family. It seems reasonable to believe that such industrial programs will increase rapidly both in number and benefits in the near future because of the competitive factors among industrial unions and within industry itself. One estimate has been made that each year the nation loses some $27 billion in national wealth through sickness and partial and total disability. It should be one of the objectives of industry to reduce that figure substantially. It is reasonable to suppose that the productivity of workers may be so increased by adequate industrial health programs, that the savings could more than offset the cost of these voluntary plans. If the industrial plans should become universal and comprehensive during the next few years, are made administratively and professionally sound, they should go a long way to reducing the demand for a compulsory system.

The Spanish philosopher, Ortega y Gassett, has pointed out that the essence of the revolution which this generation is experiencing is that the masses of the 20th century insist upon receiving as a right all those material enjoyments and prerogatives which only the middle class possessed in the 19th century. Adequate medical care at reasonable cost, especially when a serious illness strikes suddenly or is of long duration, is a commodity which everyone wants. If government satisfies this need, the loyalty of the masses will be to government. If labor unions find the answer through union-managed programs, the loyalties will flow to labor leaders. Likewise, if industry can find the solution through sound programs developed in the voluntary American way, some of these old loyalties will return to industry. Members of the Industrial Hygiene Foundation may have one of the great opportunities of this generation in helping to determine whether industry can get the job done in time.

8 Survey of Current Business—U. S. Department of Commerce, October, 1949.

Observations

(Continued from page 5)

capital to foreign borrowers if and when they do not fulfill creditor responsibilities.

What Is It?

Debunking of the Program's anti-communism value leads to reiteration of the question "What is Point IV?"—now in the light of the President's proposals and his own and others' subsequent commentary. Is it to be confined to American projects and American direction with the brunt falling, directly or indirectly, on the Export-Import Bank; is the money to come from bankers motivated by expectations of a safe return of their capital plus worthwhile equity returns; or from businesses expecting an adequate profit on their products; or in conformity with State Department dictation for political motivations; or through the UN and its agencies? Is the lending policy to follow past Export-Import Bank practice in preponderantly taking shape in the form government-to-government loans, or in loans to government agencies, or in being used for government projects directly competing with private enterprise?

In the original broaching of his program the President took pains to rule out "exploitation for foreign profit," a catchy slogan but leaving little doubt as to the governmental direction of the operations.

If exploitation by us is to be abolished, why should not the foreign governments which are seeking American investment, instead of the United States government, post the necessary guarantees?

At any rate, one "net" implication of the President's proposals, is the prospective nationalization of all foreign investments (irrespective of the blind spots of many of our exporters and investment bankers). However, there is one respect in which this hybrid proposition is even worse. To get private capital risked abroad, we are to permit individual and business investors to keep any possible profits, but shift the losses on to the taxpayers. The state is to be foresworn from any embarrassing profits.

Irrespective of the degree to which it is intended that the new program is to be governmentally rather than privately financed, or the international organization participate, it is not clear why the objectives could not be reached jointly by private investors on a businesslike basis, along with the Export-Import and International Banks as now constituted. The first two of the three principal purposes of the latter Institution, as set forth in its Articles of Agreement, are:

(a) *To assist in the reconstruction and development of its member countries by facilitating the investment of capital for productive purposes;*

(b) *To promote private foreign investment by guarantees of and participations in loans and other investments made by private investors.*

In his ECA Report to the Congress on November 15, President Truman cited as one of its "highlights" the ECA's confinement of its operations in China to supplying rice for the rationing programs of Canton and Swatow, fertilizer for Taiwan, and petroleum for South China and Taiwan. "The work of the Joint Commission on Rural Reconstruction became the major ECA-supported activity in China," the President reported.

The already-existing extent of the overlapping of agencies has been newly revealed this week by the resignation of Shepard Morgan as chief of the High Commission Finance Division in Germany over the renewed conflict of interest between the AMG-High Commission and ECA operations.

Cultivating Our Own Slums

In these days of "isolationist" and "fascist" epithet-hurling it may be futile to criticise any foreign-aid program on grounds of *cultivating-one's-own-garden.* But it may be pointed out that President Truman himself has pleaded the necessity for $50 billion to be invested by industry to expand *our own* productive facilities; and he and his Keyserlings have been castigating our own steel and electrical industries for not expanding their plant quickly enough—objectives assuredly rendered all the more difficult to the extent that we send our capital abroad.

We agree with Presidents Roosevelt and Truman that there are under developed areas within our own borders—East, West, and particularly South—calling for attention-with-capital. The currently released Senate's Joint Economic Committee Report ("Sparkman Report") shows that this country still has one-sixth of its families earning less than $1,000 annually. Certainly many billions are needed to bring the South up to the rest of our country's level, and more billions for the cleaning-up of our urban and rural slums.

And, incidentally but not unimportantly, an economically strong America is a mighty good practical means of combating the Communist menace—a fact evidently better understood by Stalin than by many Americans!

Preparation and Method In Securities Salesmanship

(Continued from page 4)

In past times, their wait may have been fruitful, but today I don't think many people will come in to see them.

Another fellow I have in mind is like one who used to work for me. He is what I call a "Hasty Joe," just so busy all the time that he never got any selling done. That sounds paradoxial, but it's the truth. He approached his work in a very sincere manner, but instead of sitting down and doing a complete job with one buyer whom he would call on, he would be so anxious and worried about making a lot of calls and getting around his territory that he wouldn't accomplish very much during any particular interview. Don't be so hasty with your work that you neglect to do a good selling job.

There is another kind of salesman that I call the "Timid Twerp." These timid fellows are afraid to do any real selling. I mean selling, and not just going in and talking with a man, not making these social calls, not going in and sitting down there and merely questioning somone. It means going in there and to go to work on him earnestly, doing some sincere, honest, down-to-earth selling work and nothing else, where you are trying for an order and you are convincing him that nothing else in the world matters but that he should buy what you have to sell.

The "Timid Twerp" type of salesman might just as well quit. If a fellow doesn't decide that he is really going to do some hard selling, there is no use staying in the game, because it's too tough.

Another type of salesman is one whom I just call plain lazy, the fellow who sticks to his own neighborhood almost exclusively. Recently, I went to Boston and traveled with a salesman up there who lived in Milton. I met him in the heart of Boston. Where did he take me to sell? Milton! We worked in the neighborhood right around his home. I discovered later that although his territory was practically all of Boston, the only place he worked intensely was right around his own home, which didn't happen to be a very productive neighborhood, either.

That is a typical example of the lazy salesman. Other salesmen stick strictly to their same old accounts. There's a lot of business somewhere else, but it takes a little more nerve to go out and try to get it, but that's the thing that will surely bring your volume up.

There's another types of salesman, and please don't ever be like this type. That is the "Griper." We all did some griping in the service, but a salesman shouldn't gripe.

Some of these salesmen start off by griping about their bosses; then they are griping about the money they are making, they are griping about the bonus they aren't earning, about the automobile allowance, griping about this, that and the next thing. I just wonder how a person in that frame of mind can ever think of getting any business with that negative attitude written all over him.

I believe that the best thing a manager could do with a chronic griper is to fire him, just get rid of him, and that will really give him something to gripe about.

Another salesman I met was really a brilliant person, but he couldn't keep away from liquor, and it ruined him. Once, I worked for a man who, when sober, was one of the smartest and quickest thinkers I ever knew, but he couldn't leave liquor alone, and that cost both of those men their jobs. That simply doesn't mix with your work.

A Review

I'm going to give a very brief review, now, of what we have covered here:

We talked, first, about a man's adjusting himself to his job. You will remember we spent quite some time talking about the mental attitude that a person should entertain if he is going to be a salesman, that there is a certain specific environment to the job of selling which a salesman just has to adjust himself into. If you fail to do that you will find yourself switching from job to job, worrying about whether you ought to be a salesman, and you will be losing too much time occupying your mind with these thoughts.

Once you have decided to be a salesman, for goodness sake, be a salesman and then forget about what you are going to do in life. Just keep on selling. There is a self-adaptation to the role of a salesman.

Then, we talked about getting all your tools ready for selling, getting your sales literature, your selling kit, and every other selling aid that your company provides you with, and keeping them all ready, having your pencils and pads, and your prices, and up-to-date literature and everything to help you do your sales work.

Steps in Salesmanship

We talked for some time about the preparation of a canvass that would fit your own personality. That's what I called the first step of a sale, the preparation. The next step we discussed was locating your prospects and organizing your work. In other words, how you are going to go about getting out to meet the people who you are going to sell.

The third step was effecting the contact with your prospect.

The fourth step, the readying of your attitude, the preparation for going in and seeing the person you are going to try to sell.

The next step we talked about was the approach—how to get in, and how to arrange the chair you are going to sit in, and other material things around the room that would fit into your comfort and efficiency for working.

We also discussed balancing the social situation between you and your customer so that you meet on an equal footing.

Next was the sizing up of your prospect, what kind of a person he is, the extroverted or the introverted type, whether he thinks his way through life, or whether he runs by intuition. You are going to analyze your steady clients as to what kind of a psychological make-up they have, so that you will know how to approach and talk to them.

Next, the establishment of the proper attitude, and the interrelationship of the attitude between buyer and seller; your attitude, as something aside from your oral delivery.

Then, the actual canvass opening. We talked about starting in with some kind of a social introduction, about how important it is to get the customer's full attention, and then of developing that attention into interest. That interest depends upon the man's attention, and in order to get the customer to buy, you have to be sure he is interested in what you are selling.

We reviewed the presentation, the development of your actual sales canvass and from that point we covered the demonstration, the use of your literature or anything else that you have as a selling aid that will help you to interest the person and make your sale.

Our next topic was the "convincing" step, the localizing of your appeal, making sure that everything you say fits into the immediate situation of the man you are talking with.

Then, we came to the quoting of price. We discussed pricing and its relation to everything else in a sale. We also talked about the removal of objections, different kinds of objections, the brush-off, the stall, the valid objection, and so forth, how to take care of them. The most important point there was that if you are getting objections all the time everywhere you go, the thing to do is to take them out before they come up. Remove them before the man brings them up.

We went on to "closing," how to close a sale. You start closing from the very beginning and with every particular selling point you advance you try to get agreement on it before you go on to the next one.

We talked about the redeveloping, if you didn't close the sale, going back and strengthening your sales canvass, to try to warm him up to the point where, in a second attempt to close the sale you will be successful.

We went on to say that when you make a sale you have to make sure that it is a solid one, that you have obtained agreement on every point on the sale, so you won't receive a cancellation, or so that you don't have the man leaving you after giving you just a single order. You are going to sell him for a complete program of commitments rather than just going in and knocking off one order.

We touched on "departure," and the proper timing and always leaving the way open to come back in again at a later date.

Briefly, those are the various steps of the sale, the way I see them. I might conclude by saying that selling is a good way to earn your living. It can be very pleasant. It can make money for you, and it can provide a comfortable living. It furnishes a certain amount of independence, a certain amount of freedom that a lot of other workers do not have. You can be happy in selling.

There is a great deal of personal responsibility connected with selling, because all of your productive effort depends strictly upon yourself. There is not much gravy in selling, but if a man has intelligence and is willing to work, he can become very successful in this work.

What's Ahead for the American Economy?

(Continued from page 6)

great. A shift from "Freedom" to "For Free."

(5) The pitting of group against group, which is just another way of stating that horrible political philosophy of "divide and conquer."

What to Do About It

Now then, what are we going to do about all this? I don't claim to have all the answers, but I think that I can provide some very important ones. And here they are in what might be called reverse English:

(1) I am concerned over the difficulty that people like us have in providing funds to conduct the fight that must be waged and won. In total, I suppose, we provide a lot of money for so-called good causes. But this is disbursed—or dispersed—in so many different directions. There is no real dedication to the truly focal point, which is practical politics of the grass roots variety.

(2) I am distressed by our lack of personal sacrifice in the fight for good government. How many men do you know who devote any large amount of their time to seeing that good people are nominated for public office and that these good people are elected? What I mean to say here is that a political fight has to be won if we are to take advantage of the fine basic economic ingredients that we still possess.

(3) I am appalled by the lack of statesmanship on the part of so many of us. Take, for example, the matter of economy in government. Well, we're all for it, aren't we? And yet when an economy move happens to hit our particular community, or more especially our own business — well, you know what happens. Economy is good for everybody but me!

Likewise, I am appalled by the lack of statesmanship on the part of many labor leaders. Take, for example, the Taft-Hartley Act. I know for a positive fact that this law is regarded highly by many top-side union officials. And yet, they are not willing to stand up and be counted. For they are afraid that they'll lose some members, especially to a rival union. Here, I want to make this point unmistakably clear. One of our major current problems revolves around the existence of three great labor unions with each one seeking to increase its membership and power.

Summing up—and I assure you that I take no pleasure in saying this—men like you and me have done all too little to combat the trend that is rapidly bringing our country to precisely the same situation that prevails in England. And over there we are able to see exactly what happens when a welfare state is substituted for free enterprise. The very life blood has been drained out of British industry. And the result is true welfare for nobody.

In closing, I would like to use the words of someone far more skillful than I am in presenting the case that must be made:

"You cannot bring about prosperity by discouraging thrift. You cannot strengthen the weak by weakening the strong. You cannot help the wage earner by pulling down the wage payer. You cannot further the brotherhood of man by encouraging class hatred. You cannot help the poor by discouraging the rich. You cannot establish sound security on borrowed money. You cannot keep out of trouble by spending more than you earn. You cannot build character and courage by taking away man's initiative and independence. You cannot help men permanently by doing for them what they could and should do for themselves."

Gentlemen, what I have just read was written almost a hundred years ago by Abraham Lincoln. And if this philosophy of his could just be substituted for that phony bill of goods that rests on "something for nothing," then we would need have no fears whatsoever as to what's ahead for the American economy.

Can the job be done?

I would say that the answer is a tough "Yes." For the American people will make the right choices, provided they are well informed and have at least some good leadership to which they can turn.

Business Man's Bookshelf

Causes of Industrial Peace Under Collective Bargaining: Lockheed Aircraft Corp. and the International Association of Machinists—National Planning Association 800-21st Street, N. W., Washington 6, D. C.—Paper—$1.00.

Corporation in New Jersey, The—Business and Politics 1791-1875—John William Cadman, Jr., Harvard University Press, Cambridge 38, Mass.—Cloth—$6.00.

Taxation of Thoroughbred Racing — Rienzi Wilson Jennings—Bureau of Business Research, University of Kentucky, Lexington, Ky.—Paper $1.00.

Whiskey Production Tax in Kentucky 1933-1947 — Orba F. Traylor—Bureau of Business Research, University of Kentucky, Lexington, Ky.—Paper 50c.

Your Bank's Relations With Schools—American Bankers Association, 12 East 36th Street, New York 16, N. Y.—Paper.

Knox Dist. Rep. for Distributors Group

Appointment of William S. Knox as District Representative for the South-East has been announced by Distributors Group, Inc., sponsors of Group Securities.

William S. Knox

Mr. Knox, who will assume his new duties in Atlanta on December 1, had been a Vice-President of Paulding, Inc. of New York since his release to inactive duty from the Navy, in which he served as a Lieutenant-Commander. Prior to the war, he had been associated with the Girard Trust Co. and the Boenning Co., both of Philadelphia.

Mfrs. Trust Promotes

Harvey D. Gibson, President of Manufacturers Trust Company has announced that Franklin P. Johnson of the Security Analysis Department has been appointed an Assistant Vice-President.

Mr. Johnson is a native of Manchester, New Hampshire and a graduate of Washington and Lee University. After spending five years in the investment banking field he became associated with Manufacturers Trust Company in 1934 and was appointed an Assistant Secretary in 1942. During World War II, he served with the Army Transportation Corps in the European Theatre of Operations.

Langdon Littlehale Appointed by Mosler Safe

Langdon R. Littlehale has been appointed Director of Advertising and Assistant Director of Sales of The Mosler Safe Company, Edwin H. Mosler, Sr., President, announced. Mr. Littlehale, who was an account executive and member of the Plans Board of Albert Frank-Guenther Law, Inc., advertising agency, until he joined Mosler, will make his headquarters at the company's main office in New York.

Current Problems of Job Creation

(Continued from page 7)

and for the expansion of existing ones with the attendant job creation and added production.

I think the public does not fully realize the importance of private saving and investment to the standard of living and to the provision of opportunities for employment. For example, the United States Steel Corporation uses more than $8,000 in its business for each employee on its payrolls. In some industries the investment per employee is larger; in others it is smaller. It is this high investment in the tools of production for each employee in the total labor force which distinguishes America from most, if not all, other countries. With such equipment, generously provided, wonders have been accomplished. Our economy has prospered. Our social order has benefited. Actually the poorest third in our country are better off than the majority of the people in the rest of the world. It is important that we continue to stimulate further the flow of capital into industry which made this standard of living possible. It is only through an additional flow of capital into industry that we can permanently better the lot of those whose present scale of living may be considered as comparatively low.

Statisticians inform us that "full employment" in the United States means a working force of sixty millions of people, or 40% out of a total population of approximately one hundred and fifty millions. In view of the necessity of providing for the needs of all, it is imperative that opportunities for useful employment be kept at the highest possible mark. In our economic system, industry is looked upon as the backbone of employment, it affords a livelihood for the large majority of the working population. Therefore it should be kept vigorous, progressive, and strong, able to expand to meet the needs of a growing nation. The effective use of our human resources requires the encouragement of all constructive enterprises which afford opportunity for the dignified employment of productive labor. Let us emphasize opportunity and work as something ranking ahead of security and retirement so that the latter may be provided in proper measure and in due course, without becoming an unbearable burden. Here we need the application of wisdom, careful analysis, and rational judgment.

Fair Return for Investors

What then are the broad aspects of the present situation?

My general thesis is that investors should be permitted to expect a sufficient return on their investments to induce them to risk capital in new business ventures and in the expansion of established enterprises. This requirement has many ramifications. They reach into the broad relationships of government to business because it is usually government or Congress that attempts to alter the natural adjustments of economic forces.

What changes do I have in mind?

First, national economies should be adopted in the operations of our government, both Federal and State. Second, the Federal tax laws should be overhauled. Third, Congress should define the trade regulation authority of government agencies. Fourth, labor monopolies should be regulated in the same way as business monopolies. Fifth, the government should forego the use of partisan measures which may seem to be politically expedient, but which have no sound justification. Sixth, in the interest of national welfare and security, the attitude of government should be one of encouragement of capital investment by individuals.

Deficit Financing

After a brief period of balanced budgets, the Federal government has now returned to deficit financing — that is, it is spending more money than it is collecting through taxes. The deficit is financed by borrowing. This borrowing operates in one or both of two ways. Through taxation it may divert funds from private investment into governmental expenditures, or it may cause inflation by putting government obligations into the commercial banks and drawing checks against the balances thus created. The bank deposits created by this second method are like printing press money in the economy. These artificially created dollars are used to purchase goods and thereby cause the bidding up of prices. When prices are bid up everyone is taxed as effectively as though direct taxes had been levied. Every dollar buys less and less as prices rise. That portion of the goods which the individual cannot buy because his money buys less, goes to the government in return for its artificially created dollars. At the present time general uncertainties are offsetting the inflationary effects of deficit financing. Savings are going into government debt when they should be creating or expanding private enterprise. But the scale of anticipated deficits bodes ill for both private investment and the avoidance of further inflation.

In my opinion, the cure for this problem is a forthright cut in government expenditures. Crop price supports should be cut to produce only that level of supply which the country needs. Neither the standard of living nor the public welfare can be permanently enhanced by taxing one part of the population to encourage another part of the population to produce things for which there are no markets.

Public works should be undertaken only as they are required to meet real needs, and then only in case such public works will contribute more to our standard of living than would the money contribute when left in the hands of our citizens. Public works should not be looked upon as made-work for the unemployed. Easy contemplation of unlimited public works programs as an escape from providing useful employment is a first step in failing to meet the problems which face us and a first step in the progressive reduction of our standard of living. We need more effort in doing those things which will create a dynamic economy and less effort in building storm cellars.

Social programs — pensions, sickness insurance, public assistance, and the like — should be kept within the country's ability to pay. I doubt that the public realizes the extent to which these programs are expanding. Recently the newspapers of Pittsburgh carried the statement of a budget request for a girls' penal cottage. The startling thing about the request was that the building costs per person were nearly as much as the cost of a low cost house for a family, and the indicated past maintenance costs per person exceeded the amount most students spend to go to college. Unfortunately, this example is typical of the thinking of many people connected with social welfare programs. They pursue one objective without weighing whether such a course means a balanced apportionment of the resources of the nation. Nor do they recognize that in going too far in some directions in seeking social security they may create conditions which decrease total security. The only real security lies in abundant production and full employment. Any course of action which interferes with these two goals decreases rather than increases the security of all of our people.

The number of government employees should be reduced. Proper reduction of government overhead does not mean more employed but fewer unemployed. The revitalizing of private industry will do more in the way of creating jobs than additions to government payrolls can ever do. Private enterprise produces what people want. It expands and contracts by the most democratic process ever devised, that is, in accordance with the votes of consumer dollars spent without dictation. In the course of supplying the public, private business produces a flow of income from which savings are made. It thereby makes further expansion possible and it thereby provides the means for creating additional jobs and a higher standard of living. The industrial possibilities of this country are still unlimited. All they need is the incentive of fair play and the possibility of a reasonable profit.

Taxes

I am of the opinion that tax revision is a must in revitalizing our economy. Under present conditions the shares of stock of many leading corporations can be purchased for much less than the book value of the assets they represent; and the book value of those assets is much less than replacement costs. These stock market prices indicate that reurns on investments are too low to attract investors on a healthy scale. The tax structure is a part of this problem. The federal government levies a 38% tax on corporate net income. State governments likewise levy income and excise taxes which reduce the amount available for stockholders. But this is not all; after dividends are paid to stockholders, the dividends are again subject to personal income taxes. The plain facts are that if an investor loses when he ventures to expand business and jobs, he takes the entire loss. If he wins, the government takes a very large share of the profit.

We have reached a point by reason of excessive taxation, where business is not expanding as it should. It is to the interests of every segment of our economy —and particularly to the interests of the working man — that this condition be corrected. The double taxation of dividends should be removed. We should return at least to the provisions of early income tax laws which exempted dividends from normal personal income taxes because such dividends had already been taxed as corporate net income. Taxes on capital gains should also be reduced. Progressive adjustments should be made in existing laws and policies until security prices demonstrate that business is receiving a sufficient flow of funds to expand the productive equipment of the nation at a healthy rate. We do not need the subtleties of Keynesian economics or of alien philosophies to know when the investor considers a dollar's worth of investment to be worth a dollar. We need look only at the quotations on the exchanges. And if the investor is unwilling to pay a dollar for a dollar's worth of investment, then all the philosophies imported from Europe will not stimulate that flow of investment which is necessary to provide adequate jobs and a rising standard of living.

In what I have said I appreciate that some may question the cutting of taxes in the face of current deficits. I have already suggested that government spending can be properly cut in several directions. However, such cuts in spending are not the major consideration. **A substantial part of the current deficit has been caused by a reduction in the national income.** Given a healthy economy with expanding production, the revenues of the Federal Government will increase, not decrease. National income must be produced before it is spent. Our main emphasis, therefore, should be on increased production. Nobody now believes in imprisonment for debt, because it deprives the prisoner of the opportunity to earn the means with which to pay his debt. It is equally unrealistic to try to obtain revenues for government by levying taxes in such a way that national income will not be produced. Yet that is exactly what this country has been doing. Proper tax cuts will eventually produce more, not less revenue.

Government Regulations

Trade regulation decisions have recently upset long-established business relationships. The Sherman Anti-Trust Act was passed in 1890; the Clayton Act and the Federal Trade Commission Act were passed in 1914; yet only recenty have the courts made illegal certain pricing practices which enabled a company to meet the delivered price of a more favorably located competitor. Suddenly large numbers of plants which were built in different parts of the country over a long period of years find that they are badly located because of these new interpretations of Acts of Congress. Huge investments have been endangered because of the personal philosophies of a few men in high offices. If capital is to flow freely into industry it must be guarded against regulations which Congress never specifically authorized. Congress should clarify regulatory statutes with sufficient precision to prevent government bureaus from building up empires of personal economics under cover of vague statutory provisions. Investors and businessmen are entitled to know what is permissible **before**, not after, millions of dollars have been spent in developing plants and jobs for the American people.

Labor Monopolies

The recent national experience in labor matters suggests that labor monopolies have reached a point where regulation under the anti-trust laws is now appropriate. Uniform fixing of wages and the like for all employers in an industry regardless of location and individual condition is not in the public interest. Such labor price fixing tends to disrupt the economy by weakening or bankrupting many producers. Undoubtedly the government would prosecute a large industrial company for cutting prices and deliberately driving small competitors out of existence. However, the government seems to take no notice of labor monopolies which through their heavy demands impose uniform cost increases on a whole industry, notwithstanding the fact that these higher costs may force the smaller companies in the industry to the wall. For example, during the recent hearings in the steel labor case it was disclosed that some small companies require many more manhours for the production of a ton of steel than do the larger companies. Yet the union took the position that such small companies must pay the same additional labor costs as the large companies —even though such costs would put them out of business. A uniform pattern was set for all on a take-it-or-be-struck basis. This type of labor monopoly permits one segment of the labor force to benefit at the expense of the rest of the population. These are matters that can well engage the attention of our next Congress.

Wage Rounds

Closely allied to the subject of labor monopolies is that of setting a national pattern of wage increases or other labor benefits. For nearly a decade business has been subjected to the repeated establishment of so-called patterns of wage increases and fringe concessions. During actual hostilities the War Labor Board served an important function in maintaining industrial peace notwithstanding that it imposed its own patterns of working conditions and pay practices upon industry on a nationwide basis.

The several rounds of wage increases which have been granted since the end of the war, largely as a consequence of the power of labor monopolies, often aided by the government, have not been justified by increases in worker productivity and consequently have caused inflation of prices. For example, we recently made studies of labor productivity in the United States Steel Corporation. Those studies verified that there had been no significant increase in the workload on our employees for two decades. Not additional or improved effort by the workers, but rather the provision of new and more efficient equipment, explains the increase in production which had made higher wages possible.

It may be true that prices for many commodities can be raised to cover wage increases and fringe labor benefits in a period of acute shortages without serious impairment of production activities, but prices usually cannot be raised under normal conditions without serious business consequences. Obviously an enterprise must cover its costs to stay in business. Hence it must raise prices to cover rising costs. But when it raises prices, it may well price a part of the former rate of production out of the market, simply because some customers cannot afford to pay a higher price. General patterns of wage increases, vacation programs, pensions and insurance plans, and the like tend to restrict markets on a national scale due to the fact that in the long run the customer must pay those labor costs. When these patterns sweep through basic industries like steel they affect thousands of end products in diverse ways. Some individual products may be priced entirely out of the market. Market demand for other products is reduced. As a direct consequence of such higher labor costs and lessened production, marginal companies may fail, marginal plants of large companies may be closed, marginal departments of operating plants may suspend operations, and active departments and plants are apt to have less work than formerly.

When conditions of this kind develop, the investor, along with others, is injured. The economy stagnates because he will not venture more money when he believes an adequate return is not assured on the money already invested.

If such stagnation is to be avoided, the government should be anxious to follow a policy which will encourage private investment in business and which will guarantee a fair deal for such investors.

Uncalled for Harassment of Business

Quite as important as the subjects already mentioned is the need for a reasonable and fair co-operation between government and business. An atmosphere of hostility toward business should not permeate the various agencies of government. Unjustified attacks on business have been too frequent in the past. Bigness, Wall Street control, and excessive profits have been the favorite accusations of the demagogue, without any attempt to present the true facts. When the investor puts money into an enterprise he knows that he may have to wait a generation or more before he can recover that investment. A basic hostility against business by government officials, or by members of Congress, without real facts in support thereof, tends to destroy those investments. This is a distinct handicap to the vigorous growth of American business enterprise and to the consequent furnishing of jobs and a higher standard of living. It may be politically expedient at times to bait business or to level unjustified charges against the American industrial system. But when the baiting or accusations are carried to the point of unduly discouraging investment, it is a disservice to every element in society and most of all to the less favorably situated groups in our population.

Conclusion

In conclusion, I wish again to emphasize that solution of our pressing national problems of employment and of living standards can be attained through forthright recognition of the importance of production and the major part played by the investor in expanding our economy. Our governmental fiscal, tax, and regulatory policies must be such as will encourage the individual to save and risk, because only through the expansion of business and the establishment of new industries can we reach our production goals. Business must be permitted to make and retain a reasonable profit as an inducement to expand. It is time to recognize that the profit motive is the mainspring of American industrial superiority. It is time to recognize that this superiority was a controlling factor in the winning of World War II. It is time to abandon alien ideologies and to apply well tested old-fashioned remedies to an economic system which so well has established its virtues and which has unlimited possibilities for expansion.

Texas Investment Co. Formed in Dallas

DALLAS, TEX.—Allan B. Rogers and Paul Warwick, Jr., have formed Texas Investment Co. with offices in the Commercial Building to act as originating distributors and dealers in local and unlisted securities, oil royalties and leases, specializing in mutual fund shares. Mr. Warwick formerly was head of Paul R. Warwick, Jr. & Co. and prior thereto was with Distributors Group, Inc.

Leon G. Ruth to Be Doolittle Co. Partner

BUFFALO, N. Y. — Leon G. Ruth will be admitted to partnership in Doolittle & Co., Liberty Bank Building, members of the New York Stock Exchange, on Dec. 1. Mr. Ruth was a partner in Ruth & Palo.

Arthur W. Butler Dead

Arthur Wellman Butler, member of the New York Stock Exchange and a limited partner in the New York Stock Exchange firm of Butler, Herrick & Marshall, New York City, died of a heart attack at the age of 79.

New Chgo. Exch. Members

CHICAGO, ILL. — The Executive Committee of The Chicago Stock Exchange has elected to membership Walter I. Cole, Beecroft-Cole & Co., Topeka, Kansas, Sidney R. Castle, Chicago, and Armand G. Erpf, Carl M. Loeb, Rhoades & Co., New York City.

The State of Trade and Industry

(Continued from page 5)

steel products list. Production has been hurt because some mills are switching over to the newer electrolytic galvanizing process. Delivery promises on orders placed now often run past next Fourth of July, though virtual completion of the grain bin storage program and collapse of freight car buying keep this picture from being even worse for the galvanized sheet buyer, this trade paper observes.

Detroit buyers expect the big pinch to come in wide cold-rolled sheets, which are made at only three mills. Although car stocks in dealers' hands have been rising rapidly, automotive men are optimistic on sales. But during the strike they ran for five to six weeks with less than 10% of their normal steel deliveries. Generally, their inventories have been cut by that amount and some six weeks of lost output has been thrown ahead of steel mill delivery schedules, "The Iron Age" points out.

Steelmaking scrap prices were for the most part firm this week, but there is no sign of the runaway market speculators expected.

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 94% of the steel-making capacity for the entire industry will be 78.2% of capacity for the week beginning Nov. 21, 1949, an increase of 20.8 points from the preceding week.

The Institute stated that the actual rate last week was higher than originally figured and reported and that it accordingly had revised the former rate upward this week to 57.4% of capacity.

This week's operating rate is equivalent to 1,441,600 tons of steel ingots and castings compared to 1,058,200 tons one week ago. A month ago the rate was 9% and production amounted to 166,000 tons; a year ago it stood at 99.2% and 1,788,100 tons, and for the average week in 1940, highest prewar year, at 1,281,210 tons.

CARLOADINGS RISE BY 9.8% ABOVE PRECEDING WEEK

Loadings of revenue freight for the week ended Nov. 12, 1949, during which industrial labor difficulties continued, totaled 635,823 cars, according to the Association of American Railroads. This was an increase of 56,842 cars, or 9.8% above the preceding week, due principally to the termination of the coal strike on Thursday, Nov. 10. It represented a decrease of 235,856 cars, or 27.1%, below the corresponding week in 1948, and a decrease of 242,460 cars, or 27.6%, under the similar period in 1947.

ELECTRIC OUTPUT EXCEEDS 1948 LEVEL FOR FIRST TIME IN SEVEN WEEKS

Electrical production for the first time in a period of seven weeks 1946, showed an increase when compared with the corresponding period in 1948. The amount of electrical energy distributed by the electric light and power industry for the week ended Nov. 19 was estimated at 5,644,435,000 kwh., according to the Edison Electric Institute. This represented an increase of 209,880 kwh. above the preceding week. It was 17,535,000 kwh. higher than the figure reported for the week ended Nov. 20, 1948 463,939,000 kwh. in excess of the output reported for the corresponding period two years ago.

AUTO PRODUCTION ADVANCES MODERATELY THE PAST WEEK

According to "Ward's Automotive Reports" for the past week, motor vehicle production in the United States and Canada advanced to an estimated 115,683 units from a revised figure of 114,856 units in the previous period.

A 2,000-unit decrease in truck output, mainly due to the closing of Willys-Overland, was offset by slight increases in car volume by General Motors and Ford, the agency said.

The total output for the current week was made up of 94,932 cars and 17,222 trucks built in the U. S. and 2,210 cars and 1,319 trucks in Canada.

The weeks' total compares with 120,718 a year ago.

BUSINESS FAILURES IN ALL GROUPS LOWER

Commercial and industrial failures fell to 183 in the week ended Nov. 17 from 222 in the preceding week, Dun & Bradstreet, Inc., reports. Although considerably more casualties occurred than in the comparable weeks of 1948 and 1947 when 126 and 84 concerns succumbed, failures continued well below the prewar level of 308 in the similar week of 1939.

Casualties involving liabilities of $5,000 or more decreased to 138 from 164, but remained above the 108 of a year ago. Small failures, those with liabilities of $5,000 or less, also declined, dipping to 45 from 58. They were, however, more than twice the number in the similar week last year.

Failures in all industry and trade groups were below the previous week with the exception of construction which held steady at 18. More concerns failed than last year in all lines; the rise was sharp in retailing, construction and commercial services, but moderate in manufacturing and wholesaling.

