Obstacles to Involuntary Rail Mergers As Presented by Northwestern Group

F. J. Lisman Considers Determination of the Value of Stockholders' Equity One of Chief Difficulties

Legality of Procedure

Compulsory Consolidation by the Government Is a Long Way Off, He Says

Believes Great Northern, Northern Pacific and Milwaukee Roads Should Be Independent Lines

Would Maintain Rivalry

C., M. & St. P. Should Be Combined With the Union Pacific, He Thinks

By F. J. Lisman

The transportation act of 1920, generally known as the Esch-Cummins bill, contains a mandate to the Interstate Commerce Commission to prepare and adopt a plan for the consolidation of the railway properties into a limited number of systems. These systems shall preserve competition, the existing channels of trade and commerce are to be maintained. The systems shall be so arranged that the cost of handling their business shall average about the same, and they shall earn substantially the same rate of return on the value of their respective properties. After the commission has prepared such a tentative reorganization scheme, it is ordered to hold hearings and finally adopt and publish a plan.

The commission has been faithfully endeavoring to carry out this mandate from Congress, and has turned the problem over to Commissioner Hall, one of the older members of the commission, who is by nature a very thorough and painstaking student. In the meanwhile, in accordance with instructions of the commission, Professor Ripley, of Harvard, after careful study and discussion with the railroad officials of the country, has worked out a plan which was published by the commission about a year ago.

Based on this plan, hearings have been held in Washington in connection with the Southeastern groups. Hearings are to commence shortly in Washington for the purpose of formulating a definite plan for the Northwestern group. Under the Ripley plan, tentatively approved by the Interstate Commerce Commission, the lines north and west of the Twin Cities are to be consolidated into two systems, which will extend from Chicago to Portland, Tacoma and Seattle. The Great Northern is to take over the Chicago, Milwaukee & St. Paul and its subsidiary companies, in order to give it some additional good revenue-producing properties, and also to absorb the very valuable ore carriers terminating at Duluth, the Duluth & Iron Range and the Duluth, Missabe & Northern Railway. The Northern Pacific is to take over the Chicago, Burlington & Quincy. Congress and the commission theoretically will dispose of the various railroad properties, but the stockholders and managements of these roads in many cases do not agree with respect to the desirability or value of the proposed consolidation.

The C., B. & Q. is a fine property, radiating from Chicago westerly and northwesterly. Its main stem runs to Montana, although it is counted as among the strong lines running between Chicago and Kansas City, St. Louis and Kansas City, Chicago and Omaha, Omaha to Denver, Kansas City to Denver, Chicago to the Twin Cities. It was one of the first roads built out of Chicago into the great Middle Western country, and it has the best, or nearly the best, terminals in practically all the cities reached by it. It has had the benefit of continuity of policy and management for the sixty-five years of its existence, and has always been conservatively capitalized. There have been set aside annually large amounts for sinking fund purposes, which in the course of two generations have greatly reduced its funded debt.

Hill Saw Possibilities

The late James J. Hill fully visualized the strength of this property when he bought in 1901 in order to give the two railroads which he at that time dominated, the Northern Pacific and the Great Northern, not only an entrance from the Twin Cities into Chicago, but also a fine line from Billings, Mont., through the Wyoming coal fields to Denver, and through the agricultural and manufacturing districts of Nebraska, Iowa and Illinois to all important points in the Missouri and Mississippi valleys.

Mr. Hill in 1901 was anxious to merge the Northern Pacific and the Great Northern, and at that time the Northern Securities Company was devised for that purpose, but was subsequently declared an illegal holding company by the Supreme Court. For the last twenty years these two great properties have really been controlled by the Hill interests, though in accordance with the law the properties have been operated separately. Application is now pending before the Interstate Commerce Commission for the merging of the three corporations, that is, the Great Northern, Northern Pacific and the Chicago, Burlington & Quincy. As substantially all the stock of the C., B. & Q. is owned by the other two, the Great Northern and the Northern Pacific, and since both the Great Northern and the Northern Pacific have only one class of stock selling approximately at the same price, the financial problem of merging the three roads would be rather simple. The Northern Pacific, however, is not so strong in cash assets as the Great Northern.

