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Hirshleifer, Risk, Discount, & Invmt. Decisions

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Overlooks problem of insulated micro-markets. Low-i can also accept higher variability of expectation at margin. And ~~when~~ as variability of expectation increases, insulation between borrowers & lenders becomes thicker. So finely. weaks will have especial aversion for ~~the~~ hi-vblty. invmts.

The Journal of
THE AMERICAN ECONOMIC ASSOCIATION

RISK, THE DISCOUNT RATE, AND INVESTMENT DECISIONS

By JACK HIRSHLEIFER
The RAND Corporation and U.C.L.A.

The problem of risky investment decision has both normative and positive aspects. Looked at normatively, the question is: what is the appropriate technique of analysis—for individuals, firms, or government agencies—to use in evaluating risky investment alternatives? Looking at the problem positively, we ask: why do the mean experienced yields in different risk-classes of securities diverge, even when average yields for the different risk-classes are calculated over many individual securities and over long time-periods to eliminate random effects? If we first examine the positive aspect, the major explanations that have been offered for the yield divergences mentioned above (e.g., the divergences between stock and bond yields, or between earnings on industrial and utility shares) attribute them either to imperfections of capital markets or to market premiums for risk bearing. I will be adopting the latter approach. What I will be presenting is quite a simple market theory of risk, modeled upon Fisher's treatment of time preference and interest (but definitely not modeled upon Fisher's treatment of risk). On the normative side, I attempt to show how the criterion of maximizing present value—now generally accepted, despite some recent heresies, as the guiding principle for evaluation of riskless investment alternatives[1]—must be modified or generalized when risky investments are considered. In brief, I try to indicate the appropriate rate of discount to use, in the present-value formula, to allow for uncertainty of return as well as futurity of return.

I. *The Meaning of "Risk"*

First, however, it is absolutely necessary to clarify an elementary point that has been the source of much confusion. There are at least two quite different senses in which investments may be said to be risky. First of all, an investment with a certain nominal or quoted yield (e.g., a corporate bond) is often said to involve a risk of partial or total default. Here risk means only "unfavorable chance." Its measure is the difference between the nominal return and the true mathematical expectation of return. I shall call this difference or bias "expected-value

[1] For a discussion of the present-value criterion and a qualified vindication of it against proposed alternative investment criteria, see my paper, "On the Theory of Optimal Investment Decision," *J.P.E.*, Aug., 1958.

risk," but the concept will not play any important role because I will henceforth ordinarily be speaking of investment yield in the expected-value sense. It is worth remarking, however, that expected-value risk does not occur solely in dealing with investments of fixed nominal yield, like bonds. It has been convincingly demonstrated, for example, that the predicted benefit-cost yields of federal water-resource investment projects are not, on the average, realized. Here also predicted yields are biased estimates of the mathematical expectation of yields.

The concept of risk I will use herein, however, concerns not the expected value but the variability of the probability distribution of outcomes. For concreteness, we may think of the standard deviation, the most common measure of variability, as a quantifier of "variability risk"—or, as we shall say henceforth, simply risk. However, I do not want to commit myself to saying that the standard deviation is *the* measure of risk. It may well be that other moments of the distribution are also involved in determining what we ordinarily call risk-premiums on security yields.[2]

II. *A Market Theory of the Risk-Premium*

In this section I propose to present only some elements of a theory of the market process by which risk-premiums on investments are determined, in the belief that even a partial theory may serve to bring some order to the subject and settle a few debated points. My basic contention will be that the market risk-premium can be understood as the interaction of individuals' willingness to bear variability risks and of the technical fact of the productivity of risk, given individual endowments of more and less risky income opportunities. I have quite deliberately stated these determinants of the risk-premium to suggest an analogy with the theory of determination of interest—that is, of the time-premium—that we associate primarily with the names of Böhm-Bawerk and Fisher. In what follows I will attempt to develop various aspects of this analogy.

First of all, we can distinguish between widening and deepening of risk in a sense quite parallel to the familiar widening and deepening in time. We widen investments in time when, given the period of the investment, we increase the aggregate of current sacrifice on behalf of the future; we widen investments in risk when, given the degrees of riskiness of differing securities (for concreteness, we may think in terms of investments with specified standard deviations σ of yield per dollar invested), we shift more of our current sacrifice from a relatively low-σ to a relatively high-σ medium. We deepen investments in time when,

[2] Markowitz discusses the question of the appropriate measure of risk in his valuable work, *Portfolio Selection* (Wiley, 1959), pp. 180-201, 287-97. See also James Tobin, "Liquidity Preference as Behavior Towards Risk," *Rev. of Econ. Studies*, Feb., 1958.

holding the aggregate of current sacrifice constant, we shift from quick-yielding to slow-yielding investments; we deepen investments in risk when, given the amount of resources held out of secure media, we shift from lower to higher variability commitments of these resources. As a practical example of the distinction in terms of risk, consider a dry farmer in an arid region where returns are highly uncertain. For a particular set of lands subject to essentially identical conditions, he can widen his risk by cultivating more acres. Or he can deepen his risk by shifting all or part of his operations to lands with still higher variability of outcomes.

In the theory of risk, as in the theory of interest, it is simplier to analyze widening than deepening. This is especially so in the former case, as the standard deviation is a less perfect quantifier for depth of risk than its analogue—the period of production—is for depth in time. However, the main point is that, so long as we stick to the simple widening case, troubles about a perfect measure of depth of risk need not unduly concern us. Once we have made the vital distinction between widening and deepening, I believe it may be possible to grasp intuitively the general consequences of shifts in the depth dimension, even though a theory of the latter will have to wait for another occasion.

Limiting ourselves, then, to the pure widening case, we may start by asking ourselves what we can reasonably assert about the nature of individuals' preferences between, to take the simplest situation, only two investment media—on the assumption that in any case the investor sacrifices current consumption which is certain. One of these media may be taken to be a perfectly secure investment, with a known certain future yield. The other offers a known expected value of yield, subject to a specified type of variability. For concreteness, we may think of the unit of certain yield as, simply, a dollar—and of the unit of risky yield as a lottery ticket representing equal chances of winning $2.00 or nothing. It is necessary, to keep to the simplest possible situation, to assume that the returns from the risky units are perfectly correlated. In other words, if we have 1,000 lottery tickets, we must win either $2,000 or nothing. The correlation assumption prevents the intrusion of the law of large numbers. It is reasonably close to the true situation in our acreage cultivation example, where if the crop fails on any acre it is very likely to fail on all.

With this situation in mind, we can draw indifference curves, between certain yield and uncertain expected yield, that express individuals' risk-preferences. Indifference curve I in Figure 1 indicates that the individual in question is indifferent between $500 certain and an expected value of $1,000 representing equal chances of $2,000 or nothing. I feel very easy in asserting convexity of the indifference curves (di-

minishing marginal rate of substitution between certain income and expected uncertain income). Consider an individual whose initial endowment consists of a risky expected value of $1,000, with no sure income at all. It seems natural to assume that he would be willing initially to sacrifice expected value for certainty at a rate far better than 1:1—perhaps as high as 10:1. But as his certain wealth or income comes to attain a more balanced relation to his uncertain prospects, the rate of exchange he is prepared to offer for more certainty would become much more moderate. Indeed, it is conceivable that, given an

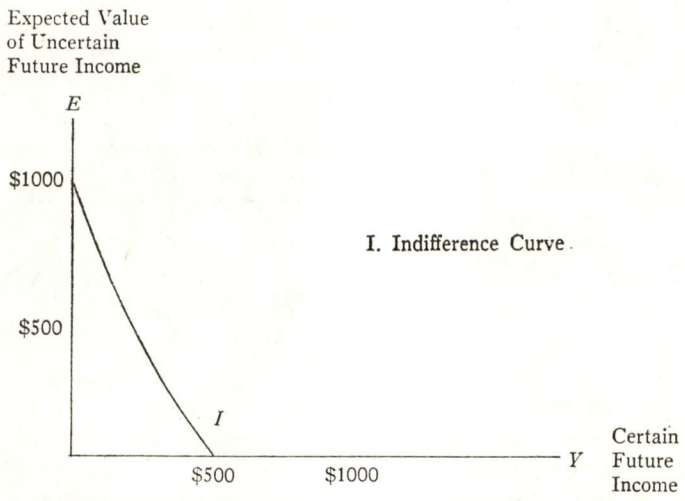


FIGURE 1. Indifference Curve Between Certain and Uncertain Income

initial endowment consisting solely of $500 certain, the same individual might be willing to sacrifice more than $1.00 of certain income for an expected value of $1.00. If so, then in this range he would be demonstrating risk-preference rather than risk-aversion. However, for convexity it is not necessary to assert that the individual is ever a risk-preferrer (that is, that the slope of his indifference curve will ever be less than 1 in absolute value)—all that is required is that the rate of exchange he is willing to offer change steadily from one reflecting strong risk-aversion at the upper left to one representing much more moderate risk-aversion or even risk-preference at the lower right.

Having introduced the risk-preference function and the initial endowments, we may now bring in the productive opportunity locus and the market opportunity locus. In a "Robinson Crusoe" situation no market opportunities exist, and the individual must find his optimum in terms

of only his preferences, initial endowment, and productive opportunities. The essential point is the concavity of the productive opportunity locus, expressing diminishing marginal (expected) productivity of risk. The idea is that, by shifting his investments from the secure to the risky medium, the individual can first obtain a very favorable rate of exchange, but as he carries the process further it will become less and less favorable. The tangency slope will indicate the equality of the marginal rate of risk-aversion and the marginal productivity of risk-bearing.