Weekly declines occurred in seven of the nine major geographic regions. The only exceptions to the general downtrend occurred in the Middle Atlantic and Pacific States. Casualties were above a year ago in the Middle Atlantic, Pacific, East North Central and East South Central Regions, but dipped slightly below the 1948 level in nearly all other areas. In the West South Central Region failures held even with a year ago.

WHOLESALE FOOD PRICE INDEX GENERALLY EASIER

The wholesale food price index, compiled by Dun & Bradstreet, Inc., turned downward last week, reflecting a general easing in food prices. The index fell to $5.68 on Nov. 15 from $5.74 a week earlier, a drop of 1%. It marked a decline of 10.8% from the $6.37 recorded a year ago. A sharp drop in eggs sparked the week's decline.

The index represents the sum total of the price per pound of 31 foods in general use.

WHOLESALE COMMODITY PRICE INDEX REFLECTS LITTLE CHANGE FOR WEEK

Moving in a narrow range throughout the week, the daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., finished at 244.70 on Nov. 15. This contrasted with 245.47 a week earlier and compared with 271.10 on the corresponding date of last year.

Grain markets were mostly steady to firm. The cash corn market remained strong while all futures except the December delivery struck new highs for the season, aided by a substantial reduction in the latest government crop estimate. Wheat showed weakness toward the close as expected government buying failed to materialize. The domestic flour market displayed a steady undertone throughout the week although buying continued on a hand-to-mouth basis.

Spot coffee prices continued to move sharply upward, the Santos 4s grade rising to 51 cents a pound, the highest level in recent years.

Coffee futures were somewhat irregular as the result of profit-taking. Cocoa values continued to advance, reflecting poor crop advices from producing countries. While dressed pork prices at New York moved higher on unusually small receipts, live hog prices at Chicago sank to further new low ground since June, 1946. Domestic lard prices were somewhat firmer after hitting new seasonal lows the week before. Cattle prices were irregular and slightly higher for the week.

Spot cotton markets were seasonally active the past week. Price movements held in a narrow range and showed little reaction despite the higher-than-expected Government crop forecast issued early in the week.

Based on Nov. 1 conditions, the Crop Reporting Board estimated the 1949 crop at 15,524,000 bales.

This was slightly above the October 1 forecast, and well above last season's total of 14,868,000 bales. It was 37.3% above the 10-year average of 11,306,000 bales. Farmers in most areas appeared to be offering cotton more freely. Domestic mill inquiries showed some increase with demand covering both prompt and forward shipment. Export buying improved with sales reported in moderate volume. Loan entries continued to rise, totalling 187,900 bales during the week ended Nov. 3. This compared with 145,100 and 143,000 bales in the two preceding weeks. For the season through Nov. 3, loan entries amounted to 710,500 bales, comparing with 1,970,000 bales to the corresponding date a year ago.

Trading in the Boston raw wool market remained relatively quiet last week, although some dealers reported fair business consisting mostly of small weights. The movement of greasy worsted wools and scoured woolen wools was slower than for several weeks.

Considerable activity was reported in Australian wool markets; prices trended higher prompted by aggressive buying by Russia and Japan.

South African markets were also firm. Imports of apparel wools into the ports of Boston, New York and Philadelphia during the week ended November 4 totalled 2,977,300 clean pounds, compared with 5,203,300 in the previous week.

RETAIL AND WHOLESALE TRADE MILDLY HIGHER FOR WEEK BUT UNDER 1948 LEVELS

Aggregate retail volume rose slightly during the period ended on Wednesday of last week. Dollar sales remained slightly below last year's level, but consumer buying rose somewhat in those localities most affected by the recent strikes, according to Dun & Bradstreet Inc., in its latest summary of trade.

With the continuation of many Fall promotions, the demand for apparel increased appreciably last week. An increased amount of sportswear, including sweaters and skirts, was bought by women; low-priced dresses were also popular. The demand for handbags and fur-trimmed coats rose slightly.

Interest in men's suits was above seasonal expectations in many vicinities and buying of coats slightly exceeded last week's low level.

The retail unit volume of food increased moderately the past week but dollar sales were slightly below the level for the comparable period last year. An increased consumer demand for meats occurred following a dip in pork and lamb prices in many stores. The high level of canned food buying was sustained, but demand for fresh produce declined fractionally. The sale of beer and ale rose last week, as many dealers participated in discount and packaging promotions.

There was an increase in the consumer buying of house-furnishings and major appliances last week. A large demand for items such as tableware, lamps and mirrors helped to boost dollar volume close to last year's high level.

The retail purchasing of television sets and refrigerators was also large. Furniture sales in many cities were at an unusually high level for this time of year.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from 4 to 8% below that of a year ago. Regional estimates varied from the levels of a year ago by the following percentages:

East and South —5 to —9; Midwest and Pacific Coast —2 to —6; New England +1 to —3; Northwest —3 to —7; and Southwest —10 to —14.

The over-all dollar volume of wholesale orders rose slightly in the period ended on Wednesday of last week, but it was moderately below the high level for the corresponding week in 1948. The number of buyers in attendance at wholesale centers was somewhat higher than in the previous week.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Nov. 12, 1949, decreased by 9% from the like period of last year. In the preceding week a decrease of 2% was registered below the like week of 1948. For the four weeks ended Nov. 12, 1949, sales registered a decrease of 8% from the corresponding period a year ago and for the year to date a decline of 6%.

Retail trade in New York last week was stimulated to a degree by seasonal influences, but its progress when compared with the like week of 1948 was less favorable than the week preceding.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Nov. 12, 1949, decreased by 3% from the same period last year. In the preceding week a decrease of 4% (revised) was registered below the similar week of 1948. For the four weeks ended Nov. 12, 1949, a decrease of 8% was reported under that of last year. For the year to date volume decreased by 8%.

NOTE:—On another page of this issue the reader will find the most comprehensive coverage of business and industrial statistics showing the latest week, previous week, latest month, previous year, etc., comparisons for determining the week-to-week trends of conditions, by referring to "Indications of Current Business Activity."

The Present Status of Utility Regulation

(Continued from page 3)

served best if his utility is treated fairly.

The application of sound economic principles is particularly important in a period of violent change, such at tnat which we are now witnessing. Rules of thumb which do rough justice during long periods of stability have no place in a period characterized by rapid changes in volume, in nature of the load, in operating ratios, and in plant expansion.

There is a growing recognition that fundamentals are more important than formulae.

The broad general principle controlling sound and effective regulation looks to a healthy utility industry. Only a healthy utility can give good service at the lowest overall cost to consumers.

IV

Thorough Analysis of Basic Problems

If we are fortunate enough to get rid of our troublesome jurisdictional problems, to improve the quality of our staffs and our operation, and to find, generally, a widespread acceptance of sound economic principles in regulatory matters, that will bring us to the basic problems which face the utilties today.

What are these problems? You know there are many. I would like to mention just a few which I think the commissions and the NARUC committees should exhaustively investigate in the days ahead.

It has been said that the recognition of a problem is nine-tenths of its solution. I am not going to give you solutions today—in fact, I don't have them—but I hope I can leave with you the impression that we of the regulatory bodies at least understand the problems which must be solved.

(A) Depreciation Accruals—One of the problems is the annual provision for depreciation. The basic question today is this—"Is depreciation of cost adequate?" Or stated another way, "Is it sound economics to recoup originally invested dollars in half price dollars?" I confess I don't know the answer, but if the problem is so important to steel and other industries, that they are now doing something about it, the utility commissions should not wait longer to begin a real economic study of the matter.

Even in a jurisdicition which recognizes reproduction cost new as a basis for determination of a rate base, depreciation has never been accrued on a value base. The companies themselves have accepted this doctrine. It worked pretty well in periods of relative stability in the value of the dollar.

But if construction costs continue to rise, the utilities, and the regulatory commissions, will ultimately have to take a look at this problem.

This is particularly significant because utilities retain so small a portion of their earnings in their business. Industry in general has been paying out a much lower percentage of its earnings. It has been plowing the balances back into property and plant. In addition, a few industries have made special provisions for depreciation.

The President's fact - finding board seemed to approve the practice in the steel labor dispute. If this is sound economics for the steel industry, then the utility industry should at least study the subject so that it will be prepared in the event of any further, substantial, inflation.

(B) Depreciation for Rate Base Determinations—There is another major problem in depreciation. It is the determination of the amount which should be deducted for rate base purposes.

More confusion has arisen with respect to, or has been injected into the thinking with regard to, depreciation in rate making, than seems possible.

In rate making, the deduction has run the gamut from (1) no deduction at all, to (2) deduction of an engineering determination, (3) deduction of an accumulated accounting reserve for depreciation, and (4) to the deduction of a computed amount which it is alleged the accountants **should** have accumulated if they had known what they were doing. The pendulum has indeed swung far, and the process hasn't been free from political influence. Here again, in the case of the deduction of the reserve, simplicity of administration has been overemphasized in regulation. But simplicity is a weak defense for any method which may impair property rights.

With respect to the theory that the customer has a full equity in the reserve, studies should be made to determine to what extent depreciation reserve funds are invested in property, the relationship of uninvested funds to the working capital allowed, whether the utility is earning a full rate of return, compensation for risk in operating the property built by depreciation funds and, again, the problem of what it costs to replace the property.

I merely point out these factors, inherent in the economic approach, to illustrate the kind of work to be done if all parties concerned are to be treated equitably and fairly, which is the end result of sound regulation.

(C) Original Cost vs. Value—Another problem which deserves continuing attention is the rate base on which utilities are entitled to earn.

In the 1930's when some commissions were fostering the use of a cost type rate base with its accounting reserve deduction for depreciation, quite a number of utilities accepted it for reasons of expediency which seemed practical, at least for the short term.

After the Hope case, the trend toward the cost base engulfed much of the industry. In a period of relatively stable prices, and with price controls imposed by the Federal government, and a war going on, there wasn't much that could be done by the utilities, or needed to be done. As for the commissions, it was convenient and expedient.

But we are in a different period now. It is time to take another look at the economic validity of the original cost type rate base.

"Simplicity of administration" upon which original cost thinking was, in part, based, is an overemphasized principle in rate making. It is politically popular, but it assumes alarming aspects during inflationary periods. It may prove equally alarming during a period of deflation.

In Ohio we use the reproduction cost new less depreciation method, a value method. It meets the test of **sound economics.** Arguments about the time lag caused by taking inventory, and pricing, and the expense involved in the value method, have been overplayed. The method of **price trending** has been accepted by our commission with sound results both for the consumer and investor. Its application encourages efficient operation.

The results speak for themselves. A recent comparative rate study of privately owned electric utilities by our staff shows that there are only eight other states with lower overall rates to consumers than Ohio. All of these eight states generate large portions of their power by hydro. The one exception is Louisiana which uses substantial quantities of natural gas. Ohio leads all of the predominately steam generating states. I think the record of low rates to consumers speaks for itself. I need not tell you that our business utilities in Ohio are known as healthy, progressive, companies, too, and our consumers enjoy good public utility service.

(D)—The Capital Structure Problem—Another problem with which you gentlemen are quite familiar is that of capital structures.

This raises some regulatory problems which I would like to outline in view of your particular interest in this field. But first let's look at the factual setting.

(1) Capital Structure Ratios and Volume of Flotations

In what condition do we find capital structures today?

The telephone utilities have had conservative structures in general, being about 35% debt, and 65% stock and surplus, for Class A utilities reporting to FCC (1947 data from Moody's Public Utilities).

In 1947 the capital structure ratio of the nation's Class A & B electric utilities—one of the stronger utility groups — was 47% Bonds, 16% Preferred Stock and 37% Common Stock and surplus. (FPC Statistics).

Right now the Class A & B electric group's structure is estimated to be 50% Bonds, 15% Preferred and 35% Common.

From 1947 to 1948 the debt ratios of all gas company groups (combination or straight—manufactured, mixed and natural) rose from 0.1% to 6.5% percentage points. One group, the "combination" manufactured group, reached a debt ratio of 50.7% in 1948 ("Financing Utility Capital Requirements" by AGA and EEI, p. 61).

This is deterioration. Its seriousness depends on what constitutes a proper capital structure. The overall trend is bad. In the last four years 84% of the new money securities for all utilities has been debt, and only 16% stock. This category includes every utility, except railroads, being comprised of electric, gas, telephone, telegraph, water, etc.

Of course, the unreported sales of stock of one hundred percent owned subsidiaries to parent companies would improve these ratios slightly, but the picture with respect to "all types" of utilities is much more unbalanced financially than for electric companies. Last year the "utilities" group sold 47% of all new money corporate issues in the U. S. The $2.8 billion of securities sold were 87% debt securities, only 13% were stocks. The two prior years (1946 and 1947) show 83% and 86% for debt securities, respectively. The ultimate result of this construction financing may be a wholly excessive proportion of debt, with the attendant risk of financial failure in the next lean period. In this entire period (Jan. 1, 1946 to Sept. 30, 1949) 42% of all the new corporate issues in the U. S. were utility securities. This is a big stake for investors.

During this same period the $1.3 billion of new corporate financing by railroads was 100% debt according to the "Commercial & Financial Chronicle."

(2) Need for New Capital

Now take a look at the capital needs.

The electric utility industry alone has a $9 billion construction budget for the 6-year post war expansion program 1946-51. It was about 60% completed as of October this year. (E.E.I. data, privately-owned electric utilities).

With respect to telephone utilities, the annual expenditures for new plant and equipment for the Bell System alone totaled $3.3 billion during the years 1946-48. ("The Utility Reference," 49 G2.)

The combined electric and gas business enterprise of the nation will have expended $8.7 billion on new plant and equipment by this year and over this 4-year period of expansion. (SEC Release No. 889—Statistical Series.)

It is important to note that the electric and gas utilities (and railroads too) expect to spend more in 1949 than in 1948 but all other major industrial groups expect to spend less.

In these heavy "fixed capital" type businesses with slow capital turnover rates, it is not possible to finance, internally, to the extent industrial groups do. Tremendous amounts of cash must be generated by sales of securities to the public, and this must be sought in the competitive money marts.

If such capital formation is not in proper balance, i.e., if too many debt securities are sold, the very size of the capital increment itself can soon change the entire utility industry's capital structure ratio unfavorably. This happened in 1948 and will happen for 1949 also. Now, as commissioners, we are concerned because this means an increase in the average cost of money, it affects the health of the industry, and the consumer's welfare.

(3) The Earnings Picture

Finally, what is the earnings picture?

The Class A and B electric utilities in the U. S. have had an apparent steady increase in amount available for common stock during the postwar construction period 1946-48, inclusive. Reported net income available for common was $532 million in 1946, $546 million in 1947 and rose to $558.5 million in 1948, an increase of 5% over 1946. However, the investment in property and plant rose from $14,952 million in 1946 to $17,757 million at year end 1948, up $2.8 billion as compared with an increase of total gross income of $4.4 million. This allows an incremental 2/10 of 1% return on added plant.

The reported earnings for common include increasing amounts of interest during construction. This bookkeeping entry generates no cash internally to aid construction financing.

Fortunately, the interest during construction will be offset in large part by improved generating efficiency since a big share of the recent construction is in generating plants.

Exclusive of interest during construction the earnings for common for these years were as follows: 1946, $526 million; 1947, $531 million; and 1948, $530 million.

This represents an increase of $4 million available for common from 1946-48. During the same period the amount of common stock and surplus rose to $5.6 billion, an increase of $752 million in book investment. This is half of one per cent on the added investment in common equity. It is easy to see from these overall figures why the industry as a whole has turned strongly to debt financing.

Actually, on this basis, the percentage of total return available for common equity during this prosperity period has been maintained at 59% only by increasing the leverage factor through the introduction of a heavier debt structure. As a per cent of total revenue, earnings available for common shrank from 13.8% to 11.0%.

For straight gas companies gross income as a per cent of total capitalization has declined as follows during the 1946-48 period: natural gas companies, 7.9% in 1946 to 6.9% in 1948; mixed gas companies, 6.1% in 1946 to 5.0% in 1948.

The net ncome avalable for common stock as a per cent of gross revenue has changed as follows (including interest during construction): natural gas companies, 17.3% in 1946 to 17.7% in 1948; mixed gas companies, 14.2% in 1946 to 11.6% in 1948. (Per "Financing Utilities Capital Requirements," by AGA and EEI, p. 53.)

For a major segment of the telephone utilities (the Bell System) net income as a per cent of gross revenue has declined from 10.3% in 1946 to 8.7 % in 1948. (Per A. T. & T. Annual Report to Stockholders.)

(E) Problems of Utility Capital Formation—That brings us to the regulatory problems related to capital raising. As I see them they are these:

First, the establishment of some sound principles to determine what constitutes a proper capital structures; and second, the fixing of rates at a level which will permit essential financing without impairing existing investment in the utilities.

I think you, gentlemen, can help in the solution of these problems by reasearch and contributions to the literature and factual data on the subject.

(1) Capital Structures

Much thinking needs to be done on capital structures. Too often we look only at composite averages for guides. These may or may not be sound. I would like to see a thorough-going study made to answer some basic questions such as these:

(a) What type capital structure produces the lowest overall money cost?

(b) What type capital structure is conducive to the broadest ownership participation by private interests?

(c) How conservative should the capital structure be for each type of utility? This is a fertile field for research. It involves a consideration of many factors and their bearing on capital ratios. To mention only a few, consider these:

The size of the company.
The characteristics of the company's customers.
The cyclical characteristics of the particular utility.
The economic health of the utility industry involved.
The income tax rate.
The growth factor of the utility.
The nature of the company's security owners.
The actual operating ratios.
The trend of operating ratios.
The nature and trends of competition with the utility's business.

The utilities, the utility owners, the marketing agents of utility securities and the regulatory commissions must give increasing and competent attention to each of these factors, and to many more I have not mentioned.

Sound capital structures are vital to the preservation of good service, and in the utility industry, preservation of good service is vital to the maintenance of private ownership.

(2) Earnings

What, then, about the problem of earnings?

No one can examine the overall results of rate hearings before state commissions since the war without concluding that there is a pretty general recognition of the need for adequate earnings.

But there are, of course, problems.

One is a political problem. It involves the education of consumers to the needs of the utilities and the fairness of proposed rates. Commissions can do little about this. It is primarily a problem of the utilities themselves.

Another problem is competition with other forms, or sources, of the particular utility service. This is self-regulating in the long run, but its influence must be recognized and considered by commissions.

Another important element is efficient management of the utilities. Security owners have something to say about that. We ought to insist on the development of high type management personnel, and the achievement of maximum economy in operation. This is a sounder way to improve return than by increasing rates.

But in the final analysis it is the competition for money which will largely determine the rate of return commissions must allow utilities—and the utilities and owners of utilities must see to it that there is public acceptance of the result.

V

Impact of Federal Government Policies on Utilities

And now there is a final problem I would like to mention. It is the impact on utilities of Federal Government policies. There are two major movements.

One is the continued encroachment of Federal Government in business. The other is the increasing burden of taxes on private companies. Each makes the job of regulation of utilities a complex affair. The current trend toward a socialistic Federal Government is illustrated by the developing socialization of electric utilities.

The Federal Government collects about 10% of the Class A and B electric industry's revenue in taxes (income and electrical energy). This reacts two ways. First it gives rate advantage to tax exempt, publicly owned utilities, and second, the continued high level tax burden on the consumers of the business utilities prevents the fullest utilization of electric service. The consumers pay the burden of these utility taxes whether they know it or not, and, in addition, help subsidize Federal projects out of their personal income tax.

The competition of tax exempt utilities becomes apparent on the Federal tax exemption basis alone, if we capitalize such taxes at 10% of revenues and assume a plant turnover rate of four. If invested at, say 5%, and compounded annually the taxes not paid could recoup the entire plant investment in about 23 years.

Although provision is sometimes made by the publicly-owned utility for local taxes, the business utility assumes the full burden of state and local taxes in all cases. This amounted to an additional 7% of total operating revenue in 1948. You are well aware in your business that the Federal Government exempts purchasers of state and municipal utility bonds from taxes on the interest received. This exemption gives publicly-owned utilities an additional competitive advantage of obtaining capital at lower rates than is possible for business utilities of similar credit rating.

Another factor of concern to commissioners is the impact on utility consumers of the present as well as proposed increased income taxes on all corporations. When shifted to utility consumers the impact of an income tax is (1) unequal on consumers served by different utilities within the utility group. This applies with respect to existing as well as increased taxes; and (2) unequal on the utility consumers as a whole when compared with consumers of all other corporations. Since utilities employ large amounts of capital in relation to volume of business (due to their inherent low rate of capital turnover), they pay a higher percentage of gross revenue in taxes than corporations as a whole. With respect to income taxes, this amounts to about twice as great a percentage of revenue as it does for corporations as a whole. (National City Bank Letter of April, 1949 and Financing Utility Capital Requirements, by AGA and EEI.)

On the other hand suppose, for example, that the income tax rate is raised from 38% to 45% and is being borne by investors. The impairment of the investment value of common stocks which would result from this increase would vary widely among individual utilities depending upon their pay-out ratios.

In a recent study of 75 large electric utilities the effect of such an increased tax rate expressed in percentage reductions of common stock earnings ranged from a low of 5.7% of available earnings at one extreme to 52.2% at the other extreme. The "average" was 15.5%. ("The Effects of Higher Income Taxes on Electric Utility Enterprises" by H. B. Dorau and J. R. Foster, July, 1949, p. 23.)

Obviously, formulae of income taxes are erratic and wholly unrelated to the standards of sound rate making applied by regulatory commissions.

Rate increases required to shift increased taxes to maintain prior levels of return to investors, and prevent the impairment of investor incomes, place a multiple burden on the consumers. The increasing level of taxation by the Federal Government is thus grossly unequal and discriminatory to consumers served by different private utilities, and to consumers of private utilities vs. consumers generally.

The projected construction programs of the utilities will improve the general standard of living and national security, and be an aid to the economy of the nation. The utilities' ability to obtain the needed supplies of risk capital should not be jeopardized by increased taxes, poor fiscal policies of, and competition by, the Federal Government.

A proper understanding of these problems is necessary to perform a sound regulatory job. In a proper business climate the benefits of sound regulation of a healthy utility industry will provide the benefits of maximum utilization and lowest rates to all consumers.

In this as in all other utility tasks the state utility commissions stand ready and able to do their part in finding the solutions needed to obtain the best service at the right price.

Britain's Devaluation—Proof of Incompetence of Monetary Fund

(Continued from page 19)

tages. That it will do much to relieve the sterling area predicament by giving the required impetus to dollar-producing exports seems doubtful.

Frailty of International Agreements

Britain's desperate action has, however, served a purpose in that it has thrown the spotlight on the general frailty of international agreements and also on the impotence of the financial institutions set up under international auspices to regulate the world's various exchange rates to a set scale. It has proved also, if there were ever any doubt about it, that such international exchange rate contractual cooperation is almost wholly conditioned by economic nationalism and therefore collapses under the strain of any country's internal political pressure. This is not so much a reflection on the sincerity of contracting nations as it is upon the sagacity of their planning and agreements in the first place. The International Monetary Fund, for instance, proved incompetent to carry out several of the purposes for which it was designed and came through its recent acid-exchange rate test with anything but flying colors.

Particular mention might here be made of the Fund's inability to fulfill its plans to restrict and to regulate as to both quantity and price the international movements of gold. It has failed conspicuously in its efforts to prevent the huge commercial and private acquisitions of this precious metal which have been taking place. From time immemorial mankind has deemed gold to be the most dependable form and store of wealth, and faith in it has become instinctive. That is why gold to the tune of hundreds of millions of dollars per annum has been changing hands all over the world at prices varying between $45 and $50 per ounce in contradiction of Monetary Fund's controlled price of $35 per ounce.

No country has applied its exchange regulations more rigorously than Britain, but this severity failed to prevent the large scale circumvention of them which precipitated the crisis. The surreptitious working of what was in effect a free exchange market competing with the pegged one finally burst through the mesh of control. The volume of its sterling-dollar transactions at rates far below the officially pegged one slowly but surely undermined the latter and provided a striking example of the way in which the inflexibilities of exchange rate planning and inconvertibility, with their disregard of the well-known fundamental economic laws, defeat their own ends, as predicted at our meeting here a year ago.

Devaluations Stir Up International Ill-Will

A perhaps somewhat overlooked but important aspect of such financial antics as legislated devaluations is that they entail international political controversy on a major scale and tend to arouse international discord and ill-will. These are scarcely the days in which such risks can be taken with impunity. Continental references to Britain's new dollar rate as a "trade war rate" and a South American Republic's quick retaliatory action in deferring compliance with its contracts for meat supplies to Britain are but two of the many regrettable reactions that were noticed.

It is much to be hoped that this recent financial catastrophe will persuade the advocates of rigidity and control that although prices can be fixed by legislation real values cannot, and that persistent defiance to this economic truism must lead to further disturbances of a nature similar to the ones lately experienced.

Objections to Pegged Currencies

It cannot be too often repeated that exchange markets, free as to rate oscillation and converibility, inspire commercial confidence, stimulate international trade by swinging it into economically sound directions, and facilitating healthy compensation of balances of international payments. Contrarily, pegged currencies and inconvertibility, as we have seen, provoke diffidence and doubt and enervate trade by canalizing it into politically chosen channels and thus piling up unmanageable balances of payments. To attempt to facilitate liquidation of such balances by hazily jumping the exchange pegs from one hole to another is trying to make the tail wag the dog.

With regard to those pegs, it is beyond the powers of the human mind to calculate accurately what the value of any of the world's many currencies is in relation to any other currency. By the very order of things such values are never static but constantly changing. Supply and demand determine the relative values. A partial recognition of this fact, even although it may have been an unwitting one, obtruded when the new rate for sterling versus the dollar was fixed around the free market price prevailing at the time.

For a long time now many of the world's men of business have been laboring under feelings of frustration. These feelings were intensified by the shock of devaluation and a swing of opinion in favor of reversion to free exchanges became evident.

Although liberation of currency dealings would go a long way towards fostering healthier international trading and would do much to relieve the pressure of current dollar indebtedness, it seems clear that the final restoration of current international balances of payments to permanently manageable proportions needs the complementary aid of a revison of the United States import policy.

During the past two or three generations the fast rising and energetic population of the United States has developed its material resources in an outstanding way. Under the stimulus of two major wars, which incidentally had shattering effects upon Europe's industry, the United States has rapidly built up an industrial machine of overpowering proportions and productivity. She is now by far the world's most profilic producer, has accumulated a tremendous international indebtedness towards herself, holds approximately 70% of the world's visible supply of gold and enjoys a standard of living conspicuously superior to that of any other country, with the exception of our own. All seek her currency. She is so distinctly wealthy and influential that she might almost be said to have cornered prosperity.

Since the war the United States, with Canada, has generously extended financial aid to friend and ex-foe alike, but whilst this has permitted European and other countries to rebuild their industries (most of them are producing in excess of pre-war figures), the United States still has her internal markets carefully protected against the external producers that she has done so much to help to their feet.

Her heavy debtors can only reduce their current obligations by services, gold or goods. Services can play but a relatively unimportant part, and little of the world's gold stocks remains in non-American hands and what does is desperately needed for currency backing purposes. So it is by payment in goods alone that the large outstanding currency dollar balances can be eliminated or reduced. It seems therefore that unless the United States opens her doors freely to foreign imports, all the assistance hitherto given for rehabilitation of foreign industry will remain largely ineffective, and the debilitating disequilibrium will continue in serious form. The United States, having built up her present affluence via a strong protectionist policy, must find any decision to reverse it an extremely delicate and difficult one to take, but that country is now the world's financial and economic leader and carries the attendant responsibilities of that position. This fact would appear to suggest that in the immediate interests of the world at large and, taking the longer view in her own best interests too, the United States might consider some modification of this policy even though that entailed sacrificing some of her present advantages.

Ways to Increase U. S. Imports

Washington is evidently thinking along these lines for conversations between Canadian, United States and United Kingdom officials have just taken place with a view to finding ways and means of increasing United States imports. Preliminary talks have led to an extension of invitations to representatives of several other powers to join in the discussions. It is greatly to be hoped that this cooperation will lead to the removal of the obstacles at present impeding a more ample flow of goods into the United States from abroad. This in turn should help pave the way to the re-establishment of free exchange markets and facilitate a return to the sane and healthy system of free multilateral trading, without which world economic progress, international concord and peace will remain in jeopardy.

Canada's immediate outlook has to be judged in the light of the world's shortage of North American dollars and purchasing power, which can only be replenished by application of the currently propounded dollar conservation policies. These policies call for the disposal here and in the United States of a much larger proportion of the goods accruing from external industrial rehabilitation and the reduction in the world's imports from Canada and the United States.

In one respect Canada's own position is analogous to that of most other countries in that she herself suffers from a United States dollar shortage on current trade balance. The consequences of this shortage have been aggravated by the universal ones, and Canada's self protection would seem to demand a departure from the traditional triangular pattern of international trade which has served her so successfully up to now. During the transitional period of such a reorientation of trading she might logically expect to be exposed to some vicissitudes of fortune. These, however, would be temporary and not of a nature to cause qualms or serious anxiety.

Underneath any tendencies to a short-term recession which may be visualized lie the solid foundations of our country's astounding natural resources. Every year reveals them in increasing abundance. The past three or four years have been ones of particularly striking discoveries, and we can assuredly rely upon the rapid extraction and exploitation of this vast dormant wealth in such a way as to put the soundness of Canada's economy and the welfare and steady prosperity of its people beyond any question.

Richard J. Buck to Admit

Herbert L. Pratt will be admitted Dec. 5 to limited partnership in Richard J. Buck & Co., 39 Broadway, New York City, members of the New York Stock Exchange.

James F. Linehan Co.

BINGHAMTON, N. Y.—James F. Linehan Co., Inc. is engaging in a securities business from offices at 446 Chenango Street.

Our Liberty and S-281

(Continued from page 9)

other fields of free enterprise to which I shall call your attention?

* * *

In these difficult post-war years the relationships in a civilized society have become more understandable and the choice of relationships more imperative. Now we can see clearly the alternative. Will we proceed with the American system of freedom of initiative and opportunity based on personal liberty and representative government? Or will we scrap the Republic of the United States and turn to a totalitarian or planned system of government? The alternative is not new. It is the old, old problem which so concerned our ancestors who wrote the Constitution of the United States. How shall we handle the question of power? In the hands of the people, through their elected representatives, or in the hands of the dictators? By negotiations and mutual fair play and the discipline of intelligence? By respect for human dignity? Or by centralized control and its inevitable inefficiencies and compulsions?

These questions are promptly answered in the American mind —we say, first, that our most priceless possession is personal liberty and, second, that such liberty is only possible when coupled with freedom to own and operate a farm or business, freedom to choose and practice a profession, and freedom in determining for whom we will work. In short, liberty means that no one may physically injure or confine another or take his property without his consent; not even government can do these things except as a punishment to one man for having done them to another.

The totalitarian doctrine puts all political, social and economic power in the hands of one man who must necessarily exercise this concentration of planning and power through his bureaucrats. The dictator decrees who shall produce what and who shall have what — always under the guise of social betterment. But the end result is not for the welfare of anyone except the dictator.

Absolute power without limitation in the hands of any human being is a heady and intoxicating beverage; it always results in in master complex.

To this kind of philosophy we Americans respond with our traditional system of freedom in thought and action. Under it we spur the initiative of the individual citizen. Ability and incentive are rewarded and power is curbed by competition and by the natural restraints of supply and demand and profit and loss. The stupid are chastened by the natural laws of this system. They pay for their mistakes and start afresh—wiser and more modest, if they are worthy, because of their experience. The arrogant are pretty apt to land in jail.

Our system of free enterprise has been incomparably successful in raising our productive and consuming capacity. More than that it has developed for the American people the highest standard of living and personal dignity among the nations of the world, accompanied by less drudgery and more leisure, advances in public education and public health and gradual progress toward elimination of poverty. All of this we have achieved under a free economy and through the discipline of natural laws — the law of honest work for honest wages, the law of supply and demand, the law of competitive endeavor, and the saving grace of the ability of human beings to work together. We must respect this system, even while we strive always to strengthen and improve it to the end that it will be of increasing service to all the people. Only in this way shall we succeed in avoiding an inflexible perpetuation of power through arbitrary force.

As deeply concerned as we are today with the postwar problems in Europe and Asia and especially the "cold war" with Soviet Russia, the major task before each and all of us to preserve and improve that which is fine in our American way of life.

A deep sense of responsibility is involved here. We owe it to one another. We owe it to our children and their children as they face an uncertain future. And we owe it to the peoples of other nations who look to America for moral inspiration and social and economic leadership.

May I repeat that this responsibility must be met by each and all of us. Too many people talk about the responsibility of American industry as though industry holds all the answers. But industry, after, all, is not a thing of itself. Its productivity contributes not only to the welfare of those directly identified with industry but to all of us, regardless of the nature of our occupation.

Industry is essentially the servant of the consumer who must provide the necessary orders. I am referring now to the millions of people employed in agriculture, in stores and shops, in teaching, in the medical profession, in law offices, in government and in industry itself. The welfare of industry, therefore, and its ability to provide employment depends on the economic health of agriculture and all other segments of our national life. And the welfare of the people depends on the economic health of industry. Therefore, even the well-intentioned Acts of Congress and of our State legislatures may well prove to be ineffective, or even disastrous unless we are to have a wide public understanding of the interdependence of capital, labor and management.

This responsibility for defending our traditional way of life calls for more than merely passive acceptance. It calls for affirmative watchfulness. For proposals are frequently being made in Washington—under the guise of promoting the public welfare—which follow the pattern already laid down in other countries and which lead insidiously, step by step, to a centralized totalitarian state.

* * *

On July 15, 1949, there was introduced in the United States Senate a Bill (S-281) known as the Economic Expansion Act of 1949.

I want to talk to you about this Bill because it will undoubtedly be the subject of sharp controversy in the next Congress and in the 1950 elections. The outcome could well determine the course of our country for years to come.