As far as the larger cities are concerned, in Montana, Idaho and Washington, the St. Paul, which is supposed to merge with the Great Northern, is much more competitive with the Great Northern than with the Northern Pacific. The companies compete at Great Falls, Helena and Butte, Spokane, Tacoma and Seattle, Washington and at Portland, Ore. It makes, therefore, very little difference to the public whether the St. Paul or the Northern Pacific is merged with the Great Northern. As far as financial strength is concerned, it makes quite a difference to the Milwaukee & St. Paul stockholders whether they can get the financial strength of the Great Northern with its $250,000,000 of stock, selling at 80, behind the equities in their property.

Prices for Stocks

If the Interstate Commerce Commission should deny the request of the Northern Pacific and Great Northern to merge with the Chicago, Burlington & Quincy, but should favor the Northern Pacific merger with the C. B. & Q., the question arises, what should be paid by this combination to the Great Northern for its one-half ownership of the capital stock of the C. B. & Q.

Congress has unquestionably the constitutional right to give any railroad company the privilege of condemning the property of another railroad company, just as any railroad company now has the right of acquiring any piece of property for railroad purposes by condemnation proceedings, but Congress under the Constitution has no right to make any corporation pay the price for any property beyond what the directors of the company may think is a fair price. The property of the C. B. & Q. has been valued at about $60,000,000 more than its present capitalization. This valuation has not been accepted yet as adequate by the company, but assuming that it should admit that its property is worth $100,000,000 more than its outstanding securities and supposing further that Congress were to give authority to condemn the property for its finally determined physical value, the directors of the Northern Pacific might not be willing to pay the 60 per cent premium for the C. B. & Q. stock; that is to say, they might not be willing to pay $50,000,000 profit to the Great Northern for its half interest in the C. B. & Q.

If the Great Northern and Chicago, Milwaukee & St. Paul are to be consolidated, how is the value of the equity of the stockholders in the two properties to be determined? It is a reasonable assumption that the $116,000,000 of Chicago, Milwaukee & St. Paul preferred and a like amount of common stock represents 100 cents on the dollar in physical property. The same is unquestionably the case with the $250,000,000 Great Northern stock. The two classes of stock of the Chicago, Milwaukee & St. Paul are selling on an average of about 65 per cent discount, which in actual figures means about $150,000,000. There is no conceivable right under the Constitution which could compel the Chicago, Milwaukee & St. Paul stockholders to sell their property for less than its fair value. This fair value might be physical value or a capitalization of present and future earning capacity. To determine this latter factor is an extremely difficult proposition.

Assuming for the moment that the Great Northern stockholders in the plan of consolidation might be willing to accept for their present stock par in stock of a new company, provided the Chicago, Milwaukee & St. Paul preferred stockholders were to get, say, 65 per cent of this same stock and the common stockholders 40 per cent, there would be a great deal of difficulty in making the stockholders of the latter company accept this proposition nor is there any way of making the stockholders of the Great Northern accept stock of any consolidated company except on terms satisfactory to them.

Steel Corporation Roads

The case of the iron ore roads referred to, running out of Duluth, is somewhat different. The stock of these companies is owned by the United States Steel Corporation and these companies have been earning considerably more than 6 per cent on their capitalization over a series of years. They are supposed to divide their surplus above 6 per cent with the government, but the legality of this clause is still to be determined. The writer does not believe that the Supreme Court will uphold this provision because the present law in effect says that if any railroad should in any year earn more than 6 per cent it must divide the surplus, but if any earns less than 6 per cent it must carry all the deficit. In other words, Congress at present says to the owners of railroads, 'If you make more than a fair rate of interest, that is, the rate of interest you can get in the marketplace, without risk, then you must divide the surplus with us, but if you earn any less than a fair rate, the loss is entirely yours.' Unquestionably, the Supreme Court is bound to find that the railroad companies must at least be entitled to the current rate of interest for the lean years as well as for the fat ones and quite likely this court will hold that 6 per cent is not a fair rate of interest where a serious risk is involved. Probably taking the risk of the business into consideration 8 per cent cumulative would be nearer right. The Steel Corporation would probably not be willing to sell its ownership in these railroads, which are of great service to it, at a price which the Great Northern directors might be willing to pay, even if the law limiting profits to 6 per cent is constitutional, or at a price to be fixed at which these properties might be taken by a third party.

Looking at the matter from these angles, compulsory consolidation is a long way off. If Congress should enact additional legislation, it will rarely be contested and finally come up to the Supreme Court after at least five years of litigation. The question, therefore, is squarely up to the Interstate Commerce Commission—shall it permit voluntary consolidation of the three so-called Hill roads or shall it deny the application for merger? If the application is denied the Great Northern would undoubtedly hold out for high prices for its equity in the C. B. & Q. and would probably prevent the merger of the C. B. & Q. with the Northern Pacific.