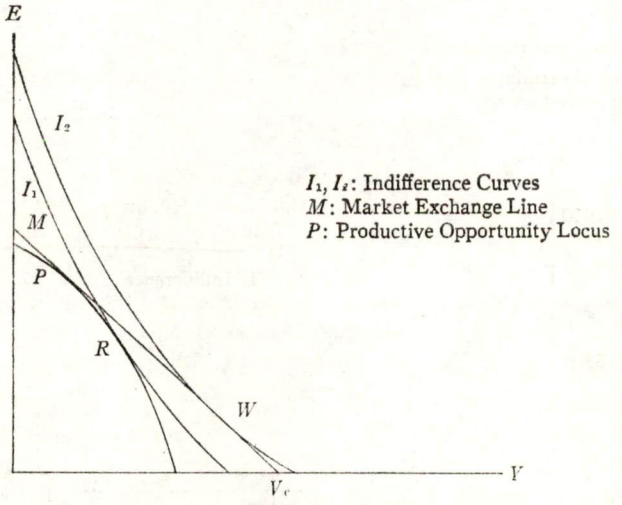


FIGURE 2. "Robinson Crusoe" Solution (R) and Market Solution (W) for Risky Investment

Finally, if we bring a market into our two-media world and assume perfect competition, there will be a governing rate of exchange between certain income and expected income, which will be determined in such a way as to equate the sums of individuals' desired holdings in the two media with the actual quantities socially available in terms of original endowments and productive transformations between the two forms. As in the familiar Fisherian solution for time-preference decisions, the insertion of the market exchange line permits attainment of a higher indifference curve than would otherwise be possible. In Figure 2 the "Robinson Crusoe" solution is at R, while the market for risk-bearing permits attainment of the point W. With the introduction of the market, we may speak of the individual's decision criterion as maximization of certainty-equivalent value (V_c in the diagram), in analogy with the maximization of present value in the theory of time-preference.

I do not feel it necessary to describe how these indifference curves

can be made consistent with Friedman-Savage utility-of-wealth functions based upon the von Neumann-Morgenstern postulates. The indifference curves, to use a horrible metaphor, stand on their own feet as descriptive of what seems to me obviously reasonable and typical patterns of behavior. Other analysts have not, so far as I am aware, arrived at the simple results outlined above. I believe the reason is that they unconsciously started with the more difficult deepening case—leading most frequently to the construction of indifference curves between expected value of return and standard deviation of return.[3] Unfortunately, assertions about the shape of these indifference curves carry little immediate conviction, and the situation is not improved by appeal to an underlying Friedman-Savage utility-of-wealth function.

III. *Some Implications*

Without attempting strict proof, I believe a number of refutable statements can be derived as implications of the foregoing approach. First and foremost, there will ordinarily be a positive market premium on risk. That is, expected risky yields will be higher than sure yields. This is due to the general tilt of the preference functions illustrated in Figure 1 (expressing reluctance to bear risk) interacting with the fact that risk-bearing is ordinarily productive. That the market does pay positive risk-premiums is a statement so refutable that many people (in particular, Knight) claim it has in fact been refuted. However, I believe that the weight of the evidence indicates that risky media of investment do in fact have higher expected yields than secure media (or, in other words, uncertain expected values are discounted relative to certain values). Over any reasonably long period of measurement, stocks yield more than bonds, and risky bonds more than secure bonds.[4] Of course, this theory does not allow for acceptance of "unfair" gambles. Alternative explanations would have to be sought for the phenomenon of Las Vegas.

A second implication is that individuals will typically diversify. The relationships among the curves are such that interior optima are normal, and corner optima exceptional. A third implication is that—so long as we are dealing with interior rather than corner optima and the assumption of perfect markets applies—on the margin everyone has the same degree of risk-aversion. We should, therefore, exercise care before labeling some individuals "risk-preferrers" and others "risk-avoiders."

[3] See Tobin, *op. cit.*, pp. 71-82; F. A. and V. Lutz, *The Theory of Investment of the Firm*, pp. 179-92.

[4] That stocks yield more in the long run than bonds is a notorious fact not requiring demonstration here. The recent study by W. Braddock Hickman, *Corporate Bond Quality and Investor Experience*, supports my contention about bonds—that investors demand an extra premium, over and above the expected loss by default, to hold risky bonds.

What is true is that, in the process of attaining marginal equality, some individuals will have shifted away from relatively secure initial endowments and so in a sense sought out risk, while others will have moved in the opposite direction; but this shift will reflect not merely preferences as to risk-bearing but also initial endowments and access to risky productive opportunities.

Translating the third implication above into normative language, we may say that all investors should discount risks at the rate of exchange between certain and risky prospects established by the market for the risk-class within which the investment in question falls. This contradicts a traditional view that, in evaluating risky investment opportunities, the investor ought to specify the expected values involved and then discount them by some kind of "caution coefficient" expressing his own preferences toward risk-bearing.[5] The error here has an analogy in the domain of time preference, where theorists have sometimes advised investors to use their personal time-discount rates rather than the market rate in discounting future income prospects. In the latter case, it is not difficult to show that, given a perfect market for exchange of present and future funds, highest levels of satisfaction are attained by maximizing present value calculated at the market rate of discount. Similarly in the case of risk, the optimization rule is to maximize certainty-equivalent value, discounting uncertain expected yields at the market rate of exchange between such yields and certain ones (always assuming that perfect markets exist). In the one case, this implies adjustment of all personal marginal time preferences, by appropriate shifts between present and future funds, to the market time-discount rate; in the other, adjustment of personal risk-preferences, by appropriate shifts between secure and risky media, to the market risk-premium rate.

IV. *Corporate Finance and Investment Decisions*

The analysis presented above suffices to provide the answer to the simplest problem of corporate finance. If the investment in question involves only widening in time and in risk (i.e., shifting from secure and current funds to future and uncertain ones of a given degree of risk), if it is a new venture so that there are no interactions with returns on past investments, and if only equity financing is involved, the market time-and-risk discount rate should be used in deciding how far to carry the investment. While the list of simpifying conditions sounds formidable, I should comment that the market discount rate in question —the "impure" (inclusive of risk-premium) rate of interest—is at least more of an observable magnitude than the abstract riskless rate of

[5] Irving Fisher, *The Nature of Capital and Income*, p. 277.

interest. It is assumed that the entrepreneur and the potential investors are both aware of the mathematical expectations of returns at different dates and the appropriate market capitalization rate, $1/\rho$ (where ρ is the "impure" interest rate) for expected yields in that risk-class. The investment in question should, of course, be widened until its marginal expected yield per current certain dollar sacrificed falls to ρ.

The listener may possibly have detected by this time a certain resemblance to the line of thought put forward in the recent provocative article by Modigliani and Miller.[6] Modigliani and Miller go beyond the analysis presented here in centering attention upon the market yields of debt-equity combinations and the implications thereof for investment decisions. However, I believe that the theoretical analysis of risk-bearing presented here is that implicitly underlying the Modigliani-Miller paper. The most essential parallel is that Modigliani and Miller select market-value maximization as their criterion (page 264), which in the context is essentially maximization of the certainty-equivalent value described above. The Modigliani-Miller "equivalent-return classes" (pages 266ff.) seem to be essentially what I have called "risk-classes"; in addition, Modigliani and Miller assume a positive market premium for risk bearing (page 271).

Limitations of time, unfortunately, prevent my presenting a fuller analysis here of what I regard as the major normative conclusion of the Modigliani-Miller analysis: that, setting aside consideration of corporate income tax, even firms with complex debt-equity capital structures should use, in evaluating investment alternatives, the discount rate determined by the market in capitalizing pure equity streams of comparable risk (page 288). I believe that this conclusion is basically sound. It is, with some qualifications, quite consistent with the theory of risk bearing presented above, provided one accepts in addition the famous "Proposition I" of Modigliani and Miller: that the "value of the firm," the sum of the market value of its debt and equity, is a constant—determined by capitalizing its expected asset return at the appropriate risky discount rate (page 268). Without getting into tortured debates about what constitutes "arbitrage," I would agree that a divergence between a firm's net asset value and the sum of its debt and equity cannot be expected to persist—unless market imperfections are brought in.

There is one qualification I would like to make here, however, arising out of the theory presented above. Modigliani and Miller describe the discount rate recommended for investment decision as the pure-equity capitalization rate for the asset-earnings of the firm as a whole. Their

[6] Franco Modigliani and Merton H. Miller, "The Cost of Capital, Corporation Finance, and the Theory of Investment," *A.E.R.*, June, 1958, pp. 261-97.

risk-class concept is a characteristic of the firm rather than of the individual investment. Evidently they are thinking of marginal investments as being equally risky with those previously adopted—what I have called risk-widening rather than risk-deepening. This is justifiable as simplifying the analysis, though the problem remains of evaluating risk-deepening investments. Another problem is created by imperfect correlation of investment returns. While the theoretical analysis above assumed perfect correlation to avoid the operation of the law of large numbers, in the real world the advantages of risk-pooling are very important. In fact, a marginal investment that is individually very risky may substantially reduce the over-all variability risk of the firm's total portfolio of investments. I am inclined to think that the best way of rescuing the analysis is to take note of the fact that, where large numbers of individual investments are involved, the variability of the over-all investment return approaches the value of the average covariance among the individual investments.[7] The risk-classes into which firms are divided, then, would depend very importantly upon the diversity of returns of their portfolios as a whole, and the variability of individual investments can be correspondingly neglected. The established all-equity discount rate for the firm can then be used without great error in evaluating marginal investments whose individual variability and intercorrelation with other investments are not too divergent from the over-all pattern.

[7] See Markowitz, *op. cit.*, p. 111.

A Boycott—And Look Who's Saying 'Buy American' Now

"We are losing a thousand members a month because of electronic component imports from low-wage nations," M. Frank Darling, president of the big but fast-dwindling Chicago Local 1031 of the International Brotherhood of Electrical Workers, told a reporter recently. "When I think of only one [major] sewing-machine manufacturer left in this country, and two [major] cigarette-lighter manufacturers . . . someone has to say 'buy American'."

Last week, Darling said it much louder—serving notice on 132 employers that his 30,000-member local would refuse to handle electronic parts imported from Japan after May 1. He predicted that the IBEW boycott soon would spread to other cities, and that it may include the men who repair home TV sets. "One union can't do this alone, but someone has to start it," he said, noting that the Amalgamated Clothing Workers are considering a boycott of Japanese fabrics. Darling added: "We don't want any employer to lose money. We want our employers to stay solvent. But they cannot compete with [low-paid] Japanese labor, and they shouldn't have to."

The employers in question are maintaining a guarded silence, possibly because of fears that the union's action could constitute an illegal boycott under the Landrum-Griffin Act. (The union itself brought up the possibility that it might be sued.) In several recent speeches, Ross Siragusa, chairman and president of Admiral Corp., indicated he was in substantial agreement with the union's stand. Webcor, Inc., says, furthermore, it is already "resuming the use of American components."