In my opinion the provisions of this Bill essentially abandon the stimulation of free competitive enterprise. It is little more than a proposal for vast Federal intervention in the decisions of what is to be produced, when, where, in what amount and (presumably) at what price or wage. At the same time such intervention is to be implemented by enormous government lending and spending.

It may that the American people would like to take the long step toward socialism which, I believe, this Bill represents. To be more accurate, they might be willing to accept this Bill if its implicit promise of the avoidance of pronounced and prolonged unemployment would actually be fulfilled. I assume some people may believe that S281, if put into effect, would result in some mitigation of prospective unemployment — or else the Bill would not have been written. With such view I respectfully differ. If this Bill is enacted, I believe it would add substantially to the number of people employed by or dependent upon the government for income, and that it would otherwise tend to aggravate rather than ameliorate unemployment. My reason for this feeling is that S-281 fails to focus upon the real problem with which our country is confronted.

World War II ended with immense backlogs of demand for durable goods both here and abroad. This big but non-recurring demand plus flush money supplies have been the backbone of the period of inflationary reconstruction since the war. As the backlogs are made good, the most natural thing in the world is for activity in the backlog industries to diminish, with consequent disemployment. When deferred buying of automobiles, for example, has been made good, automobile buying will and should recede to levels based on more normal replacement demands. Such recession in backlog industries can only be effectively countered by diverting the manpower and resources of our country into producing new things that people do not have and will want, presumably made by new enterprises or expansions of existing companies in the hope of making a profit. It also means that the shortage areas with which the proposed bill is concerned are in the process of melting away inasmuch as most of those so-called shortages were caused by concentrated backlog demand. Finally it means that if the virtually inevitable disemployment in the backlog industries is to prove transitory, then national policy must shift basically from preventing and discouraging the accumulation of real savings and their venturing in new or expanded enterprises to their encouragement, or, at least, to their non-discouragement.

Basically, S-281 promises greater public expenditure and greater taxation for the artificial stimulation of items that are steadily, even dramatically, becoming relatively more abundant by reason of the filling up of non-recurring backlog demand. In my opinion this is exactly the wrong medicine.

Perhaps the basic fallacy of S-281 can be stated simply by saying that it is a startling symptom of our present problem of concentration — concentration of political power, of economic and business control, and even of business itself in the Federal Government in Washington. Heretofore we have had political power scattered through forty-eight states. We have had hundreds of thousands of business enterprises, subject in the main to local regulations and influences, carrying on the nation's business. We could afford to experiment — even to make mistakes—because we did not hazard our destiny on a single throw of the dice. But if S-281 and the philosophy back of it are to prevail, the entire American system would be at the risk of the mistakes of a single man and his advisers.

Only a great national emergency, such as war, could possibly justify, even temporarily, the granting of such uncontrollable and dangerous power as this Bill would authorize. And make no mistake about it. This is one of the imperceptible steps by which freedom-loving people in other countries have been moved into the totalitarian camp.

As a starter, S-281 substantially authorizes the President and his advisers (at their discretion) to spend an additional $4 billion a year and cause the RFC, the International Bank and the Export-Import Bank to make or guarantee additional loans, running up to 60 years, of $11 billion. The President is given an Unemployment Emergency Fund of $2.2 billion which the President, on the counsel of his selected advisers, can throw into any area of the country for public works or for procurement of specified goods, as he may see fit.

This Act further increases the amounts to be paid to veterans and the length of time they are to receive such amounts. Unemployment compensation is also boosted, and the time it can be received is doubled.

The grants of "rocking-chair money" which the Bill allows the President to make at his discretion not only tend to increase inflation but are a thoroughly corrupting influence. They are like a drug which, once started, can never be abandoned but must continue to be taken in ever-increasing doses.

Such grants are given on pretty much the same principle as that recommended by Damonides at the time of Pericles. In order to increase his popularity Pericles decided that he would make large gifts to the people. Then the $64 question arose as to where the money was to come from—how was the plan to be financed. And Damonides, the cynical old philosopher, came up with the jackpot answer. He said, "Make them presents from their own property." That, in my opinion, is what the effect of S-281 would be.

It is a deception to represent that these immense payments will not hurt the recipients because they will come out of taxes. Who pays the taxes? They cannot come out of the rich. The rich are already being taxed to a point where they have little left for investment in job-creating enterprise. No—we will probably be told that these taxes will come from corporations. And then you will have the most cruel deception of all because taxes on industry are merely concealed sales taxes. They are always paid in the end by the people themselves.

This Bill must be regarded as a tremendous intervention by the government, in directing the competitive affairs of the community. The intervention is enforced by maintaining taxes upon those who do not bow to the decision of the President and his advisers as to what should be produced, and by giving selected tax advantages or loans or direct subsidy to enterprises and states which do bow to the administrative will. This, I submit, is not the fostering of free competitive enterprise. It is the beginning of a planned welfare state with a leveling down of living standards.

This Bill pays lip-service to the encouragement of private enterprise by providing for loans and subsidies and capital markets in times of a contracting economy. But, underlying these proposals, there is a philosophy which comes out into the open, as in the special privilege tax provisions, of governmental control of the prices and profits of competitive enterprises.

Further, there is evidenced in the Bill the naive supposition that all the inherent difficulties of our economic system can be solved if we have enough "experts" making enough "surveys" at the cost of enough millions and hundreds of millions of dollars, and channeling up their voluminous reports to be reviewed and acted upon by a handful of economic advisers and the President himself.

There is no such short cut to wisdom!

One must also contemplate whether or not the Bill does not present too great a temptation to an administration in power to use its provisions for "buying up" border-line election districts. Ordinary understanding of human nature indicates that any President, whether Republican or Democrat, must necessarily be subjected to great pressure to use the selective spending powers authorized in this Act for such purposes. While the observation may be regarded as old-fashioned and outmoded, I, nevertheless, feel that it is extremely unfair to subject any President to such pressure.

That the Bill should be regarded as implementing inflation must be concluded from the lending and spending authorization it contains, which, if the usual political tendencies are to be respected, is only the beginning. The Bill also really disavows a balanced budget, while pretending to advocate one as a national policy. This is so because a balanced budget is specifically rejected whenever employment is lessened. On such occasions there is to be increased spending and lending, and budget unbalance. And yet the Bill does not provide for the "over-balancing" of the budget in prosperous periods. How, for example, can a 60-year loan made when there is some unemployment be unmade when employment is higher? More than that, common sense tells us that once inflationary policies have been adopted, the apparent need for deficits and big spending in prosperous periods is as great as in lesser periods of prosperity. In prosperous periods, the government finds, as the Bill gives evidence, that it must boost its payments to individuals in order to equate their buying power to the higher price levels which the previous deficiteering provoked; while in periods of lessened employment, it must boost expenditures to provide unearned income to those unemployed.

Its title notwithstanding, S-281 cannot be regarded as a Bill to promote economic expansion. It is a Bill to check the most remarkable period of expansion that the world has ever seen —a Bill to make the postwar dislocations permanent — a Bill to substitute government control for the initiative of free men and to vest in the executive in Washington powers which no man is wise enough to exercise, and powers which are too great to be entrusted even to the wisest man.

In a nation of 140 million people, half-a-million corporations and swarms upon swarms of spending-bent government agencies, there is so much variation in success and failure, in progress and retrogression, in happiness and misery, in optimism and pessimism, that anyone can prove anything he wants by merely selecting his statistics. Therefore when this Economic Expansion Act (S-281) comes up for consideration in the Congress, statistics will not be enough.

It must be shown that this program defeats itself for it would render permanent the very conditions that it seeks to cure.

It must be shown that we cannot squander ourselves into prosperity.

It must be shown that further expansion of the economy will depend on fostering the dynamic factors in our socicety, including the initiative and energy and resourcefulness of all the people who possess those qualities.

It must be shown that initiative and energy and resourcefulness can be discouraged and even killed with excessive taxation, excessive governmental planning, undue concentration of power in Washington at the expense of state and local governments, and undue emphasis on questionable security as contrasted with opportunity.

The great strength of our free enterprise system is that it stimulates to the greatest possible extent the self-starting quality in men. It releases that willing surge of energy—that driving initiative which creates the thing that we call progress. That is the thing which has brought forth in our lifetime the tremendous advances in science—in agriculture—in manufacture—in communication and transportation—in medicine and public health. Last but not least in these dangerous times, it has given us the war potential which is so vital to our safety and security in this chaotic world.

In our own time there has been more progress in these vital matters than there has been in the nearly 2000 years since Christ was born.

There is good reason for this progress. Progress comes from freedom—from the right of free men to choose their own occupations and to carry them on free from the deadening hand of an all-controlling government.

The authors of S-281 are to be fully credited with an honest intention to bring about a stable and expanding economy. But it is for all of us as citizens, taxpayers and voters to decide for ourselves whether enactment of this Bill would really do that, or whether, as we see happening in England today, it would speed us toward socialism and national bankruptcy.

* * *

There is one Bill, our greatest Bill, which we must not forget in all of these considerations. I refer to the Bill of Rights, frequently mentioned in public discussion and yet so little understood.

The Bill of Rights was added to the Constitution of the United States because early American patriots distrusted a central government of unlimited powers. Any Southerner knows what Thomas Jefferson and Andrew Jackson thought about centralized power. They knew that the only real enemy of individual liberty was unrestricted power in the hands of those who govern. Their knowledge of history told them how often governments had turned such powers against their own people.

Acting in behalf of the people our early statesmen set about to restrict the authority of the Federal government and to limit the powers and functions of its leaders. The first ten amendments to the Constitution, known as the Bill of Rights, provide that human rights and individual freedom shall be secure against the encroachments of government.

This protection of personal liberty has come to distinguish our American civilization and we have taken these privileges for granted. We forget, however, that rights and privileges are easily lost. The fact that the peoples of many countries have lost their individual liberties should constantly remind us to keep alive the spirit and concept of government that brought the Bill of Rights into being. Eternal vigilance is still the price of liberty. That statement was not an idle admonition. It was a deadly warning.

False prophets tell us that we should allow an all-powerful government to tax away our surplus earnings and employ an army of bureaucrats to run our business, watch over us, and keep us happy. They would have us give up our birthright as free men under the illusion that we can achieve a Utopian life controlled and paid for by the federal government. They would have us believe that we can remain free and still be protected by a paternalistic government from the burdens and hazards which all men face.

The sad part of it is that there are some among us who have been hornswoggled into believing such nonsense. They seem willing to surrender to the government a large part of the control over their lives in the vain hope that security lies in that direction. They look to an increasingly centralized government for special privileges and guarantees of prices, jobs and wages. They would let the government tell us how much we can produce, what price we can charge for it, what wages we can pay, and what profits we can make.

The shorter Catechism once had it "I am a child of sin and the heir of Hell." The new catechism asserts that I am a child of the government and the heir of my neighbor's industry and prudence. This, according to Dr. Isaiah Bowman, one of the great educators of our time, is the deadly epidemic sweeping through the land today besides which the drought and the dust storms are but trifling episodes.

* * *

To rebuild a shattered world, to revitalize its peoples and to realize its fullest economic potentialities requires a sense of mission, akin to the spirit required in the successful prosecution of war.

But our mission today is more difficult to define and harder to accept for it lacks the singleness of purpose of war. Yet its rewards are infinitely more lasting and of greater benefit to mankind.

It is not enough to concentrate on a single material goal of attaining and maintaining high levels of employment. True enough, jobs for all can be provided—by edict in a dictatorship — but at what a sacrifice! Full employment by government decree falls far short of achieving the maximum productivity of that employment. Too often it directs the people's energies to other purposes, not the least of which is war itself. And always it demands the surrender of values more precious to free men than their jobs.

It may be urged that S-281 will result in full employment. But, even if true, employment is not an end in itself. The real end is productive employment. High production is what creates high standards of living.

Everyone is employed in Soviet Russia. There you have "full employment." Indeed everyone has to work at the job to which he is assigned, like a beast of burden, in Soviet Russia. But that does not mean that the people are better fed, better clothed, better housed or comfortable and happy. Even after paying the sacrifice of their liberty, the Russian people are much worse off in all these respects than are the people of our country.

Schemes which substitute bureaucracy for private initiative never result in full production.

High production comes from the intense and willing effort of free men.

No scheme—however well-intentioned—can substitute compulsion for willing effort. And all compulsion schemes cease in the end to be well-intentioned.

I am convinced that the only hope for the United States and for the civilized world lies in that freedom from government coercion and tax discrimination which gives the individual the right to work for or employ whom he pleases and the same liberty in choosing a profession or a business.

I am convinced that the spirit of interdependence as between management and employees will prevail in our country and that the techniques of arriving at mutual understanding through intelligent collective bargaining must never give way to governmental determination of the price of labor.

I am convinced that the United States has demonstrated and must continue to prove to the world that an economy of free men under a limited government of checks and balances is more successful in providing useful employment than a government-controlled economy so completely regulated that there is no room for individual resourcefulness and no room for cooperation.

I am equally convinced that by continuing to function under individual freedom and in encouraging the peoples of other nations to follow this course, rather than depending upon "fear incentive" and compulsion, we can put off for many, many years the date of any future war.

In any economy there will always be ups and downs. But I have faith that our gains in this Republic will continue and accelerate if we hold fast to our basic individual freedom.

I have faith in the determination of the American people to strive always to improve opportunity and individual initiative and risk-taking to the end that we can be of increasing service to one another and in alleviating human suffering in other parts of the world.

I have fath in the thousands of big and little independent farms and business firms which represent the backbone of our way of life and which constantly push forward that economic growth which has characterized American enterprise throughout the development of this country.

Finally, I have faith that the ultimate effective judgment of the people throughout this great land will let nothing interfere with the maintenance of those institutions here at home which insure the preservation of our American freedom and security.

Business and the Government's Program

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human rights have been of fundamental importance. We believe in freedom of thought and freedom of expression and freedom of religion, those elements that are before us so much more today than perhaps they have ever been before. It so happens that in this country today some of our citizens are not enjoying equality of opportunity or equality of education, or equality of the right to vote. It is a serious and complex problem. We do not intend, nor do we expect, to solve it in a day or a year. But each year some progress must be made in seeing to it that we do not have a group of second class citizens in this country.

There is a broader base, perhaps a more practical one than even the ethical and moral consideration regarding citizenship, and that is that democracy is on trial in the world today. The peoples of other countries watch with really incredible interest to see how democracy operates in this nation, and if we can't make it operate here for all of our citizens, it will be difficult for us to sell our concept to the other peoples of the world.

Our second goal is the goal of development of our human and our individual resources. Strength of a country rests to a great extent upon the strength of its people.

As we analyze our human resources, we find that we have come a long way. We still have a long way to go. Human beings have a right to expect certain base elements in their life. One of them is security. Men and women have a right to operate under a governmental system in which they can have, if they make the effort, a concept that will lead to security in their days of old age, in their days of illness or unemployment, and we have a broad social security program that can go a long way toward achieving this.

The strength of a people depends to a great extent upon a second element, and that is the education of the people. Today there are millions of our children who are not receiving a proper education. We, as your government, cannot sit back and see children fail to receive a proper education. We, as your government, cannot sit back and see children fail to receive a proper education because of the unfortunate fact that they are born in an area or a state that is ill-equipped at this time to provide them with that education. They are entitled to it, and through Federal aid to education we hope to achieve that. Today some two million of our children have no schools to go to. The Federal Government means to step in with your help and see that those children are educated.

We have a serious housing problem. Housing means a great deal with reference to the morale and the strength of our people. In every city in this nation blocks and blocks of slums still exist. There criminal tendencies are developed. There the morale of the people is low.

It is in those areas that the government means to assist private enterprise in building up proper housing for our people because of the morale factor that is present in their lives.

Health of People a Vital Concern

The health of our people is a matter of vital concern. Wasn't it astounding, weren't you amazed as I was, when we summoned our young men to the service in this last war that we found that approximately one-third of them could not pass the basic physical examination and had to be rejected?

The government has a fundamental interest in that. The government offers a Health Program which would have the result of providing our people with more doctors, more hospitals, more nurses, more medical attention than our people are not receiving now.

One phase of that program is a highly controversial one, that is, health insurance. I shall not go into a discussion of it now. The fact is that what it does basically is to provide our citizens with the opportunity of receiving proper medical care on an insurance basis—that is, that they shall pay for it by the month, so that when adversity strikes and you have serious illness in your family, you don't go into bankruptcy to take care of it. That is the basic principle of it.

As we continue this program of the development of our natural resources, we believe that we add immeasurably to the strength of this nation to meet its great task.

Our third major goal is the development of our natural resources, and you realize obviously how important that is to us as a nation in the position which we occupy in the world today. We have broad programs of soil conservation which can mean so much to the farmers, with whom you men deal. We have programs of reclamation, so that arid land which was once unproductive through processes of irrigation now becomes bountifully productive.

We have flood control plans, and we have plans for the development of the great hydroelectric power products which can develop new industries in various areas of this country.

In the Northwest portion of this country today, years ago there was very little industry; now there are great industries there because of the development of hydroelectric power through the building of great government dams.

There is a long-range program so that we can conserve and, at the same time, expand various phases of our natural resources.

Expansion of Our Economy

Our fourth major goal is the expansion of our economy so that we all may have greater prosperity. I think that we would perhaps all agree that the important segments of our economy today are in about as good shape as they have ever been. The farmers today are in excellent condition. Most of them have their mortgages paid off, they have money in the bank, they are getting good prices for their crops. That lends great strength to our economy.

Labor today is in good condition. Almost 60 million are employed. Wages are good. The savings of the individual in this country in our savings accounts in banks are higher than they ever have been. Business is in good shape today. I think perhaps there are many who do not recognize the fact that in 1946 a new record was set for business earnings.

Business earned $12 billion after taxes in 1946. That was a new record. Again in 1947, corporations set another new record. Corporations earned $18 billion after taxes in 1947. In 1948, interestingly enough, another new record was set. Corporations earned $20 billion after taxes in 1948.

Government Takes Satisfaction in Situation

Now, the government takes some satisfaction in this situation that exists. The government feels that some of its policies have contributed to this condition that exists today, because as you look back and compare 1929 and 1949 you will find elements there that are of interest to all our citizens, and perhaps particularly to businessmen. In 1929 we had an aura of prosperity. We thought we were doing pretty well, but when the break came we found that there wasn't any bottom; there weren't any brakes, that is, to slow up the decline that started.

So that when the farmers found that their grain and their livestock prices were going down, they went down and down and down, and you will remember ultimately they burned corn for fuel.

When working men were thrown out of their jobs, they had no types of compensation—then their purchasing power went down. There were some elements that were present in our economy in the beginning of this year that we felt in Washington exerted a good deal of influence.

At the beginning of this year when there was a feeling that perhaps we were coming out of the boom period and going into some type of depression, no one knew how much, certain elements in our economy began to operate. When the price of farm products started down, after a bit they hit the support prices, and the purchasing power of the farmer stayed up.

When men were thrown out of work because orders fell off, unemployment insurance started. We had a minimum wage law that helped to some extent to sustain the wages and thus the purchasing power of the working men in this country.

We felt in Washington that those elements retarded to a very considerable extent what might have been a matter of serious concern to all of us.

Government economists say now that we are in the process of coming out of this and 1950 looks good to them. Many merchants let their inventories get too low. They had to build them up because the purchasing power

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of the public maintained a very steady pressure, and so orders are coming in, manufacturing is proceeding and is picking up. 1950 looks good.

Our fifth great goal is the achievement of world peace. Twice in this last generation we were confronted with terrible wars. At the end of the last war it seemed, I believe to all of us, that the peoples of the world and the governments of the world were ready for peace, that almost any sacrifice would be made to achieve a lasting peace. And yet that proved not to be so.

I remember a time—it was in January of 1947—it seemed to me then and it seems to me now that it was perhaps the darkest time may be that we had.

I recall in January of 1947 attending an all-day conference in the Pentagon Building, for we had received word that the British were pulling out of Greece and stopping their aid to Turkey. Think back, if you will, to the situation that existed then.

An aggressor nation, one by one had taken Estonia, Latvia, Lithuania, Poland, Hungary, Bulgaria, Romania. It was an ominous list. The pressure was building up on Czechoslovakia. No one knew where it was to go. Greece was of vital importance in the Mediterranean. Turkey was of transcendent importance in the Middle East, and here the word comes that the British must pull out.

Truman Doctrine

But I think on Jan. 12, 1947, word went out from this nation that brought a thrill of hope to all the free peoples in the world, when the President went to the Congress on March 12 and delivered the message that later became known as the Truman Doctrine, for it was there that he said, "It must be the policy of this nation to support the free peoples of the world who are fighting to retain their freedom."

It brought real hope. It provided a spark that could add to courage and building up in them the thought that real practical aid would come later, for in that message the President further said, "The major form of aid that we must render is economic and financial aid."

So that started there the building of what I like to think of as five great pillars of our foreign policy. First came the Truman Doctrine, then came the Marshall Plan, then came the North Atlantic Treaty, then came the Military Assistance Program to Europe, and then last came Point Four of the President's Inaugural Address—each taking its place in a broad scope, each demonstrating to the free people of the world that we were in this to stay and that we would not withdraw from our responsibility as we did after the First World War.

I believe that the results have exceeded what we might have hoped back in those dark days of January, 1947, because, bit by bit, it seems we have been weaving a fabric of security throughout the free nations of the world, so that in the event a totalitarian nation chooses to continue its aggressive tack, it knows that by moving against one it moves against all. And while we continue, I am sure, with your support, every effort to find a basis upon which peace, a real peace can ultimately be founded, in the meantime, the nations of the world must know that we are too determined to be frightened and too strong to be defeated.

Something About the President

I think that it might be of some help to you if I said a word about the President. I had met the President only once before I came to the White House in 1945, and I have worked with him, I suppose daily since that time. I believe that because he is your President, you might value to some extent the opinion of one who has been in daily contact with him. There has been some distortion. There has been some coloring of the attitudes that exist. But that always happens. I find a man of unquestioned honesty, integrity and modesty. I find a man who is able to engender in those around him a deep admiration and a sincere affection. I find a man who has as his major precept, the accomplishment of the greatest good for the greatest number.

I think perhaps one of the most appealing traits of the President is his basic and inherent modesty. Some time ago—this is some three years ago, and I use this as an illustration — the President received a leter, it came in to him one morning in a staff meeting. It was done up with ribbons and seals, and one thing and another on it, a very impressive document. It happened that the letter came from Ibn Saud. The President opened it and let out a great chortle. It just tickled the life out of him, because the salutation was, "Your Magnificence."

"Well," he said "what do you think of that! Somebody writes me and calls me 'Your Magnificence.'"

Well, all it did was amuse him. Other men might think, "Well, it is no more than I am due."

An amusing little sequel to that, perhaps was that within a few days after receiving that letter the President issued a statement that he favored the admission of some 100,000 persons of the Jewish faith into Palestine. A week later he got another letter from Ibn Saud, and this time the letter started, "Dear Sir."

We are at a vital period in the history of the world. We have made certain technological advances which really dwarf the concept of man. We have found a means, perhaps, by which we can destroy the world. As a result of these advances, and as a result of changes that are taking place all over the world, men are engaged in revaluing their beliefs and their concepts and their standards. This is the time, perhaps more than ever before, when the world needs the highest type of leadership. But one nation can supply that leadership—that is the United States. Fortunately we are strong. There are many elements in our strength. One of them would be our democratic form of government. Another would be our economic system. Another would be our great natural resources. But above and beyond these elements there is one greater than all the rest—the basic strength we have is spiritual, for we believe here in the dignity of man. We are a people with a faith. We believe that if we follow that concept and protect the basic operation of our system, we can give the world the leadership that it needs.

We believe that if we can appeal to the highest power there is, we can receive the strength and the confidence we must have to meet the challenge of the years that lie ahead.

A Trip to Fairyland via The Welfare State

(Continued from page 2)

wrong to use it. The commies have put a free speech picket line around the building and they will beat up anyone who tries to stop this roof wrecking."

"Why do you call it a free speech picket line?" inquired Hally.

"Because that's what it is," snapped the little Sec. "Don't you know that the Great Court of Final Confusion ruled long ago that picketing is a form of speaking? It's just a way of telling other people where they get off. The right to picket is just a right of free speech, which is more sacred than anything except the right to be taken care of by government. That is the most sacred right of all."

"Oh, the rain has stopped," cried Hally. "I wish I could go somewhere and get something to eat."

The Secretary at once blew a big blast on a little horn that hung around his neck, and promptly a huge Blue Bird flew into the room. It came to rest on the foot of Hally's throne and Hally somehow floated onto its back. The next minute he was rushing through the air, clinging to the bird's soft feathers, with the little Sec. hanging on to his coat collar. They flew at terrifying speed across fields and mountains and cities and then swooped down to a landing in the courtyard of a vast building like a fresh-baked apple pie.

"Consolidated Bakery," explained Sec. "Oh dear, oh dear, it's so quiet, I'm afraid they are all on strike again. Yes, here they come!"

The sound of marching feet grew louder and louder as a great army of men in white aprons and caps paraded into the courtyard, led by a very small fat man with a red face and bristling black eyebrows.

"Boohoo!" roared the army.

"That's Boohoo — the Chief Baker," said Sec.

"Isn't he a little man," observed Hally.

"Wait till he speaks," warned Sec. "He swells up to five times his natural size whenever he speaks."

Sure enough, as Boohoo strode up to the platform on which Hally was standing he kept getting taller and fatter until, when he finally began to speak, he was much bigger than Hally and towered over him in a most menacing fashion.

"We want more bread!" Boohoo bellowed. "My people are starving. We want more bread."

"Why do they stop making bread if they want more bread?" whispered Hally to Sec. But Boohoo answered him:

"We want more bread but less work. My people are dead on their feet after working like s l a v e s six hours a day and four days a week, just to make dough for those greedy Builders who built this Bakery so they could make more and more dough out of the sweat of the brows of other men."

"Please, Your Majesty!" shouted a small old man leaping out from a group of little prisoners in chains whom Boohoo had dragged along behind him as he mounted the platform. "Please, give us a hearing! We are the B u i l d e r s who organized the Builder Boys to build this beautiful bakery; and we promised to pay the Builder Boys for their work and materials, one loaf out of every thousand baked in the next ten years. We had a dreadful time last year when bakers cut down a day's baking from 100,000 to 80,000 loaves. The Builder boys said we were cheating them by paying only 80 loaves instead of 100 a day. We can't stand another cut in our pay."

"Didn't I force the price of bread up?" roared Boohoo.

Bread—Not Paper Money

"Oh, yes; but we had promised the Boys bread that they can eat —not just paper money."

"Money is all you fat parasites are interested in!" roared Boohoo, shaking the chains that clung to the thin ankles of the scrawny prisoners. "Money is all you want. My people want more bread — more bread and less work. 'The time is out of joint—it's cursed spite that I was ever born to set it right.'"

"That's an incorrect quote," whispered Sec. to Hally, "but it's an accurate observation."

"Am I supposed to settle this row?" asked Hally.

"If someone doesn't settle it and settle it right," proclaimed Boohoo, "not a Baker will bake, but every loafer will loaf, until we all starve together. *Multum in parvo.* That is my *sine qua non!*"

There was a horrible silence after this terrifying threat of Boohoo. All eyes were turned on Hally and he had the feeling that if he failed to satisfy Boohoo something dreadful might happen to him.

He whispered to Sec.: "What can I do? I have nothing to say."

"Then say it," answered Sec.

"How can I say nothing?" Hally asked angrily.

"You've done it plenty of times before," retorted Sec. "You have said nothing that made sense over and over again and got a big hand from the voters. The trouble is that you are scared now."

"Sure, I'm scared; and so are you or you'd have a speech all prepared for me. . . . Now who is *this* man?"

A thin man, who was almost three feet tall and had a head as big as a football, was ascending the platform, and at sight of him all the Bakers burst into cheers.

10X20=100

"That's Nuthin, the great labor economist," explained Sec. "He'll tell you how to divide $100 among 10 people so that each one can get $20."

"This problem is a very simple one," Mr. Nuthin was saying. "You downtrodden Bakers, are rightfully demanding more bread for less work. You should have it!"

After the crowd had cheered for five minutes he resumed: "On the other hand I can see the difficulties of the foolish Builders who persuaded the Builder Boys to build this Bakery and to give their work and their materials in exchange for a promise that they would receive one loaf out of every one thousand baked. Of course that is the inevitable weakness and injustice of the capitalist system. It fastens a load on the backs of the workers that they must carry from the cradle to the grave. But, we are not ready for national socialism or communism and, until we are ready, of course all labor leaders must be officially opposed to communism. So we must do our best not to destroy private ownership all at once. If it must die eventually, as of course it must, let us choke it to death very slowly and mercifully, by methods befitting those who are, above all things, humanitarians."

After a ten-minute ovation Mr. Nuthin continued: "As I said, the solution of the present problem is easily found. Even his majesty, Hally G., could have found it if he were given time enough. But we cannot wait for years to have our just demands satisfied. 'The millennium tomorrow' has been our motto. To reach that goal we must do the impossible today."

He turned and spoke directly to Hally.

Fairyland Efficiency

"Your Majesty, just issue an order establishing half a loaf of bread as the standard for a full loaf of bread, beginning at six o'clock this evening. Let the great Boohoo direct his Bakers to go back to work at six o'clock. Then they would be able to produce twice as many loaves of bread tomorrow as they did yesterday, with very little more work. So the Builders can shorten the work day from six to five hours and the output of loaves per day will still far exceed all previous records of production, thus again demonstrating that the Fairyland worker is the most efficient producer on earth.

"Let the Builders also tell the Builder Boys that they should rejoice. With this vastly increased production of half loaves—I mean full loaves—the Builder Boys will receive a much larger number of loaves in their tithe of one loaf out of every thousand baked. So they should be very happy. Also there will be much more crust per loaf with the smaller loaf—and everyone likes crust. I hope you like my crust."

Amid thunders of applause Mr. Nuthin gracefully vaulted from the platform onto the shoulders of the Bakers who carried him round and round singing: "We've got plenty of Nuthin and Nuthin is plenty for us."

Boohoo stood for a time with hand upraised, evidently intending to make a speech. Then he thought of a more dramatic gesture and hurled his handful of chains at the Builders, who had all been stricken unconscious and were clearly harmless.

Having set the Builders "free," Boohoo now swung his arm toward Hally in a magnanimous acceptance in advance of Hally's anticipated decision.

"What do I do?" whispered Hally.

Sec. instructed him: "Raise your right hand and point to the Great Dipper. That means you make something a law. Your real title in Fairyland is 'The Great Dipper.' All proclamations begin: 'I, Hally G., The Great Dipper, pour out the following blessing for the people of Fairyland.'"

"But I can't see the Dipper. I don't know where it is."

"That makes no difference. You just point at the sky and everybody knows what you mean."

So Hally, trembling, raised his right hand and pointed toward the stars. Immediately there was a blinding flash and a terrific explosion. Hally felt himself hurled out into space and, miraculously, onto the back of that great Blue Bird which then carried him with breath-taking speed far away to a large city dominated by a massive, domed building on a hill. In the plaza in front of this building was assembled a vast throng which greeted Hally with thunderous cheers as the Bird dumped him gracefully into a throne chair on a platform high above the populace.

And there beside him was that faithful little Sec. who thrust into his hands a thick manuscript and whispered:

"Your Inaugural Address. You are now Imperial Wizard of the Brave New World."

Then Hally G. stood up and read his Address which told, first, about how he was going to transform the whole country into Fairyland — which surprised a great many people who thought that it was already Fairyland. Next, he told about what he had planned for the rest of the world —so it would all become like Fairyland.

Hally was very wearied by his own speech before he got through with it; but the people kept cheering, so he felt that he was doing all right.

Finally, he reached the end and then a huge band began to play a tune and all the people began to sing a song; and this was the song they sang:

Hally G.

In this land of the brave and the free
We are ruled by the great Hally G.;
He was raised on a bottle by Doc Aristotle;
He learned from old Plato how not to deflate—oh,
By Socrates guided, with billions provided,
A miracle worker is he.
How to make the payor a payee,
No one knew till we found Hally G.;
In budgeting speed he's a new Archimedes;
You'll hear Euclid gurgle when he squares the Circle;
With Einstein reacting, he adds by subtracting,
And makes two less one equal three.
From the quicksands of debt do not flee,
For you cannot depress Hally G.;
Canute had a notion to push back the ocean;
Bold Ajax said lightning was not really fright'ning;
And Joshua tried proving he'd stop the sun moving,
But they weren't as smart as he.
To conquer the world we'd agree
Quite a difficult project might be;
The Greek Alexander, he turned out a gander;
J. Caesar, he tried it, but couldn't divide it;
Napoleon would take it, but he didn't make it;
And now comes the super-re-couper-hoop-looper
To beat all creation, include our own nation,
So all may be saved by the great Hally G.

We will save everything, but we won't save our cash;
We will mix everyone, so we hope you will like hash;
We will soar up so high we'll be dead when we crash;
And so, from the world of the brave and the free,
Mankind shall be saved by the great Hally G.

As the song ended the lights faded out and the people faded away, and Hally felt very lonesome on the high platform with only little Sec. and the Blue Bird.

"We must go home now and work and sleep," said Sec., "because tomorrow you must satisfy the farmers. We'll have to pour something out of the Big Dipper which will satisfy the farmers or there will be a counter-revolution."

"Is there no end to this problem of how to take care of everybody?" asked Hally, as he crawled onto the back of the Blue Bird and dragged Sec. up behind him.

"There is never any end to any problem in Fairyland," answered little Sec., as the Blue Bird hurled them through the sky, "because we have discovered that the way to solve every little problem is to create a bigger one."

Rejoins First California

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — John C. Lackey, Jr. has rejoined the staff of First California Company, 300 Montgomery Street. Mr. Lackey has recently been with Herrick, Waddell & Reed.

Two With Hincks Bros.

(Special to THE FINANCIAL CHRONICLE)

BRIDGEPORT, CONN. — John W. McQuade and Earle W. Minton have become affiliated with Hincks Bros. & Co., Inc., 872 Main Street.

Wastefulness in Government Finance

(Continued from page 13)

into the executive branch of the government that had ever been made.