The writer believes that the public would be best served by maintaining the independence of the three through lines between the Twin Cities and the Pacific Coast; that is, the Great Northern, Northern Pacific and Milwaukee roads. These, together with the Canadian lines on the north and branches of the Union Pacific system coming up from the South, would give the Northwest a great variety of routes and would be certain to maintain competition in service, as well as aid the development of the country. Of course, there is great room for a difference of opinion on this subject.

Another Combination

The writer and many others believe that the Great Northern and the Chicago & Northwestern would fit very much better together, and that the C., M. & St. P. should be merged with the Union Pacific. By such a merger competition would be better maintained than under the proposed plan. The Union Pacific, however, does not want to merge with any road. It takes the position that the road terminates at Omaha, at which point it can keep an open gateway and exchange traffic freely with any and all railroads terminating there.

There are six roads between Chicago and Omaha, with approximately the same mileage between the two cities, among them being the Illinois Central, in which the Union Pacific has a large ownership. The Union Pacific management believes that the interest of its stockholders, as well as of the public along its connecting lines, is best served by this free interchange. Assuming that it may legally be done, is it wise to substitute the judgment of Congress and the Interstate Commerce Commission for that of the security holders who have money invested in the respective properties?

During the car shortage of 1919-'20, while the present transportation act was being formulated, every shipper located on a weak road thought he could get very much better service if the weak line on which he was dependent were absorbed by a strong company. It was this thought prevalent at the time which dominated in the framing of the law. Senator Cummins, who is the man responsible for this particular provision, is understood to be contemplating the addition of some mandatory provision which will put teeth into his consolidation scheme. The only thought thus far mentioned is to provide for compulsory Federal incorporation on the part of the railroads. This Federal incorporation act is to contain the provision that companies taking the benefits of it must be willing, more or less, to consolidate with other corporations in accordance with the instructions of the Interstate Commerce Commission. Presumably companies which will not incorporate under such an act may be turned over as a prey to the various state commissions or be thrown to the wolves!

Many doubt that compulsory consolidation is practicable without a constitutional amendment. Whether such an amendment would meet with popular approval and be accepted by thirty-six of the Legislatures out of the forty-eight states is uncertain. Assuming all this can be done, compulsory consolidation is at least ten years ahead of us. In the mean while, no doubt, voluntary consolidation will proceed just as soon as the railroads achieve a reasonable amount of prosperity. Now that the labor problem does not look so ominous, possibly consolidation involving established lines may proceed.

Previous Combines

Looking at the railroad map of the United States we find that a considerable consolidation actually did take place prior to the enactment of the Sherman law, which prohibits the consolidation of competing lines. Up to about 1900 it was generally assumed that the Sherman law was not intended to apply t othe railroads, and consolidation of various weak lines into the strong systems was steadily reducing the number of corporations. All of New England was divided up among two railroad systems, excepting only the main line of the Boston & Albany, which has become the main stem of the New York Central system from Albany to Boston, and a north and south line to connect the Grand Trunk Railway with Long Island Sound. Similarly all of the railways in the northern half of the State of New York, excepting only the Delaware & Hudson, were absorbed by the New York Central. In the southeast the Southern Railway system contains a number of parallel lines more or less potentially competitive with each other. West of Chicago in the Chicago, Milwaukee & St. Paul system there was a consolidation of a number of lines similarly potentially competitive with each other. Consolidation along such lines proceeded more or less throughout the country.

It is the belief of the writer that the free forces of commercial competition and of sound and intelligent self-interest properly held in restraint by the Interstate Commerce Commission will be much more beneficial to the public than compulsory consolidation which will necessarily be of doubtful legality for many years.

What Retailers Are Buying

By Alfred Fantl

There appears to be plenty of money to spend, but too little merchandise readily available to let all merchants benefit by their opportunities. This congestion was forecast weeks ago and in ample time to let every one stock up, especially for the holidays. Yet a great deal of holiday merchandise cannot be delivered by manufacturers. In furs Hudson seal reductions are being made in order to dispose of all supplies in hand by December 1. Retailers generally have made strong cards of lowered prices with the public, and extensive advertising appears to be exercising influence in inducing consumers to take up the numerous offerings. There should, therefore, become manifest this winter an apparently great popularity for this fur, but whether a grave reaction will ensue next year is a factor to be seriously considered by the trade.