WHY OUR BANKS GET BIGGER

Like any other Americans, businessmen have to make regular, and repeated, trips to the bank for cash. But in growing numbers of cases, the banks just don't have enough cash available. Reason: By law, no bank may lend a single customer more than 10 per cent of its capital funds. Thus to serve a big customer who might need $40 million or $50 million, the banks themselves must grow bigger. The way to do it quickly: Merge. So it was that New York's Chase and Manhattan merged into one giant bank; First National and National City became the huge First National City; Guaranty Trust joined up with J.P. Morgan; Chicago's Harris Trust absorbed Chicago National; and San Francisco's American Trust took in Wells-Fargo. In all, more than a thousand other banks—large and small—have combined forces in the past half-dozen years.

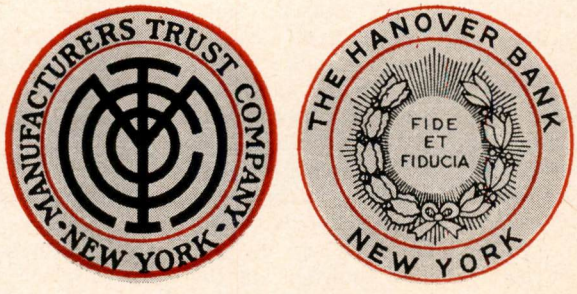
Last week, Manufacturers Trust, New York's fifth largest bank, and the Hanover Bank, New York's eighth largest, joined the trend. They announced plans to merge the two institutions into the nation's fourth biggest bank, with assets of more than $6 billion. The top three: California's mighty Bank of America, with $11.7 billion; Chase Manhattan, with $9.2 billion, and First National City, with $8.8 billion.

The would-be partners were following a well-worn path. Despite impressive earnings (directors voted an 11 per cent stock dividend this year), average deposits of the Hanover, a "wholesale" bank catering to large corporations, had declined 2.2 per cent over the past five years; its legal loan limit was down to $18.6 million. The dip reflected the recent inclination of large corporations to put more and more of their idle cash into income-yielding securities instead of bank deposits. Manufacturers Trust—with 128 branches, more than any other New York bank—had grown strong, by contrast, through its emphasis on "retail" service to individuals and small businesses, but had long sought a large and lucrative trust department. It tried to acquire New York Trust in 1952 for just that purpose, but the deal fell through.

Savings and Loans: The proposed merger thus would reinforce both banking systems at their weakest points, while raising the loan limit for the combined operation to $43 million. The new bank, to be called the Manufacturers Hanover Trust Co., would also realize an almost immediate saving of about $500,000 a year by eliminating duplicate electronic bookkeeping equipment. Terms of the merger: Each of the banks would exchange its stock on a share-for-share basis for stock in the new institution—5 million for Hanover, 6.7 million for Manufacturers Trust.

With stockholder approval virtually assured, the only major obstacle seemed to lie with the government. The Manufacturers-Hanover deal would be the first major bank merger falling within the province of bank merger legislation enacted last May. Under the new law, the Federal Reserve Board must determine whether the proposed merger is in the public interest, or whether it would tend toward a monopoly. Most bankers believe that this merger, at least, will strengthen competition.

If the Fed agrees, the end result will most likely turn out to be another big rush to merge.



One plus one equals one

AUTO INDUSTRY:

Lashback

When he was fired as president of Chrysler Corp. last summer after 64 days on the job, William C. Newberg was mighty reluctant to talk about it. A month later, when he agreed to turn over to Chrysler $455,000 earned through his interests in Chrysler suppliers, he was only a bit more eloquent. "I've got to get on to something else," he said.

Last week, Newberg got on to something else—a lawsuit charging Chrysler chairman L.L. (Tex) Colbert, his long-time friend and mentor, with conspiring to make him a scapegoat in a cover-up of "misconduct, maladministration, incompetence, waste, neglect, breaches of duty, and self-dealing" during Colbert's ten years as Chrysler boss. Among directors Newberg named as alleged "conspirators" were Juan Trippe, president of Pan American World Airways, and W. Alton Jones, executive committee chairman of Cities Service Co. Newberg asked a Detroit court to void the $455,000 settlement, on which he has already paid $200,000.

After he became president, said Newberg—who

had put in 27 years with Chrysler—he "quickly" learned that "favoritism to certain friends, relatives, and intimates of top executives" was commonplace. He alleged that he tried to halt the practices, refused to be "silenced by Colbert," was then forced to resign and sign the $455,000 agreement under "duress."

Claiming that he was "peculiarly naïve and readily amenable to suggestions from those he believed to be his friends," Newberg said he was told he faced imprisonment, fines, heavy legal fees, shame, and humiliation. If he cooperated, the suit added, he was promised the chairmanship of Studebaker-Packard at a six-figure salary and "high-level" publicity about his resignation.

Nobody Knows: Studebaker immediately denied that it had ever considered Newberg for any job. Chrysler said his suit was "without foundation in fact." Jones knew of "no scheme whatsoever to intimidate" him. Trippe denied categorically that Newberg was coerced or pressured into making a settlement.

Newberg's suit nevertheless seemed to contradict the clean bill of health given Chrysler officials by the accountants who looked over their books last fall. The earlier crisis didn't shake Chrysler to the point of hurting its sales. "But if they keep hoeing it up like this," said one company official, "the public is going to turn away." In fact, observed a Chrysler consultant: "This is the perfect time for a proxy fight to get under way."

RAILROADS:

Running for the B&O

When the Baltimore & Ohio Railroad finally gave full throttle to a merger with the Chesapeake and Ohio (NEWSWEEK, Jan. 23), everyone naturally assumed the matter was settled. Everyone, that is, but the dauntless New York Central (strike-bound in New York last week—see NATIONAL AFFAIRS), which has been trying to gain control of the B&O for itself.

Last week, the Central served notice it had no intention of getting off the merger track. To stall the C&O's move, the Central quietly began buying up any and all available B&O shares on the open market. Quicker than a high-balling express, the C&O got up fresh steam of its own, started scrambling for shares, too. And the Interstate Commerce Commission launched an investigation to find out if someone had gotten "unlawful control" of B&O. Although neither side was saying how much stock was bought during the open-market fisticuffs, at the weekend the C&O claimed it still held more than half the B&O's voting shares. The only sure winner seemed to be B&O common itself, which soared to $38½ for a gain of nearly four points.

FASHION DESIGN:

Fit for the First Lady

From the perfumed salons of Paris to the swatch-cluttered world of New York's Seventh Avenue, the topic of conversation last week was not the new American President but what his wife was wearing. Jacqueline Kennedy had sparked a revolution in fashion. Milliners were loaded with pillbox hats, hairdressers were besieged with orders for "slash bangs" (under-the-drier talk for Mrs. Kennedy's hair style), and a whole new crop of wide-eyed brunette models filled the fashion magazines.

No one was happier about the trend than Oleg Cassini, the new First Lady's "official" couturier. With the exception of one ball gown (by New York's Bergdorf-Goodman), every dress, hat, and coat Mrs. Kennedy wore to the official doings last week came from Oleg Cassini, Inc., a coup that could make this Paris-born nobleman-turned-needleworker the fashion man of the year, or even of the next eight.

With a whole gaggle of top American designers, Cassini had submitted sketches to Jackie Kennedy as soon as the polls closed. His showing took place at Georgetown Hospital in Washington, just before her baby son was born. Cassini got the nod, he says, for his "synthesis of Mrs. Kennedy's elegance." In fashion circles, where the gnashing of teeth almost drowned out the clash of scissors, his critics thought his connections with the Kennedy clan played a big part. (Cassini has designed clothes for the First Lady's mother-in-law, Mrs. Joseph P. Kennedy, and for two of her husband's sisters, Mrs. Peter Lawford and Mrs. Robert Sargent Shriver.)

Cassini vigorously denies any "family influence." He makes no secret, however, of his long-standing friendship (and political support) for the new President. They met toward the end of World War II in California, where Mr. Kennedy was recuperating from his war injuries, and the designer, who put in four and a half years as a U.S. cavalryman, was freshening up his Hollywood contacts.

A fashion man from way back, Cassini broke in as a sketcher for Patou in Paris, later worked in Rome before invading the U.S. with his mother, Countess Marguerite, and brother Igor (society columnist "Cholly Knickerbocker" for the Hearst papers). He made his mark draping such Hollywood notables as Grace Kelly, Rita Hayworth, and his second ex-wife, Gene Tierney (the first was cough-syrup heiress Merry Fahrney) in styles that one fashion writer waspishly described as "alluring—or sexy."

Successful as these have been—the firm grosses $2 million to $3 million a year, Cassini says—this style is out for Mrs. Kennedy. So are the less than subtle names he used for his $100-and-up creations. (Sample Cassini title for a bare-midriff number: "Navel operations.") "Maybe," he said last week, "if Mrs. Kennedy had heard some of the names, she wouldn't have picked me."



Associated Press

Designer Cassini (with women editors): New look for the New Frontier

SCANNED

AS

FOUND

J. P. Morgan's Right-Hand Man.

RIGHT HAND MAN: The Life of George W. Perkins, by John A. Garraty (433 pages; Harper, $7.50).

Reviewed by H. Jay Sharp.

IN the first two decades of this century when the so-called "Robber Barons", men like Morgan, Rockefeller, Fisk, Harriman and Gould, played for keeps in the gaming markets of Wall Street, George W Perkins was right hand man to J. P. Morgan, for whom he "picked up the marbles." And from these pickin's, Perkins became a millionaire, a trust organizing genius and a political power.

John A. Garraty, a professor of history at Columbia university has skillfully explored and delineated hitherto unpublished documents and letters including personal and intimate correspondence between Perkins and Wall Street and Washington leaders to produce this immensely readable biography of a man who truly went from "rags to riches."

Perkins's father was a religious and social worker whose efforts on behalf of prisoners and the needy eventually won him the superintendence of the Chicago Reform school and later warden of the state prison at Joliet. Later, unable to get along with hampering politicians, he left the social work and went into insurance. This was the start of George Perkins's business life as well for he followed in his father's footsteps, and beyond, to pastures greener than his father had ever dreamed.

Moving aggressively into the rapidly expanding insurance business of the 1890s, when there were few, if any, government controls, Perkins worked his way rapidly to the post of vice-president of the New York Life Insurance company at the age of 30.