After the Commission rendered its report to Congress, it went out of existence, but, in order to make certain that serious attention would be paid to the Commission's recommendations, the Citizens' Committee for the Hoover Report was organized, consisting of men and women from every state in the Union and headed by Dr. Robert L. Johnson, President of Temple University. I will tell you more about the work of the Committee later.

Here are some of the astounding facts that the studies of the Commission's Task Forces disclosed. They indicate beyond question that the Executive Branch of the government is inappropriately organized, that its left hand doesn't know what its right hand is doing, and that an appalling state of confusion exists in the management of our national affairs:

It cost George Washington $4 million a year to run the country. . . . Abraham Lincoln spent an average of $338 million per year. . . . William McKinley fought the Spanish-American War and spent only $523 million a year. . . . Woodrow Wilson spent $5 billion a year during World War I. . . . Twenty years ago, the cost of running the Federal Government was about $4 billion a year. Today the cost is about $42 billion.

It is hard to understand a figure like the last one, but here is one that we all can grasp—remember it well, because it affects your life and the future of your youngsters: The Hoover Commission found that in 1948 we wasted—poured down the drain — more money than it cost to run the government in 1928.

Who Pays?

Who pays for all this? Every person in the country with any income whatsoever does! America's tax bill averages $371 per year for every man, woman and child in the country—well over $1,000 for the average family. The average citizen works 47 days a year to support the extravagant pandemonium on the Potomac at Washington. These are not just theories or abstractions. They are facts, in terms of hard-earned income.

You pay a Federal tax of 20% on theatre tickets, cosmetics, light bulbs, luggage, jewelry and furs; 15% on sporting goods and films, telephone bills and railroad tickets. Then there is the income tax—remember? And next time you buy a pack of cigarettes take a look at them and reflect for a moment upon the significance of the fact that the tobacco man gets only 7 cents and that the rest goes for taxes.

Yes, right here in these United States, 38% of the workingman's income is taken for taxes, and the boys in Washington are falling over each other thinking up new ways to spend money and new taxes; which reminds us that old Comrade Lenin, who, as he lies in the great mausoleum in Red Square at Moscow, is worshipped by all the Communists everywhere, even including this country, gave us fair warning quite a while ago, when he said: "Some day, we shall force the United States to spend itself to destruction."

Twenty years ago all varieties of government, omitting debt service, cost the average family less than $200 annually. Today, making the same omission, it costs an average family about $1,300. And beyond this is the alarming fact that at this moment executives and legislatures are seriously proposing projects which, if enacted, would add one-third more annually to our spending. If these projects were adopted the average family would pay $1,900 of taxes annually.

There is one government employee to every 22 persons in the United States. Worse than this, there is one government employee to every 8 of the working people of the country.

A little more than one person out of every 7 of the population is a regular recipient of government money. If all of those of this group who are of age were married, they would equal one-half of the number of people who voted in the last Presidential election.

The Treasury Department has under its jurisdiction 7 agencies, including the Coast Guard and the Bureau of Narcotics, which have nothing to do with finance. On the other hand, fiscal agencies properly belonging to the Treasury, are scattered throughout the Government.

Thousands of tons of obsolete usless records and documents are kept in steel cabinets on costly office floors at maintenance charges of $29.00 per year when they might be stored in cardboard containers in warehouses at $2.15 a year.

Supervisors are rated and paid according to the number of workers under them. Thus they are encouraged to build up their work forces recklessly.

The appeal of a career in U. S. Government service is so slight that 500,000 persons voluntarily quit annually after a short experience in the work. The government employs more than 2 million civilian employees.

The Post Office, which does a business of $3 billion annually will have a deficit this year of about $500 million. Better management and better equipment could save at least $150 million.

Two different government agencies surveying construction sites of dams a half mile apart on the same river—at $250,000 per survey—came up with estimated costs $75 million apart.

Some government bureaus maintain supplies of equipment sufficient to last for 50 years. All told the government owns $27 billion of property inventories although no one agency has a record of their nature or whereabouts.

The Bureau of Indian Affairs has 393,000 Indians under its jurisdiction or care. It employs 12,269 persons to administer its program. That's one employee for every 32 Indians.

The Army tore down a camp in Alaska that cost $16 million. It shipped the lumber to Seattle, Wash. The Department of the Interior got the lumber in Seattle and shipped it back to a point 10 miles from where it came originally.

A farmer wrote to the Department of Agriculture seeking advice on the best type of fertilizer to use on his soil. He got answers from five separate offices. All the answers were different.

It takes 20% more money to operate the Post Office Department's fleet of motor vehicles than it does to operate large-scale private transport fleets.

Government Paper Work

To turn out its maze of paper work the Federal Government owns 848,567 typewriters. About 235,000 persons on the Federal payroll use typewriters on a part-time or full-time basis. This means that the government owns 3.6 typewriters for every employee who uses one.

The paper work on 1.5 million purchase orders each year costs more than $10 per order. And, by the way, half the purchases are for items costing less than $10!

Forty-seven Federal agents representing seven different agricultural field services are devoted to the service of 1,500 farmers in a single county in Georgia.

The Army requested budget funds for 829,000 tropical uniforms at $129 apiece—to say nothing of 910 houses for military personnel in Alaska at $58,000 apiece.

The government pays interest on its own money. This happens when government corporations invest their surplus funds in government securities.

The cost of a reservoir was estimated at $44 million in one year and only a few years later at $132 million.

Forty-five out of the 60-odd top agencies of the Executive Branch today engage in operations affecting foreign policy, and communications among them are so confused that the President and the State Department must sometimes make decisions of the gravest nature without adequate information.

The armed services are split by dissension and threatened by the rule of a military "clique"; and the Army, Navy, and Air Force which together spend $15 billion a year—one-third of the total Federal budget — demand twice as much ($30 billion) while wasting at least a billion dollars a year.

It takes four times as long for the government to pay a claim made on a veteran's insurance policy as it does a private insurance company. Worse than that, it takes four times as many people to make the payment.

And, perhaps worst of all, it was found that the government never had developed and installed an accounting system as such, and, as a result could not produce a reliable statement of where it stood financially. In one recent year the Secretary reported a surplus of ¾ of a billion dollars when, in fact, there was a deficit of several billions.

Startling as these facts are, they are only a few of the hundreds of similar facts that a study of the Hoover Report reveals. One of the most startling things about them is that they are true of a government of our own choosing —a government of the choosing of a people who may justly claim to be the most efficient in the world in the management of their private affairs.

One end result of the actual and proposed spendings and of the taxes that would have to be raised to cover this spending would be that the government would become the major, if not the only, source of credit and capital for our economic system.

$3 Billion Waste

Mr. Hoover has stated publicly that he estimates that adoption of the Commission's recommendations would reduce expenditures at least $3 billion annually and perhaps more. I often have wondered how much he would reduce them if the sole responsibility for eliminating waste and extravagance were given to him. I have no doubt that if this were possible, the reduction would be a great deal more than $3 billion per year. At any rate, many of us who worked with the Commission believe that the wastage far exceeds $3 billion a year. Remember that, with the exception of interest on the public debt, there isn't a single item in the Federal budget that cannot be reduced. Remember also THAT THE GOVERNMENT IS LIVING BEYOND OUR INCOME.

The savings estimated by Mr. Hoover aren't great in relation to total expenditures. Indeed, the saving of this amount would not reduce the budget to anywhere near the level that may be regarded as the maximum amount that the Federal Government should spend annually. But remember that the Commission did not deal with the question of elimination of functions and activities. It was authorized to deal only with reorganization of existing functions and activities. If we only had the courage to get out the pruning shears and eliminate every function and activity not necessary to the health, safety and general welfare of the people, the reduction would be several times $3 billion annually.

However, Mr. Hoover's estimate gives us something definite to work on—right now. The question is: What are we going to do about it? Are we going to stand by and allow such conditions as those reported by the Commission to perpetuate themselves, as they surely will unless we rise up in our individual and collective might and demand that Congress call a halt on the spenders?

As I have already told you, the Citizens' Committee for the Hoover Report was organized to take over where the Commission left off. Spurred by Mr. Hoover and the Citizens' Committee, the 81st Congress adopted at the session that has just ended five laws based on the Commission's Report. Saving of at least $1¼ billion in the annual cost of government already have been made possible by these laws. This is but the beginning of what can be accomplished if all of us courageously assert our rights as citizens and put our shoulders to the wheel.

The economies inherent in the recommendations yet to be acted upon are not going to be easy to obtain. All manner of opposition has sprung up both within and without the government that presage rough sledding for the advocates of economy. One department head, who unqualifiedly agreed with every recommendation of the Task Force that studied his department, now says that he will resign if a single one of those recommendations is adopted. Obviously the staff and employees of his department have done a thorough job on him.

On the outside, one of the great national organizations has raised its dues by 25 cents per year in order to provide funds to carry on a campaign designed to prevent the adoption of any recommendation that affects the department in which its members are interested.

In addition, there is plenty of that "Yes — But," attitude, also both within and without the government. The average department head agrees that everybody else's department ought to be rorganized, but not his. And on the outside, state and local Chambers of Commerce and other organizations, in discouraging numbers, are willing to go along on everything except those recommendations that affect their pet activities and projects. Obviously nothing will be done if the accumulated local protests are heeded and the general welfare is ignored. Too many of us are thinking in too narrow terms. Too few put the good of all first.

Some Encouraging Developments

However, there are some encouraging developments. Many national, state and local organizations have pledged themselves to support the Commission's recommendations. Among these is the United States Junior Chamber of Commerce. This virile and enthusiastic organization of the leaders of today and tomorrow has adopted the support of the Commission's recommendations as their No. 1 project for this year. They call it "Operation Economy." I think we can feel especially encouraged that the efforts of the Citizens' Committee are going to have the support of an organization with the energy and vigor that this one and its state and local units have so often demonstrated in the numerous construc-

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Wastefulness in Government Finance

(Continued from page 35)

tive and highly successful projects that they have undertaken in the public interest.

I have had the greatly cherished privilege of working with the Virginia Junior Chamber of Commerce and its local units throughout the State in developing the plans for the support program that they will put on, and I can tell you that it is a real inspiration, and a source of great encouragement, to see the enthusiasm and vigor with which these young men are attacking the job of reawakening the people's devotion to the principles of thrift and provident living, and to the love of individual freedom, upon which our country was founded.

Until I was made aware of the campaign that these young men propose to put on, I found little to warrant me in feeling that our drift toward some form of totalitarianism would be halted. Oh, there were plenty of people who resented this drift, but there were powerfully few who dared take the risks involved in trying to do something about it.

The Junior Chambers of Commerce will swing into action within the next few days, and I shan't be at all surprised if they make us older men and women somewhat ashamed of our reluctance to stand forth like real men and women and resist in decisive numbers the evil forces that have arrayed themselves against the principles of government that have made our country great.

These young men believe in their country and its system of government. They believe in individual freedom. They believe in private enterprise as the surest route to man's rendezvous with his ultimate destiny. They believe that the qualities of restraint, of integrity, of conscience and of courage still live in the people of America and that it is not too late to summon these qualities into action. Finally, ladies and gentlemen, they aren't afraid.

They are going to do a job that will make the people proud of them and that, I suspect, will cause at least some of their elders to shed their apathy and indifference and get in there and pitch for the cause of sound government. I hope that when the opportunity to cooperate with them and the Citizens' Committee is presented, you will give them your wholehearted support, because they will be carrying the ball for you and me. The least we can do to help is give them our blessing and the encouragement of our moral support.

Now, ladies and gentlemen, I don't know what you think about what I have said to you this morning or about the way I have said it. Maybe some of you regard my presentation as just another speech. However, I hope not, because I assure you that I never was more serious about anything in my life. I very sincerely believe that everything that is precious to us as individuals and as a people is in serious jeopardy.

Perhaps some of you feel, as I have heard many people express themselves, that the American people will never give up their liberty. I tell you that we have already given up a large part of it. More than 25 million people are direct beneficiaries of the philosophy of government that now prevails in Washington, in the form of direct regular receipts of hard cash from the public treasury — cash that has been taken from you and me and others in the form of exorbitant tax levies; and it is the announced intention of the Administration to add millions of others. The most recent objects of the government's grab for power are the school teachers.

Can you possibly believe that fair elections are posible when more than half of those who are qualified to vote are made, either directly or indirectly, dependent upon the government for their livelihoods?

Can you possibly believe that those who are made beholden to the government will not support their own *status quo* and other legislation as well that favors other groups at the expense of the majority?

Is it not perfectly clear that a policy of favoring first one minority group after another eventually will put every citizen under the yoke of bondage to a few self-appointed and powerful politicians who regard themselves as endowed with superior wisdom and the "Divine Right of Kings?"

I believe that if you will really search your intellects and your souls for the answers to these questions, you will surely answer every one of them in the affirmative.

Then I think we must consider the morality of the government's present policies. You recall, I am sure, that the Tennessee Valley Authority was established as a flood control and navigation project, with production and distribution of electric power as only an incident to these objectives. No people have ever had a faster one than that put over on them. Even the member of the Senate who sponsored the creation of this organization admitted before he died that it was from the beginning a power project, and that the only reason for calling it a flood control and navigation project was to circumvent the constitutional prohibition against setting the government up in competition with private enterprise.

The Constitution still contains that prohibition, but the advocates of public power no longer bother to wear the mask of flood control and navigation. They espouse their multitudinous power projects with brazen indifference to the Constitution.

Quite a controversy is going on right now over the development at Buggs Island and the proposed development by the Virginia Electric & Power Company at Roanoke Rapids. Do those who obtained approval of the Buggs Island project, and who fight the application of the Virginia Electric & Power Company for the development at Roanoke Rapids, talk about flood control and navigation? They most certainly do not. All they talk about is power development. They are resisting the Virginia Electric & Power Company's proposed development at Roanoke Rapids *not* because it will interfere with flood control and navigation on the Roanoke River but solely because it would interfere, they claim, with the power development at Buggs Island.

This is just one aspect of what I regard as a low degree of morality in the administration of our national affairs. There are plenty of others that could be cited if there were time. Since my time is about running out, I will stop with that one, but before I conclude, I would like to call your attention to one recent series of events that causes one to wonder just how much integrity there is in our government and that rather forcibly suggests how iniquitous and powerful is the policy of government largesse.

I quote from the Oct. 9, 1949 issue of the New York "Times":

"Sept. 30 — Edgar F. Kaiser, President of the Kaiser-Frazer Corporation, reported to be in Washington attempting to arrange a loan in excess of $30,000,000 from the Reconstruction Finance Corporation.

"Oct. 1 — Official of the RFC said the agency had no statement to make on reports that Kaiser-Frazer was seeking a large loan except that 'there is no application pending before the board and no loan has been granted' to the motor car manufacturer.

"Oct. 5—Henry J. Kaiser's steel company signs a contract with the steel union including the basic recommendations of President Truman's Fact-Finding Board (6 cents an hour for pensions and 4 cents for social insurance, with the employer bearing the full cost of both programs).

"Oct. 6—RFC announces a loan of $34,400,000 to Kaiser-Frazer."

In conclusion, ladies and gentlemen, let me say to you with all the earnestness at my command that if the privilege of individual freedom means anything to you, and that if you really believe in the right to acquire and be secure in the ownership of property—in short, if we truly believe in the principles of government upon which this government of ours was founded—then we must conclude that we are faced RIGHT NOW with the choice of either fighting to preserve our rights or accepting the loss of them and a return to the tyranny from which our forefathers saved us.

I assure you that it is later than you think. Rome fell because a hearty race of free men fell for the dreamy idea of a welfare state, where the government was to give everything for nothing. It didn't work in Rome, and it won't work here; and if we don't stop it, we will be as surely engulfed by disaster as were the people of Rome.

A hundred and eighty-four years ago, in little St. John's Church, on the next hill to the east of that on which the meeting place in which we are here assembled is situated, a man whose courage has inspired the world defied no less a tyranny than that by which we ultimately will be faced if we do not strike it down before it attains full maturity. Patrick Henry held liberty dearer than life itself, and he had the courage of his convictions. He dared to defy tyranny publicly.

Can it possibly be that we are to show ourselves unworthy of this glorious and inspiring example of personal courage and thus have to stand before the world unworthy of the priceless heritage of freedom that was bequeathed to us by Henry and the other fearless patriots of his day? Are we going to stand supinely by and permit ourselves and our posterity to become enslaved for want of sufficient courage to resist, at whatever risk might be involved, those who seek to deprive us of the rights with which a kindly providence has endowed us?

God forbid that we should prove ourselves so destitute of simple gratitude.

With Thomson & McKinnon

(Special to The Financial Chronicle)

DAYTONA BEACH, FLA.—Wallace J. Harpster is with Thomson & McKinnon, 105 Broadway.

Joins A. M. Kidder Staff

(Special to The Financial Chronicle)

MIAMI, FLA.—George Tavantzis is now connected with A. M. Kidder & Co., Alfred I. duPont Building.

R. F. Griggs Adds

(Special to The Financial Chronicle)

WATERBURY, CONN.—Stanley Duane is with the R. F. Griggs Company, 35 Leavenworth Street.

As We See It

(Continued from first page)

terests, could by some magic process be welded into anything approaching a real "United States of Europe."

Day-Dreamers to the Fore

Of late years, however, in this country, and in some other important countries, the day-dreamers have been in the saddle. We appear to be in the midst of one of those cycles of popular thinking when a program—preferably a radical, if not revolutionary, program—to change all things forthwith appears to be generally regarded as essential to "constructive" thought. Two world wars have given impetus to this type of philosophy both here and abroad. Under our leadership—we had almost said compulsion—the war in Europe was fought "to a finish," and in the process untold destruction was inflicted, leaving millions of people quite incapable for a time at least of avoiding plain starvation. This state of affairs led us to feel that we, about the only first rate power on the globe with resources sufficient to the task, were under obligation to see that these people at least were saved from extermination by want until such time as they could become self-supporting again.

It also soon became apparent, as should have been fully anticipated, that our former ally under the rule of the Kremlin had vast ambitions throughout the world, particularly in Europe, and that the state of affairs we were responsible for creating in that land made easy victims for the Soviet imperialists. It was, of course, obvious that a united Western Europe was essential for any very effective military resistance to Russia, particularly if the "integration" was both economic and military. Here then was a situation which could scarcely fail to revive with great vigor in this country the notion of a "United States of Europe."

A Visionary Idea

But it has now become quite evident that, however natural or even inevitable all this must be regarded, the notion, as we have conceived it, is not of this world. Even the specter of the aggressive communists to the East is not enough to weld these disparate peoples into anything resembling a nation or a close confederation of nations. It is clear, moreover, that in several of them, the communists themselves have so infiltrated as to make any such task doubly difficult, since it is obviously not to the interest of the Kremlin that any such development occur. It is also obvious to the European, steeped in his local traditions, suspicions, distrusts and special interests, that we have no real understanding of European conditions and problems. What is equally bad is the fact that any continued pressure by the United States of America in advocacy of such a development in Europe is inevitably interpreted widely in those lands as "foreign interference" with domestic matters—and foreign interference at that by a nation geographically far distant.

Now, of course, the hope of success for the Marshall Plan, so-called, was in very substantial part founded upon the notion that, economically speaking at the least, Western Europe would take very considerable strides in the direction of becoming "one world" as it were. It has always been more than doubtful whether the ideas and the ideals of the European Recovery Program would or could succeed in any event any more than the Economic Recovery Program of the New Deal had done a decade or more earlier in this country. But it is now obvious that the premises upon which hope of success rested are not going to be realized in any very large degree. The temptation doubtless is to bring additional pressure upon these countries by means of grants and the like, but it may well be doubted whether any such course will succeed.

Earlier Errors

Of course, this situation will not be clear in all of its basic elements if another error of our thinking is not fully borne in mind. This has to do with the nature of conflict which broke out when Germany attacked Russia after having run over most of the remainder of Europe, or perhaps we should say when Germany attacked Poland in 1939 or even earlier. It was popular to say and to think in those early days that the world was confronted with a unique dictator in the person of Hitler, who had ambitions to conquer the world, that he had managed to make peace with, or perhaps to make cohorts of, two other unprincipled tyrants and thus clear his path of important obstructions which had hampered many of his predecessors.

The cry in 1917 had been to make the world safe for democracy. It was not long after World War II broke out—indeed the process in one sense had begun

in early years—when under the leadership of President Roosevelt we were told that the world had to be saved from Hitler. When the thieves fell out (as in this case they would surely have done in any event) we soon made heroes of one of them and ultimately gave of our life's blood to enable one of them to overcome the other in the vain and foolish notion that in this way we had "liberated" or "saved" the world.

The dilemma by which we are confronted in Europe is a direct consequence of this earlier blunder. Whatever we may do in existing circumstances, it is to be hoped that we first look about us with eyes capable of seeing the realities.

How European Adjustments and U. S. Aid Affect Our Economy

(Continued from page 22)

adjust to a weakened international position.

(2) In view of the gold movements of the period, the economist might have expected price adjustments which would have corrected the dollar shortage. Despite large loans and gifts, the pressure on dollar markets was reflected in large rises in the American gold supply. In 1913, gold reserves in this country were but $1.2 billion, or 25% of the world's total. By the end of 1948, this country's $24,5 billion of gold reserves amounted to more than 70% of the world's reserves.

Actually, despite these gold movements,[7] prices did not rise sufficiently vis-a-vis the rest of the world to induce a balance in the dollar account. In Europe the explanation of the disappointing decline in prices was largely rigidity in wage, capital, and government costs and (related) rigidity of prices. The inflowing gold was not however, sterilized here as was often contended by European economists. Surely a rise of all bank deposits from $12 billion in June, 1914 to $161 billion in December, 1948 does not suggest sterilization. The failure of prices to rise adequately is explained by other considerations — note a sevenfold rise in bank deposits and one of but 1½ times in wholesale prices.[8]

Why was the rise of prices in this country so modest? First, because of the much greater increase in product and transactions—thus the gross national product in dollars rose almost four times. Therefore, in part the rise in monetary supply was absorbed in the demands made by increased output and transactions. In part, the explanation lies in the tendency of the public to increase its proportion of cash holdings to national income as the standard of living rises. Whereas the volume of deposits was but one third of the national output in 1914, it was two thirds in 1948. The large rise in monetary supplies, both relative to price movements and relative to output, reflects the large relative absorption of cash in an advancing society.[9]

(3) Failure of price adjustments under a gold standard is not an adequate explanation of disappointments with price movements. Countries short of dollars did not have to rely upon direct assaults upon costs in order to depress prices. They could reduce prices of their products abroad and raise prices of their competitors at home by allowing their exchange rates to fall.[10] Actually, depreciation and devaluation policies have not been so effective as they might have been, *inter alia* because the countries requiring this medicine to correct disequilibrium have not been allowed to take full advantage of their aggressive exchange policies. Consider the American devaluation of 1933-34, which erased part of the gains of European devaluations of the thirties. Domestic pressures might have justified our policies; but our international position did not require a devaluation of the dollar.

Similarly, it is doubtful that Western Europe will be able to solve her current imbalance by devaluations. In part the explanation is that devaluation is of little use unless it is implemented by the measures which will reduce Europe's imports and raise her exports vis-a-vis overseas countries by $5-$6 billion. or about 5% of her income. Europe will have to consume less and save more and (or) cut investments by $5-$6 billion. A rise of output will help; but only if it is not accompanied by a corresponding rise in consumption and investment. The recourse to the pricing incentive (devaluation) will make it somewhat easier for the planners of Europe to move labor and capital into the required international industries. But if consumption and investment are to be kept in bounds, then prices must not rise substantially. That means appropriate wage, profit, tax and government spending policies. Whatever the merits of the Welfare State, the advance must be slowed up if dollar equilibrium is to be achieved.

Even given the favoring circumstances of increased output, proper monetary, income tax and spending policies, the success of this new devaluation in solving the dollar problem depends upon extension of European markets and that, in turn, depends upon United States tariff, subsidiary and exchange policies. Europe will not balance her accounts if their efforts to double sales here, and much more important, in other non-participating countries is countered by a devaluation of the dollar (1933-34 is a reminder), excessive farm subsidies, dumping of America's industrial products abroad at less than full costs. The dangers here are genuine, especially should depression develop here.

(4) Another and related explanation of the persistent shortage of dollars is the failure of Europe and the outside world generally to capture an adequate share of the United States market. This is in part due to the fact that with large losses of invisible income, with large demands for imports both because of the devastation of war and the large import requirements of full employment economies, and (recently) high prices of imports, the European countries' exports have to rise greatly *vis-a-vis* imports. Thus, the British goal for 1952-53 is coverage of 92% of imports with exports; in 1933, the corresponding percentage was 64%.[11]

This failure to capture American markets is in part due to the increased importance of services in the national income. Since, with a rising income, an increasing percentage is spent on services and since services are less important in international than in domestic trade, the gains of imports with rising income are correspondingly disappointing. I do not believe that United States tariff policy, at least since 1933, can largely account for these failures to pierce the American market.

Whatever the explanation, the facts are clear. For example, whereas United States real national production is 1948 relative to 1929 or 1937 rose by two thirds since the pre-war, imports in real terms rose by but 5%. Again, of $27.1 billion of U. S. consumption of 55 manufactured products in 1937, Europe accounted for but $161 million, or 0.6%. The corresponding figure for 1948 is estimated at 0.2%. Again, in the second quarter of 1949, the United States purchased 707 out of 61,300, or little more than 1% of the total automobiles exported by the United Kingdom. Yet this country accounts for almost one half of the world's income and a much larger percentage of the world's automobiles.

These are serious problems. Europe might expand her overseas exports by 60% and still experience a dollar deficit of $3 billion. Yet all of Europe's exports to the United States in 1948 were but $1 billion and of the United Kingdom, less than $300 million. Even a 20% cut in dollar prices would still require a rise of 400% in exports to the United States. Obviously, the major gains would have to be made elsewhere.[12]

(5) Another point of considerable importance in explaining the continued dollar shortage is that even when foreign countries begin to approach the goal of dollar equilibrium, the goal somehow moves away. In part the explanation is the steady relative gain of productivity in this country. Thus, from prewar to 1948 industrial output per man in the United States rose by 27%; in Europe declined by 10%; in agriculture, the rise in the former was 75%, the decline in the latter even more than for industrial output. That explains why, though wages in 1 out of 13 countries in 1947 and 7 out of 9 countries in 1948 *vis-a-vis* 1938 had risen substantially less than in the United States, the average hourly earnings adjusted for changes in output per man had risen 42% in 1947 and 29% in 1948 more in Europe than in the United States.[13]

(6) The position that disequilibrium can continue for long periods of time because the United States maintains technical superiority and advances more rapidly and because wage adjustments are sluggish has become increasingly popular. According to one economist, the varying income elasticities of demand for imports contribute towards this continued disequilibrium.[14]

IV
Recent Adjustments

By 1948, Europe's trade, both exports and imports, was below prewar in 1938 dollar volume. Indeed, both exports and imports in relation to overseas countries were once above prewar. In 1948, Europe had reduced its deficit with overseas countries by $2 billion—primarily by a rise of $2.2 billion in exports. An improvement in invisible account (mainly shipping) of $0.7 billion was offset by a rise of $0.9 billion in imports. But the adjustments with the United States did not follow the general pattern with overseas countries: imports from the United States declined by $1.3 billion, and exports to the United States rose by but $0.2 billion. These figures point to the vigorous efforts made to save dollars as well as the difficulties of expanding exports to the United States—the latter undoubtedly related to the greater profitability of sales in Europe and other non-European countries That Europe's industrial production should rise by 16% and exports to the United States remain relatively unchanged—a small rise in exports substantially offset by a rise in export prices—stresses the obstacles confronting Europe in its campaign to sell more to this country. Another way of putting the problem is to compare a rise in 1948 of $9 billion in national income for Europe (excluding U.S.S.R.) in 1947 dollars and an increase of less than $200 million in current dollars and about $100 million in 1947 dollars in the export trade to the United States The $100 million was about 1% of the gain in national income. In short, Europe (exclusive of U.S.S.R.) used but 1% of her rise of total output to expand exports to the United States.[15]

Even by 1948 Europe's trade, both exports and (91% of 1938) and imports (88% of 1938), was still below prewar. Britain's heroic efforts however, were reflected in a rise of exports of 47% over prewar and a reduction of imports of 20%. By the end of 1948, the British had wiped out a $3 billion deficit that had prevailed in 1947. This means also that whereas in 1947 the British had financed 35% of her investments through an excess of imports by the end of 1948 they were on their own. For the entire year 1948, gifts and loans from abroad and sums realized by sales of foreign assets were but $120 million, or 6% of gross domestic capital formation; in 1947, $630 million, or in excess of 30%. For 1949, the forecast was exclusive reliance on domestic savings.[16]

Figures below show both the large gains of the United Kingdom in pushing exports to overseas countries and the general pressure in Europe to restrict imports from the United States and overseas countries. This is a pressure which, as already noted, vexes American export interests; but in a highly inflationary economy the damage was not so great as it would be under depressed conditions.

Trade Relations of Europe and Overseas Countries
Volume—1938=100

	Exports to 1947	Exports to 1948	Imports from 1947	Imports from 1948
UNITED KINGDOM—				
Vis-a-vis Canada and United States	95	128	126	86
Vis-a-vis all overseas countries	115	145	100	98
EUROPE—				
Vis-a-vis Canada and United States	70	91	192	137
Vis-a-vis all overseas countries	81	105	114	107

Source: Adapted from Economic Commission for Europe, *Economic Survey in 1948*, pp. 66-67.

Plans of the OEEC countries reflect continued efforts to cut imports from this country; and once more point to the important decisions that will have to be made in the next few years. Although total imports (constant prices) of these countries are to rise, their imports from North and Central America are to decline from $7.3 billion in 1947 to $3.8 billion in 1952-53, a decline in volume of 48% of 1938.

From 1947 to 1952-53, exports from OEEC countries to the outside world are to rise from $5.4 to $10.6 billion; those to North and Central America are to rise from $1.05 billion to $2.10 billion. The United Kingdom anticipates $1,455 million of exports and reexports to the Western Hemisphere for 1952-53, or $800 million or 120% above that of 1947. Of this rise of $1,200 million, the United States is to account for $145 million ($195 to $340 million). Imports from the Western Hemisphere over this period are to decline from about $2,900 to $1,900 million.[17]

According to the "Economic Commission for Europe," Europe's exports expanded by 30% per annum over the years 1947 and 1948. An increase of similar proportions in the years 1949 and 1950, plus an improvement in invisible transactions of $600-$800 million, would balance Europe's international accounts. When viewed in relation to a 10% annual rise of industrial output in the last few years, the amounts do not seem very large Overseas exports were but 15% of Europe's industrial output. Crucial would be the movements in terms of trade. In 1948, the improvement would have been not $2 but $3 million had not terms of trade deteriorated. Another adverse movement of 10% would require a rise of exports of 30% additional.[18]

7 Federal Reserve Board, *Banking and Monetary Statistics (BMS)*, 1943, p. 542, and *Federal Reserve Bulletin (FRB)*, August, 1949, p. 1008.

8 *BMS*, p. 17; *FRB*, August, 1949, pp. 955 and 989; and Bureau of the Census, *Historical Statistics of the United States*, 1949, p. 233.

9 *Basic Facts of Employment and Production;* Report of the Committee on Banking and Currency, September, 1945, p. 11; and *Midyear Economic Report of the President*. July, 1949, p. 87.

10 Cf. my *Exchange Depreciation*, 1936, Chapters 1 and 2.

11 H. M. Stationery Office, *European Cooperation:* Memorandum Submitted to *OEEC Relating to Economic Affairs, 1949-1953*, Cmd. 7572, 1948. p. 41; *United Kingdom Balance of Payments, 1946 to 1948*, Cmd. 7648, 1949, p. 3.

12 *Economic Survey of Europe in 1948*, pp. 218, 221, Table 16; British Information Service, *Labor and Industry in Britain*, September, 1949, p. 141.

13 *Economic Survey of Europe in 1948*, pp. 107, 226.

14 D. J. Morgan, "The British Commonwealth and European Economics Cooperation," *Economic Journal*, 1949. pp. 307, *et seq.;* C. Kindleberger in S. E. Harris, *Postwar Economic Problems*, 1943, pp. 376-381; *Foreign Economic Policy for the United States*, 1948, Part V; and "Dollar Scarcity," *Economic Journal*, June, 1947, pp. 165-170.

15 *Economic Survey of Europe in 1948*, pp. 97, 112, 235.

16 *Ibid.*, p. 58; H. M. Stationery Office, *Economy Survey for 1949*, Cmd. 7647; and *National Income and Expenditures of the United Kingdom, 1946 to 1948*, Cmd. 7649, p. 17.

17 *Economic Survey of Europe in 1948*, p. 191; and United Kingdom, *European Cooperation; Memorandum Submitted to OEEC . . . 1949 to 1953*, pp. 41-43.

18 *Economic Survey of Europe in 1948*, pp. 211-213.

Conn. Light & Power Securities on Market

Offering was made Nov. 22 of $10,000,000 first and refunding mortgage 2¾% bonds, series L, due 1984, and 100,000 shares of no par value $2.04 preferred stock of the Connecticut Light and Power Co. An underwriting group headed by Putnam & Co., Chas. W. Scranton & Co., and Estabrook & Co. is offering the bonds at 102.23%, plus accrued interest to yield 2.65% and the stock at $51.50 per share, plus accrued dividends to return 3.96%.

Proceeds from the sale of the bonds and preferred stock, together with other funds will be applied to financing the company's extensive construction program, started in 1948 and extending through 1951. This program includes construction to reestablish normal capacity reserves by 1951 and to meet the demands upon the company for electric, gas and water service.

The series L bonds are redeemable at prices ranging from 105.10% on or before Oct. 31, 1950 down to 100% after Oct. 31, 1983. The new preferred stock will be redeemable at $54.50 per share on or before Nov. 1, 1954; then at $52.50 per share on or before Nov. 1, 1959, and at $52 per share thereafter, plus accrued dividends in each case.