Demand persists strongly for coats of all descriptions. Prices remain firm. Materials and furs of the better sort are inclined to be scarce. A continuance of warm weather is likely, however, to break prices sooner than has been expected. Jacquettes, box coats and Balkan blouses, now being made in a varied assortment of materials ranging from gray astrachan at $10.75 to broadtail cloth and other fur fabrics, are subject still to unusual demand.

A number of manufacturers are showing new spring lines of dresses, chiefly in taffetas. A new material called "Arabian print" has appeared in very smart two and three piece outfits that range in price from $39.50 to $59.50. Cloth dresses are being called for freely and are in good supply. But cheaper dresses have begun to accumulate on the racks and a number of lots, excellent in quality, have been obtainable at distinctly reasonable prices, among them a basement item in the form of a tricotine dress in black, navy and brown.

Waists offered include a new line made mostly in long sleeves. Holiday blouses are shown in white, bisque, cocoa, gold, honey, green, navy and brown. The jacquette blouse holds its own throughout the entire price range. There are some new skating blouses in duvetyne, velvets, krimi and Frisco cloths, with the high collar.

An attractive accessory of the week is the corduroy boudoir slipper, designed to match the colors of bathrobes. They make an excellent holiday offering.

(This is the sixteenth of a series of weekly surveys of the New York wholesale markets by Mr. Fantl, who is a well known resident buyer. —Financial and Business Editor.)

Railroads' Earning Power
No. 25—Lehigh Valley

(This is the twenty-fifth of a series of forty daily discussions of the present earning power of the leading American steam railroads. At the request of The Tribune, these studies were undertaken by the Standard Statistics Company, Inc., of New York, which has prepared the papers and is securing a copyright for them in 1922. The twenty-sixth article will appear to-morrow and will deal with Missouri Pacific.—Financial Editor.)

With the substantial development of Lehigh Valley's earning power during the last fifteen years its securities have attained high favor among investors. Stockholders have been treated liberally in the way of dividends. Under normal operating conditions the company should easily be able to earn the dividends it pays by a comfortable margin without the necessity of heavy drafts upon its coal properties. In the event that a segregation plan for disposal of the coal properties is agreed upon Lehigh Valley stockholders will doubtless receive valuable rights.

Based upon the latest returns Lehigh Valley's indicated earnings from its railroad operations this year look small. It is quite likely, however, that a considerable improvement will set in now that the strikes are over and coal moving in heavy volume. It is also probable that the coal properties are in a position to contribute in case of need. A brief analysis of the Lehigh Valley situation follows:

Growth of Capitalization

Year.	*Funded Debt.	Com. Stock.	Total Cap.
1912...	$110,300,000	$60,500,000	$170,800,000
1922...	133,400,000	60,500,000	193,900,000
Inc. (%)	21%	...	14%

*Including bonds of leased lines where such income accounts are included in the Lehigh Valley income account.

Between 1912 and 1922 the operated mileage increased from 1,441 miles to 1,449 miles, or 1 per cent.

Estimated Property Value

The estimated value of the company's property is $232,000,000, or about 20 per cent in excess of total capitalization. If funded debt, together with the small outstanding amount of preferred stock, should be theoretically retired at par, there would remain an equity for the common stock in this property value equivalent to $81 a share of $50 par value.

Growth of Revenues

Year.	Gross Rev.	Net After Taxes.	Total Inc.
1912..	$36,900,000	$10,400,000	$12,500,000
*1922..	63,400,000	1,500,000	13,200,000
Inc. (%)	69%	†86%	5%

*Estimated. †Decrease.

Earnings for 1922 are estimated, these estimates being based on the normal seasonal variations of both gross and net and taken in conjunction with actual earnings to date of latest monthly report.

The big decrease in estimated net revenue after taxes for 1922, compared with the actual for 1912, is due to the loss of traffic on account of the coal strike. About 50 per cent of the total tonnage hauled by the Lehigh Valley consists of anthracite coal, and the lack of this traffic naturally caused earnings to fall off sharply, but the resumption of the coal movement in more than normal volume with the ending of the strike should help the situation materially. The large increase in the amount of income received from the company's coal properties in recent years accounts for the excess of estimated total income for 1922 over the actual for 1912.