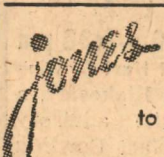
His success had been observed by J. P. Morgan and at their first meeting, he was offered a partnership in the Morgan banking empire. Here, he served as right-hand man during the time when Wall Street instead of Washington was guiding national as well as private finance. The author reveals fascinating descriptions of the creation of U. S. Steel and International Harvester companies, two of the earliest trusts to be formed in America, and shortly afterwards to become the targets of trust busters like Teddy Roosevelt and Charles Evans Hughes.

A brilliant chapter of the panic of 1907, based on accounts from Perkins's own journals shows how business and politics were maneuvered to avert a national calamity with J. P. Morgan emerging as a hero, but "getting his 6 per cent all the way."

In 1912 Perkins joined the Bull Moose movement under Teddy Roosevelt in an attempt to solve through political action, some of the pressing business problems of the day.

The book abounds in revealing recorded conversations about this association and many others that the author uses to add new dimensions to the history of the events that shaped the 20th century and still reverberate in the international happenings of today.

This story of George W. Perkins makes "impact" reading about a fascinating personality who was vitally involved and effective in the affairs of his time.



"Mrs. 'Arris goes to Paris" and "Mrs. Harris goes to New York." A $5 value, both 3.95
Book Dept., Walnut Level



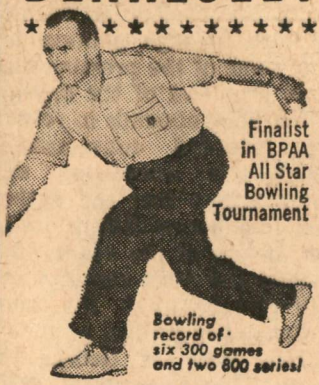
KC Star, 11-5-60

The freeze will have no effect on inter-league trading, which starts November 21 and ends December 11.

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Armour Lanes	King Louie East Lanes	Rhythm Lanes
Blue Ridge Bowl	Linwood Bowl	Rockhill Bowl
Blue Springs Bowl	Loma Vista Lanes	Scott's Bowl
Broadway Bowl	Lucky Strike	Sheffield Bowl
Capital Bowl	Maywood Bowl	Sterling Bowl
Country Club Bowl	McBowl	Strike 'N Spare
Diamond Bowl	Melody Lanes	Ward Pkwy. Lanes
Edgewood Bowl	NKC Bowl	"Y" Bowl
Gladstone Bowl	Northeast Bowl	

BP AA Bowling Proprietors Association of America

See "Ballard vs Investment Goliaths" in Xptn file

Zechendorf, Act., Dec 57

v. last p. Q. Gray on Gy. S241

When r.e. operator goes bankrupt, he throws bldgs on mkt, depressing P. -- Ding what is for sale for M.

'Spec. builders' build c. 90% all bldgs for rent. They borrow as much as they can. & in order to borrow, they must have something stereotyped (thus absentee capital isn't losing, progress will continue to come from owner-operators. This is big element in inefficiency of corp. Going to something

risky, stock drops. Only a
Le Tourneau can do it --
individual control.
(or one to whom new
thing is small %. But
then not likely to put heart
& soul into it)

Most lenders are
institutional: ins. co,
saving bank, B&L co.
Institution run by
'trustees' who get little
personal pay, are
old families, conservative
social strata. Feel

responsible for soundness, not for spectacular success & with possible failure. Get social prestige from work, not financial reward -- are retired something-elses often --.

Trustees of 'eleemosynary & mutual inst.' ~~Eth~~ who finance most.

(~~Alex~~ Dovenmuehle an exception?)

FHA bad, too --
To protect vs chicane,

very unimaginative.

No big corps to do research. Just spec. builders, mortgaged to hilt. Few build on own capital. (Because of land buying?)

Many luxury apts of 30s couldn't be rented in 30s even at very low rents because of high maintenance costs.

p. 30. With the bank crisis, pre-Nazi, Reich took over banks -- (& banks controlled industry). Nazis returned banks to pvt hands. It was most of the big banks they took over, not all, in 1931 S150

Thomas → FDIC tries to limit state bank charters, on theory they were given too freely before, caused too much competition.

T. Thomas before p. 100 Clearing house associations have agreements limiting competition, to prevent banks from failing. Fed. govt. helps by prohibiting int. on ~~time~~ demand deposits, setting max. int. on time deposits, reg

Banks No credit rationing?

136-7 : Gm banks ~~of time~~ "frequently gave credits to industrial companies out of all proportion to the firms' assets and to their present or future earning power." even beyond lending capacity. Nazis intervened to prevent it. ?? S150

Inst.

Which brings out a point: sharp credit rationing, away from small borrowers, is to some extent forced by state on institutional lenders. The more we turn to such lenders, the more credit rationed according to collateral, not mp. Hence more institutionalized banks become, & more regulated, the worse becomes credit rationing. S150

But state also prevents ~~fix~~ banks from lending more than some % of their capital to one firm. p. 137-8 S150

Maintaining Competition. Big banks

5433

Moody, John, "The Masters of Capital", Yale U Press, 1919

p. 16 et seq. Civil War, Eng. wouldn't buy northern bonds. Germans would, with strong German colonies here, pronorthern. S. Gm Jews esp. They allied with Jay Cooke, postwar, he sold bonds abraod thru them, to them. Thus Eur. cap. flowed to U.S. again.

Morgan rivalled Cooke, with English connections. With Cooke's downfall, Morgan & NY & English connection took over govt. bond floating contracts. (Frankfort was Gm finance center)

1870, London branch of Morgan loaned much to France, after defeat, bought bonds for resale, stroke of confidence & power, resold at large profit.

Morgan's refunding of U.S. debt thru London, after Cooke failure, restored our credit abroad, altho for 40 years U.S. had been "burying ground" of Brit. cap. Morgan a hero. I.e., by getting some Britishers to buy, he prevented losses to other Britishers? Moody not clear.

Morgans had been textile wholesalers, got lending to customers & borrowing -- not for need, but just deferring payment -- from suppliers -- those that didn't want funds immediately, perhaps they paid some interest. Thus they turned to banking.

Morgan got into r.r.s by placing much of Vanderbilt's NYC stock in London -- V. wishin to escape from growing antipathy toward him for owning too much.

In 80s, Morgan really got going on r.r.s. Other giants in field were overexpanders, exploiters of booms. Morgan operated in busts. He bailed out bankrupt r.r.s, took them over, arranged deals reducing competition, etc. 80s, many rails went bankrupt because of overexpansion, watering (issuing stock to friends for no return, I judge), excess dividends, too many parallel lines, etc. He was almost the sole "conservative" figure in game. Acquired enormous prestige.

Morgan's specialty was marketing Am. securities abroad. In this role, he felt responsible to prevent foreign investors' being gulled completely. So many of his operations were not for immediate profit, but to keep up name of Am. securities. He was, in short, a more responsible individual, & trustworthy. Many others had been gigantic thieves. Much stock had never been paid for. etc. So era of Morgan was era of U.S. honesty with foreign investors. Thus post civil war very different.

He devised "voting trust", whereby all the votes of common stock were concentrated in his trustees, in a reorganization. Thus he prevented old speculative interests from throwing him out.

By 90s, he controlled all SE roads; & Erie; Vanderbilt roads; ATSF, NP; B&O; C&O; & had worked on & helped many others.

Carnegie, Frick: poor, but bright young men, anxious to et ahead, willing to take responsibility, audacious.

(A small offset to monopoly: monop. makes large profits; due to cost of cap. mkts, profits tend to get reinvested in business where they are made, unduly, offsetting monop. motives some.

Unfortunately, it is more that they tend to be reinvested by those people, but not nec. in same line of production -- thus we get multiple product firms, with no economies of integration. And besides, monopolist may specialize in buying up existing assets, competitors, not forming new cap. Which may incidentally have some bearing on busi ness cycle)

Standard Oil started on same basis as others. Rockefeller dominated, enforced policy of plowing back all profits -- they were very large in those risky days -- but keeping very high cash reserves. Because in those days banks wouldn't lend to such risky business, they had to be own bankers, be ready for emergencies.

1859, oil discovered -- it proved more significant than 1849 gold. Good price from start. 1873, trouble for most refiners, Rockefeller had cash, bought many out. Acquired & built pipe lines, with these pressured r.r.s., got rebates (HD Lloyd, in ? *Lords of Industry?* says "Rockefeller did everything to the Pa. legislature except refine it". Stresses bribery of r.r. officials, legislators)

(perhaps rebates were his price for not letting others use pipe lines?)

City Bank of NY -- later National City Bank -- under James Stillman, came into alliance with Rockefellers. Together, started buying into r r.s -- UP, NYNH&H, CMStP&P. Became largest bank in country, larger than Morgans by far. Went into utilities too. & metals -- had been traditionally a metals bank. Now organized Amalgamated Cu Co at Butte, taking over Anaconda. Big syndicates, joining things thru much capital, organized in Wall St. Consolidated Gas of NY, & Edison Illuminating of NY, joined by Nat. City & Rockefellers.

Tariff changes of 1894 hurt many industries.

Sherman Act scared investors away from big trusts. (by this, must have had big effect in discouraging them. For supply of capital at lower i.r. to big trusts is prime reason for them) p. 71. *Thus anti-trust persecution can have big effect.*

But during 90s, court decisions & new ways, holding co. replaced trust as means of control.

Many mergers made, not by buying out, but creating a new h.c., & its securities were exchanged for those of old. For this all you need is consent, not a master source of capital. People will consent if they think the new securities will be worth more than the old. Which they will think if a monop. is formed.

But other point still good. For they would talso think so if ~~they~~, before monop. stage or question reached, they thought was more security in more diversification. So, point is, here is another motive, working in same direction as monop, perhaps creating situations letting monop. motive then come to fore. & lvt would help.

Morgan tried a shipping monop. But didn't work, because entry easy; & competitors subsidized by foreign govts. In r.r.s, another matter -- was a monop. from start, Morgan didn't make it one, just increased it.

Also engineered mergers in Electrics -- & GE soon went into PU purchases, this may have been cause? Steel -- control of r.r.s may have been what made Morgan domination profitable here? Harvesters - did r.r.s discriminate to prevent rival co.s?