The Connecticut Light and Power Co. engages principally in the production, purchase, transmission, distribution, and sale of electricity and gas for residential, commercial, industrial, and municipal purposes in the State of Connecticut.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Current rally heartening to hesitant bulls. Continue sidelines despite "up" signs.

Markets such as last week can give you heartburn, ulcers, not to mention losing your friends and acquaintances. I hardly sent last week's column in when the market up and turned around, leaving me with a handful of theories to hold on to.

* * *

I've seen such markets before. I know how aggravating, not to mention, sickening, they can be. The one major sin is to get out before a new move starts. I suppose I can account myself lucky that I'm still in on the long side. But markets that zig up one day and zag down the next, show a basic weakness that in itself is indicative of danger.

* * *

In climbing back through the old highs and establishing a new high on the move (at least in the industrials) the market has made a lot of new friends. In fact the friendliest souls are those who weren't long of them last week or the week before, but who are now on the verge of stepping in on the long side. A few more days of strength and the die will be cast. Whether such new participation will mean a beginning of of a new up move remains to be seen. A hungry public on the rampage isn't one to trifle with.

* * *

I realize the foregoing sounds like a complete turnabout in my advice. Before you're convinced of it, let me hasten to add, that while I do not shrug off the obvious, I do not believe this market is going up much further than you have already seen.

* * *

If you're a follower of the Dow Theory you've already read, or heard, that the rails now have to go up through their March highs to confirm the action of the industrials. The March rail tops were 49.60. At this writing they're about 48.80. Obviously adding another point and half or so doesn't seem an insurmountable task. The chances even are that this may be accomplished before the market is many days older.

* * *

But even if it does, I have a suspicion it may well be the signal for a reversal in the senior average with resultant headaches to late comers.

* * *

Some weeks ago I quoted brokerage sources to the effect that even though the averages were up the majority of accounts didn't show the same rate of gain. In fact many accounts held stocks at or near the old tops. The recent gain has merely brought these accounts up to a position where they're about even, minus the commissions and taxes. I'll agree it's encouraging, but no more than that.

* * *

American Smelters managed to hold at the 47 stop price, so you're still long. Denver Rio Grande got down to 26½ and is still in the long list. Until either breaks its stop, advice is to hold, but no new commitments.

More next Thursday.

—Walter Whyte

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

What's Ahead in Business?

(Continued from first page)

and a half years. Lost production will now have to be made up during the winter months which would normally have been slack. Such activity is likely to put off any further normal slide in business; if one is in store. Add to this the uncertainty as to what the government will pull out of the hat next and the result is a clouded economic horizon. Anyone attempting a forecast at this time is, as one economist has put it, "likely to get caught with his predictions down." Your program committee, however, had the foresight to get me sewed up last August, so here I am to discuss with you my concept of "Where Do We Go From Here?"

The businessman who recently looked over the receding volume of business in his company, and optimistically observed that at least business was 10% ahead of what it probably would be next year, was perhaps hitting as nearly as anyone on the true situation of business today. 1948 was a phenomenally good year, one of the best we are likely to see in some time to come and better than any for the several years immediately preceding. Total business for 1949 is likely to end up as less than it was in 1948 and probably 1950 will be below 1949. Yet these are tremendously prosperous years as judged by pre-war standards—years supported by a large backlog of capital needs and a high and well distributed purchasing power. The continuing government policy of fostering social security plans, encouraging high wages, and paying large subsidies for agriculture is likely to hold the consumer ability and willingness to spend at high levels. Also the continuing cold war makes the government spend more for defense as business expenditures slacken and this is a sustaining factor in our economic activity.

Except for temporary adjustments due to the strikes, the business climate on the whole is good, with overall industrial production only a little more than 11% below the 1948 highs and building showing an increased activity. According to figures supplied by the market research department of the Paraffine Companies, California home construction will reach a 24 year high this year. For the first nine months of this year, California with 7% of the nation's population, produced 12% of all new construction. Public construction was 44% above 1948 for the first six months of the year.

The nation's full year retail sales including automobiles and television sets are likely to remain at relatively high levels for the balance of 1949 and when the picture is all in will probably be off only about 8% from 1948. California department store sales for the first nine months of this year were 7% below 1948. In northern California, they were off only 3%. An interesting feature of retail trade this fall is that unit sales in many lines are topping last year although dollar sales and profits are less, due to reduced prices. The typical situation in retailing today is that stores are taking shorter mark-ups to preserve volume. (They are selling for $2.95 what sold last year for $3.95.) The old competitive situation of not being undersold on identical merchandise is back with us 100%. The retail outlook for early 1950 is relatively good, however, with GI insurance refunds bolstering sales. It is probable, however, that automobile sales, which have been such a sustaining factor in retail trade this year, will be lower in 1950. It is obvious at least that the stock market operators think so, as shown by the fact that on Oct. 14, short selling in the market reached a 17-year high, and that 11% of the total short interest was accounted for in the automotive shares.

It is quite generally recognized that we are back in a buyer's market for cars, but there is one important difference in the present buyer's market as distinguished from former markets. The present market has a much higher break-even point for the industry than markets in the past. Automobile manufacturers have been doing a record volume of business, but despite the record output, profit margins are much the same as in comparable volume periods before the war. Thus, recent Pacific Finance Corporation figures on automobile manufacturers operating profits as a percentage of sales, computed before depreciation and income taxes, show General Motors making 20.4% in 1936, 22.1% in 1941 and 20% in 1948. Chrysler's figures are: 13.1% in 1936, 10.7% in 1941 and 10% in 1948. Any price cuts on cars that may be ahead are likely to be forced by competitive pressure rather than through ability to lower costs. It is going to be very difficult for any of the companies to reduce prices and still maintain a profit in the face of high material and labor costs. This situation is not peculiar to automobile manufacturers either, but can be applied to all industry.

Over a long period of years productivity per-man-hour has been increasing through technological improvements and better operating methods. But the process is a relatively slow one and has improved only approximately 8% in the last 10 years. In the same period, the trend of wage costs per unit of production in manufacturing has advanced more than 13 times as fast as productivity increases, with the resultant lifting in prices at which goods must be sold.

Inflation Prospects

Fears of inflation are rising again with our unbalanced budget and increased government spending, but we still have our huge production potential and tremendous farm output as powerful anti-inflation forces. Also the current year's deficit in the government is offset by a decline in business spending, and our downtrend in business captial expenditures is definitely deflationary. Although inflationary dangers are still present, with our large bank credit base, as long as government deficit financing is no greater than it is and business borrowing is as limited, the danger of a devastating inflation spiral is not an immediate short-run danger.

The long run is something else again. The fundamental economic undercurrent in the United States is inflationary, not just this year, this decade, nor this last 50 years. A large democracy always finds it easier to spend than to impose taxes. It usually finds it easier to yield to political pressure groups than to stand up to them. Ordinarily these inflationary processes are so gradual and so mild that you hardly notice them, but in the last 16 years we have had a war and a New Deal, both of which begat some husky, highly articulate and extravagant offspring in the form of a tremendous national debt, rampant trade unionism, and a farm population that has discovered you *can* have your cake and eat it too, as long as you don't worry too much about the future.

For those who would like to see political action to throw off the yoke of government activity in our economic affairs, it is discouraging to hear from no less a person than our ex-President Mr. Hoover that every eighth person in our working population is a government employee. According to Mr. Hoover, those of us who were taxed $200 for government service in 1929, now pay $1,300 or six and one half times what we did 20 years ago. It seems that wherever the government takes a hand, everything becomes more so.

Politics and economics usually don't mix too well. As you know, Dr. Nourse recently resigned as head of the President's Council of Economics Advisers because he observed that the President was playing politics with the Council. Instead of following the economic suggestions of the Council, he was seeking the political angle first, and then an economic justification for it. Economic laws don't respond to that kind of treatment. Any self-respecting economist knows it and is likely to react just as Dr. Nourse did. He realized that you can't take out more from the national economy than you put in to it, or as one of San Francisco's newspaper editors has remarked: "Dr. Nourse knows that two and two make four — not seven."

The current trend of political manipulation makes me think of the story of the desert thief who was brought before an Arab sheik for punishment. The sheik sentenced him to death, but the thief pleaded for leniency promising the sheik that if he would give him a year of grace, he would teach the sheik's prize camel to talk. The sheik agreed that if the thief could make the camel talk it would be worth sparing his life and granted him the year's moratorium. As he was led away, one of the thief's comrades ridiculed him for making such a foolish commitment, saying, "You know you can't make that camel talk."

"Of course I can't," said the first thief, "but in a year's time the camel may be dead, or the sheik may be dead, or I may be dead." It seems to me that some of our political leaders operate in about the same fashion. When the time comes for paying up on some of today's extravagant socialization programs, the perpetrators will have disappeared from the scene. Unfortunately, we the people will still be around to cope with them.

Government Power to Prevent Depression Means Loss of Freedom

In answer to those who believe a depression can be prevented through government intervention, I can only say that when we give the government the amount of power necessary to prevent depression we shall also have given away so much individual freedom, that free enterprise will be a thing of the past. A government which undertakes to run the economy has to set up a lot of controls. We see it happening to our agricultural economy today. In order to get agricultural votes, the government has gone along with a policy of high food prices, but now it finds that in order not to go completely bankrupt in the process, it must control what the farmer can produce. And so the whole economy gets more and more involved, until we are all in danger of being confounded in a maze of complexity.

In the face of at least a $5 to $8 billion deficit in government spending this year, the prospect for higher taxes next year should not be ignored. Since additional taxes on individuals are unlikely in a Congressional election year, it is probable that the Administration will again pump for tax levies on corporations. Corporations don't vote. In this connection I would like to read you an excerpt from an editorial by William E. Robinson, Vice-President of the New York "Herald Tribune."

"A man of my acquaintance happens to be a capitalist. This man is now 64 years old. He has accumulated a very large fortune, and has retired from active business operations. A poor boy from a poor family, he was well equipped with initiative, imagination, ambition, an appetite for responsibility, and an enormous capacity for work. He started with a meager education but he repaired that as he went along. He built a big business from nothing, and, out of profits, he helped build other big businesses.

"He recently asked me what I knew about the newsprint industry. He referred to the recent reports of government surveys made of the timber in Alaska in an effort to determine the possibilities of building newsprint mills in the new and undeveloped land. I told him that, for an investment of around $30,000,000, he and his associates could build a newsprint mill that would produce around 100,000 tons a year. At current prices, that would give him gross sales of roughly around $9,000,000. On the $9,000,000 worth of sales, there would be a gross profit, before taxes, of around $2,500,000. After taxes, he would have available for dividends $1,500,000 net profit.

"Out of his $1,500,000 in dividends, the government gets another $1,270,000 in income taxes—since my friends and his prospective partners would be in the 85% tax bracket. So, in that first year of operation, they have $230,000 net after taxes; and the government has, in taxes, $2,270,000

—a million from corporate taxes, and $1,270,000 from income taxes.

"Now assuming there is no recession in business, and the market for newsprinte stays up, the owners will take out in the first ten years, net after taxes, $2,300,000 net profit. The government, in corporate taxes and from personal income taxes, will have taken $22,700,000 in those ten years.

"The owners have taken all the responsibility and all the risks. The government has taken ten times the profit of the owners, with no risk, no responsibility—

"But the government is not through yet. If, in ten years, one of several of the partners died, it may be necessary (since they are in the 70% inheritance tax bracket) to sell the mill to pay such taxes. The government at that time appraises the property at around $25,000,000; and on its sale collects another $17,500,000. So that now the total of the government's 'take' in taxes of all kinds is over $40,000,000.

"Here is how the tax legislation now on our books works to destroy all incentive for future investment in expanding American production. Here is a method of nationalizing future industrial developments by a system of confiscation. With this, out goes incentive—one of the main elements in the American character which produced the American system.

"Now I don't ask you to shed any tears over my rich friend or his colleagues. He needs no sympathy from you or me. But *we* need *him* and his capital. He's still got his money, and we are out a new industry. What he represents is absolutely necessary to a continued growth and evolution of the American production system.

The Administration leaders while speaking for the need of a sound and prosperous economy out of one side of their mouths, persistently ridicule and disparage business and the productive enterprises from which that soundness must derive. Reference is constantly made to the profits of industry as being detrimental to the welfare of the people when as a matter of fact it is out of industrial profits that the life of the country is sustained

Wrong Attitude on Corporate Profits

A note of warning should be sounded against the growing attitude in many quarters that corporate earnings are non-essential, and that a company that is successful profit-wise should be ashamed of itself. Business is going to have to undertake an educational job to emphasize the indispensebility of profits as the main spring of progress and the successful operation of our economy. The President of the McGraw-Hill Publishing Co. has made the following pertinent observation: "When you talk about $20 billion of profits for 1948, remember that $13 billion is being plowed back to provide workers with better tools, and better plant surroundings in which to work, and to make better products for all of us.

"The reinvestment of profits has made possible vastly improved living standards for all of us over a long period of years.

"When the Administration talks about raising corporate taxes, remember that Federal taxes alone already take at least 38 cents out of each dollar a corporation earns. Then if the company pays out to its stockholders any part of what is left in dividends, the Federal personal income taxes of the stockholders may take up to 77% of *those* dividends. Under these conditions, few people are willing to invest in industry. The stock market is so stagnant today that even with the highest of yields, companies are having great difficulty in raising money they need for improvements." (the so-called "venture" capital.)

"Business therefore has to rely more and more on plowed-back profits to pay for new plants and equipment." In 1948, 67% of investment expenditures by corporations was provided by internal funds and only 33% was outside money.

If you give profits the axe, you cut out the drive behind our prosperity just when we need it most.

Little by little we have crept nearer the goal of a socialized state during the past year, though the change is so gradual we notice it only in looking back.

The President asked for compulsory health insurance last January. He didn't get that, but he did get Federal Aid for hospital construction and the willingness of Congress to help finance medical schools.

The President asked for repeal of the Taft-Hartley Act. He didn't get that but he got a new floor under wages in the 75c minimum wage.

In connection with the constant agitation for more social benefits in this country, I would like to read a letter from an Englishman written to a friend in this country in thanks for a package of food he had just received and in answer to a letter discussing our economic and political situation. He says—

"My dear Steve:

"I have been so immersed in our wretched Steel Bill to nationalize industry that I have lost track of the passage of time. I was very interested in your last letter with the printed comparison between Russia and America. Although I quite agree with what was written, I don't really believe that there can be any serious danger of you in America going Communist. What seems to us a much more serious danger is that you might go Socialist in a feeble sentimental way like us.

"That is a real danger for all democratic nations. And I and a good many million other people in this country and in Western Europe are just about sick to death of it. Most of the Socialists (not the Communists; there are no Communists worth mentioning here) mean well, but Socialism means and can only mean a steady loss of liberty and a steady favoring of the thriftless and idle at the expense of the industrious, careful and enterprising people—I have had first hand experience—three hard years of it and I know. I don't believe it will go on indefinitely here, but unless we can turn the whole lot of them out in 1950, it may well go on long enough to do us such damage that we shall not recover in this century.

"It is our children I am sorry for. We at any rate can remember when we were free and honest. While we are old enough to remember better times our children are not; and you can't stop them from reading the papers, and the danger is that if they get used to it, they may come to think it is all quite normal.

"Everybody who has been in the States in the last year, tells me that it is like going out of prison into the fresh air, and that even in a week or two you feel better and stronger physically and mentally over with you.

"Largely that is a result they think of better food, but also very largely of true freedom. So take my advice Steve, and fight it with all your might. You aren't in any real danger from Russian ideas, but beware like the plague of the sloppy British brand of pink Socialism. Very few of us are in danger of being swallowed up by lava from a volcano, but we are all in risk of getting nastily nipped by the frost if we don't take care; and Socialism is everywhere in the air nowadays, just like the frost, and as deadly to all the pleasant cultured things we value so much."

By now you must be well aware that I have approached the topic this afternoon from the standpoint of a dyed in the wool, stamped in the cork, blown in the bottle Republican.

Devaluation's Effects

Let us turn now to the matter of foreign currency devaluation and its probable effect on our economy.

Devaluation of foreign currencies will probably stimulate U. S. imports, while exports will be off somewhat, though the drop will be cushioned by continuing foreign aid. So far as our having a rush of imports from Great Britain, though, there are three factors likely to prevent it. One is the high production costs which existed in Great Britain before the recent devaluation, and about which Great Britain has done little and probably will do little in the fact of social trends in that country; another is internal inflation in Great Britain which will raise production costs even higher; the third factor is that a large part of the cost of foreign goods for our people is taken up by our distribution costs and profits margins, which tend to minimize actual production cost prices as the main factor in the final cost to the consumer.

It is not likely that the devaluation of the pound will be any long-term cure for British trade problems though devaluation may speed up sales for a while.

Britain's export problems are caused more by poor marketing practices than by high prices. Except in rare instances, the British have been poor merchandisers, reluctant to spend money for advertising and sales promotion.

Britain's biggest dollar getter has long been Scotch Whiskey, but that is largely because U. S. companies have done a whale of a job of merchandising to keep Scotch Whiskey near the top among whiskies consumed in the United States.

There has been an undercurrent of talk that now that other countries have devalued, we will wake up some morning and find our dollar devalued too. I would like to point out that such a happening is not possible without Congressional action, because the lowering of the gold content of the dollar is prohibited by law. Furthermore, devaluation of the dollar does not make sense. The whole purpose of the devaluation of foreign currencies in the first place was to bring the inflated foreign prices more in line with our prices, and thus stimulate trade. Devaluation of the dollar would nullify that process. If it comes, we will be on an accelerated inflation road indeed.

The Pacific Coast

Let us turn now to a brighter picture — the Pacific Coast and particularly California. You have heard about how the population in the United States has grown in the last ten years, but do you realize that 25% of the population growth of the whole nation has taken place right here in California. We are now second only to New York. There has been a 54% increase in the number of people in this state in 10 years. We are still getting new immigrants at the rate of over 500 every day. Two years ago census experts ventured the prediction that we would have a 10,550,000 population in this state by the end of 1949. Within the past month they have given out figures indicating a population right now of better than 10,665,000.

Increased population means increased business activity through the creation of new markets, assuming ability and willingness to buy. Our individual per capita wealth for the Pacific Coast States is from a quarter to a third above the national average. Furthermore our population, as measured against the rest of the country, is a young population and growing younger. We have more people in this area in the production age brackets 20-45 than the rest of the country—young men with coming families who have their mark to make in the world and who need new houses, home furnishings and what-not. People that move into a new area ordinarily spent as much in the first six months of their move as the old residents spend in six years.

The same spirit that made them move here is the spirit that induces them to buy and try new things.

Our home building program is faster, cleaner and more daring than elsewhere. We aren't afraid of innovation and have outbuilt all other States since 1941. The stability of business activity in the West has been greatly augmented by the growing diversity of interests in this area. The Pacific Northwest no longer hangs on lumber and the apple crop. A greatly expanded activity in paper, packaging and containers, new aluminum plants, food processing and numerous other industries are providing a broader basis for business. Idaho residents still have the potato on their license plates but they now go in for food processing and other industries in a big way. Utah now has steel to supplement its coal, cattle and sheep. Here in California, it is no longer citrust fruit, oil and the movies. We have flourishing wine, furniture, plastics and apparel industries, tire manufacturing and automobile assembly plants. The oil industry no longer provides just fuel and transportation but has blossomed out into a chemical development of tremendous proportions, turning out disinfectants, insecticides, fungicides, detergents, paints, glues, water proofing wetting agents and what not. The Standard Oil Co. refining plants at El Segundo and Richmond are set up to turn out over 500 diversified products stemming from petroleum. Western Air Lines is carrying East over 3,000 tons of flowers a year and at low rates nobody even dreamed about five years ago.

Then there is our great fruit and vegetable industry. We still produce most of the country's raisins, apricots, prunes, walnuts and figs. We supply 90% of the nation's wine production, 50% of the canned fruit, and 25% of the vegetable pack in addition to supplying 50% of the nation's oranges and 90% of its lemons.

California is the home of the mechanized farm and has 96% farm electrification. Our farmers are the biggest kilowatt hour consumers in the country. Yet for all our large farm activity we are the third state in the nation from the standpoint of percentage of urban population. Less than 20% of our people actually live on a farm.

We have more autmobiles than any other state and are so far ahead that New York will never catch up. Los Angeles runs Akron a close race in the manufacture of automobile tires.

In talking about products we must not forget our tourist crop, for it is these tourist visitors from which our population influx stems. The tourist who comes once, usually comes again, and when he comes the third time he stays for good. Surveys by the All Year Club of Southern California during the war showed over 15 million people itching for a chance to have a look at us as soon as transportation and destination were available. In Southern California every fifth dollar in the retail trade is a tourist's contribution.

Then there are the service industries. Fifty percent of business activity is in taking in each other's washing so to speak. When there are more people, there are just that many more services to be performed.

Of course, as you people in the utility industry are well aware, this population influx is not without its headaches. The need for more water, more utility facilities, more schools and hospitals, more highways and bridges; these are just a few of the civic problems created by this population influx promises to add up to 14,000,000 in this State by 1960. But it must be remembered that the meeting of these needs helps to keep business activity at a high level.

In conclusion on the overall picture, it may be said that conditions for a depression similar to that of the 1930's do not appear present at this time. In examining our many weaknesses we should not overlook our hidden strengths. The overstocked retail shelves of 1929, the heavy farm mortgages, over extended credit, low incomes, small savings, large unemployment and bank failures, are conspicuous by their absence. Consumer debt in relation to savings could be doubled today without exceeding 1940 ratios of debts to savings. Liquid assets of individuals still exceed $200 billion. Business activity next year probably will be within 5 to 8% of 1949 because the prolonged strikes this fall have pushed so much of 1949's business over into 1950. The Federal Reserve Index of Industrial Activity is likely to be in the low 160's as compared with the low 170's for this year. The forces for good business are strong in the immediately forseeable future, and particularly are they strong in the West and in California.

The 1920-21 dip made little impression on us out here. In the 1929 to 1933 slump Western income went down less than for the rest of the nation. In the 1937-38 recession the drop was 1/3 less severe than for the rest of the country.

One of the characteristic stories of the West is that of a Californian questioned by an Easterner during the 1920-21 depression.

"How", said the questioner, "is the setback affecting you out there?"

"Well," said the native son, after some deliberation, "We seem to be having a more than unusually quiet boom."

While some more cyclical adjustment is likely within the next couple of years, any downtrend in California is likely to be slower and the snapback faster than for the nation as a whole. Although business activity in California is currently 12% below 1948 peaks, it is well over 200% above prewar years.

The strength of this area lies in its rich and growing market, represented by a new and virile population growth, and characterized by original and thinking men and women whose living standards are substantially above the average.

Kenneth Sweet Opens Own Firm in Phila.

PHILADELPHIA, PA. — Kenneth S. Sweet has formed K. S. Sweet Investments with offices at the Western Saving Fund Building. Mr. Sweet was formerly with Hornblower & Weeks and Penington, Colket & Co.

Louis J. Urland With Ladue & Co., Chicago

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Louis J. Urland has become associated with Ladue & Co., 11 South La Salle Street. Mr. Urland was formerly in the Foreign Department of Turley & Tegtmeyer.

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)	Nov. 27	78.2	*57.4	0.9	99.2
Equivalent to—					
Steel ingots and castings (net tons)	Nov. 27	1,441,600	*1,058,200	166,000	1,788,100
AMERICAN PETROLEUM INSTITUTE:					
Crude oil and condensate output—daily average (bbls. of 42 gallons each)	Nov. 12	5,185,150	5,135,600	5,043,550	5,674,550
Crude runs to stills—daily average (bbls.)	Nov. 12	†5,127,000	5,314,000	5,324,000	5,769,000
Gasoline output (bbls.)	Nov. 12	17,686,000	18,460,000	17,978,000	17,811,000
Kerosene output (bbls.)	Nov. 12	2,092,000	2,114,000	1,865,000	2,665,000
Gas, oil, and distillate fuel oil output (bbls.)	Nov. 12	6,849,000	7,196,000	6,752,000	7,595,000
Residual fuel oil output (bbls.)	Nov. 12	7,814,000	7,723,000	7,659,000	9,069,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Nov. 12	103,577,000	104,257,000	102,767,000	91,795,000
Kerosene (bbls.) at	Nov. 12	27,622,000	28,399,000	27,758,000	26,413,000
Gas, oil, and distillate fuel oil (bbls.) at	Nov. 12	92,117,000	92,038,000	86,952,000	79,251,000
Residual fuel oil (bbls.) at	Nov. 12	68,527,000	69,192,000	69,081,000	62,415,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Nov. 12	635,823	578,981	583,913	871,679
Revenue freight received from connections (number of cars)	Nov. 12	516,163	518,055	506,766	705,416
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Nov. 17	$217,758,000	$111,289,000	$121,542,000	$123,240,000
Private construction	Nov. 17	117,449,000	47,002,000	62,894,000	59,946,000
Public construction	Nov. 17	100,309,000	64,287,000	58,648,000	63,294,000
State and municipal	Nov. 17	87,657,000	54,745,000	51,459,000	49,093,000
Federal	Nov. 17	12,652,000	9,542,000	7,189,000	14,201,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Nov. 12	7,100,000	2,680,000	2,390,000	12,370,000
Pennsylvania anthracite (tons)	Nov. 12	1,263,000	1,130,000	1,259,000	1,153,000
Beehive coke (tons)	Nov. 12	2,500	*2,400	1,800	147,600
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Nov. 12	316	*315	290	346
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Nov. 19	5,644,435	5,434,555	5,430,338	5,626,900
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Nov. 17	183	222	181	126
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Nov. 15	‡3.705c	3.705c	3.705c	3.720c
Pig iron (per gross ton)	Nov. 15	$45.88	$45.88	$45.88	$46.91
Scrap steel (per gross ton)	Nov. 15	$29.58	$28.92	$26.50	$43.00
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Nov. 16	18.200c	18.200c	17.325c	23.200c
Export refinery at	Nov. 16	18.425c	18.425c	17.550c	23.425c
Straits tin (New York) at	Nov. 16	95.000c	95.000c	96.000c	103.000c
Lead (New York) at	Nov. 16	12.500c	13.000c	13.000c	21.500c
Lead (St. Louis) at	Nov. 16	12.300c	12.800c	12.850c	21.300c
Zinc (East St. Louis) at	Nov. 16	9.800c	9.825c	9.250c	17.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Nov. 22	104.42	104.36	103.90	100.75
Average corporate	Nov. 22	115.24	115.24	115.04	111.25
Aaa	Nov. 22	121.25	121.04	120.84	116.61
Aa	Nov. 22	119.41	119.41	119.00	115.04
A	Nov. 22	114.46	114.46	114.27	110.15
Baa	Nov. 22	106.74	106.74	106.74	103.64
Railroad Group	Nov. 22	109.24	109.42	109.42	106.56
Public Utilities Group	Nov. 22	117.00	116.80	116.41	111.62
Industrials Group	Nov. 22	119.82	119.61	119.20	115.63
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Nov. 22	2.18	2.18	2.21	2.45
Average corporate	Nov. 22	2.89	2.89	2.90	3.10
Aaa	Nov. 22	2.59	2.60	2.61	2.82
Aa	Nov. 22	2.68	2.68	2.70	2.90
A	Nov. 22	2.93	2.93	2.94	3.16
Baa	Nov. 22	3.35	3.35	3.35	3.53
Railroad Group	Nov. 22	3.21	3.20	3.20	3.36
Public Utilities Group	Nov. 22	2.80	2.81	2.83	3.08
Industrials Group	Nov. 22	2.66	2.67	2.69	2.87
MOODY'S COMMODITY INDEX	Nov. 22	343.9	343.6	336.8	403.7
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Nov. 12	182,831	275,815	191,375	167,198
Production (tons)	Nov. 12	207,837	203,035	208,450	190,406
Percentage of activity	Nov. 12	94	92	94	96
Unfilled orders (tons) at	Nov. 12	444,302	469,423	422,552	394,769
OIL, PAINT AND DRUG REPORTER PRICE INDEX — 1926-36 AVERAGE=100	Nov. 18	125.6	125.5	126.1	144.4
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	Nov. 5	26,648	25,158	20,648	34,751
Number of shares	Nov. 5	784,627	769,079	625,857	1,035,773
Dollar value	Nov. 5	$31,314,619	$29,985,726	$23,460,428	$38,803,504
Odd-lot purchases by dealers (customers' sales)—					
Number of orders—Customers' total sales	Nov. 5	29,061	27,460	23,389	29,716
Customers' short sales	Nov. 5	166	190	182	212
Customers' other sales	Nov. 5	28,895	27,270	23,207	29,504
Number of shares—Customers' total sales	Nov. 5	787,732	776,194	654,991	894,510
Customers' short sales	Nov. 5	6,206	6,741	6,484	8,694
Customers' other sales	Nov. 5	781,526	769,453	648,507	885,816
Dollar value	Nov. 5	$27,614,340	$26,597,740	$21,501,537	$31,873,918
Round-lot sales by dealers—					
Number of shares—Total sales	Nov. 5	273,210	263,590	242,250	307,410
Short sales	Nov. 5				
Other sales	Nov. 5	273,210	263,590	242,250	307,410
Round-lot purchases by dealers—					
Number of shares	Nov. 5	273,020	253,810	215,070	359,200
WHOLESALE PRICES NEW SERIES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Nov. 14	151.5	151.5	152.1	164.0
Farm products	Nov. 15	156.5	156.7	159.6	179.3
Foods	Nov. 15	159.8	*159.3	160.5	175.4
All commodities other than farm and foods	Nov. 15	144.8	144.8	144.9	153.6
Textile products	Nov. 15	136.8	136.7	137.6	147.4
Fuel and lighting materials	Nov. 15	130.3	130.3	131.2	137.6
Metals and metal products	Nov. 15	169.4	169.3	169.2	173.6
Building materials	Nov. 15	189.4	*189.3	189.3	203.2
All other	Nov. 15	115.9	115.7	116.5	133.5
Special indexes—					
Grains	Nov. 15	154.1	154.1	152.1	172.7
Livestock	Nov. 15	187.8	191.8	197.1	225.4
Meats	Nov. 15	213.1	212.0	218.2	239.3
Hides and skins	Nov. 15	205.8	204.3	201.1	206.2

*Revised figure. †Includes 449,000 barrels of foreign crude runs. ‡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. §Reflects effect of five-day week effective Sept. 1, 1949.

	Month Latest	Month Previous	Ago Year
AMERICAN ZINC INSTITUTE, INC. — Month of October:			
Slab zinc smelter output, all grades (tons of 2,000 lbs.)	64,399	70,392	70,716
Shipments (tons of 2,000 lbs.)	51,761	70,077	67,402
Stocks at end of period (tons)	97,841	85,203	44,431
Unfilled orders at end of period (tons)	34,808	35,009	48,130
BANK DEBITS — BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM— Month of October (in thousands)	$101,848,000	$101,080,000	$107,141,000
BUSINESS INCORPORATIONS, NEW IN THE UNITED STATES—DUN & BRADSTREET, INC.—Month of September	6,867	6,828	6,930
CASH DIVIDENDS — PUBLICLY REPORTED BY U. S. CORPORATIONS — U. S. DEPARTMENT OF COMMERCE — Month of September (000's omitted)	$725,700,000	$139,600,000	$678,000,000
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD — Month of October:			
Total U. S. construction	$553,482,000	$810,309,000	$648,434,000
Private construction	280,662,000	403,478,000	347,593,000
Public construction	272,820,000	406,831,000	300,841,000
State and Municipal	225,442,000	316,290,000	232,963,000
Federal	47,378,000	90,541,000	67,878,000
COAL EXPORTS (BUREAU OF MINES) — Month of August:			
U. S. exports of Pennsylvania anthracite (net tons)	382,382	358,119	690,531
To North and Central America (net tons)	328,255	286,171	488,026
To South America (net tons)			
To Europe (net tons)	54,127	64,560	181,847
To Asia (net tons)		7,388	20,558
To Africa (net tons)			
CROP PRODUCTION — CROP REPORTING BOARD U. S. DEPARTMENT OF AGRICULTURE — As of Nov. 1 (in thousands):			
Corn, all (bushels)	3,357,618		3,650,548
Wheat, all (bushels)	1,126,226		1,288,406
Winter (bushels)	894,874		990,098
All spring (bushels)	231,352		298,308
Durum (bushels)	38,996		44,742
Other spring (bushels)	192,356		253,566
Oats (bushels)	1,321,075		1,491,752
Barley (bushels)	234,025		317,037
Rye (bushels)	18,831		26,388
Buckwheat (bushels)	5,240		6,324
Flaxseed (bushels)	41,153		52,533
Rice (bushels)	87,491		81,170
Sorghum grain (bushels)	131,784		131,644
Cotton (bales)	15,524		14,868
Hay, all (tons)	99,119		99,846
Hay, wild (tons)	12,339		12,848
Hay, alfalfa (tons)	37,725		34,083
Hay, clover, and timothy (tons)	25,678		29,309
Hay, lespedeza (tons)	8,107		7,627
Beans, dry edible (100-lb. bags)	21,007		20,833
Peas, dry field (100-lb. bags)	3,418		3,584
Soybeans for beans (bushels)	215,222		220,201
Peanuts (pounds)	1,845,705		2,338,470
Potatoes (bushels)	386,832		445,850
Sweet potatoes (bushels)	52,284		49,806
Tobacco (pounds)	2,004,358		1,981,730
Sorgo syrup (gallons)	6,195		7,625
Sugarcane for sugar and seed (tons)	7,920		6,847
Sugarcane syrup (gallons)	11,955		13,790
Sugar beets (tons)	10,064		9,422
Broomcorn (tons)	43		30
Hops (pounds)	49,511		49,819
Apples, commercial crop (bushels)	133,388		88,407
Peaches (bushels)	75,114		65,352
Pears (bushels)	36,001		26,334
Grapes (tons)	2,856		3,044
Cherries (12 States) (tons)	230		214
Apricots (3 States) (tons)	216		247
Cranberries (5 States) (bbls.)	835		968
Pecans (pounds)	130,215		177,667
GRAY IRON CASTINGS (DEPT. OF COMMERCE)—Month of August:			
Shipments (short tons)	872,013	696,915	1,050,948
For sale (short tons)	445,381	341,657	597,678
For producers own use (short tons)	426,032	355,258	453,270
Unfilled orders for sale at end of month (short tons)	1,048,303	1,031,963	2,598,789
MONEY IN CIRCULATION—TREASURY DEPT. As of September 30 (000's omitted)	$27,412,379	$27,392,645	$28,117,874
MOODY'S WEIGHTED AVERAGE YIELD OF 200 COMMON STOCKS—Month of Oct.:			
Industrials (125)	6.19	6.39	5.93
Railroads (25)	8.35	8.66	6.20
Utilities (25)	5.99	6.06	5.80
Banks (15)	4.41	4.52	4.45
Insurance (10)	3.10	3.21	3.16
Average yield (200)	6.11	6.31	5.82
MOTOR VEHICLE FACTORY SALES FROM PLANTS IN U. S. (AUTOMOBILE MANUFACTURERS' ASSOC.)—Month of Sept.:			
Total number of vehicles	626,180	657,664	413,537
Number of passenger cars	534,493	557,370	301,170
Number of motor trucks	91,389	99,850	111,224
Number of motor coaches	298	444	1,143
NEW CAPITAL ISSUES IN GREAT BRITAIN—MIDLAND BANK, LTD.—Month of Oct.	£8,573,000	£4,267,000	£104,779,000
PORTLAND CEMENT (BUREAU OF MINES)—Month of September:			
Production (bbls.)	19,187,000	18,715,000	18,605,000
Shipments from mills (bbls.)	22,778,000	23,633,000	19,938,000
Stocks (at end of month) (bbls.)	10,799,000	*14,390,000	7,061,000
Capacity used	92%	87%	93%
TREASURY MARKET TRANSACTIONS IN DIRECT AND GUARANTEED SECURITIES OF U. S. A.—Month of October:			
Net sales	$1,659,950		
Net purchases		$4,572,750	$120,000
UNITED STATES EXPORTS AND IMPORTS—BUREAU OF CENSUS—Month of September (000's omitted)—			
Exports	$904,300,000	$880,700,000	$925,400,000
Imports	530,500,000	490,600,000	560,300,000
UNITED STATES GROSS DEBT DIRECT AND GUARANTEED—(000's omitted):			
As of Oct. 31	$256,805,409	$256,708,917	$251,553,319
General fund balance	4,737,054	5,698,886	3,995,156
Computed annual rate	2.222%	2.224%	2.235%
Net debt	$252,068,355	$251,010,031	$247,558,163

*Revised figure.