Dividend Record

The Lehigh Valley Railroad was chartered in 1846, the present title being taken in 1853. An initial cash dividend of 3 per cent was paid on the common stock in 1858. Thereafter regular payments were maintained, ranging in some years as high as 10 per cent, until the end of 1893. The next dividend (1 per cent) on the common was paid in 1904. The rate rose to 10 per cent in 1911 and was maintained there for some years, but in 1919 was reduced to 7 per cent, where it has since remained. During the dividend paying years there were occasional extra dividends paid both in cash and in stock.

The company also has outstanding an issue of $106,300 10 per cent cumulative preferred stock. As the issue is so small it has been disregarded in the compilation of the tables and in the dividend included with fixed charges.

Margin of Safety

The margins of safety above interest and dividend requirements, shown in the table below are figured on the basis of the percentage that earnings available for interest and dividends would have to decline in order to just meet the necessary requirements. Thus in 1913, if total income had been 19 per cent less, only enough would have been earned to cover fixed charges and dividends on the common stock. If total income had fallen to the extent of 61 per cent fixed charges (including the small preferred dividend) alone would have been covered.

The deficit shown in 1912 (minus 69) was caused by the payment of a 10 per cent cash dividend out of accumulated surplus. Total income of that year would have had to be 69 per cent larger in order to have covered the entire regular and extra payments without showing a loss.

Year.	Fixed charges.	Common dividends.
*1912	+53	—69
*1913	+61	+19
*1914	+54	+8
*1915	+52	+2
*1916	+61	+11
1917	+62	+8
1918	+48	+4
1919	+46	+2
1920	+61	+42
1921	+54	+31
†1922	+33	+7

*Years ended June 30. †Estimated.

For many years, Lehigh Valley has held ownership of some very valuable coal producing properties in the anthracite fields of Pennsylvania. On December 6, 1920, the Supreme Court of the United States decreed that the holding of these properties by the railroad was not only in violation of Sherman anti-trust law but also of the commodities clause of the Interstate Commerce act.

On October 6, 1921, the railroad filed its segregation plan with the District Court. The plan was objected to by counsel for the government on the ground that it did not properly carry out the decree of dissolution. The matter was scheduled for further hearing this winter, but the hearing was indefinitely postponed.

Until 1920, Lehigh Valley only paid itself moderate dividends from its coal companies, allowing their surpluses to accumulate. But in 1920 and 1921, while it was recovering from the effects of government control, it drew heavily upon these surpluses to help in tiding over. The company can undoubtedly do so again this year if need be in order to offset in a measure the effects of the coal strike upon earnings.

Galen L. Stone to Retire From Hayden, Stone & Co.

Hayden, Stone & Co. announced yesterday that Galen L. Stone will retire as a partner on January 1 next. Confirming his coming retirement Mr. Stone said:

"This action is in pursuance of a determination reached in the early part of 1919 and the purposes and all steps in connection with it have long been known to Mr. Hayden. It is the outcome of a desire to spend more time in travel and some related pursuits. I shall continue to have the keenest interest in Hayden, Stone & Co., and shall make my headquarters in the Boston and New York offices."

Hayden, Stone & Co. began business on February 15, 1892. For many years the business was almost wholly that of commission Stock Exchange brokers, but within recent years the firm has increased the scope of its operations to include the purchase and distribution of investment bonds, preferred stocks and general corporation financing.

British Trade Figures

LIVERPOOL, Nov. 11.—The following are the Board of Trade figures for the month of October:

Total imports	£85,010,000
Exports of British products	60,390,000
Re-exports	8,270,000
Total exports	68,660,000
Excess of imports	16,350,000

Disagrees With Hoover On Inter-Allied Debts

Dr. Anderson Disputes Europe's Possession of Paying Power Now; Urges Consideration as Banking Problem

Disputing the possession of surplus paying power in our markets credited by Secretary of Commerce Hoover to Europe, Dr. B. M. Anderson jr., economist of the Chase National Bank, in an address delivered yesterday before the Arizona Bankers' Association at Bisbee, Ariz., urged consideration of inter-Allied debts as a banking problem. He contended that, instead of a surplus over the last year, Europe had a deficit in current account relations with the United States and declared that, treated from the banking standpoint and regardless of the political or sentimental elements in the situation, some modification of the debts due the United States from the Allies was desirable.

A feature of Dr. Anderson's treatise was his defense of the powers of the American Debt Funding Commission. Conceding that the powers of this body to enter into a final pact with the Allies were limited, Dr. Anderson attributed to it the ability and capacity to initiate and negotiate, subject to approval by Congress, a far-reaching and practicable agreement. He broadly agreed with the position of the Right Honorable Reginald McKenna, presented before the American Bankers Association, that for the immediate present America can expect to collect little on these debts and with Mr. Hoover that over the long run future substantial payments con be anticipated.