'97, Republicans returned, new tariff.

Wall St. supported big mergers, like Am. Tobacco with Duke; Amalgamated Cu, with Henry H. Rogers; Am. Smelting & Refining; Am. Woolen (NE mills)(over 50 consolidated); Am. Car & Foundry; Am. Hide & Leather; Internat. Paper. These were in the 100m$ or less class. USS biggest of time, well over.

Federal Steel; Am. Steel & Wire (John W. Gates, fencing) (a comgination in itself); Am. Tin Plate; Am Steel Hoop; Nat. Steel; Nat Tube; Am. Bridge Co (last two Morgan outfits, last connected with r.r.s)

Carnegie wanted to stick to steel. He had lowest costs of any, kept producing in depression of '93 when others shut down. to be not mngr.
Frick, lt., wanted to branch out, get into other fields, as was Carchrond "community of interest" theory of times.
Wanting to retire, & get good price, he threatened to go into competition with many Morgan interests; got Morgan to buy him out for c. 450m$ -- much in bonds & stock - a figure way above what he had asked & been refused before. Was then Morgan got others together, formed USS. A combination of many combinations -- of separate mills, in separate places -- not a matter of optimum size.

USS included all kinds of interests. & was linked with r.r.s, banks, etc. -- e.g. Rockefeller had contributed much of Mesabi, & had stock. USS when founded had 70% steel production in U.S.

Was much more European capit al coming into Am. r.r.s etc. than I ever thought before, he suggests. But perhaps it was mostly in big enterprises with big names such as he talks of, representing only very small part of all capital in country.

Harriman, grew up in IC, then reached out. Contest with Schiff of Kuhn, Loeb, with its south German connections, for UP --

Changing external form around same function, an eternal thing, device for evading regulation.

Harriman proved to have lower i.r., won out. Got into SP; NP -- fight with Hill, Harriman did all right. Was after Huntington died in 1900 that Harriman bought up much of SP.

1/3 all r.r.s stocks at about this time were owned b other r.r.s

Harriman did all right by UP. It had been "skinned" -- prop. deteriorated to pay dividends. He put in lots of capital, rejuvenated it, hit good weather, made lots.

His IC paid off well, lying broadside of migration, sold all lands good price. No competitors -- agreements with Morgan who countolled southern, ACL, possible competitors.

Kuhn, Loeb, had financed Hill, Great Northern, late 80s. Hill bought into Chase Nat.; Morgan bought into First National, of George F. Baker; all bought into each other, got tied together well. But Harriman was ass. more with Rockefeller, Nat. City interests.

Hill bought CB & Q. Harriman said stop, didn't want such a competitor. Hill said no. Harriman started quietly buying Northern Pacific Stock on open mkt. -- Hill had Great Northern all sewed, but not NP. Harriman & Morgan deadlocked on NP; so truce, formed Northern Securities Corp., ended competition.

1903, Morgan bought L&N in from some skinners who got it as speculation; only Rock Island remained outside, because a couple of gamblers rigged voting so they could sell off much stock, still control, skinned it.

'90s, trust co. movement got under way. Trust co.s not regulated like commercial banks. They could do commercial banking; but also could lend for "speculative schemes" -- meaning I guess long term capital.

"old line" trust co.s were fiduciary orgs. mainly.

In reorganizations of '93 & after involved bondholders committees. Trust co.s had been financial agents to pay interest, etc. Became hq for bondholders' committees. & then started themselves to finance reorganizations. Made much -- so in 90s, many formed. But hard for them to get capital. Big interests wouldn't touch it -- too risky. But life insurance co.s at this time growing, with large assets, restricted inv. opp., due to laws. But they could invest in bank stocks. So insurance co.s started buying trust co. securities. & this made trust co.s more reputable, others loaned to them too. & trust co.s started investing ins. co. m for them; & even to their detriment, officers of ins. co. sellin out that co.'s interest to themselves as trust co. officers, insiders.

c. 1900, big bankers got interested in ins. co.s, bought in. Ins. co.s loaded down with speculative securities. 1903, crash, proved overvalued. Ins. co.s investigated, Chas. E. Hughes in charge, forced to henceforth just have conservative ones, use their patrons' funds more carefully. Unloaded spec. holdings over next few years.

(If govt. didn't enforce big capital manipulators to safeguard public's funds that way, wouldn't be possible to agglomerate so much together, people wouldn't entrust their m to others.)

(socialists say is impossible for govt. to curb monop. But if it can't do a simple thin like that, how can it do the complex things they want? Might also say it has failed to accomplish all sorts of others things it planned to do, to greater or lesser extent. Doesn't mean it can't do them, if people want. Has also failed to give us socialism)

(I suppose association of deposit creation with inv. banking gave extra consolidating power to banks. For could create the deposits to buy thin s, then slowly get m from elsewhere)

p. 142 1907, i.r. rose very high -- it had been low all along. But now it became very hard to get cash. Even Rogers of Standard Oil had to pay 8% & give very good security.

Panic of 1907. Down, then up. A few failures, etc. But after that, speculative spirit dampened for years. & Wall St. lost its glamour. More govt. antipathy. Antitrust cases. S.O. dissolution. Rockefeller & Morgan banks virtually merged, biggest banks & ins. co.s of NY.

UP forced to disgorge its SP control. Pa. gave up its B & O. ICC rate regulation grew stronger. With rate regulation, control of competitors of no advantage, roads sold out their interest in other roads.

By 1913, things were much better. Many interlocking directorates unscrambled by Fed. ~~xxxxxxxx~~ "Statutes". "High Finance" tamed for a bit.

~~Xxx~~ 1913, recall, was also Hiram Johnson reform wave in Calif., U'Ren campaign in Oregon with some results. Things were going pretty well. Then came that damned war, and ruined everything.

First reaction of investors to war, in Eur. & here, was liquidation. Stocks tumbled. London exchange closed. So did exchanges over world. Europeans held 4b$ Am. stocks, which they would have sold at very low prices. (Why sell Am. stocks? How would war hurt them?) But NYSE closed too, for 4 months. Was feared fall of stocks would ruin credit base, banking, stop business. I guess Eur. holders anticipated their govts. would confiscate for. holdings, for foreign exchange, etc.

For. govts. declared moratoria on debts, & turned to inflation. because of very high i.r., mon. breakdown. Wall St., US prestige grew greatly, because we didn't. New FR Act, we issued an "emergency elastic currency". Sounds like bs from Moody, who is vague. Anyway when exchange reopened, stocks went up.

1915, Eng. govt. ordered bankers to stop financing internat. trade, & investing abroad, devote everything to war. e.g. they used to finance "moving the crops" annually in U.S. Stopped. Wall St. took over. Also loaned to Europe -- 2-3b$, Eur. govt. bonds. First time Am. investors had ever taken for. govt. bonds. & much of Eur. purchases of war supplies arranged thru Wall St. Morgan, with Eur. connections, main one.

Schwab, with Bethlehem Steel, turned into tremendous arsenal for Eng., turning out guns, subs, etc.

1917, our entry caused no panic on Wall St. It was ready for

war, having been in it for 3 years. Cooperated with govt. in floting tremendous liberty loans, Wall St. had been very unpopular, but wartime made it popular again. (bad thing probly)

Baruch, purchasing agent; Ryan (of Anaconda), aircraft; Schwab, shipbuilding. These Wall Streeters came to Washington to replace inept politicians & help win war. Greatly enhanced Wall St. prestige.

Appendix, stuff fromHouse investigation of concentration in control of money & credit. General agreement it was very concentrated in a few corporations, tho the corps. were widely owned. Fairly generally agreed that the concentrated power had not been abused, but it might be.

(I suspect that if it were abused, it would cease to exist. For then other banks would grow up quickly, as depositors shifted to them to get higher i.r., & borrowers went to them to get lower i.r.)

'A Fatal Mistake'

FDIC Firing Laid To 'Big Bankers'

By the Associated Press

WASHINGTON, Aug. 4 — Representative Rains (Dem-Ala.) charged today that a Federal Deposit Insurance Corp. (FDIC) official has lost his job because he forced collection of more than a million dollars in back assessments from big New York city banks.

He identified the official as Russell D. Miller, FDIC treasurer for the last two years, and said the job has been abolished as part of an apparent plan by "big New York bankers (who) came into political power" to wreck the FDIC.

Chairman H. Earl Cook of FDIC declined to comment directly on Rains' charges, made in a statement in the Congressional Record. He said, however, that Miller's job and those of three other officials have been abolished as part of a reorganization to promote "greater efficiency."

Rains said the job of collecting from the banks has been put back in the hands of the official who had it before Miller, W. G. Loeffler. Loeffler declined to comment.

'HANDS TIED'

Cook said the wartime manpower shortage and weaknesses of the old law on bank assessments had "tied Loeffler's hands" in making collections.

The law was changed just before Miller took over, Cook said, to make it easier for banks to find out how much they owed the FDIC. But he said "there are still some errors, including some overpayments."

The FDIC insures deposits up to $10,000 in most banks. The banks are required to pay a small assessment on each account to pay for the insurance.

Rains said that until 1951, some banks had never paid the assessments, and total delinquencies rose to about $3,600,000.

After Miller took over as treasurer, Rains said, he started a collection drive and brought suit against some banks which refused to pay.

ITEMS COLLECTED

"The FDIC treasurer," Rains said, "made the fatal mistake of collecting from big New York city banks what they owed to FDIC."

Among the items collected, he said, was $200,000 from the National City Bank of which he noted W. Randolph Burgess was an official. Burgess now is deputy secretary of the Treasury and an associate, Ray M. Gidney, has been made Comptroller of the Currency and thus automatically a member of the three-man FDIC board of directors, Rains said.

He listed also a $430,433 collection from the Chase National Bank of New York city, and said altogether, nine New York banks which owed $1,795,689 were forced to pay $1,113,603.

Japan's Monopolies On the Road Back

Under the impetus of world crisis Japan may be junking the reforms of the American occupation and the old Japan is being reborn. Mr. Hill herewith reviews the evidence in the second of three articles.

By ERNIE HILL

Tokyo

THE giant financial and manufacturing houses of Japan — known as the Zaibatsu — are on the road to full recovery after ineffectual efforts of the American occupation to break them up after the war.