The Stock Market Upturn

(Continued from first page)

on this problem. It has happened in spite of history's best-advertised "depression," or "recession." What is more, it happened in the face of very disquieting occurrences.

Tariff reductions plus worldwide currency devaluations should be threatening to dry up American exports and to flood the domestic markets with foreign goods. Strikes of an amplitude almost equalling early 1946, should be no encouragement to investors or speculators. The fact that the fourth round of post-war wage increases is virtually succeeding in one form or another, if raising average unit costs by 5 to 10 cents per man-hour "only," would have been normally a highly discouraging factor. The same holds, and more so, for the reassertion of organized labor's monopoly-power, and of its ruthless use—Taft-Hartley or no Taft-Hartley Act.

The welfarism of Administration and Congress, together with war preparations and A-bomb explosions, ought to serve as warnings of what is coming sooner or later: higher taxes and far more regimentation: The shadow of over-production lengthens in the agricultural, mineral, and even in the industrial fields due to the extraordinary rate of capital investment at home and abroad. The obvious tendency to persecute Big Business for its bigness, if all other reasons fail, is a further symptom no conscientious diagnostician of the body economic would overlook.

But the stock market shows a resiliency which it did not show in two and one-half years of a record boom. Nay, it broke when the big strikes of 1946 were reaching their end and that boom got under way. Now, at the outset of big strikes, in the face of a somewhat reduced general price level, and of a near 30% decline of net profits so far this year against the same period of last year, the Dow-Jones industrial average has moved from a low of around 163 in 1946, and again in 1947, to over 193 at the latest count (Nov. 22). This meant a rise of about 30 points in scarcely more than two months.

Of course, stock market gyrations, like elections, are the resultants of mass psychology, the motives of which can never be ascertained. But if the boom prospects of 1946 proved to be chilly in effect, how can the moderate business upturn at present, one which might be purely "seasonal," radiate that much heat? If the market has discounted for years the prospective satisfaction of the pent-up demand and the "filling of the pipelines" — what would make any one think that new shortages or new demands have arisen in a volume that would justify a great expansion of production at good profits?

Apparently, something more incisive is at stake than the immediate, short-term prospects of business.

Perhaps this again is one of the futile attempts at recovery, several of which we have witnessed, such as the pre-election flurry of last year. For one thing, the market was heavily over-sold and the bears might have been running for cover. For another thing, the financial fraternity might be relaxing emotionally in the conviction that nothing much more unpleasant is likely to come from this Congress, or maybe even from the next one, than what already has been seen.

Whether or not the market depends on such short-range — or short-sighted—considerations, the fact is that its behavior pattern displays a definite and visible time-relationship to a basic element in our economic and social picture.

The war-time stock boom first indicated weakness in February or March, 1946. It quickly recovered, but a real break set in in May of the same year and thereafter. This was the time when it became evident to the close observer that Federal revenues were maintaining comparatively high levels, while military expenditures were being cut to the bone. And such expenditures constituted the essential element of war-time deficit in the nation's fiscal system. Add to it that with the ending of the war, with the apparent prospect of world-wide economic recovery (which was generally believed in until early this year), and with the sudden cessation of lend-lease, our foreign spending was supposed to stop, disregarding relatively minor and temporary disbursements.

In other words, the market went down in the expectation of a deflation. And the market was right. Roughly, the deflation lasted three years. As is generally known, the net national debt had been reduced by $8½ billion, taking the bonds out of the bank and Reserve System portfolios. Open market operations to deflate the liquidity of the banks added to the trend. It was further enforced by pressures exerted through loan examinations, by raising the bank reserve requirements, enhancing margin requirements for speculative and instalment loans, and so forth.

Early this year Mr. Truman proposed legislation to cope with inflation. By June, he had to reverse himself. In the meantime, the financial and monetary policies of the Federal Government had been reversed, too. The last fiscal year ended with a deficit of little less than $2 billion "only." That much could be paid out of the Treasury's balances without affecting the monetary volume.

But the Federal deficit is growing. It has passed a fresh $2 billion mark on October 1st, after three months of current fiscal operations. It is estimated conservatively that it will reach $5½ to $6 billion in another nine months. It may very well reach $8 or $10 billion. The essential thing to visualize is the fact that a very mild recession, with less than four million unemployed, sufficed to drive this country into raising further the mountainous national debt. Administration and Congress, Democrats and Republicans, farm interests and business, labor organizations and all sorts of pressure groups are united in that one idea: that a depression must not be allowed to happen!

Using the Printing Press

Most certainly, it cannot happen as long as the printing press can be used without danger of explosion. That much has become perfectly clear by this time, if not a month or two ago. That is the cornerstone of Welfare State, Service State, Full Employment, Womb-to-Tomb Security, Stabilized or Planned Economy, "economic dirigee," Laborism, Corporate State—by whatever name the philosophy goes that governs our lives and futures. It means, in effect, that wages have to rise above, and farm prices have to be maintained at or close to, "parity." That means, also, that profits cannot dry up, fluctuate as they may.

The reaction of the stock market was, and is a very slow one. For a long time, it did not understand; obviously, that in such an economic system deflation can be but a very short-lived experiment. But once the budgetary deficit reappeared, with every evidence indicating that it will stay with us for a long, long time—once reserve requirements had been lowered again, open market operations reversed in the inflationary direction, and credit controls relaxed if not removed (as in the instance of consumer loans)—the market regained its composure and self-respect, so to speak.

In short, the market is depressed, or dulled, while deflation is pending or is under way. And it is buoyant, or at least livened-up, if with interruptions, as soon as new inflationary shots-in-the-arm are being not only promised but actually delivered. Could it be that this parallel is a pure coincidence? I think that it provides a fairly rational explanation — and not merely a rationalization—of the otherwise scarcely intelligible behavior of the financial fraternity. If so, a new era of stock boom is ahead, which should not be surprising when the average yield on shares of common is around 8%. But such a boom is likely to carry with it low-grade bonds and presumably also real estate values, to say nothing of diamonds and similar "hedges." We shall see, before long.

May Be a Reversal of Policy

Uncle Sam migh reverse himself again, of course, and probably will do so when the new inflation's effects become "hot" and no longer make political capital. Or the profits may be taken out of the inflation, such as by price controls. But inasmuch as we do not expect collectivism to sweep this country in the visible future, every new deflation is bound to be followed by another inflation. That means violent swings but not of the normal, cyclical character. Rather, they might be called political or managerial cycles. They are likely to be short and sharp, much sharper than anything customary under the truly unmanaged and undirected gold standard of the now almost mythical pre-1914 age.

We have been told that the gold standard is incompatible with domestic and international stability, because it is dependent on haphazard movements of gold. In reality, the gold movements were not nearly as haphazard as they appeared to be to the ignoramuses shaping our monetary philosophy. Far more haphazard than anything that could be attributed to the gold movements are the contortions in politicians' thinking which in the 1920's we already substituted for gold movements, and which we embraced to a vastly increased extent in the 1930's and 1940's.

All of which adds up to more uncertainty than is good for the health of a soundly functioning capitalistic system. But given the prevailing circumstances and the underlying political trends, capital values which used to be hedges against inflation still retain, or again regain, that function if only in a more selective and time-bound fashion.

Contends Housing Act Provides for Treasury, Not Private Financing

(Continued from page 4)

on the money which the Treasury raised by deficit financing to pay so-called annual Federal contributions. Furthermore, the financing of the projects built under the 1937 Act is still mostly in the future. From that standpoint it is wrong to resort to that experience as a yardstick for determining the ultimate cost of the housing to be built under the Housing Act of 1949.

In any event, common honesty demands that the figure of $12,320,000,000 should be taken as representing the minimum cost of the low-rent housing program, at least until experience actually proves the contrary. This is especially true considering the large-scale deficit financing in which the Treasury is now involved, and more particularly the Law-Keynes philosophism of unlimited deficit financing via the printing press held by the political planners. The amount of annual appropriations, "contributions," provided in the Housing Act of 1949 that will be raised by deficit financing will become a part of the Federal debt and bear a fixed interest charge against taxpayers. This interest cost will have to be added to the cost of the housing projects.

But whatever the ultimate cost of this political housing may be it will not appear on the Treasury's public debt statement but as stated will be a hidden debt. It should not be overlooked that concealment of public debt is the cardinal symptom of financial and moral bankruptcy of "government."

Mr. Laemmel says:

"It will be a bond expressly exempt from Federal taxes by Act of Congress."

that the Housing Act of 1937, as amended, provides:

"'Obligations including interest thereon, issued by public housing agencies in connection with low-rent housng or slum clearance projects . . . shall be exempt from all taxation now or hereafter imposed by the United States.'" and that:

". . . Doubtless it means at minimum that interest on the bonds is exempt from income tax. . . . It will be a bond exempt from taxation by the States in which the issuing local housing agencies are located."

Why are these obligations exempted from taxation? Here is vividly exposed the basic artifice by which total political power over the economy, variously called Communsm, Socialism, Statism, New Dealism, Fair Dealism, Welfare State, etc., is being acquired in the United States. The stratagem consists in expropriating property of all producers and redistributing part of it in the form of subsidies—something for nothing—to individual producers on a selective basis.

Of course, since the political power has aggrandized itself at the expense of economic power to the point where investment opportunity in private enterprise is disappearing, persons still having savings to invest are perforce induced to invest at least some of them in political issues.

FREDERICK C. SMITH, M. C.
Washington, D. C.
Nov. 18, 1949.

Philip Wershil Joins David J. Greene Staff

David J. Greene, 60 Beaver Street, New York City, member New York Stock Exchange, announces that Philip B. Wershil, member of the New York Bar has become associated with him. Mr. Wershil will specialize in the study of special financial situations.

With Dean Witter & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Thomas M. McInerney has become connected with Dean Witter & Co., 632 South Spring Street. He was previously with E. F. Hutton & Company.

Joins Fairman Staff

(Special to THE FINANCIAL CHRONICLE)

SAN DIEGO, CALIF.—Steward Smith is with Fairman & Co., 530 Broadway.

Republic of Colombia Exchange of Bonds

A formal offer to holders of approximately $34,000,000 principal amount of outstanding bonds of certain Departments and Municipalities of the Republic of Colombia to exchange their securities for new 30-year 3% sinking fund dollar bonds of each debtor was announced Nov. 22 by Eduardo Zuleta-Angel, Colombian Ambassador Extraordinary to the United States. Holders of outstanding bonds are entitled to receive new bonds in the ratio of $1,200 principal amount of new bonds for each $1,000 principal amount of old bonds. The new bonds, dated July 1, 1948 and due July 1, 1978, are guaranteed as to principal, interest and sinking fund by the Republic of Colombia. Schroder Trust Co. has been appointed New York agent to handle the exchanges.

The offer is being made to holders of the following bonds:

(1) Department of Antioquia—7% 20-Year External Secured Sinking Fund Gold Bonds, dated July 1, 1925, due July 1, 1945, Series A, B, C and D.

(2) Department of Antioquia—7% 30½-Year External Secured Sinking Fund Gold Bonds, dated April 1, 1927, due Oct. 1, 1957, First, Second and Third Series.

(3) Department of Caldas—7½% 20-Year External Secured Sinking Fund Gold Bonds, dated Jan. 1, 1926, due Jan. 1, 1946.

(4) Department of Cundinamarca — External Secured 6½% Sinking Fund Gold Bonds 1928, dated May 1, 1928, due Nov. 1, 1959.

(5) Department of Santander—External 20 Year 7% secured Sinking Fund Gold Bonds, Series A, dated Oct. 1, 1928, due Oct. 1, 1948.

(6) Department of Tolima—External 20-Year 7% Secured Sinking Fund Gold Bonds, dated Nov. 1, 1927, due Nov. 1, 1947.

(7) Department of Valle Del Cauca (Cauca Valley)—20-Year 7½% Secured Sinking Fund Gold Bonds, dated Oct. 1, 1926, due Oct. 1, 1946.

(8) Department of Valle Del Cauca (Cauca Valley)—External Secured 7% Sinking Fund Gold Bonds of 1948, dated June 1, 1928, due June 1, 1948.

(9) Municipality of Cali — 20-Year 7% Secured Sinking Fund Gold Bonds, Dated May 1, 1927, due May 1, 1947.

(10) Municipality of Medellin —25-Year Extennal 7% Secured Gold Bonds of 1926, dated Dec. 1, 1926, due Dec. 1, 1951.

(11) Municipality of Medellin —External 6½% Gold Bonds of 1928, dated June 1, 1928, due Dec. 1, 1954.

E. T. Andrews Co. Adds

(Special to THE FINANCIAL CHRONICLE)

HARTFORD, CONN. — Gordon B. Pepion has become associated with E. T. Andrews & Co., 75 Pearl Street, members of the Boston Stock Exchange.

Income Funds Adds

(Special to THE FINANCIAL CHRONICLE)

NEW HAVEN, CONN.—George R. Williams has become affiliated with Income Funds, 152 Temple Street.

With Merrill Lynch Co.

(Special to THE FINANCIAL CHRONICLE)

SAN MARINO, CALIF.—John B. Huntley is now with Merrill Lynch, Pierce, Fenner & Beane.

Joins Smith, Ramsay Co.

(Special to THE FINANCIAL CHRONICLE)

BRIDGEPORT, CONN. — Mrs. Helen M. Whitney has joined the staff of Smith, Ramsay & Co., Inc., 207 State Street.

Postwar Problem of World Trade

(Continued from first page)

forward and backward. One is the complement of the other. There is a perfect meeting of minds. Yet the problem persists—Europe does not export enough, the United States does not import enough. Why is that, even though there is agreement on the goal? Why is the whole problem so important? What is it all about?

In the progressive sectionalization of our thinking, our work, our daily life, it is very difficult to conceive issues broadly. We have become too specialized. We just take it for granted that there must be foreign trade. Hardly ever do we stop to think that foreign trade is part of the only system in which nations can have possession of the various areas of the world, varyingly endowed with natural resources, without *constantly* disputing each other's rights to such possession.

If we actually did have one world, with no frontiers or any other stumbling blocks erected by national sovereignty to impede the flow of labor, goods, and services, there would obviously be no problems of international trade. International trade would simply not exist since it all would be internal trade as much as trade is today within the territory of the United States. But even in a less obvious sense the problem of international trade would then not exist; this problem would have no parallel in an economically and politically unified world. Surely, just as we have it in this country or any other country, there might temporarily be unsalable surpluses of some commodities—production might have to be curtailed here, but could be expanded there, and after a number of adjustments in prices, in production, and in employment, by industries, equilibrium would be restored and no major impediment would remain to producing as much as or more than people have buying power.

Sharing Resources by Migration

In a world organized on national, not international, lines, trade, production and consumption face an entirely different situation. The only way in which our world, which is precisely thus organized, can share its resources and the fruits of its productive efforts is by migration of people from areas of meager resources to areas of more abundant resources, and by trade—in which every nation gives as well as takes; in other words, pays for what it buys. Special factors arise from the existence of national boundaries. Social and economic considerations by influential groups of the population in any one country may urge upon the government a policy of restricting immigration or emigration. Or vested interests will veto a policy of more liberal imports in one country, of more liberal exports in the other. Or, in periods of distorted international balance among the countries of the world, governments may have to restrict and ration imports because they must be fearful of losing their last currency reserves if trade moves against them and if they cannot, for whatever reason, export as much as they need to fulfill their current payment obligations toward other countries. These are considerations and possible obstacles to economic development that do not and cannot exist within a country. They are essentially problems of international economic relations. They would have no parallel in an economically and politically unified world.

I have said a minute ago that a world organized along national lines can share its resources only through migrations and through trade. Looking at the situation as it exists today, we all realize that migrations are unlikely to be of great importance in this respect in the foreseeable future. Those forced transfers of population that have taken place as a result of the war have not lessened, but intensified the problem of resources distribution in relation to population. Looking at international trade, we find that, relatively speaking, it is still at a low ebb. The volume of world exports in 1948 has been estimated at something like 95% of prewar, or about 85% on a per capita basis. Even these figures do not show the extent of the lag of international trade behind a desirable volume that would enable higher living standards.

I think it goes without saying that a larger volume of international trade would enable higher all-round living standards than a smaller volume. Obviously, a larger volume of trade would signify greater specialization among countries and greater specialization would mean greater all-round efficiency and therefore larger production and hence greater possibilities for larger consumption. But it is not only in this sense that the world today requires relatively larger trade than the world of yesterday. For the industrial countries in Europe, for example, which depend on imports from overseas of food and raw materials on which to build their entire production, it is essential that they export more than they did before the war—even if total production and hence living standards for an increased population are to be only maintained at prewar levels, to say nothing of a desirable increase. This is to be explained mainly by two sets of circumstances. One is the rise in general prices since prewar days. The other is the loss in foreign income that European countries had from previous investments abroad.

A Lag in Europe's Trade

Before the war Europe's exports of goods and services to non-European countries paid for 80% of its imports—20% were paid for out of net income from European investments abroad. Such income was largely fixed in money terms and to this extent would not share in an increase in general prices. Even with an unchanged income from such investments, Europe's export volume would have to increase substantially to cover the costs of an unchanged volume of imports at greatly increased prices. In actual fact, however, Europe's foreign income from previous investments has greatly declined as a result of the war. Some of the European countries have even become debtors to countries overseas and this situation sooner or later will call for net outgoing payments for interest and amortization on these debts. Thus, Europe should have a surplus of exports of goods and services rather than a surplus of imports as it had before the war. It is estimated that, to stand on its own feet, Europe would have to increase the volume of total exports by one-fifth to one-third over prewar levels, or by one-fourth to one-half over present levels. Exports to non-European countries alone would even have to increase by from 20 to 100% over either prewar or present levels, depending upon the volume of world trade at which a balance is to be reached. Here we have a true measure of the lag in international trade.

That this lag in trade has not thus far had serious repercussions, economically, socially, and politically, upon the situation in the countries which obviously import more than they can afford is, of course, due to the financial aid which the United States has extended during and since the war. This aid is the counterpart of the so-called dollar shortage throughout the world; by and large, the older industrial countries are, temporarily, unable to produce as much as they are accustomed to consume; the younger and more vigorius United States, on the other hand, produces more than its people choose to consume of their own individual volition. In such a situation, I believe, it is economic and political common sense if the United States thus creates a market for its abundance. American aid to Europe cannot be measured in dollars and cents alone. It would be naive to assume that we can appraise in terms of \$3 or \$4 or \$5 billion annually the worth to this country of that friendly association of America with the British Commonwealth of Nations and with Western Europe in general where American aid alone has made possible the survival of those free institutions that are the content of our civilization. We should have no sympathy for a penny-pinching view of great historical trends and decisions. On the other hand, it would be equally wrong to measure the worth to our friends overseas of American aid in terms of dollars and cents. To them the historical aspect of the West's survival is even more immediately important. Nor must we forget that even in strictly economic terms the aid to Europe cannot be adequately represented in terms of the sums disbursed: since these disbursements make possible the importation of key commodities whose availability alone mobilizies within these countries domestic factors of production which would otherwise be idle, they multiply the effect of American aid far beyond the original amounts provided.

A measure of the imbalance in international economic relations is the extent to which Europe's imports of goods and services have been paid for by essentially temporary types of finance. Imports in 1948 worth \$17½ billion were paid for by exports to the extent of only \$12 billion—leaving a gap of \$5½ billion which was covered by such temporary forms of finance as grants in aid and a net flow of loans received mostly from the United States. Conversely, the existing imbalance is also illustrated by the foreign transactions in the United States. Only two-thirds of United States exports of goods and services were paid for by goods and services received from other countries. The rest was financed by United States assistance to other parts of the world and by the liquidation for dollars of the dwindling reserves of gold and other assets that foreign countries hold.

Financial Assistance No Permanent Remedy

In the long run the balance in international accounts cannot be provided by American financial assistance on an emergency basis which is far too insecure to permit building upon it a more permanent structure of national patterns of production and international trade. If the world is to make progress toward the presumed goal of eliminating the grave imbalance that now exists in international economic relations, the countries that at present rely so heavily on foreign aid will have to take measures to become more nearly self-supporting. They can do this only by increasing their productivity or by lowering their standards of living. The recent currency devaluations prepare the way for steps in both directions. Both imply intensified competition for American producers—within those countries, or in the United States, or in third markets; hence, they also imply larger general imports or reduced general exports by the United States, or both. For the dollar-short countries outside the United States, such developments would mean larger exports to the United States, smaller imports from the United States, and generally larger trade among themselves.

In conclusion, I should like to say a word about the more general implications for the United States of the present state of international imbalance. There is, for example, the demand that the foreign countries which suffer from a dollar shortage should try to close the gap by earning more dollars rather than by saving dollars—which is another way of saying that they should export more to the United States rather than import less. If we want to have a measure of the precarious foundation on which the world's imports from the United States rest, we may recall that, in 1948-1949, the dollar earnings of foreign countries paid only for about two-thirds of United States exports. The remaining third the United States has largely given away. A very great expansion of American imports and other expenditures abroad would, therefore, be necessary to balance the accounts if our exports in general are to be maintained at present levels. The United States is not by natural environment or geographic necessity forced to have more than a trickle of import trade. At the same time it is the world's most efficient industrial and agricultural producer. In such a position it seems altogether improbable that this country should in the near future be willing and able to expand its imports on a vast and unparalleled scale.

It is true that, while a "sufficient" increase in American imports is improbable, some increase over a longer period of time is likely and will contribute to relieving economic imbalance throughout the world. There should also be possibilities of encouraging travel abroad and expanding expenditure on other invisibles. Certainly we must see the problem and do our utmost to help foreign countries to earn more dollars so that they may be able to buy and so that a larger volume of world trade may contribute to the welfare of all nations. But we must be under no illusion about the realities. With every increase in most types of imports, a vested producer interest must be adversely affected. And you know what happens when that happens. It is one thing to tell the other fellow that he should put up with increased foreign competition right here in his accustomed home market; it is quite another if we are to acquiesce in such developments ourselves. I mention these circumstances not in a critical vein, but in order to emphasize that the prospects for increasing United States imports must be appraised with a measure of realism. By and large, an increase in foreign exports to the United States does not depend upon the goodwill of the American people or upon the frugality and virtuousness of peoples abroad, but on economic, institutional, and political circumstances and social propensities, both in the United States and abroad, that are apt to change only slowly.

If we thus realize that a possible increase in United States imports and other expenditures abroad will neither rapidly nor fully alleviate the problem of imbalance in international economic relations, the alternative becomes clearly apparent; if exports are to be substantially maintained, United States aid to foreign countries through grants or loans will have to continue; or if grants and loans are to be reduced, exports will likewise decline. This, after all, is almost commonplace. But the sooner the position is thoroughly understood and acted upon, the better it will be for the interest of the United States and all other countries concerned.

If and when the adjustments in trade throughout the world, of which I spoke, have been made, it is most likely that a certain dollar shortage will still remain. It will probably be covered by a continued outward flow of funds from this country—be it in the form of grants or of loans or of investment in specific long-term development projects in under-developed countries. Whichever form such assistance may take, one thing is certain: it will have to be on a more secure and stable basis which will provide the outside world with a flow of dollars—however small—on which they can count. Only such stability can make possible the abandonment of those emergency measures and restrictions that are destructive of trade and run counter to the basic policy of economic common sense for which this country stands.

When we have reached such a situation, international economic relations will have been restored to a reasonable and manageable balance. It is at that time that convertibility of currencies and multilateral trade will again become feasible. To expect a full resumption of convertibility and multilateral trade now would mean putting the cart before the horse. It is quite probable that the restoration of balance will require sacrifices on the part of the countries that must bear the burden of the adjustment. But once it has been brought about, the world will be ready for a fresh start on expansion in production, trade and living standards. That is, if the holocaust of another great war can be averted.

Cons. Gas of Baltimore Makes Exchange Offer

The Consolidated Gas Electric Light & Power Co. of Baltimore is offering the holders of the presently outstanding \$12,000,000 Series Q 2¾%, due 1976 and \$44,660,000 Series R 2¾%, due 1981, first refunding mortgage sinking fund bonds the privilege of exchanging such bonds for new first refunding mortgage sinking fund bonds of Series T 2⅞%, due 1976 and Series U 2⅞%, due 1981, respectively.

To exchange old bonds for new bonds a holder should send his old bonds to one of the Exchange Depositaries together with the exchange form furnished by the company. Copies of the exchange form may be obtained from the following depositaries and through banks or securities dealers. The exchange depositaries are: Bankers Trust Co., 16 Wall Street, New York 15, N. Y.; Safe Deposit Trust Co. of Baltimore, 13 South Street, Baltimore 2, Md.; Old Colony Trust Co., 45 Milk Street, Boston, 6, Mass.; the First National Bank of Chicago, 38 South Dearborn Street, Chicago 90, Ill.; American Trust Co., 464 California Street, San Francisco 20, Calif.

The company is not obligated to consummate the exchange offer unless 95% of the aggregate principal amount of the Series Q and R bonds is deposited for exchange. The exchange offer will expire at the close of business on Dec. 19, 1949. If the exchange offer becomes effective, depositing bond holders will receive 2⅞% interest from the date of their deposit.

The First Boston Corp. and Harriman Ripley & Co., Inc., have been engaged by the company to solicit exchanges and to act as exchange managers in forming a group of securities dealers for the purpose of soliciting deposits of old bonds pursuant to the exchange offer.

Some Natural Gas Aspects of Petroleum Industry

(Continued from page 3)

satisfy a strong demand that may well increase 5%-10% annually.

(2) Domestic availability of liquid hydrocarbon reserves will probably increase by around 3% annually for at least the early part of the next decade.

(3) Large supplies of foreign oil will be available to help satisfy U. S. needs for liquid fuels.

There are two ways in which one may discuss the subject which I have chosen for today. The first is to romance concerning the forward outlook for the petroleum industry as a supplier of natural gas to existing and yet undreamed of transmission lines. There are three kinds of gas reserves in the United States. Broadly speaking, these might be classed as dry gas reserves, gas reserves associated with oil, and gas reserves dissolved in oil. The annual reserve estimates of our natural gas reserves as prepared by the American Gas Association in conjunction with the American Petroleum Institute breaks down our reserves into these categories as follows: nonassociated gas, or in effect dry gas, about 75% of our reserves; gas associated with oil about 15% of our reserves, and dissolved gas about 10% of our reserves. In making these reserve estimates the reserve committee of the Gas Association has apparently leaned heavily to the viewpoint that salability of reserves was of prime importance and for this reason many are inclined to feel that the committee's estimates of dissolved gas reserves are very low.

If we attempt to break down the national reserve estimate in order to calculate the amount owned or controlled by the petroleum industry, we do so for the reason that we attempt to measure the forward position of the petroleum industry as a natural gas supplier. I think many people have attempted to make this estimate and if one uses as the base the estimates of the American Gas Association for our total reserves, he would probably come to the conclusion that leading oil companies directly or indirectly account for about 50% of our total national natural gas reserve estimate. Should we project our thinking further and increase our reserve estimate by increasing the item of dissolved gas to remove the possible philosophy of saleability which may have been taken into account by the American Gas Association, it is possible not only would our reserve total be greatly expanded but that the bulk of this expansion might be credited to the gas reserve holding of oil companies. As we would go along this road of thought, we would come to the conclusion that ultimately the petroleum industry would supply an increasing portion of the total gas needs of the natural gas transmission and distribution industries. That will probably be the way in which things will work out.

On the other hand, I would point out to you that two risks are involved in this line of thought, namely (1) that there may be no amendment to the Natural Gas Act of 1938, which would so clarify the status of petroleum companies as vendors of gas in interstate commerce, and the present large oil company holders of reserves and those oil companies who fall heir to additional gas reserves would therefore be unwilling to commit them to interstate gas transmission systems because they would be fearful of being classed as natural gas companies within the meaning of the Act; and (2) that increasing reserves of natural gas will be found by other than oil companies in perhaps a direct reflection of the conscious search for gas that is now under way by many companies which it would be difficult to class as falling directly within the definition of oil enterprises. It is true that many of these might at some future date also be fearful of the ambiguity of the Natural Gas Act as well as certain of the other oil companies.

What Petroleum Companies Will Benefit

In viewing oil securities under this assumption that the petroleum industry will become an increasingly large supplier of natural gas, you are undoubtedly interested in determining what companies or what securities are likely to share in the results. It is unfortunate in this case that most of the fortunate oil companies that share in such types of reserves have made it their policy not to divulge estimates of their gas reserves. Gas reserves represent an important and in some cases greatly understated, or even unrecorded, value in the balance sheet. This is particularly true of companies with large shut-in gas reserves, the full exploration and development costs of which have already been paid out of past earnings.

I hope that you are not going to be disappointed if at this point I do not tell you what I estimate the gas reserves of various oil companies to be. There are ways of obtaining these estimates and no doubt many of them have already occurred to you and are being used by you. I think it is generally agreed that the largest holder of gas reserves in the petroleum industry is Phillips Petroleum, followed closely by Humble, and then by Standard of Indiana, Magnolia (Socony-Vacuum), Texas, Cities Service, and Gulf. My off-hand opinion is that the range covered by these estimates might be from a neighborhood of 15 trillion cubic feet at the top of the scale to perhaps 6 to 7 trillion cubic feet at the bottom of the scale. No doubt as the saleability factor is taken into greater consideration by the individual companies in estimating their gas reserves, you will find a demonstrated uptrend in the available data concerning the gas reserves of one or more large oil companies.

Relationship Between Petroleum and Gas Industries

I earlier told you that there were two ways in which we might look at the natural gas position of the oil industry and that the one which I have just described was perhaps the more romantic one than the one that has occupied the attention of many analysts over some years, particularly the last two or three years when all of Wall Street and the hinterlands have become natural gas conscious to a large degree. To me there is a more pressing and immediate problem concerning the relationships of the petroleum and natural gas industries than this briefly described one.

The real problem of the petroleum industry as to natural gas is the extent to which in the next decade or less the increased availability of natural gas will unfavorably affect the fuel oil segment of the petroleum industry.

We are in the midst of a fuel revolution. The natural gas industry is engaged in the greatest invasion of any fuel market that has ever been conducted at any one time in our industrial history. This invasion is backed by proved reserves of 174 trillion cubic feet, an increase of nearly twelve-fold in 29 years in the face of an eight-fold increase in consumption. We have in the past often heard the alarmists' voices raised about our insufficient oil reserves and no doubt you and I will hear these or like voices raised about our gas reserves. We can let the record of the petroleum industry speak for itself on both of these questions. Actually, some natural gas authorities, much more well qualified than I to discuss our gas reserves, have publicly said that their estimate is not 174 trillion cubic feet but rather 300 trillion cubic feet of reserves.

Three points should here be called to your attention:

(a) A very large portion of our present natural gas reserves were discovered as "failures" in the petroleum industry's search for oil. Prices were insufficient or totally absent, markets were nonexistent and many walked away from gas reserves.

(b) Because prices are becoming attractive and markets are standing with open arms, there is today a broadspread conscious search for gas which will be fruitful of gas reserve discoveries.

(c) Because in our search for oil we are drilling more deeply, we are encountering greater pressures and higher temperatures which engineeringwise point to the probability of an increasing portion of light hydrocarbon reserve discoveries, i.e. distillate and gas fields.

Transmission Lines and Expanding Markets

At the end of 1948 there were 251,000 miles of gas transmission lines in the United States. That is 10% more than point-to-point railroad mileage and is 100,000 miles more than total oil pipe line mileage. During the 12 months ending June 30, 1949 the Federal Power Commission authorized the construction of slightly more than 7,000 miles of natural gas pipe lines. This construction will increase the daily gas transmission capacity by 2,600,000,000 cubic feet and when completed will have cost about $600,000,000 and will have output calculated in BTUs equal to 446,000 barrels of oil. To look at it another way, the lines authorized during just this one year can annually tranport energy equal to 163,000,000 barrels of oil.