After asserting that it was not necessary to urge moral or sentimental grounds for refraining from exacting payment in full when economic and banking considerations so clearly pointed the same way, Dr. Anderson said, in part:

Would Compromise

"If a bank were in the position of the United States government, of having made a bad loan or a loan difficult of collection, and if it could not collect in full at maturity, it would consider compromise proposals, involving extension of time, reduction of interest rate, waiving of interest for a period, etc. The bank would, moreover, inquire into the details of the debtor's position, including his assets and receivables, his income and expenditures and his other debts. The bank would be concerned if dividends were being paid by its debtor and if unnecessarily high salaries were being paid. The bank would be especially concerned if the debtor were undertaking new borrowing for purposes of expansion or plant extension. There would be no point to the bank's making any compromise of its debt unless there were such a general readjustment as to make sure that the reduced amount of the debt would ultimately be paid.

"It is important to distinguish between repudiation and cancellation. Repudiation is the defiant and ungrateful act of a debtor. Cancellation is the generous act of a creditor. It would not be possible for Europe to repudiate these debts without undermining the whole fabric of international good faith. It would, however, be possible for the United States government to reduce, modify or even cancel these debts without in any way undermining international good faith.

"The fact that the Debt Funding Commission is not empowered to reduce, modify or cancel any of the debt, and that the only conclusive bargains which it could work out with Europe would be on the basis of interest at 4¼ per cent and maturity at the end of twenty-five years, has been supposed by many to limit its powers so greatly that it can practically accomplish nothing. This view seems to be erroneous. There is nothing to prevent the commission from exploring every possibility, from entertaining every possible proposal. There is nothing to prevent its initiating any proposal that seems wise to it, in discussions with its European confreres. There is nothing to prevent the commission from developing, in co-operation with European commissions, a comprehensive plan, involving the inter-Allied debt and all related matters, and submitting it with its recommendations to the Congress of the United States.

"The situation again is not unlike that which arises when the officer of a banking house dealing with an embarrassed debtor explores with him the possibilities of the situation, works out a plan and reports the plan to his superiors for approval. It would frequently happen that such an officer's preliminary instructions would be to accept no settlement except payment in full, but it would be well understood that such instructions would not preclude his discussing proposals made or his advancing tentative proposals.

Board's Instructions

"There have been no authorized statements as to the policy of the Debt Funding Commission in this matter or as to the willingness of the Commission to entertain proposals other than those laid down in the act of Congress which involve interest in full at 4¼ per cent and maturity at the end of twenty-five years. There is, however, good reason to suppose that the Congress, in laying down its terms of interest and maturity, was merely reiterating in substance the original agreement. It would be natural for the principal, i. e., the Congress, in its instructions to its agent, i. e., the Debt Funding Commission, to authorize it to make a settlment without further authority which involved payment in full, but the principal, i. e., the Congress, may very well have felt justified in expecting its agent to report for further authority in case a different sort of adjustment seemed necessary."

"The application of the banker's point of view clarifies a good many problems. Thus, it is urged on behalf of certain of our Allies that it is unjust to expect them to reduce the amount of the German reparations payments if their debts to us are not to be reduced. As against this, it is contended with propriety and correctness that, from the standpoint of legal obligation, there is no connection whatever between German reparations and the Inter-Allied debts, and it is further contended that there is no connection between the debts of our Allies among themselves and the debt of any one of them to us.

"When, however, one views the matter from the standpoint of the banker dealing with embarrassed debtors a very different situation emerges. The banker may properly expect to take cognizance of every relevant factor affecting the future financial prospects of his debtor. The Debt Funding Commission, viewing the matter as practical bankers, would, therefore, be interested in teh reparations problem for precisely the same reason that they would be interested in the revenues and xpenditures and internal debts of our debtors, their currency situation, their trade policies and trade relations, their military budgets and other relevant matters.

Overhanging Factor

"Parenthetically, it may be observed that the Interallied debt is one of the least rugent of the many elements in the demoralization of Continental Europe. iWth the exception of Great Britain, none of our Allies is making apyments to us, nor are we making demands on them for immediate payment. No exchange is being drawn in connection with these debts, except the British debt. None the less, the Inter-allied debt is a very serious, overhanging factor, which must be cleared up before conditions can really be made straight.