The big four—Mitsui, Mitsubishi, Yasuda and Sumitomo —are being put back together following a temporary dissolution under the MacArthur regime.

The big four never meant to lay down and let the Americans chase them out of business.

But the fact that the Americans are now anxious that they be re-established helps them get back on their feet.

"There can be no doubt," an American Embassy spokesman told me, "that we went too far. Without the Zaibatsu, there is no capital to finance industry or industrial development. We do not want the Zaibatsu to get as powerful as they once were but they must be reconstituted."

Headlines in Tokyo newspapers tell the story:

"Mitsubishi Opens First Postwar Airplane Plant."

"Zaibatsu Again Aggressively Financing Munitions Companies."

"Plans Scene Shaped to Revive Two Former Trade Zaibatsu."

"Cabinet Plans Revision of Zaibatsu Laws Written by Occupation."

The Zaibatsu financed most of Japan's military exploits in China and South East Asia. They furnished the factories to build the war machine — of course, at tremendous profits to themselves. They have long nurtured the myth that the Emperor is a god. They have kept Japan feudal.

But without them, Japan is financially impotent.

So they are back almost as strong as they were in the latter Thirties.

Mitsui, the largest of the family trusts, made a profit of $20,000,000 in 1937 from coal mines, factories, insurance companies, hotels, investments in Manchuria and shipping. It had a paper manufacture monopoly.

Mitsubishi, owner of the N.Y.K. Line, is one of the world's largest shipping companies.

Prime Minister Shigeru Yoshida has always been a staunch defender of the Zaibatsu organizations.

The great strength of the Zaibatsu is through their banks and financial houses. Independent businesses must come to the Zaibatsu for loans at tremendous interest rates. The Zaibatsu have never hesitated to foreclose and take over businesses. Money deposited in their banks is used for their own business expansion. The banks control shipping, warehousing and marketing facilities.

With a tremendous combine of 600 businesses working together, they kill off and absorb competition and control rates of profit. The system is bloody but effective.

One American attorney who was attached to MacArthur during the occupation spent two years breaking up the Zaibatsu. Now he is out of the Army and is working here for Mitsubishi helping put the organization back together.

"The Mitsubishi organization," he said, "is now back together in four separate organizations. It is working fine. There really is no need to put it all under one management. I'm not sure that this will be done."

Without the big financial houses, Japanese have been unable to raise enough capital to finance big ventures.

When the United States recently wanted an aircraft company to reopen to repair American planes damaged in Korea, it went to Mitsubishi Heavy Industries. They have reopened an aircraft factory for repairs. Mitsubishi, wartime maker of the Zero fighters, says it soon will be making military planes for Japan again.

From the Chicago Daily News Foreign Service

Curb on Bank Holding Firms Urged

WASHINGTON, June 11 (AP)—The Independent Bankers' Association of America urged today that Congress restrict expansion of bank holding companies.

William L. Gregory of St. Louis, chairman of the association's legislative committee, told the Senate Banking Committee he felt there was a "loophole in our system of bank supervision" without such restrictions.

He said his association represents 5212 out of more than 13,000 commercially insured banks in the Nation. Bank members are also members of the American Bankers' Association.

TWIN AIMS

Senator Capehart and Senator Robertson (D.,Va.) have proposed slightly differing legislation with the twin aims of:

1—Identifying a bank holding company and placing severe restrictions on its ability to expand; and

2—Forcing it to get rid of any non-banking enterprises which it might control.

The committee is holding hearings on these bills.

The bills differ in the definition of "bank holding company."

Capehart's definition would embrace all holding companies which own 25 per cent or more of the shares of two or more banks; the Robertson definition would include any holding company owning at least 50 per cent of the shares of any single bank insured by the Federal Deposit Insurance Corporation.

Several witnesses argued that a bank holding company can circumvent State laws restricting branch banking.

SMALLER BANKS

D. Emmert Brunbaugh, Claysburg, Pa., president of the Independent Bankers' Association, said the Nation's "smaller banks" are "fighting for their existence because of the monopolistic trend of present day banking."

He called bank holding companies "the chief offenders in the promotion of this monopolistic trend" who "circumvent the law by establishing 'branches' across State lines when the banks themselves do not have such a privilege."

Brumbaugh said acquisition of three Illinois banks recently by the Bankers' Discount Corporation of Dallas, Texas, would have been impossible under terms of the Capehart bill.

Shortly after purchase of the stock of these three banks—two in Chicago and one at Elmwood Park, Ill. — "the banks were closed and the FDIC was forced to reimburse depositors in the sum of five million dollars," Brumbaugh said.

Business Loans

Bank Holding Curbs Studied

Belgrano Calls Controls Bill a 'Death Sentence'

WASHINGTON, July 22 (UP) —President Frank N. Belgrano Jr. of the Transamerica Corp. today denounced a proposal to curb bank holding companies as a "death-sentence bill" which would put his firm out of business.

Belgrano said in a statement prepared for the Senate Banking Committee that the proposed bank holding company control bill would be harmful to "the broad public interest." He defended the role of bank-holding firms and said they are already subject to "substantial" Federal regulation under a 1933 banking law.

Although Belgrano's statement was released to the press, it never was read. Senator Wayne Morse (Ind-Ore.) in effect blocked any further action on the bill for the rest of the year when he objected to the committee holding the hearing while the Senate was in session. It takes unanimous consent of the Senate for a committee to meet during a floor session.

Shortly afterward, Senator Homer E. Capehart (Rep-Ind.), committee chairman, announced that the hearings have been postponed until January.

Belgrano also serves as chairman of the board of Transamerica and president of the First National Bank of Portland, Ore. Transamerica, which maintains 150 offices in the Far West with deposits of more than $1,500,000,000, would be vitally affected by the proposed legislation.

One measure before the committee would limit the expansion of bank-holding companies and force them to get rid of their nonbank holdings.

"It is true, of course, that the bill does not expressly abolish bank-holding companies," Belgrano said. "But . . . it cuts their arms and legs off and leaves them to bleed to death."

He said it would have the "practical effect of forcing Transamerica gradually to go out of business." He said it would force his company to divest itself of $200,000,000 in stocks it owns in insurance companies, real estate and manufacturing enterprises.

"There is no basis for proposing harsh, forced divestiture such as this bill, and indeed all the other bills, contemplate," Belgrano declared.

Poultry and Rabbits

FROM WHERE I SIT

Parties Will Honor Visitor From Hawaii

By MILDRED BROWN ROBBINS

It doesn't look as though that popular Hawaiian island matron, Mrs. Lucy High, will be having many free moments before she departs for her home again on August 17. For parties by the pound have been planned for the sister of William P. Roth, who is visit



MRS. MONTEAGLE
Luncheon hostess today

table were **Mesdames Prentis Cobb Hale, Arthur Dunne** and **Ralph Soto-Hall.**

DITTO AT HOTEL

The Mural Room, by the way, was jammed to capacity Monday, despite the summer exodus. Among the young set were Jane Olds, with Thyrza Lee Looney of Beaumont, Texas, her roommate at the Mt. Vernon Seminary in Washington, D. C., and the former's mother, Mrs. William Olds. Two girls, who attend the Chatham Hall School, Jane Anderson, daughter of Dr. Edmund F. Anderson, and Barbara Sheets, daughter of Mr. and Mrs. Edwin Sheets of Pittsburgh, Pa., broke bread with Mimi London.

A trio included **Mrs. Jackson Moffett, Mrs. Jacob Gould Schurman** and **Mrs. Robert Bell (Petite Crowell)** of Pacific Palisades. Petite and her husband have just returned from a European trek and are visiting her parents, the **Montfort Crowells** here with their young son, **Kim.**

Nancy and Jack Moffett have been practically commuting to their Glenbrook, Lake Tahoe, place all summer and plan to go up again on August 15, when their house guest will be the Stewart S. Corts and the James Lowmans. Nancy reports that her mother, Mrs. Frank Rice Short, currently is in Zurich, Switzerland, with plans to leave shortly for Paris, but NO plans to return home.

Looking around the room we saw **Mrs. Meredith Parker** of Mexico (a guest at the hotel for some time now) entertaining a contingent of friends. She was joined here Sunday by her husband, incidentally. **Mrs. Henry Weiss** was with her granddaughter, **Lana Turkington,** completing arrangements for the large luncheon she is giving in Dana's honor tomorrow in a private room of the hotel. **Dana** and **Douglas Horner** are being married on September 19.

Mrs. Elbert Ames shared a



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3624 GEARY AT ARGUELLO

the stampede was over.

World Federalist State Convention In Berkeley Today

The annual convention of the United World Federalists of California will open at 1 p. m. today at the Hotel Claremont, Berkeley

Speakers will include Presider Sidney W. Treat; Otto J. M Smith, Associate Professor Electrical Engineering at the Un versity of California; Walla Hamilton, public affairs direct of Station KPFA; Albert G. Pic erell, Assistant Professor of Jou nalism at the University of Ca fornia; Bert J. Coffey, Bay Ar publicist; Phil Small, city edi of the Berkeley Gazette.

The convention ends tomorro

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BARBARA

ful Mrs. Martin Stelling, gave a apa valley ranch near Rutherford. California ranch style, is of board nd on and around and about. It is ble, gay and gracious, and full of iture which Carolyn, with informed s assembled flawlessly.

ounding it, folding hills are covered lnut and prune orchards and endless grapevines. There is a tennis court, ing pool, barbecue pit and open fire- d a marvelous Dutch kitchen that be "de rigeur" in the valley. For n, with its paneled walls, revolving mfortable chairs and couches and ly disguised utilities, is the gather- ongenial activities take place.

Stelling entertained in the sheltered ess of the climate. Some of those o they said, for everyone was well ou'westers) were Josephine Johan- husband, Carl, Ursula Stratford, Norman with her Bowen with hers. e Kenneth Riches, Baumgartners and ng the bachelors e Martin Stelling's and Newt Wacht- oma were the Carl right back again, ts for the rest of



Mrs. Livingston

ivingston is also o several widows nd the Swallows ose temporarily bereaved for a will be Mrs. Prentis Hale, Mrs. ace Guittard and Mrs. Aubrey created once a Tournament at

. Seeks Divorce

indicate whether she intends to consent to the divorce or fight the action.