We are all aware as to where gas has been going. For many years it moved from largely the Panhandle of Texas and Oklahoma to markets in the Chicago-Detroit area. More recently it has moved in increased volumes into the Appalachian areas and thence eastward into the highly populated markets of the Atlantic Seaboard states. A few years ago we witnessed the completion of El Paso's line from West Texas and the Panhandle to California and few, if any, would have agreed a decade ago that we would be carrying gas from those areas into the Far West. The markets of the deep South have long been served wih natural gas and the continued development of such companies as Southern Natural Gas and United Gas Corporation bear witness to the manner in which it has been received in those areas. There appears to be little reason, if any, to doubt that natural gas has thrived in all markets where it has become available based upon the combination of convenience to the user and of economics to the gas supplier and transporter. We used to take as a rule of thumb measure that it cost 1c to transport 1,000 cubic feet of gas one hundred miles. More likely today the figure is in the neighborhood of 1½c per 1,000 cubic feet per one houndred miles and yet the expansion of natural gas pipe lines continues.

In the fuel revolution which we are having, it is impossible to exactly determine in advance the amount of losses which will be borne by existing fuels. Historically it is known that coal, which has the least desirable utilization features and which now has almost the highest price, is likely to suffer most. However, let us look at the position of oil. Natural gas will soon be available in quantity in New Jersey, eastern Pennsylvania, New York and most of New England. Much of this territory has long been considered the top oil market of the nation. Here the local gas utilities, each depending upon its own situation as far as the manner and extent of usage are concerned, will use natural gas as a substitute for gas oil in reforming and enriching, or they will convert their customers' appliances and go to the distribution of straight natural gas.

Even though the total fuel requirements of these eastern states continue to grow, it only stands to reason that the annual absorption of hundreds of trillions of BTUs in the form of natural gas cannot be accomplished without some fuels suffering losses. In natural gas areas in general throughout the United States, the average domestic and commercial consumption of gas per customer is 75,000 cubic feet of 1,000 BTU gas annually. The average consumption in New England and Metropolitan New York has been only 25,000 cubic feet of approximately 500 BTU gas annually. If we reduce this to its natural gas equivalent, it would indicate that this area is now consuming in BTUs somewhat less than one-fifth of the national average.

The Central Atlantic and New England states comprise the cream of the kerosene and range oil market. In 1947 more than 60% of the entire domestic sales of these products was concentrated in this area. As you know, in most instances this type of oil is distributed by a small fuel oil dealer from a combination oil and ice truck. In this respect, the marketing of heat for household use has not advanced much over the horse and buggy days and literally hundreds of thousands of housewives daily or weekly purchase range oil for cooking, water-heating, and space-heating. Prior to the early 1930s coal and coke dominated this market but the oil industry by aggressive promotion practically eliminated solid fuels for these uses in that market. A great majority of these dwellings have gas connections already and many more are within reach of distribution lines so that it is obvious that either mixed gas or straight natural will be a competitor. The change will not come overnight but if the pace of the shift from coal to kerosene and range oil is any criterion, the oil industry will have to look forward to a pronounced decline in its kerosene market.

Like kerosene and range oil, heating oils find their best market in New Jersey, New York and New England and, for example, more than 45% of all oil burner installations are in these eight states and better than 55% of all the centrally-heated dwellings in New England are heated by oil. I said that it was impossible to predict in advance the losses which various fuels would suffer, but if we start out by saying that of 20 million gas-using homes in the United States, approximately 6,600,000 are already heated by gas and that an additional 700,000 new space-heating customers are expected by this winter, it would follow that the availability of increased gas supplies would bring gas heating into many homes which today use gas only for cooking and to a slight extent refrigeration. It is quite obvious that under present conditions it would be economically impractical to build the gas lines which would handle the load if all homes now using oil were to convert to natural gas. Today, in New England alone this would require two lines each capable of carrying the combined capacity of the Big and Little Inch lines familiarly known as Texas Eastern Transmission Corporation. If New Jersey and New York were included, it would take five pipe lines of similar carrying capacity.

Without going into the details of load balancing requirements between summer and winter months, it would appear obvious that the investment of $1 billion or more, which would be required to handle such an unbalanced load, would not be economic or forthcoming. We must also remember that there are thousands of homes which have substantial investments in oil heating equipment and that so long as the price of heating oil remains within reasonable range compared to the price of gas, many of these home owners will not rush to scrap their oil burning equipment.

The last market in which oil can expect competition from natural gas is in the residual oil market. This is one of the markets which has been steadily increasing at the expense of coal over the years. Natural gas is too superior a fuel to be used for boiler fuel purposes and it is doubtful if utilities in the Middle Atlantic and New England states will be permitted to take on substantial quantities of natural gas for this low-grade purpose.

The manufactured gas industry has within recent years developed equipment for the manufacture of high BTU oil gas. The initial cost of the equipment to manufacture this gas is low compared to other methods and there are many advantages to both the gas utilities and their customers. So far as the gas companies are concerned, the wide range of interchangeability between high BTU oil and natural gas makes the former very attractive as standby and peak-shaving equipment. It is perfectly conceivable that under certain conditions high BTU oil gas can be made and sold in many sections of the country at a cost less than that of natural gas delivered at the city gate.

I would be most remiss if at this point I did not give much credit to the work of Dr. R. J. Gonzalez, the economist for Humble Oil & Refining Co., to Mr. E. Holley Poe of E. Holly Poe Associates, and to Mr. E. deGolyer of deGolyer and MacNaughton for the use of many of their ideas and remarks, largely of a public nature, which I have incorporated in these words of mine.

To summarize the situation, I would say that it is evident that the petroleum industry is going to have a fight on its hands to maintain some of its markets through the fuel revolution we are having. Conversely, the situation may not be as dismal as one might at first be led to expect when he lets his imagination run concerning the natural gas industry. On the other hand, it should be remembered that the present and most likely future gas earning power of many petroleum companies in relation to their present earning power from oil operations is small and will most likely remain so.

Therefore, one cannot be sure that in the aggregate the petroleum industry through its increased sales of natural gas will be able to completely offset such losses as may occur in the form of kerosene and household heating oils. To what extent a downward adjustment in the price for petroleum and its products will tend to nullify at some future date some of the advantages of natural gas remains to be seen. From an oil company standpoint, any downward price adjustments are likely to have an unfavorable effect upon earnings and one might assume that the loss of heating oil markets could become quite large before a real fight on a price per delivered BTU would get under way.

With Goffe & Carkener

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—Dick F. Bennett is now with Goffe & Carkener, Inc., Board of Trade Building, members of the Chicago Stock Exchange.

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

American Natural Gas Co.
Oct. 28 filed 304,485 shares (no par) common stock (including 27,680 shares which may be acquired in stabilizing operations). **Offering** — Offered to present stockholders of record Nov. 23 at the rate of one new share for each 10 held. Rights will expire Dec. 12. **Underwriter**—Glore, Forgan & Co. and W. C. Langley & Co. (jointly). **Proceeds**—To invest in common stocks of two subsidiaries, Michigan Consolidated Gas Co. and Milwaukee Gas Light Co.

● American Progressive Health Ins. Co. of N. Y.
Nov. 15 (letter of notification) 4,000 shares of common stock (par $2). Price (est.), $8.50. To be sold in behalf of stockholders.

Ampal-American Palestine Trading Corp., New York
Nov. 3 filed $6,250,000 10-year 3% sinking fund debentures and 200,000 shares ($10 par) Class A stock. Underwriter—None, but securities are to be sold through efforts of directors and employees. Stock is to be offered at $11 per share. **Proceeds**—To be used for economic development of Israel.

Apple Concentrates, Inc., Meadowbrook Orchards, Sterling, Mass.
Nov. 8 (letter of notification) 12,500 shares ($1 par). Price, $10 each. **Underwriter**—Perrin, West & Winslow, Inc., Boston. To buy plant, machinery and equipment, for technical services and other corporate purposes.

Barclay Oil Co., Inc., Mt. Carmel, Ill.
Oct. 13 (letter of notification) 2,000 shares of non-convertible ($100 par) value preferred stock and 6,000 shares ($1 par) common stock (of which 2,000 shares will be purchased by underwriter at par). To be offered in units of one share of preferred and two of common stock at $102 a unit. **Underwriter**—Sterling, Grace & Co., New York. To acquire oil leases and drill wells.

● Black Diamond Gold & Lead Properties, Inc., Tucson, Ariz.
Nov. 14 (letter of notification) 75,000 shares of capital stock. **Price**—$1 a share. No underwriter. To improve properties, develop the mine, and furnish equipment.

Broadway Angels, Inc., New York City
Nov. 14 filed 2,000,000 shares (1c par) common stock and 500,000 management shares of 0.1 of a cent par value, to be sold at 50 cents and 12.5 cents respectively. **Underwriter** — Hugh J. Devlin, New York. **Proceeds** — For working capital. **Business**—To back theatrical productions, distribute tickets and act as an agent for talent.

Burd Piston Ring Co., Rockford, Ill.
Nov. 7 (letter of notification) 2,500 shares ($1 par) common stock, to be offered at $8 each by Albert H. Bates, Vice-President, and two members of his family. **Underwriter**—Paul H. Davis & Co., Chicago.

● Carney-Pacific Rockwool Co., Seattle, Wash.
Nov. 5 (letter of notification) $100,000 first mortgage notes or participating certificates. Price, par. No underwriter. To provide working capital and retire current indebtedness.

● Central Illinois Light Co. (12/14)
Nov. 18 filed $12,500,000 first mortgage bonds, due 1979. **Underwriter** — Competitive bidding. Probable bidders: Halsey, Stuart & Co., Inc.; Morgan Stanley & Co.; Equitable Securities Corp.; The First Boston Corp.; Union Securities Corp.; Merrill Lynch, Pierce, Fenner & Beane and Stone & Webster Securities Corp. (jointly); Blyth & Co., Inc. **Proceeds** — To redeem outstanding 3½% first and consolidated mortgage bonds and repay short-term bank notes. Bids expected Dec. 14.

Central Power & Light Co. (12/6)
Nov. 15 filed $5,500,000 of sinking fund debentures, due 1974. **Underwriter**—Competitive bidding. Probable bidders; Halsey, Stuart & Co. Inc.; Union Securities Corp.; Carl M. Loeb, Rhoades & Co.; Kidder, Peabody & Co.; Glore, Forgan & Co.; Merrill Lynch, Pierce, Fenner & Beane and Salomon Bros. & Hutzler (jointly); The First Boston Corp.; White, Weld & Co.; Shields & Co. **Proceeds**—For improvements to facilities, to repay outstanding notes. Bids expected Dec. 6.

● Christians (H. C.) Co.
Nov. 14 (letter of notification) 500 shares ($5 par) common stock. To be sold at $135 each. No underwriter. For working capital. Office, Johnson Creek, Wis.

Citizens Telephone Co., Decatur, Ind.
Oct. 21 (letter of notification) $250,000 of 4½% preferred stock. Price $100 each. To be offered initially to common stockholders. No underwriter. For plant and property additions to convert to automatic dial operation. Office: 240 W. Monroe Street, Decatur, Ind.

● Clarostat Manufacturing Co.
Nov. 18 (letter of notification) 7,380 shares of common stock (par $1). To be sold on behalf of a stockholder through C. B. Richard & Co., New York. Price, marked (about $2.50).

Colorado Oil & Gas Co., Alamosa, Colo.
Aug. 30 (letter of notification) 250,000 shares ($1 par) common stock, of which 200,000 will be sold for company and 50,000 shares for N. O. Yeakley, a controlling stockholder, at $1 each. **Underwriter**—W. C. Hitchman Co., New York. To lease properties, drill wells, and for working capital.

● Commerce Publications Corp., Rochester, N. Y.
Nov. 16 (letter of notification) 2,500 shares of class A preferential common stock and 100 shares of class B (voting) common stock. To be offered at $200 per class A shares in units of 25 class A shares (and one class B share as a bonus). No underwriting. Although technically a public offering the incorporators view the offering as a private financing because only a limited number of substantial investors will be solicited.

Consolidated Caribou Silver Mines, Inc.
Nov. 17 (by amendment) 800,000 shares (no par) common stock. **Price**—$1.25 per share. **Underwriter**—William L. Burton & Co., New York. **Proceeds**—To develop mining properties. Expected early in December.

● Copper Valley Mining Co., Salt Lake City, Utah
Nov. 18 (letter of notification) 100,000 shares of common stock. Price 5c each. No underwriter. To develop mines.

● Dansker Realty & Securities Corp., Brooklyn, New York
Nov. 21 (letter of notification) 300,000 shares of common stock (par 35c). Price, $1 per share. **Underwriter**—George J. Martin & Co., New York. Working Capital, etc.

Detroit Edison Co., Detroit
Oct. 14 filed 699,743 shares ($20 par) common stock. **Offering** — Offered to stockholders of record Nov. 9 at $20 per share on the basis of one new share for each 10 held. Rights will expire Dec. 5. **Underwriting**—None. **Proceeds**—To repay bank loans for construction and for additional construction.

● Diamond Bros. Co., Trenton, N. J.
Nov. 18 (letter of notification) 3,000 shares of 6% preferred stock (par $100). No underwriting. Price, par. Provide capital for expansion.

Dobbs Houses, Inc., Memphis, Tenn.
Nov. 9 (letter of notification) 10,500 shares ($1 par) common stock. To be sold by James K. Dobbs, President, and eight other stockholders. **Price**—$8 each. **Underwriter**—B. F. Ward & Co., Memphis.

● Dorr Co., Inc., New York
Nov. 14 (letter of notification (3,193 shares of 6½% preferred stock (par $50). Price par. To be issued as additional compensation to employees.

Dow Chemical Co.
Nov. 4 filed 175,000 shares of common stock (par $15). **Offering**—To be offered to stockholders and employees of the company, its subsidiaries and associated companies at $44.50 per share. **Proceeds**—To be added to treasury funds and used for corporate purposes. **Underwriter**—None.

Eastern Harness Racing Club, Inc., Steubenville, Ohio
Oct. 27 filed 1,000,000 shares (5c par) common stock. Price, $1 each. **Underwriter**—Tellier & Co., New York. **Proceeds**—To purchase, improve and operate the Fort Steuben Raceway.

Florida Power Corp., St. Petersburg, Fla.
Nov. 2 filed 242,000 shares ($7.50 par) common stock. **Offering**—To be offered stockholders of record Nov. 30 at the rate of one new share for each five held. Rights expire Dec. 21. **Underwriters**—Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—For construction.

Florida Telephone Corp.
Oct. 31 (letter of notification) 28,500 shares (par $10) common stock. **Underwriters**—None, other than company's officers, directors, employees or agents. Price to present stockholders will be $10 per share until Dec. 2, 1949, at which time the balance of shares unsubscribed will be offered to general public at $10 per share. **Proceeds**—To be used for further expansion of telephone facilities.

● Grace (W. R.) & Co., New York
Nov. 22 (letter of notification) 2,400 shares of common stock (no par). Price, $105 per share. **Underwriter**—Blyth & Co., Inc. Proceeds to selling stockholder.

● Gulf Insurance Co., Dallas, Texas
Nov. 15 (letter of notification) 140,000 certificates of right (one for each share of stock outstanding), which can be exchanged for a new issue of common stock at the rate of 14 rights for one share. This common stock will have a $10 par value and will be sold to present stockholders at $30 each. No underwriter. For capital and surplus funds.

Gulf States Utilities Co. (11/29)
Oct. 27 filed $10,000,000 of first mortgage bonds, due 1979. **Underwriter**—Competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane; Stone & Webster Securities Corp.; Kidder, Peabody & Co. and White, Weld & Co. (jointly); The First Boston Corp. **Proceeds**—To repay $6,500,000 of short-term notes and finance 1949 construction requirements. **Bids**—Bids will be received up to 11 a.m. (EST) Nov. 29 at office of Central Hanover Bank & Trust Co., Room A, 70 Broadway, New York.

● Hudson Pulp & Paper Corp., New York (12/8)
Nov. 18 filed 120,000 shares of Series B cumulative preferred stock ($25 par). **Underwriter** — Lee Higginson Corp., New York. **Proceeds**—For general corporate purposes and to expand facilities.

Insurance Co., of Florida, Miami, Fla.
Sept. 7 (letter of notification) 12,000 shares ($10 par) common stock. **Price**—$25 each. **Underwriter**—Atwill & Co., Miami Beach. To complete formation of a stock insurance company.

Iowa Power & Light Co. (12/5)
Oct. 31 filed $7,500,000 of first mortgage bonds, due 1979. **Underwriter**—Competitive bidding. Bidders may include Kidder, Peabody & Co.; Lehman Brothers; Blyth & Co., Inc.; W. C. Langley & Co.; Union Securities Corp. and Glore, Forgan & Co. (jointly); The First Boston Corp.; Smith, Barney & Co.; Halsey, Stuart & Co. Inc. **Proceeds**—To pay off $1,500,000 of 2⅛% promissory notes, for construction, and to reimburse the treasury for construction expenditures. **Bids**—Bids for purchase of the bonds will be received by company at 105 W. Adams Street, Chicago, up to 11 a.m. (CST) Dec. 5.

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** — To purchase additional plant facilities, tools, dies, jigs, etc.; the balance for working capital. Statement effective Oct. 3 and amendment to registration statement effective Oct. 31.

● Klamath Oil, Inc., Lewistown, Mont.
Nov. 10 (letter of notification) 1,700 shares ($100 par) common stock. Price, par. No underwriter. To explore and develop potential oil or gas properties. Office, 307 Montana Bldg., Lewistown, Mont.

● Lancaster (Pa.) Auto & Auction, Inc.
Nov. 17 (letter of notification) 32,160 preferred shares and 4,716 common shares. Price, preferred $1 and common 90c. No underwriter. Increase capital plant of corporation.

● Lehr Iron & Steel, Inc., Akron, Ohio
Nov. 14 (letter of notification) 1,000 shares of $6 cumulative ($100 par) preferred stock. Price, par. No underwriter. To pay current and long-term liabilities. Office, 655 W. Wilbeth Road, Akron, O.

Louisville (Ky.) Gas & Electric Co. (11/29)
Nov. 2 filed $41,000,000 first mortgage bonds, due 1979. **Underwriter**—Competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers and Blyth & Co., Inc. (jointly); The First Boston Corp. **Proceeds**—To redeem outstanding bonds; buy Louisville Transmission Corp.; prepay bonds of a predecessor, Louisville Lighting Co., and for general purposes. **Bids**—Bids for purchase of the bonds will be received by company at Room 1100, 231 South La Salle Street, Chicago, up to 10:30 a.m. (CST) Nov. 29.

● Major Television Corp., New York
Nov. 14 (letter of notification) 276,205 shares of common stock (par 25c). **Underwriter**—Mencher & Co., New York. Price, $1 per share. Finance acquisition and installation of machinery, purchase of inventory, finance sale of tubes and sets.

Mankato (Minn.) Citizens Telephone Co.
Oct. 17 (letter of notification) 1,600 shares (no par) common stock. To be sold to stockholders at $47 each. No underwriter. To buy new switchboard and make expansions to phone system.

● Massachusetts Building Trustees, Boston
Nov. 15 (letter of notification) $150,000 30-year 6% debentures and 12,000 shares (no par) common stock. To be sold in units of one $100 debenture and eight shares of stock for $100. No underwriter. To satisfy a mortgage now held by the Provident Institution for Savings, Boston.

● Mercantile Acceptance Corp. of California
Nov. 15 (letter of notification) 1,274 shares of 5% series first preferred stock ($20 par). Price, par. **Underwriter**—Guardian Securities Corp., San Francisco. For corporate purposes.

NEW ISSUE CALENDAR

November 29, 1949	
Gulf States Utilities Co., 11 a.m. (EST)	Bonds
Louisville Gas & Elec. Co., 10:30 a.m. (CST)	Bonds
Southern Co., 11:30 a.m. (EST)	Common
December 1, 1949	
Public Service Co. of Indiana, Inc.	Preferred
December 5, 1949	
Iowa Power & Light Co.	Bonds
Rohm & Haas Co.	Common
Steiner Paper Corp., 3:30 p.m.(EST)	Capital Stk.
December 6, 1949	
Central Power & Light Co.	Debentures
December 7, 1949	
New York Central RR.	Equip. Trust Ctfs.
December 8, 1949	
Hudson Pulp & Paper Corp.	Preferred
December 13, 1949	
United Telephone Co. of Pa.	Preferred
December 14, 1949	
Central Illinois Light Co.	Bonds

● **Mercantile Acceptance Corp. of California**
Nov. 15 (letter of notification) 1,000 shares of 5% first preferred stock, ($20 par). Price, par. No underwriter. These securities are to be offered as a bonus to employees.

Middle South Utilities, Inc., New York
Oct. 28 filed 686,295 shares (no par) common stock. **Offering**—Offered by Electric Bond & Share Co. to its own stockholders of record Nov. 9 at rate of one share for each eight held, and at $12 a share. Rights expire Dec. 8. Bond and Share plans to distribute 150,010 shares to its stockholders as a dividend, of which 30,000 will be sold to take care of fractional stockholders. **Underwriter**—None. **Proceeds**—E. B. & S. will use the proceeds to retire bank loans.

New England Manufacturing & Supply Corp., New Haven, Conn.
Nov. 10 (letter of notification) 9,400 shares of 6% cumulative convertible preferred stock ($5 par) and 19,580 shares of class A ($1 par) stock and 7,180 rights to buy class A shares. The preferred stock will be sold at $5 each and the class A at $3 each. **Underwriter**—E. F. Bigoney & Co., New York. To finance inventory commitments, carry out sales program, and for general corporate purposes.

● **Ohio Edison Co.**
Nov. 16 filed up to 1,144,000 shares (par $8) common stock. **Offering** — Up to 1,141,995 shares will be offered to stockholders of record Dec. 1 at the rate of one new share for each two held. Rights expire Dec. 19. **Underwriters**—The First Boston Corp., Lazard Freres & Co., Union Securities Corp., Wertheim & Co. **Proceeds** — To buy common stock of the Ohio Public Service Co. from Cities Service Co.

Ohio Public Service Co., Cleveland
Oct. 21 filed 2,000,000 shares ($7.50 par) common stock. **Underwriter** — Cities Service Co., which is selling this stock received SEC exemption from competitive bidding requirements and has concluded an agreement with Ohio Edison Co. whereby the latter will purchase the Ohio Public Service stock for $35,000,000, the sale being contingent on Ohio Edison financing to provide the necessary funds. Financial advisor to Ohio Edison Co. is Morgan Stanley & Co.

● **Penberthy Instrument Co., Inc., Spokane, Wash.**
Nov. 14 (letter of notification) 1,700 shares ($10 par) non-assessable common stock. Price, par. No underwriter. To raise capital for industrial glass manufacturing.

Pennsylvania Electric Co.
Oct. 6 filed $11,000,000 first mortgage bonds, due 1979, and 70,000 shares of series D cumulative preferred stock ($100 par). **Underwriters** — Competitive bidding. Probable bidders for preferred: Kuhn, Loeb & Co.; Kidder, Peabody & Co.; Smith, Barney & Co.; W. C. Langley & Co., and Glore Forgan & Co. (jointly); Harriman Ripley & Co. For bonds: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co.; The First Boston Corp.; Equitable Securities Corp.; Kidder, Peabody & Co.; Kuhn, Loeb & Co., Lehman Brothers and Drexel & Co. (jointly). Bids expected later this month or early December.

Progressive Fire Insurance Co., Atlanta, Ga.
Oct. 28 (letter of notification) 10,000 shares of capital stock. To be offered present stockholders at rate of one new share for each four held and at $27.50 a share, with any remaining shares to be offered to the public at $30 each. No underwriter. To increase the company's surplus. Office, 107 Cone Street, Atlanta, Ga.

Public Service Co. of Indiana, Inc. (12/1)
Nov. 7, filed 142,354 shares ($100 par) cumulative preferred stock. **Underwriters**—To be sold at competitive bidding: Probable bidders: Blyth & Co., Inc.; The First Boston Corp.; Ohio & Co.; Harriman Ripley & Co.; Glore, Forgan & Co. **Proceeds**—To be used to pay part of the cost of construction, additions and improvements. **Offering**—To to be offered initially for subscription by stockholders on a 1-for-20 basis about Dec. 1, the right to expire Dec. 13.

● **Rainier National Insurance Co., Seattle, Wash.**
Nov. 14 (letter of notification) 2,000 shares of 6% cumulative preferred stock ($25 par). To be sold at $50 a share, of which $25 is capital and $25 is contributed surplus. No underwriter. To increase capital and surplus.

● **Realty Co., Denver, Colo.**
Nov. 14 (letter of notification) 500 shares of capital stock ($1 par). **Price** — $27. **Underwriters** — Ralph S. Young, Colorado Springs, and J. A. Hogle & Co., Denver. For working capital.

● **Reed Prentice Corp., Worcester, Mass.**
Nov. 18 (letter of notification) 10,000 shares ($2.50 par) common stock. Price, $7.50 each. To be sold by Charles S. Payson, New York. **Underwriter**—J. P. Marto & Co., Boston.

Robinson Tag & Label Co., New York
Nov. 2 (letter of notification) $100,000 5% debentures, due serially 1950-1959. Price, par and interest. **Underwriter**—Oscar Burnett & Co., Greensboro, N. C. New presses, working capital, etc.

Rohm & Haas Co., Philadelphia (12/5)
Nov. 14 filed 60,000 shares ($20 par) common stock, to be sold by Mrs. Phoebe W. Haas, wife of the company President, Otto Haas. **Underwriters**—Drexel & Co. and Kidder, Peabody & Co., both of Philadelphia. Price, by amendment.

● **San Antonio Oil Co., Los Lunas, N. M.**
Nov. 16 (letter of notification) 150,000 shares ($1 par) common stock. Price, par. No underwriter. To drill two oil wells.

● **Sayre & Fisher Brick Co., Sayreville, N. J.**
Nov. 18 (letter of notification) 106,584 shares of common stock (par $1). Price, $2 per share. Offered for subscription by stockholders of record Nov. 23 on a one-for-three basis. Rights expire Dec. 28. Breswick & Co., New York has agreed to purchase for investment and not for resale any unsubscribed shares. Rehabilitate enlarge, modernize and equip dryers, etc.

Smith, Inc., Fargo, N. D.
Oct. 12 (letter of notification) 2,000 shares of 6% cumulative preferred stock ($25 par) and 15,500 shares ($5 par) common stock. **Price**—Preferred to be sold at $25 and common at $7.75. **Underwriter**—W. R. Olson Co., Fergus Falls, Minn. To retire bank loans.

Snoose Mining Co., Hailey, Idaho
Nov. 8 (letter of notification) 250,000 shares (25¢ par) common stock. Price, par. **Underwriter**—E. W. McRoberts & Co., Twin Falls, Idaho. To develop the Snoose Mine.

● **Snowbird Mining Co., Inc., Alaska.**
Nov. 14 (letter of notification) 333,333 shares (10¢ par) common non-assessable stock. **Price**—15 cents each. No underwriter. To complete construction of a mill, power generating facilities and camp buildings. Office, Box 1719 Anchorage, Alaska.

● **South Carolina Electric & Gas Co., Columbia, South Carolina**
Nov. 22 filed $22,200,000 first and refunding mortgage bonds. Due 1979. **Underwriter**—Names by amendment. **Proceeds**—To redeem a like amount of outstanding bonds.

Southern Co., Wilmington, Del. (11/29)
Oct. 28 filed 1,500,000 shares ($5 par) common stock. **Underwriter**—Competitive bidding. Probable bidders: Morgan Stanley & Co., Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Blyth & Co., Inc.; Lehman Brothers; Harriman Ripley & Co.; Union Securities Corp. and Equitable Securities Corp. (jointly). **Proceeds**—Additional common stock investments in subsidiary operating companies. **Bids**—Bids for purchase of the stock will be received by the company at its office, 20 Pine Street, New York, up to 11:30 a.m. (EST) Nov. 29.

● **Southwestern Investment Co., Amarillo, Texas**
Nov. 16 filed 62,500 shares of 5% ($20 par) cumulative convertible sinking fund preferred stock. **Offering**—To be offered, together with cash, in exchange for three outstanding series of preferred stocks. **Underwriters**—First Trust Co. of Lincoln, Neb.; G. H. Walker & Co., St. Louis; Schneider, Bernet & Hickman, Dallas, and Dewar, Robertson & Pancoast, San Antonio. **Proceeds**—To buy outstanding preferred stocks and for working capital.

● **Stokely-Van Camp, Inc., Indianapolis, Ind.**
Nov. 17 (letter of notification) 937 shares ($1 par) common stock, sold at $11.375 each. Proceeds to be distributed to holders of scrip expiring on Nov. 15, 1949. **Underwriter**—Reynolds & Co., New York. Offered this stock.

Stubnitz Green Spring Corp., Adrian, Mich.
Nov. 7, filed 183,339 shares ($1 par) common stock. **Underwriters**—George A. McDowell & Co., and Baker, Simonds & Co., Detroit. **Proceeds**—Sale being made by eight stockholders.

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.

Sutherland Paper Co., Kalamazoo, Mich.
Nov. 1 filed 34,400 shares of cumulative preferred stock ($100 par) convertible into 2½ shares of common stock prior to 1960. **Underwriter**—Harris, Hall & Co., (Inc.), Chicago. **Offering**—Stock is to be offered to common stockholders of record Nov. 21 for a period of 16 days at the rate of one share for each 10 held. **Proceeds**—To move and rebuild a paperboard machine, for additional manufacturing and warehouse space, for a new boiler and for working capital.

● **Teco, Inc., Chicago**
Nov. 21 filed 100,000 shares ($10 par) common stock. **Offering**—These shares are to be offered to holders of common stock in Zenith Radio Corp. at rate of one share for each five held. Underwriter—None. **Proceeds**—For working capital and the promotion of Zenith's "Phonevision" device, whereby television users could pay a special fee for costly television programs by calling the telephone company and asking to be plugged in.

Union Oil Co. (Calif.)
Oct. 17 filed 600,000 shares ($25 par) common stock. **Proceeds**—The shares are to be issued in partial payment for all of the 35,000 outstanding shares of capital stock of the Los Neitos Co., an oil producing company.

United Minerals Reserve Corp., Chicago
July 27 (letter of notification) 270,000 shares of common stock. **Price**—$1 each. **Underwriter**—Edward W. Ackley & Co., Boston. For development of mining properties.

● **United Mining Development Co., Salt Lake City, Utah**
Nov. 17 (letter of notification) 200,000 shares (10c par) common capital stock. Price, par. No underwriter. For corporate purposes.

● **United Telephone Co. of Pennsylvania (12/13)**
Nov. 22 filed 10,133 shares of series A 4½% cumulative preferred stock ($100 par). To be offered at par. **Underwriter** — Kidder, Peabody & Co. **Proceeds** — Plant expansion.

Universal Winding Co., Providence, R. I.
Nov. 4 (letter of notification) 6,500 shares ($5 par) common stock, to be sold at market (about $9.625) by Charles E. Mason, Jr., Chestnut Hill, Mass. **Underwriter**—G. H. Walker & Co., Providence.

● **Value Line Fund, Inc., New York**
Nov. 22 filed 300,000 shares ($1 par) stock. **Underwriter**—Value Line Fund Distributors, Inc., New York. Business.—Investment fund.

● **Walgreen Co.**
Nov. 23 filed an unspecified number of shares of common stock to be offered to holders of common stock of Thrifty Drug Stores Co., Inc. in exchange for their holdings. **Underwriter**—None.

Welch Grape Juice Co., Westfield, N. Y.
Oct. 31 (letter of notification) 83,749 common shares (par $2.50). Offered for subscription by stockholders of record Nov. 4 in ratio of three new shares for each 11 shares held at $13 per share. Rights expire Nov. 25. The total offering price will amount to $1,104,636 of which $820,625 (approximately 74%) will be offered to a single holder leaving a balance offered to the public at $284,001. Issue not underwritten, but Navajo Corp., principal stockholder will purchase any shares not taken by other stockholders up to a total of 83,749 shares. The offering also includes 1,223 Treasury shares, making total offering 84,972 shares. Working capital.

Younker Brothers, Inc., Des Moines, Ia.
Nov. 4 (letter of notification) 1,000 shares (no par) stock, to be sold at $27.50 each. **Underwriter**—T. C. Henderson & Co., Des Moines. **Proceeds**—To selling stockholder.

Prospective Offerings

● **California Electric Power Co.**
The company expects to raise approximately $2,500,000 in new capital in 1950 to finance its construction and expansion program. The 1950 construction program is expected to cost $5,000,000, with about half the money to be provided through depreciation reserves and other internal sources. The time and nature of the 1950 financing has not yet been decided.

Cincinnati Gas & Electric Co.
Dec. 21 stockholders will vote on authorizing 3,500,000 additional shares of common stock, some of which will be offered early in 1950 in connection with an $85,000,000 construction program. The exact amount will be determined later. Of the 2,500,000 shares now authorized, all but 6,000 shares are outstanding.

Food Fair Stores, Inc.
Dec. 30 stockholders will vote on a proposal to raise the authorized indebtedness from $5,000,000 to $12,000,000. If proposal is approved company is expected to issue and sell $8,000,000 debentures. The increase is designed to retire $2,700,000 3½% outstanding debentures and to finance expansion of company's supermarket chain. Probable underwriter: Eastman, Dillon & Co.

Iowa Public Service Co.
Oct. 26 announced that corporation plans to issue and sell early in 1950 $5,000,000 of preferred stock, the net

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(Continued from page 45)

proceeds to pay for construction costs, etc. Probable bidders: A. C. Allyn & Co.; Harriman Ripley & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Kidder, Peabody & Co. and Blyth & Co. (jointly); Equitable Securities Corp.

Kansas City Power & Light Co.