"One ventures to express dissent from Mr. Hoover's views with diffidence. His knowledge of European conditions is vast, and his practical wisdom is great. Few men indeed have contributed as much as he to a clear understanding of these problems. As regards the immediate situation, however, it seems clear that Mr. Hoover's figures present a very unduly optimistic picture. He lists a large number of 'invisible items' in the international balance sheet which, he says, 'all combine to furnish a large supply of our money to Europe with which they in turn can make payment for interest on debts.' Among these invisible items Mr. Hoover includes 'the growing volume of investments made by our people in foreign countries.'

"The published records of foreign loans made by American investors, during the fiscal year ending June 30, 1922—the period of Mr. Hoover's computations—indicate that nearly a billion dollars was loaned abroad. Allowing for refunding loans, the amount is still in excess of $850,000,000. Of this, however, only about $244,000,000 was loaned to Europe. The rest, an amount in excess of $600,000,000, was scattered all over the world. Canada received much of it. South America received a large part. The Far East received a good deal. When this correction is made, Europe's supposed $750,000,000 surplus is immediately reduced to under $150,000,000.

Trade Relations

"Moreover, when examination is made of direct trade relations between Europe and the United States, the showing is less favorable to Europe. The commodity exports and imports between Europe and the United States in the fiscal year ending June 30, 1922, were as follows:

U. S. exports to Europe	$2,067,027,605
U. S. imports from Europe	830,473,712
Excess exports	1,236,553,893

Europe's adverse balance with us is thus greater by $73,381,304 than is the adverse balance of the world as a whole with us. The same thing appears when the figures for gold and silver are examined. Instead of the 450 millions balance mentioned in Mr. Hoover's figures, Europe has a balance of only 360 millions with the United States.

"Viewing the relations between Europe and the United States alone during the fiscal year just passed, it appears that Europe had a deficit rather than a surplus of 750 millions on current items.

"In so far, moreover, as Europe's paying power in our markets comes from shipments of gold, it is a bad sign rather than a good sign. We have too much gold already and Europe has too little. It is evidence of weakness rather than of strength that she is obliged to continue draining her inadequate gold reserves in order to meet obligations in this country. It is, moreover, conclusive evidence that Europe has no such surplus paying power in our markets as Mr. Hoover's figures would indicate."

U. S. Bank Heads Visit Sweden

Stronger Links Forged for Financial Co-operation by National City Officials; Russian Trade Discussed

Special Foreign Financial Correspondence

STOCKHOLM, Oct. 28.—New and stronger links in the financial co-operation between America and Sweden are being formed through the visit in Stockholm of the heads of the National City Bank of New York—Charles E. Mitchell, president; Eric P. Swenson, chairman of the board, and George K. Weeks, European vice-president. During their stay in Stockholm the representatives of the American bank met and formed personal connections with their correspondents and clients, and were also granted the distinction of a personal audience with the King of Sweden.

Among the things discussed by these American visitors was the question of Swedish co-operation with Russia and Sweden's successful methods of commercial exchange with that country. Recent reports show an increase in the Swedish-Russian trade. Russia has been exporting quantities of aspen wood to Sweden, to be used by the Swedish match manufacturers. A consignment of 1,755 bales of Russian flax has just been received by the Swedish Flax Spinners' Association. Swedish financiers now hope that the visit of the American bankers will contribute toward the realization of Sweden's aspirations to become a financial and commercial clearing center for American trade operations in Russia.

Swedish exports continue to develop favorably, as shown by the official reports just published. Wood pulp sales are good, and many Swedish mills are fully booked with orders up to the end of the year. Timber sales for export are also progressing and it is calculated that nearly 800,000 standards have now been sold, while foreign buyers, especially England, are beginning to buy more enthusiastically for 1923 shipment.

The Waterfalls Board has requested new appropriations of 6,500,000 kronor (about $1,700,000) for continuation of the work of distributing electrical energy throughout the country. Up to the present over 70,000,000 kronor (about $18,700,000) have been appropriated for building plants to distribute electricity. The result is that nearly one-half of the entire farming area of the country has been electrified, and Sweden is at present the most widely electrified country in the world.

Along the Highways of Finance

By Merryle Stanley Rukeyser

Temptations in the financial world are many, and even the virtuous occasionally falter. Eli S. Newberger, member of the New York Stock Exchange, has been suspended for ten days for what is perhaps the mildest violation of the rules ever punished in this manner. His firm placed an advertisement, purely complimentary in its nature, in the stadium edition of "The Columbus Despatch" on the day of the Ohio State-Michigan football game and did not first submit it for approval to the business conduct committee of the New York Stock Exchange in accordance with the rules.