The divorce complaint charged extreme cruelty, the usual Reno divorce ground.

The couple were married Sept 7, 1948, a short time after the 55-year-old writer-lecturer, the grandson of Commodore Cornelius Vanderbilt, divorced Mexican heiress Feliza Pablo.

His other wives, all of whom divorced him, included Mary Weir Logan, Helen Varner Anderson and Rachael Littleton.

Vanderbilt has been a legal resident of Nevada for the past 25 years.

Sinai said there was "no truth whatever" to persistent rumors Vanderbilt planned to remarry immediately. He has been linked romantically in past weeks with Joan Castle, Marie Bennett and other New York actresses and show girls.

omatoes Vine Ripened—Lots of Flavor ID. 1

reen Beans New Crop Blue Lake Variety 2 Lbs. 2

ellow Onions Large Size 5 Lb. Tote Bag 1

anta Rosa Plums Nice & Ripe —Lb. 1

hoice Celery Crisp Green Stalks—Lb. 7

This Week's Featured

Check this week's lineup of values . . . see how many "pennies" off your food budget . . . add them up . . .

Eggs Large Grade A A Cream O' The Crop—Doz. 7

Dalewood Marga

Tomato Sauce

Fruit Cocktail Hostess Delight—No. 2½ Can

A Five-Year Victory

Transamerica Enjoys Its 'Day in Court'

By SIDNEY P. ALLEN, Financial Editor

Transamerica Corporation had its day in court yesterday, finally.

The U. S. Third Circuit Court of Appeals in Philadelphia made its ruling brief and emphatic.

It set aside an administrative order by the Federal Reserve Board that Transamerica must sell all its stock in 47 commercial banks in five Western States — California, Oregon, Washington, Nevada and Arizona.

The Court's opinion held flatly that the board's order, based on its own conclusion that the holding company is tending toward a monopoly of commercial banking, is "unsupported by the necessary findings and cannot stand."

And so after five years, hundreds of hours of hearings in San Francisco and Washington, D. C., hundreds and thousands of words of testimony and acrimony, the Federal Reserve Board's costly administrative action against Transamerica is ruled to be without legal foundation.

But it took nearly four years for Transamerica to get the proceedings into a court of law to test that possibility. First it had to wait until the Federal Reserve Board completed its administrative proceedings and ruled on its findings.

It Started in '48

The board finally did that on March 27, 1952, issuing its divestment order. (It had started the antitrust action June 24, 1948, when it charged Transamerica with violating Section 7 of the Clayton Act.)

Transamerica promptly appealed that order, putting the case in court. And yesterday's court decision prompted the following statement from F. N. Belgrano Jr., president and chairman of Transamerica:

"Transamerica is naturally gratified that the Federal court has completely vindicated our position in this lengthy and costly litigation. The board's order has been set aside and the court has found that there was no evidence of lessening of competition or monopolistic tendencies. This, of course, is exactly what Transamerica has contended from the beginning."

When the monopoly proceedings began the late A. P. Giannini was chairman of the holding company he founded. He was also chairman-emeritus of the bank he founded, Bank of America.

His son, the late L. M. Giannini, was president of the bank and a director of the holding company.

Key Allegation

And Transamerica Corporation owned a substantial block of Bank of America stock. Consequently, one of the key allegations of the Federal Reserve Board in pressing its complaint was the bank and the holding company were, in effect, one and the same thing.

But A. P. Giannini died on June 3, 1949. L. M. Giannini died Aug. 19, 1952. And Transamerica finally sold the last of its Bank of America stock holdings last year.

That key to the board complaint obviously no longer fit, if it ever had.

The Federal Reserve Board has 90 days within which it may ask the United States Supreme Court to review yesterday's Court of Appeals decision. Such a review is not mandatory.

Nor does it appear very likely. For, as counsel for Transamerica said yesterday:

"While the court's decision legally leaves the door open to further proceedings by the board, such proceedings could hardly change the result in view of the court's decision."

Genevra Lewis Is To Be Married

LADY TEAZLE

With a wedding and a debut eduled for the same week, Douglas Lewises will be htily involved in the activi- of their two daughters the of August. Two such so- ly significant affairs in the e household within a week some kind of a record.

oday we have the announce- nt of Genevr.'s engagement Richard Henry Lundgren, with it the news that the ple will be married August This will be three days aft- youngest

late Mr. Lundgren. His sister, Mrs. Raymond Unger, lives in San Carlos. His grandmother, Mrs. Charles Bagans, is also a resident of Fort Lauderdale, and his aunt and uncle, Mr. and Mrs. Charles Raymond Bundy, make their home in Cleveland.

A graduate of San Mateo Junior College, he spent two years in the Army before entering business in San Francisco where he and Genevra will live following their marriage.

A Home Wedding

It is to be a home wedding ttended by members of the family and a few intimate friends. Janetta Lewis, who is now traveling in Europe, will be her sister's attendant. Henry has asked Lloyd Hanford to be best man. The flower girl will be the bride's young cousin, Tania Whitman, daughter of Mr. and Mrs. Frederick Whitman.

Which reminds us that when Genevra's mother married Douglas Lewis in 1930 the flower girl was her sister, another Tania Whitman, who now divides her time between New York and San Francisco. Miss Whitman, en route from the East Coast, didn't hear of her niece's engagement until yesterday when she arrived in Colorado where she could be reached by long distance telephone. She is expected in San Francisco next week and will be one of the guests at Janetta's debut and Genevra's wedding.



Sergis Alberts photo

TIALS united the former Eve Dunne Jr. shown above leav- -Sea Episcopal Church. The s of San Francisco went south is sister, Betsy, served as a will live in Carmel.

Will Be Wed on August 30

Mateo, Muriel's cousin, and Mimi Ginsburg of Reno, Nev., a high school friend.

Stuart has not yet named his best man and ushers. He is now completing his final year at Stanford Law School, and after a honeymoon in the islands for two weeks expects to be called into the service. His parents are Mrs. Seymour Emmerglick of Silver Spring, Md., and the late Sidney Handmaker of Louisville, Ky., where the young couple will eventually make their home.

Off to the Sierra

Constance Richardson, daughter of Mrs. George Wheelwright III of Green Gulch Ranch, Sausalito, left for the Sierra last week to act as a Girl Scout camp counselor.

Guam Unit

portunities. She added: "There are many women now working in offices.

"It's a big change from the old days," she reminisces, "when a girl of 12 was removed

Money in circulation	1,450,000 1,450,000 28,842,000	937,000 937,000 27,499,000	

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Everyone Said 'Yes' to J. P. Morgan---Stuart Said 'No'

NEW YORK, June 14 (AP)—Because he wanted "to be my own boss," Harold L. Stuart 40 years ago jointed the most exclusive club in the world and sponsored a revolution that rocked Wall Street.

The story was unfolded by the Chicago financier, one of the Nation's top investment bankers, during a stay of more than three months on the witness stand in a New York Federal court.

Stuart, whose testimony also included a resume of much financial history in this century was a Government witness in the prosecution of 17 investment banking firms on anti-trust charges before Judge Harold R. Medina.

Perhaps the most intersting testimony by the 72-year-old financial wizard because of its fateful—although completely unanticipated — consequences concerned his decision to join the most exclusive club in the world: The fraternity of those who turned down an offer to become associated with J. P. Morgan and Co. He is perhaps the only member.

It happened in 1912. Stuart was president of N. W. Halsey & Co., a reputable Chicago banking firm which however, could not compare in strngth and prestige with many contemporary New York and Boston organizations. Just 17 years earlier Stuart had been earning $3.50 for a 63-hour week as an office boy.

While Stuart was working his way up from these lowly ranks, Morgan was instrumental in merging a group of independents into the mammoth United States Steel Co. Morgan was the banker for the American Telegraph and Telephone Co., and dozens of other blue chips in the industrial, railroad, and public utility fields.

He had prestige and power never before on since reached by an American financier. A summons to "the corner" as the Morgan office on Wall Street is still known with some awe, was comparable to a request by British royalty for a command performance.

Stuart says he doesn't know why he was asked to become manager of the bond department for the Morgan firm. The invitation for an audience at "The Corner" was relayed to him through Albert H. Wiggin, then chairman of the Chase National Bank, whom he did not know. Stuart spoke, not with Morgan, but with two of his lieutenants, each a giant in his own right: Thomas W. Lamont and Henry P. Davison, neither of whom he had ever met.

"How long will it take me to become a partner?" Stuart asked.

Lamont and Divison said only Morgan could answer the question, and they were not going to ask him. The Chicagoan went back to his own business.

Stuart says he turned down the offer because he wanted to be his own boss. Besides, like many thousands of visitors to New York, dho think the metropolis is a grand place to visit, he did not want to live here.

This is but a major symbol of Stuart's individuality. He simply doesn't live up to the cartoonist's picture of a banker who travels in a chauffeured limousine. When he finishes his court testimony in the current case, he walks four miles to his temporary residence here.

He does not keep banker's hours. He is at his office before eight each morning and stays as late as the occasion requests. He has an unaffected and friendly personality and a keen sense of humor.

The gumption he showed in Morgan's office was to manifest itself in a historic way a quarter of a century later.

As boss of his own concern, Stuart made a phenomenal success, justifying his refusal to join the House of Morgan—up to the depression which began in 1929.

When the world-wide business recession caught up with the major organizations Stuart had helped finance, his prestige sank to a horrifying low. So did his business

Stuart says he wasn't content to come to New York later and beg for participations in the business originated by Wall Street firms. He decided to fight for his full share of the pie. He did that in a manner which brought gasps from the Eastern top dogs. He waged an all-out campaign for the sale of corporate securities through what he describes as "open competitive bidding."

Under this technique, a corporation puts its securities on the auction block. The highest bidder wins them for resale to the public at a slightly higher price.

Under the older method, still in use, a corporation negotiates the transaction usually with one banking firm it has chosen for the job. If the deal proceeds satisfactorily, the corporation usually floats its next issue through the same firm. There are instances of a banking house having continuing relations with the same issuer for 25 years on the negotiated basis.

The negotiated method, all other things being equal, is more profitable for the banker. Stuart had made a fortune by use of this technique. But it did not promise much for him in the 1930s.

Stuart talked to members of governmental regulatory agencies. He directed a public relations campaign to bring the advantages of "open competitive bidding" before the Nation.