Oct. 25 company announced that it plans to sell $10,500,000 of additional common stock and $20,000,000 of funded securities. Proceeds would be used in its $55,000,000 expansion program planned for completion in 1952. Company plans are to sell $5,000,000 of common stock this year and the balance probably would not be issued until 1951. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Lehman Brothers and Bear, Stearns & Co. (jointly); Equitable Securities Corp.; Kuhn, Loeb & Co.; Salomon Bros. & Hutzler and Union Securities Corp. (jointly); Shields & Co. and White, Weld & Co. (jointly); Smith, Barney & Co.

Magnavox Co.

Dec. 12 stockholders will be asked to authorize a preferential stock issue as part of a proposed new financing program. New financing will retire outstanding bank loans and strengthen working capital. Maynard H. Murch & Co. will be underwriter.

● **Minneapolis Gas Co.**

Nov. 21 company plans repayment of some $2,000,000 in bank loans early in 1950 from the sale of additional bonds.

New York Central RR. (12/7)

Company will receive bids Dec. 7 for the purchase of $9,600,000 equipment trust certificates due in 15 equal annual instalments Jan. 1, 1951-1965. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co., and Lehman Brothers (jointly); Salomon Bros. & Hutzler. Bids expected about Dec. 7.

● **Niagara Mohawk Power Corp.**

United Corp. has announced that it plans to exchange its Niagara Hudson Power Corp. stock for the new Niagara Mohawk Power Co. issues and will add cash to obtain the stock. United then would sell the 189,263 shares of Class A Niagara Mohawk on the Stock Exchange or at competitive bidding and would market on the Exchange over a period of six months about 142,071 shares of the common.

● **Northern Indiana Public Service Co.**

Dec. 15 stockholders will vote on authorizing a new class of 500,000 shares of cumulative preferred stock and on increasing the authorized common stock from 3,000,000 to 3,500,000 shares. Company plans to refinance the 211,380 shares of 5% preferred by offering new preferred (dividend not to exceed 4½%) in exchange on a share for share basis. Unexchanged new preferred will be underwritten by Central Republic Co.; Blyth & Co., Inc.; Merrill Lynch, Pierce, Fenner & Beane.

Public Service Co. of Colorado

Nov. 8 company is expected to be in the market shortly for new equity capital to finance its construction and expansion program. Traditional underwriter: The First Boston Corp.

San Diego Gas & Electric Co.

Oct. 15, it was announced that the company plans to offer some time in 1950 an issue of permanent securities, either stock or bonds, the net proceeds of which are to be used to retire then outstanding bank loans. Probable bidders: Blyth & Co.; White, Weld & Co. and Shields & Co. (jointly); The First Boston Corp.; Halsey, Stuart & Co. Inc. (bonds); Merrill Lynch, Pierce, Fenner & Beane; Union Securities Corp.; Lehman Brothers and Bear, Stearns & Co.; Salomon Bros. & Hutzler.

Sharp & Dohme

Nov. 4 directors gave tentative approval to the proposed offering next year of a new non-convertible preferred stock in exchange for company's outstanding series A preferred. It is expected that the terms of the transaction, still to be determined, will encourage present preference holders to exchange their shares. Any unexchanged shares, it is believed, will be redeemed at $75 a share, up to a certain amount, through the sale to an underwriting group of additional shares of the new issue. Underwriters may include Alex. Brown & Sons and Drexel & Co.

● **South Jersey Gas Co.**

Nov. 16 United Corp. asked the SEC for exemption from the competitive bidding rule in its proposed sale of 154,231 shares of South Jersey Gas Co. capital stock.

● **State Street Investment Corp.**

Nov. 16 stockholders were informed that the corporation intends to issue rights next month on a basis of one share for each ten held. The issue is expected to amount to about $6,500,000, the aggregate of capital gains in the past three years.

Steiner Paper Corp. (12/5)

The Attorney General of the United States of America is inviting sealed bids for the purchase from him at public sale, as an entirety, of 575 shares of capital stock of the corporation. The 575 shares constitute 100% of the issued and outstanding capital stock of the company. The stock is held by the Attorney General as a result of vesting action under Vesting Order dated Jan. 20, 1948, pursuant to the Trading with the Enemy Act. All bids must be received at the Office of Alien Property, Department of Justice, 120 Broadway, New York, by 3:30 p.m. (EST) Dec. 5.

Texas Power & Light Co.

Oct. 28 Texas Utilities Co. in SEC application covering bank loans to be advanced to subsidiaries to finance their construction program, it was revealed that Texas Power & Light plans permanent financing probably to extent of $7,000,000 of bonds before August, 1950. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Blyth & Co., Inc.; Kidder, Peabody & Co. and Smith, Barney & Co. (jointly); W. C. Langley & Co. and Glore, Forgan & Co. (jointly); Carl M. Loeb, Rhoades & Co. and E. H. Rollins & Sons (jointly); Union Securities Corp.; Drexel & Co. and Hemphill, Noyes & Co. (jointly); Lehman Brothers; Salomon Bros. & Hutzler.

Peru Abandons Fixed Rate for Its Currency

A decree of the present provisional government, on Nov. 5, with knowledge of International Monetary Fund and on recommendation of an Economic and Financial Mission provides that Central Reserve Bank of Peru shall both buy and sell foreign exchange at rates quoted "for the day."

According to the text of a decree issued on Nov. 11 by the present provisional government in Peru, the policy of maintaining an official parity exchange rate of the Peruvian sol with foreign currencies is abandoned and henceforth the rate of exchange is to be fixed each day by the Office of the Superintendent of Banks. All foreign exchange resulting from exports, however, is to continue to be delivered to the Central Reserve Bank of Peru as heretofore. It is reported that the change in Peru's foreign exchange policy was made with the knowledge of the International Monetary Fund and is in accordance with the report of Nov. 5, 1949 of the Economic and Financial Mission in Peru.

The translated text of the first eight articles of the decree-law follows:

Article 1—The official parity of the sol is suspended.

Article 2—Producers of all the Republic will continue to be obliged to deliver to the Central Reserve Bank of Peru the foreign exchange which they may receive from the sale of their export products for the entire amount of which the Bank will deliver the certificates of foreign exchange referred to in Decree-Law 10905.

Article 3—The State will have preferential right of purchase of the certificates to which the previous article refers and will exercise this right through the Central Reserve Bank of Peru which will pay exporters, for the certificates it acquires, their value in national currency at the net mean rate of purchase by the commercial banks of the certificates in the market as recorded by the Office of the Superintendent of Banks for the day previous to that on which the purchase is made.

Article 4—In the case of the certificates which have not been used during the period of their validity, on their expiry the corresponding foreign exchange will remain automatically and definitively in possession of the Central Reserve Bank of Peru which will pay to the holder of the certificates, with a discount of 2%, the equivalent in soles at the net mean rate of purchase by the commercial banks of the certificates in the market, as recorded by the Office of the Superintendent of Banks for the day on which said certificates expired. The Central Reserve Bank of Peru is hereby authorized to extend the period of validity of the certificates of foreign exchange not freely convertible to gold, with a discount of 2%.

Article 5—The Central Reserve Bank of Peru may sell in the market, in the form of certificates, the foreign exchange purchased in accordance with the previous article, at a price not lower than the net mean price by commercial banks for certificates in the market, as recorded by the Office of the Superintendent of Banks, on the previous day, plus a surcharge of 2%.

Article 6—Until Dec. 31 of the present year, the Central Reserve Bank of Peru will sell to the government, at the net mean rate of purchase by the commercial banks of the certificates in the market, as recorded by the Office of the Superintendent of Banks on the previous day, the foreign exchange required exclusively to cover expenses foreseen in the present General Budget of the Republic, payable in foreign currency.

Article 7—The Central Reserve Bank of Peru will revalue its available holdings of gold and foreign exchange at the lowest quotation of certificates in the market for the three months prior to the present decree-law. The profit in national currency accruing will be distributed in the following manner:

(a) 25% will be credited to a special account of the government which will use said funds to attend to the greater cost of foreign exchange, in relation to the old official rate, which it may acquire from the Bank in accordance with the provisions of the previous article. At the end of the present year, any surplus in the account which may not have been used, will be applied to the purpose provided for in paragraph (c) of this same article;

(b) 25% will be reserved by the Central Reserve Bank of Peru in a special account which will only be used to cover the differences which may result from the operations to which articles 4, 5 and 6 refer [and] from the periodic revaluation in accordance with the provisions of article 8;

(c) 50% will be applied to the amortization of the debts of the State to the Central Reserve Bank of Peru.

Article 8—The Central Reserve Bank of Peru will revalue annually its available holdings of gold and foreign exchange at the lowest quotation of the certificates in the market in the course of said period and the profit resulting from these revaluations will be credited to the account established under paragraph (b) of the previous article.

Our Reporter's Report

November with its three holidays this year is proving to be a month of rather sparse fare for underwriters of corporate securities, but it promises to close with a burst of activity next week.

While the current period was productive of only several small deals these appeared to move out in speedy fashion. At any rate books were open for only a relatively short time before it was announced that subscriptions had been closed.

Connecticut Light & Power Co.'s $10,000,000 of 35-year 2¾% first and refunding bonds along with its 100,000 shares of new $2.04 dividend preferred stocks were cases in point.

The bonds priced, at 102.23 and the senior stock offered at $51.50 a share moved out so quickly that many who sought participation found themselves "shut-out" in short order.

Next week should find things a bit more interesting since bankers will be bidding on Tuesday for a total of $51,000,000 of utility mortgage bonds. The largest of these involves $41,000,000 of Louisville Gas & Electric Co. 30-year bonds and it is indicated that at least four groups will be in the running.

The smaller issue, $10,000,000, will be put up for bids by Gulf States Utilities Co. on the same day and five bids are now indicated. Proceeds in both cases will be applied in part to repayment of existing debts, and the balance for other corporate purposes.

Little Left on Shelves

Announcement that the last of the $15,000,000 of Duquesne Light Co.'s 30-year 2⅝s, brought out by bankers several weeks ago, had been sold and the books closed just about cleared away the last remnants from recent operations.

Dealers and underwriters' shelves now are virtually bare of anything in the way of unsold issues. There was no indication that the price had been shaded to clean up the Duquesnes, indicating that the market finally worked its way up to the prices originally set.

It is now estimated that the total of unsold corporate issues in distributors' hands is well below the $10,000,000 figure, exclusive of rail equipment trusts, as against some $60,000,000 a week or so back.

Another Fast One

People around the Street were reconciled to the fact that they were not going to get much of a chance at the $6,000,000 of Central Hudson Gas & Electric Corp's ten-year 2% convertible debentures. This issue was put on the market, Nov. 23, at a price of 100.90 to yield about 1.90 to maturity.

These debentures, carrying the added attraction of conversion privilege, were reported to have been taken in their entirety.

Two Big Equity Deals

Seasoned public utility companies do not appear to be encountering any difficulty in marketing substantial blocks of additional common equities.

Two such operations are now in progress, the largest involving 216,805 shares of new common by American Natural Gas Co. at a price of $28.25 a share.

This stock is being offered to shareholders of record as of the close Wednesday in the ratio of one new share for each ten held. In this instance holders also may subscribe for any stock not taken by other holders.

The second big stock offering involves 132,000 shares of Rochester Gas & Electric Corp. common being offered to its stockholders at the rate of one new share for each seven held at the close on Tuesday at $29.50 a share.

Rochester Gas & El. Stock Placed on Market

A syndicate headed by The First Boston Corp. is underwriting an offering by Rochester Gas and Electric Co. of 132,000 new shares to stockholders at $29.50 a share. The offering, which represents the company's first financing effort since its ownership passed into the hands of the investing public last September, will continue until Dec. 8.

The underwriters will be dealer managers of a group of securities dealers who will solicit subscriptions and sell stock. Participating in the underwriting are The First Boston Corp.; Lehman Brothers; Wertheim & Co.; Merrill Lynch, Pierce, Fenner & Beane; George D. B. Bonbright & Co.; Little & Hopkins, Inc.; Erickson Perkins & Co., and Sage, Rutty & Co., Inc.

Proceeds from the sale will be used to retire $2,000,000 of short-term debt. The company expects that it will have to raise $15,000,000 from additional financing to cover expansion. The company is capitalized with $53,657,000 of funded debt; 170,000 shares of preferred stock and 967,000 shares of common stock.

With Slayton & Co.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO. — Ezekiel A. Straw and Oliver L. Wroughton are with Slayton & Company, Inc., 408 Olive Street.

Three With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—Ogan N. Cole, Milton S. Johnson & Charles E. Snow have become associated with Waddell & Reed, Inc., 1012 Baltimore Avenue.

Joins Nathan Fay Co.

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, MAINE — Robert L. Smith has become associated with Nathan C. Fay & Co., 208 Middle Street. He was formerly with Carl K. Ross & Co., Inc.

DIVIDEND NOTICES

AMERICAN POWER & LIGHT COMPANY
Two Rector Street, New York 6, N. Y.
PREFERRED STOCK DIVIDENDS

A dividend of $1.50 per share on the Preferred Stock ($6) and a dividend of $1.25 per share on the $5 Preferred Stock of American Power & Light Company were declared on November 21, 1949, for payment January 1, 1950, to stockholders of record at the close of business December 5, 1949.

D. W. JACK, Secretary and Treasurer

AMERICAN MACHINE AND METALS, INC.

A dividend of 15¢ per share will be paid on December 27, 1949, to stockholders of record at close of business December 9, 1949. To obtain dividend, holders of Voting Trust Certificates should exchange same for Capital Stock promptly.

H. T. McMeekin, *Treasurer.*

acf

AMERICAN CAR AND FOUNDRY COMPANY
30 CHURCH STREET
NEW YORK 8, N. Y.

There has been declared a dividend of one and three-quarters per cent (1¾%) on the preferred stock of this Company outstanding, payable December 15, 1949, to the holders of record of said stock at the close of business December 1, 1949.

Transfer books will not be closed. Checks will be mailed by Guaranty Trust Company of New York.

HOWARD C. WICK, *Secretary*
November 17, 1949

Allegheny Ludlum Steel Corporation
Pittsburgh, Penna.

At a meeting of the Board of Directors of the Allegheny Ludlum Steel Corporation held today, November 14, 1949, a dividend of fifty cents (50c) per share was declared on the Common Stock of the Corporation, payable December 22, 1949, to Common stockholders of record at the close of business on December 1, 1949.

The Board also declared a dividend of one dollar twelve and one-half cents ($1.12½c) per share on the $4.50 Cumulative Preferred Stock of the Corporation, payable December 15, 1949, to Preferred stockholders of record at the close of business on December 1, 1949.

S. A. McCASKEY, Jr., Secretary.

C.I.T. FINANCIAL CORPORATION

Dividend on Common Stock

A quarterly dividend of $1.00 per share in cash has been declared on the Common Stock of C. I. T. FINANCIAL CORPORATION, payable January 1, 1950, to stockholders of record at the close of business December 10, 1949. The transfer books will not close. Checks will be mailed.

FRED W. HAUTAU, *Treasurer*
November 22, 1949.

William E. Griffith Opens

(Special to THE FINANCIAL CHRONICLE)

WOODHAVEN, N. Y.—William E. Griffith is engaging in a securities business from offices at 8543 Ninety-first Street.

DIVIDEND NOTICES

EATON & HOWARD STOCK FUND

The Trustees have declared a dividend from realized profits of fifty cents ($.50) a share, payable on Dec. 24, 1949, to shareholders of record at the close of business Dec. 2, 1949.

24 Federal Street, Boston

INTERSTATE POWER COMPANY
DUBUQUE, IOWA

Notice of Common Dividend

The Board of Directors has declared a dividend of 15¢ per share on the outstanding Common Stock, payable December 20, 1949, to stockholders of record on December 10, 1949. The transfer books will not be closed.

OSCAR SOLBERG, *Treasurer*
November 16, 1949

B.T. Babbitt INC.

84th CONSECUTIVE QUARTERLY DIVIDEND

The Board of Directors of B. T. Babbitt, Inc. has declared a regular quarterly dividend of 30c per share on the Common Stock of the Company, payable on January 3, 1950 to stockholders of record at the close of business on December 10, 1949.

LEO W. GEISMAR, *Treasurer.*
November 22, 1949

Bayuk Cigars Inc.

A dividend of twenty cents (20c) per share on the Common Stock of this Corporation was declared payable Dec. 15, 1949, to stockholders of record Nov. 30, 1949. Checks will be mailed.

John A. Snyder
TREASURER

Philadelphia, Pa.
Nov. 18, 1949

PHILLIES
America's No1 cigar

Frank C. Prescott III Opens

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Frank C. Prescott, III is engaging in a securities business from offices at 3920 Wilshire Boulevard.

DIVIDEND NOTICES

KENNECOTT COPPER CORPORATION
120 Broadway, New York 5, N. Y.

November 18, 1949.

A cash distribution of twenty-five cents (25c) a share and a special cash distribution of one dollar and fifty cents ($1.50) a share have today been declared by Kennecott Copper Corporation, payable on December 22, 1949 to stockholders of record at the close of business on November 30, 1949.

A. S. CHEROUNY, *Secretary.*

MERCK & CO., INC.

A regular quarterly dividend of 87½c a share on the $3.50 Cumulative Preferred Stock of this corporation, for the quarter ending December 31, 1949, has been declared payable on January 3, 1950, to stockholders of record at the close of business December 12, 1949.

A regular quarterly dividend of $1.00 a share on the $4.00 Cumulative Convertible Second Preferred Stock of this corporation, for the quarter ending December 31, 1949, has been declared payable on January 3, 1950, to stockholders of record at the close of business December 12, 1949.

A quarterly dividend of 37½c a share on the Common Stock of this corporation has been declared payable on January 3, 1950, to stockholders of record at the close of business December 12, 1949.

GEORGE W. MERCK, *President.*
November 22, 1949

O'okiep Copper Company Limited
Dividend No. 12

The Board of Directors today declared a dividend of two shillings per share on the Ordinary Shares of the Company payable December 12, 1949 to the holders of Ordinary Shares of record at the close of business November 28, 1949 subject to the withholding of the Union of South Africa non-resident shareholders tax in the amount of seven and one-half percent (7½%).

The directors authorized the distribution of the net amount of said dividend on December 12, 1949 to the holders of record at the close of business on November 28, 1949 of American Shares issued under the terms of the Deposit Agreement dated June 24, 1946. The net amount payable in United States funds will be published when ascertained.

By order of the Board of Directors.

H. E. DODGE, *Secretary.*
New York, N. Y., November 17, 1949.

Allen B. DuMont Laboratories, Inc.

The Board of Directors of Allen B. Du Mont Laboratories, Inc., this day has declared a dividend of $.50 per share for the year 1949, on its outstanding shares of Class A Common Stock and Class B Common Stock, payable on December 22, 1949 to Common Stockholders of record at the close of business on December 1, 1949.

A regular quarterly dividend of $.25 per share on its outstanding shares of 5% Cumulative Convertible Preferred Stock has also been declared, payable January 1, 1950 to Preferred Stockholders of record at the close of business December 15, 1949.

PAUL RAIBOURN,
November 16, 1949 Treasurer

DUMONT *in all phases of television*

Beneficial Industrial Loan Corporation

DIVIDEND NOTICE

Dividends have been declared by the Board of Directors, as follows:

CUMULATIVE PREFERRED STOCK
$3.25 Dividend Series of 1946
$.81¼ per share
$4 Dividend Series of 1948
$1 per share
(for quarterly period ending December 31, 1949)

COMMON STOCK

A cash dividend of $.37½ per share and, in addition, a 10% stock dividend payable in common stock of the Company. Bearer scrip certificates will be issuable in lieu of fractional shares.

Both the cash and stock dividends are payable December 30, 1949 to stockholders of record at close of business December 5, 1949.

PHILIP KAPINAS, *Treasurer*
November 17, 1949

DIVIDEND NOTICES

St. Louis, Rocky Mountain & Pacific Co.
Raton, New Mexico, November 22, 1949.
COMMON STOCK DIVIDEND NO. 102

The above Company has declared a dividend of 50 cents per share on the Common Stock of the Company to stockholders of record at the close of business December 1, 1949, payable December 15, 1949. Transfer books will not be closed.

P. L. BONNYMAN, Treasurer.

SOUTHERN PACIFIC COMPANY
DIVIDEND NO. 128

A QUARTERLY DIVIDEND of One Dollar and Twenty-five Cents ($1.25) per share on the Common Stock of this Company has been declared payable at the Treasurer's Office, No. 165 Broadway, New York 6, N. Y., on Monday, December 19, 1949, to stockholders of record at three o'clock P. M., on Monday, November 28, 1949. The stock transfer books will not be closed for the payment of this dividend.

J. A. SIMPSON, Treasurer.
New York, N. Y., November 17, 1949.

CONSOL

The Board of Directors of **PITTSBURGH CONSOLIDATION COAL COMPANY** at a meeting held today, declared a quarterly dividend of 75 cents per share on the Common Stock of the Company, payable on December 12, 1949, to shareholders of record at the close of business on December 1, 1949. Checks will be mailed.

CHARLES E. BEACHLEY,
Secretary-Treasurer
November 21, 1949.

SOUTH PORTO RICO SUGAR COMPANY
November 22, 1949.

The Board of Directors has this day declared a quarterly dividend of 50c per share on the $25.00 par value 8% Preferred Stock outstanding; and a dividend of One Dollar per share on the outstanding Common Stock; all payable on January 2, 1950 to stockholders of record at the close of business on December 15, 1949.

F. M. SCHALL, Treasurer.

RUSSELL & COMPANY, SUCESORES

Russell & Company, Sucesores, have declared a second and final distribution in complete liquidation. Such distribution will be made to the common stockholders of South Porto Rico Sugar Company by Banco Popular de Puerto Rico as Substituted Trustee under a Trust Agreement between American Colonial Bank of Porto Rico and Edwin L. Arnold and others dated April 18, 1917 and will amount to $2.31 per share on the outstanding common stock of South Porto Rico Sugar Company. The distribution will be made by Chemical Bank & Trust Company as Agent for the Substituted Trustee on December 29, 1949 to the common stockholders of record of South Porto Rico Sugar Company at the close of business on December 15, 1949.

HUBERT EDSON, Managing Partner.
November 22, 1949.

TECHNICOLOR, Inc.

The Board of Directors has declared a dividend of forty cents (40c) a share and a special year-end dividend of forty cents (40c) a share on the Capital Stock of the Company, both payable December 20, 1949 to stockholders of record at the close of business December 5, 1949.

L. G. CLARK, *Treasurer*
November 22, 1949

20th CENTURY FOX

TWENTIETH CENTURY-FOX FILM CORPORATION

November 17, 1949

A quarterly cash dividend of $1.12½ per share (or the equivalent in sterling at the rate of exchange on date of payment to holders of record residing in the United Kingdom) on the outstanding Prior Preferred Stock of this Corporation has been declared payable December 15, 1949 to the stockholders of record at the close of business on December 1, 1949.

A quarterly cash dividend of $.37½ per share (or the equivalent in sterling at the rate of exchange on date of payment to holders of record residing in the United Kingdom) on the outstanding Convertible Preferred Stock of this Corporation has been declared payable December 20, 1949 to the stockholders of record at the close of business on December 1, 1949.

A quarterly cash dividend of $.50 per share (or the equivalent in sterling at the rate of exchange on date of payment to holders of record residing in the United Kingdom) on the outstanding Common Stock of this Corporation has been declared payable December 20, 1949 to stockholders of record at the close of business on December 1, 1949.

DONALD A. HENDERSON,
Treasurer.

DIVIDEND NOTICES

TEXAS GULF SULPHUR COMPANY

The Board of Directors has declared a dividend of 75 cents per share and an additional dividend of 50 cents per share on the Company's capital stock, payable December 15, 1949, to stockholders of record at the close of business November 28, 1949.

BACHMAN G. BEDICHEK,
Assistant Secretary

UNION CARBIDE
AND CARBON CORPORATION

UCC

A cash dividend of Fifty cents (50¢) per share on the outstanding capital stock of this Corporation has been declared, payable January 3, 1950 to stockholders of record at the close of business December 2, 1949.

MORSE G. DIAL,
Vice-President and Treasurer

TC **TENNESSEE CORPORATION**

November 15, 1949.

A dividend of thirty (30¢) cents per share has been declared, payable December 15, 1949, to stockholders of record at the close of business December 1, 1949.

An extra dividend of twenty five (25¢) cents per share also has been declared, payable December 15, 1949, to stockholders of record at the close of business December 1, 1949.

An extra dividend of twenty five (25¢) cents per share also has been declared, payable January 9, 1950, to stockholders of record at the close of business December 1, 1949.

61 Broadway J. B. McGEE
New York 6, N. Y. *Treasurer.*

Edison

41st *year of consecutive dividend payments*

SOUTHERN CALIFORNIA EDISON COMPANY

preferred dividends

ORIGINAL PREFERRED STOCK
DIVIDEND NO. 162

CUMULATIVE PREFERRED STOCK 4.32% SERIES
DIVIDEND No. 11

The Board of Directors has authorized the payment of the following quarterly dividends:

50 cents per share on Original Preferred Stock, payable December 31, 1949, to stockholders of record on December 5, 1949.

27 cents per share on Cumulative Preferred Stock, 4.32% Series, payable on December 31, 1949, to stockholders of record on December 5, 1949.

T. J. GAMBLE, Secretary

November 18, 1949

CITIES SERVICE COMPANY

Dividend Notice

The Board of Directors of Cities Service Company on November 16, 1949 declared a regular quarterly dividend of one dollar ($1.00) per share on its $10 par value Common stock. The board also declared a special dividend of one dollar ($1.00) per share on such stock. Both dividends are payable December 19, 1949 to stockholders of record as of the close of business November 25, 1949.

To assure prompt receipt of the dividend, stockholders should notify the Company, at its office, 60 Wall Street, New York 5, N. Y., of any change of address, giving both the old and new addresses.

W. ALTON JONES, *President*

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—There is considerable apprehension over the plans Chairman Clarence Cannon of the House Appropriations committee is reported to have worked out for handling the single appropriation bill the Congress is going to try in 1950.

By a simple policy decision of the House Appropriations Committee and by a formal resolution approved for the Senate, both Houses next year will lump all Federal supply bills into a single appropriations measure. This means that supply bills will not be passed separately and piecemeal, as has been traditional. Instead, no agency or department's allowances for fiscal '51 will be approved until all appropriations are considered together in one measure.

Behind this is the theory that the advocates of economy will have a little easier time getting somewhere. Subcommittees as heretofore, will continue to hold hearings on separate appropriations bills, as for national defense, Commerce, Justice, State and Labor Departments, and so on. However, the Appropriations Committee will not finally propose any sum for any agency until it is ready to determine the total sum that will be appropriated for the entire government. Then that sum will be divided up.

In theory this will give a committee a chance to take a look at the whole budgetary picture, and hold down spending to the prospective revenues of the government.

Mr. Cannon, it is reported, has written to members of the Appropriations Committee proposing that all subcommittee bills for appropriations should be first looked over and be tentatively written by a special Appropriations Subcommittee of five, to consist of Rep. Cannon, the next two ranking Democrats, and the two top ranking Republican members.

This special subcommittee of five would review the subcommittee bills and whip them into tentative shape for final approval by the full committee. This is supposed to be a necessary device to save the full committee from attempting to do the herculean job of having to decide countless items submitted by the subcommittees.

However, members of the committee were quick to note that with two Democrats and two Republicans being members of this highly strategic committee, Rep. Cannon would probably cast the deciding vote on scores of politically important appropriations recommendations.

Hence, Chairman Cannon would probably become the most powerful single member of the House, by casting the deciding vote on all controversies as to where, in given cases, the pruning knife of economy would be applied, and where the liberality of the "Fair Deal" would prevail.

In a sense, this would probably make Mr. Cannon the most influential single individual in the entire House, and many do not like it, Democratic or Republican. This plan, unless knocked over, could lead to the junking of the single appropriation plan. While few would rely on any procedural method such as the single appropriation bill, to bring about economy by itself, its operations should prove somewhat helpful.

* * *

In view of the official line that another large-scale amphibious invasion of Continental Europe comparable to the Normandy invasion is not possible because of the atomic bomb, the Administration will be needled considerably during the next session of Congress for its Spanish policy. Add this to the rising criticism of the Administration policy of giving way to the Commies in China.

The line that another large amphibious invasion of Europe is not possible is believed predicated upon the theory that one atomic bomb dropped on the invasion beach could wreck the invasion force. Hence, it is not feasible to consider an effort to retake a Europe held to the Channel by the Reds.

And, it might be added, the Administration anticipates, judging by a volume of statements, that the Reds would have no great difficulty in the next four to five years overrunning the Continent to the Channel, if they chose to do so.

Spain, however, presents a "natural beachhead" for the U. S., in case France is again overrun. The Pyrennes mountains are a formidable natural barrier. If Russia approached these after occupying France, she would be at the extreme end of tenuous supply lines. Even if she made it over the Pyrennes, Spain is a rugged country which would be difficult to occupy.

Hence, IF Russia does move before Western Europe, with economic and arms aid, is able to contain Russian forces at the Rhine, then Spain may come to have the military importance to the U. S. that it had to England when Napoleon was on the rampage.

Furthermore, it is pointed out, Russia does not have naval forces which would make it possible for her to subjugate Spain from the sea.

Russians, knowing this, scream bloody murder if there is the slightest hint the U. S. might forget its ideological grudge with Spain to the extent it has forgotten its ideological grude against Tito. However, the Socialist governments of Europe likewise do not like Franko, and the State Department hesitates to ire them by extending any help to Spain.

* * *

From the Monetary Subcommittee hearings of the four-ring Joint Economic Committee circus, there has so far developed:

(1) The Monetary subcommittee hearing is so far largely a one-man show, with Chairman Paul H. Douglas monopolizing most of the questioning. After the first day, Senator Ralph Flanders, Vermont Republican, took time out. Rep. Wright Patman, Texas Democrat, and one of the more assiduous spokesmen for "small business," initially passed the hearings by. Rep. Jesse P. Wolcott, ranking Republican member of the House Banking Committee, is keeping an eye on the hearings to see what the "Fair Dealers" are up to, and to introduce a little practical historical background into the discussion.

(2) With regard to Federal Reserve policy, the same issue has been drawn as has been prevalent for some years. The Federal Reserve Board, faced with the obsolescence of its functions while committed to maintaining an orderly market for Federal bonds, wants more and additional powers, powers over reserve requirements of non-members, specific controls over consumer credit, power to guarantee small business loans for commercial banks, and so on.

On the other hand, such outstanding witnesses as W. Randolph Burgess, Chairman of the Executive Committee of the National City Bank of New York, advocate the freeing of the Reserve System from its preoccupation with the bond market and a return to using open market operations, a balanced Federal budget, and the giving to the Reserve System of independence from the political arm of the Administration.

(3) Senator Douglas, an Illinois Democrat and noted author of "liberal" tracts before he came to the Senate, obviously leans strongly toward the Federal Reserve Board line of greater powers. He would even favor giving the Board power to examine the national banks, a power not openly sought by the Board.

(4) Senator Douglas focused considerable attention upon himself by his almost solo role in conducting the subcommittee's hearing. The Senator insists that although a "liberal," he favors only such part of the welfare state as can be financed within a balanced budget. He thus infers a sharp break with the Administration which puts farm aid, foreign aid, arms aid, and welfare expenditures as objectives of greater priority than a balanced budget. The left-wing crowd were shaking their heads over Senator Douglas's heresy in this respect during the first session of the 81st Congress Dr. Douglas made it clear at the conclusion of the first phase of the hearings that he is sticking by this stand next year.

This raises the question of where will Senator Douglas go from here. The left-wing crowd does not welcome such important defections from the party line. Will Douglas be forced by political pressure to give way to the party line and take it all, or will he, like former Senator Joseph H. Ball, Minnesota Republican, gradually turn the other way and become more conservative?

(5) A comparatively little known official, J. L. Robertson, principal Deputy Comptroller of the Currency, distinguished himself by a flat-footed, uncompromising opposition to Douglas's proposal for using bank examinations as a device to contract or expand credit. Robertson disagreed flatly and stuck to his ground even though the Senator lost his temper, and asserted that bank examinations were no vehicle for asserting a policy of bank operations "dictated by what some top economist in Washington thought was going to happen."

Mr. Robertson, incidentally, flatly contradicted Senator Douglas's assertion that legislation freeing national banks to convert to state charters would lead to many separations from the Federal Reserve system, a position also taken by the Federal Reserve Board. Douglas last year held up the charter conversion bill. Robertson declared that he did not want to use force to maintain banks on a national charter basis, and said that if this legislation allowing freedom of departure from the national banking system were not passed, it would only be a question of time before states, by law, would freeze state-chartered banks into the state systems.

(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

"It's a tough choice to make—the Blonde can't type at all!"

B. Noyes Nominated By N Y Inv. Assn.

Blancke Noyes of Hemphill, Noyes, Graham, Parsons & Co. has has been nominated for the Presidency of the Investment Association of New York on a slate presented to the membership for action at the annual meeting and election to be held on Dec. 14. A graduate of Cornell University, Mr. Noyes is associated with the buying department of his firm. Announcement of the slate was made by Stanley A. Russell, Jr. of Blyth & Co., Inc., President of the Association, which was formed in 1947 as the Junior Investment Bankers and Brokers Association.

H. Grady Black, Jr. of Morgan Stanley & Co., who has been Program Director of the group for the current year, was nominated to be Vice-President. Sydney G. Duffy of Blyth & Co., Inc., was proposed for Secretary and Dean Witter, Jr. of Dean Witter & Co., for Treasurer. Those nominated to the Executive Board for the ensuing year are Joseph Allen Lee, Jr., of Union Securities Corp., H. Vernon Lee, Jr. of the New York Curb Exchange, Frank L. Mansell of Lee, Higginson Corp. and Edward F. Swenson, Jr. of Clark, Dodge & Co. Norman de Planque of W. E. Hutton & Co. is Chairman of the Nominating Committee which perpared the slate. Other members are William S. Goedecke, Donal P. McDonnell, Lawrence A. Quinlivan, Jr. and Charles P. Stetson.