The purpose of the advertisement was to urge the Ohio State team to win the game on the day their new stadium was to be dedicated. It was not an ordinary business seeking advertisement, and because of this apparently the man handling it assumed it was unnecessary to get the official O. K. The Stock Exchange is to be commended for its zeal in insisting on having its rules obeyed. On the other hand, we feel sympathy for the suspended member, whose error was exceedingly slight.

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In asking for a rigid adherence to its rules the New York Stock Exchange is on solid ground. Whether its present policy regarding the nature of advertising by members, which was liberalized some months ago, should not be further changed to heighten the artistic and human interest character of the copy of members is perhaps debatable. We should like to see greater use of the imagination in brokerage advertising. We think ethical firms could attain this desideratum without sacrificing one iota of truth. The educational aspects of Stock Exchange advertising could be enormously heightened if the restrictions were further removed. Misrepresentation, false statements, speculative advice—all these might well be excluded in the future without banning illustrations, a note of human interest in the copy and language that will stimulate interest. Integrity and a desire to serve social ends need not be clothed in shrouds. The higher grade banks and trust companies are showing the way in artistic and persuasive financial advertising.

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Wall Street Philology

It is about time for some one to suggest the organization of a Wall Street philological club to clarify and systematize the language of the district. Much of the jargon is utterly meaningless to the outsider customer. The standardization of terms and the use of pure English wherever possible seem desirable.

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The term "speculative" is used to signify many things. To us it means "to involve a business risk." A speculation represents the placing of funds into a security or piece of property with the understanding that, though the risk is greater than in an investment, the greater hazard is undertaken in the hope of large profits. Speculation and risk are inherent in all business and cannot be escaped, although they can be shifted. In Congress "speculation" is often used as a term of opprobrium by the political scientists from the agricultural districts.

In the investment column securities are frequently dubbed "speculative." The description does not damn them, except for those unequipped with capital and intelligence to assume the risk involved.

We recognize the social value of wildcatting and experimentation in industry. Economic progress, like all other advance, is made to a large degree through trial and error. Such experimentation is expensive, and it is inevitable that losses should ensue. If capital would not flow into such new enterprises it would be desirable to invent a method of compulsion. We say that in no mood of extending comfort to stock jobbers and venders of blue sky securities. Their crime is all the more heinous because they confuse the issue. They use speculative capital for fraudulent purposes, and absorb funds that ought to be used in the test tubes of the laboratory of industry. No crossing of the industrial frontier results from their campaigns of misrepresentation. The fakers tend to discourage the flow of money into necessary experimental work. Of course, this advance to new knowledge and to new industrial methods is not exclusively the task of new ventures. Going concerns, which are equal to their opportunities, are perpetually allowing in their budgets for research and experiment.

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Flattening the Curve

Instead of fatalism, a studied attempt to understand and control the business cycle is urged by a committee of experts appointed by Secretary Hoover to carry along the work initiated by the President's Conference on Unemployment, which adjourned in October, 1921. The committee of experts will embody their scientific recommendations in a special report. Edward Eyre Hunt, secretary of the Conference on Unemployment, gives a preliminary review of the work of the specialists in an article in the current number of the quarterly published by the American Association for Labor Legislation.

"If all branches of our public works and construction work of our public utilities—the railways, the telephones and others—could systematically put aside financial reserves to be provided in times of prosperity for the deliberate purpose of improvement and expansion in times of depression we would not only decrease the depth of depressions, but we would at the same time diminish the height of booms. A further advantage of the proposal is that our plant and equipment would be built in times of lower costs than is now the case when the contractor competes with consumable goods in overbidding for both material and labor.

"Then come the proposals to improve the mechanism of the labor market by setting up a system of employment offices under public supervision and to pay men out-of-work allowances. The first measure is intended to reduce the 'reserve army of labor.' The second measure is intended primarily to reduce the sufferings of the unemployed, but it is also expected to prevent the purchasing power of wage-earners from shrinking as much as it does now in depressions and to limit the height of the boom to the extent that the parties engaged in industry contribute to the reserve funds out of which such allowances are to be paid.

It is a hopeful sign to perceive that the problem of unemployment is receiving attention at this time when no crisis exists. Too often folk have been inclined to ignore the question except when the situation became acute and only emergency relief measures were possible.