In 1941, the Securities and Exchange Commission made it mandatory for the giant public utility industry which is under SEC jurisdiction to market its securities this way, with some exceptions.

In 1944, the Interstate Commerce Commission, which has jurisdiction over railroads, followed suit.

At both hearings, Stuart and a handful of his supporters acted against the rest of the investment banking industry.

Stuart, who deals only in bonds, was not campaigning for small stakes. Over a 15-year period, 1935-49, including lean years and lush, $30,000,000,000 in public utility and railroad securities were issued, including common and preferred stocks as well as bonds.

The income to investment bankers on competitive issues ranges, approximately, from one-half of one per cent to 1 per cent. This covers the expenses of floating the issue and profit.

It should be understood, however, that each issue is purchased by a syndicate of investment bankers, led by a manager or comanager, with the number of participants who share in the profits ranging from a few to 200 or more.

After winning his David-like victories, the canny Scot, avid student of the bond market, was bidding consistently. The former office boy had made a marvelous comeback against uphill odds. He had taken away a full share of the financing business—and more—from competitors who once had thought Stuart was through. Now he is at or near the top of the heap.

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S. F. Chronicle

Court Bars GM Car Financing Monopoly

CHICAGO, July 28 (AP)—A Federal court today ordered General Motors Corp. and its wholly owned subsidiary, General Motors Acceptance Corp., to end "monopolistic operations" in auto financing.

Federal Judge Walter J. Labuy issued a decree, with the consent of the two firms, barring them from preventing other financing firms from handling loans on General Motors vehicles.

The decree brings to an end an anti-trust suit brought against the two corporations by the Government in 1939.



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the entire incubation period he eats nothing.

When the eggs are about to hatch, the mothers return from the sea, tidy up the nursery, and get ready to take over rearing the chicks. Then the males, who have exhausted their reserves of fat, stagger feebly in their own mass migration to the open water to build up again on fish.

...p to now, Dr. Stonehouse ...eported to Nature, four rookeries, to which the birds return winter after winter, are known. Cape Crozier, however, is the only one of which the location has been revealed.

The big bird, which actually is about two-thirds feathers, remains a complete evolutionary enigma. Theories have been advanced that it is the last surviving member of the fauna of the Antarctic continent about 50,000,000 years ago, when the shorelines were free of ice. It certainly is off any known road of evolution.

...apan. He's Ma... Clem Sweeney with a bad wound. It has not infected, however, and his doctor wonders why he does not make better progress; perhaps if he will want more vigorously to get well he will do better.



But does the Major want to get well? He is not so sure.

Lying there he goes over his past, and this story of a Texas boy from childhood up, as the Major remembers it in vivid flashes, is the story of the novel. It is pretty well an American story with Southwest overtones. Any reader will recognize most of it as typical, and in this sense the author has made it an appealingly universal tale; here are the things that happen to American boys, the small suc-

...saw ne... ...wanted to 'go along in the world. ...ou traded something for what you wanted; if you had doubts, you stifled them and fitted into the pattern. This the Major has accomplished successfully. But now all his old doubts rush over him. Does he want to go back again inside "the tight walls of conformity, and unconscious automatic hatred of all that does not conform?" Does he want to "prosecute criminals and smile, to sit in a box at the symphony and smile, to swim in the Country Club pool and lunch at the Houston Club and dine at the Empire Room and smile?" Does he, in short, want to conform when (and here is the author's whole point), conformity means automatic hatred of all that does not conform?

This is the heart of it. At the edge of death Major Sweeney suddenly sees the dreadful vision of a society which demands both conformity and hatred of nonconformity because it fears the latter and fear is expressed in hate. This is the message that the author has written his book to deliver.

NATURALLY a novelist overemphasizes in order to make his theme clear; even the act of selection, which every writer performs, is in itself emphasis. Here, many will feel, Mr. Williams has selected too rigidly, shown only one aspect of the picture of middle-class American life. Perhaps it is not quite as bad as all this, really.

Yet the main question remains. Is Man here in the world merely to become a faceless, utterly conforming unit, existing only to serve society? Or is our society a complex organization, still by no means perfected, whose purpose shall be to serve Man to his greater good? And what the author here means to suggest is that this still unresolved question is at the root of the conflict between Man and his society, a conflict which is the great problem of our time.

Notes on the Margin

. . . You may have seen in Collier's a recent symposium consisting of six articles, each by a scientific authority, grouped under the general title, "Man Will Conquer Space Soon." So important have been the advances in this field that Viking Press has felt it worth while to take over the symposium and it will publish a greatly expanded version in book form this fall with the title *"Across the Space Frontier."* Exact date will be announced later.

. . . William Carlos Williams, famous physician-poet, has been elected to the chair of Poet Consultant to the Library of Congress for a two-year term succeeding Conrad Aiken. He receives an honorary Doctorate of Letters today from the University of Pennsylvania.

...tempt to Trade for Oatis Fails

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WASHINGTON MERRY-GO-ROUND

back, threw the labor leader a snappy salute, and said, "Go right on in, Admiral."

It finally dawned on the puzzled Kroll that the guard had spotted a card in Kroll's wallet issued by American Airlines and naming him "admiral of the Flagship Fleet."

SENATOR TAFT is planning some further labor legislation, this time aiming at the "fair labor" laws. Behind him this time is the powerful National Association of Manufacturers and other business leaders, who have just about induced Taft to make the following three-pronged labor legislative drive:

1—A law abolishing industry-wide bargaining. This would force employees in each plant to choose their own bargaining agent and would prevent labor leaders from negotiating contracts for more than one company. This would require the United Mine Workers and John L. Lewis, for instance to negotiate with separate coal companies instead of the entire industry.

2—Legislation subjecting labor unions to the same antimonopoly laws that apply to business. This would subject labor unions, as well as business monopolies, to prosecution for concerted action. Taft, however, is not sold on this idea.

3—A law safeguarding free and unfettered collective bargaining. This would keep the Government out of wage disputes. But ironically, the same NAM leaders now demanding free collective bargaining also advocate injunctions against the labor unions under the Taft-Hartley law. In other words, the NAM wants the Government to interfere with labor, but not with business.

Most important development in this mushrooming campaign is the quiet backing of Senator Taft. As a Presidential hopeful, Taft is not advertising his views until after the election. But he has indicated privately that he will sponsor an antilabor-monopoly law next January. Its effect would be to break up nation-wide unions. Taft has told fellow Republicans in the Senate cloakroom and behind closed doors of the GOP Policy Committee that he favors outlawing industry-wide bargaining. He has added, however, that he would not prevent workers in different companies from striking at the same time, provided that they did their bargaining on a company level.

Taft is lukewarm about applying the present antitrust laws to unions, since unions do not lend themselves to such regulation. However, the Senator from Ohio is all for cracking down on the Government's power to interfere in labor disputes.

The NAM strategy is to whip up congressional and public opinion as a result of the President's attempt to seize the steel mills; then have Senator Taft come along and sponsor as strong an antilabor bill as he will accept.

End result may make the Taft-Hartley Act seem prolabor.

(Copyright, 1952)



CHAIR CARS

...extra fare, Diesel-
...rvice to Chic...

Where producers depend on banks,
bank is ideal pressure point to monopolize
-- "sign up or we foreclose".
Tupazian case, Fresno, 1923
~~Growers~~ Marketing org. (Sun Maid)
tried to effect monop.

opt size corps. 71

Brandeis, Louis D. 'Other People's Money' Stokes, N.Y., 1913

On bankers mnpy: Morgan, Nat. City, 1st Nat., big 3.

Leg. Pujo Comm., 1912, investigated inv. banking.

Br. vs idea size makes efficiency -- pioneered it.

Stresses how a very few control much other people's M, thus wield much magnified financial power -- but not thru efficiency, stresses ineff.

as does Ernst, Morris L., 'Too Big' Bost., Little Brown, '40

clusters Ch 8

A little cubicle in town, or a street. The machination there project onto the land for 100s of mi.

~~In cubicles, esp. clusters.~~

Is control box. If want to understand expon. of land ~~land~~ at grass roots, must follow the machinations in that little box, the figures in the count's house. — They project their influence. One little entry number in a book wields a power projects its power influence over hundreds of acres at the mgn. In the ct's houses, funds tend to cluster around existing nuclei. & so, too, at the grass roots, ~~lands~~ holdings gather ~~titles~~ & grow

The county houses where men buy & sell the future of ~~the~~ a land.

Banking creating monopoly

Thomas, often p15 Banks used to lend to inv. banks, or themselves as such, to carry securities they were peddli g. With such a set up, it would be easy to monopolize. an argument for 100% reserves. Or at least for separation, as we now have.

Knight Ec. Hist of Eur.

In Italy, production (in producing towns, like Florence) became more & more integrated, productive units did. Finally such as Medici would integrate whole, bankers on top.

Maybe the two things go together -- as an economy develops very good banking this As the divergence of mrs ($\frac{4\frac{1}{2}\%}{2\frac{1}{2}\%}$? $\frac{2}{5}$, & as i.r. in general fall, differences of bids & two. -- costs of oper.

thomas

Eng. banks have continued to lend only short term. (plus govt. obligations?) Canadian banks lean in same direction, not so far. U.S. banks more like central Eur., in identifying & uniting with industry, r.e. financing. & Gy & Us have Ad production

remaining the same, but general % being lower. & these banks also benefit from their world connections, so they can take advantage of economies of scale, & lend very low. Inheritance cumulation in old economy may also & divergence etc) & it monopolizes its own industry -- lower land taxes & & production taxes being also involved, & much else. (Monop. not due just to a general scattered divergence, but funneling low m thru big collecting inst. in a few branch channels)

most & so such things are a less important cause of money than direct laws. Often they may reduce monop with a new big combine

Melder, 25 Apr.

Clayton anti-trust law made it illegal for competitors to have interlocking directors. But they get around it by being non-competing. Also you cannot amalgamate competitors, except with a holding co., or merging. I.e., you cannot by buying stock or placing directors control a competitor. But you can use h.c., merger, etc.

Supreme Court decisions on Sherman Act interp to not forbid 'reasonable restraint'. U.S. Steel ∴ not forbidden.

		Alliances, further than control.
Morgan - First National Group.	30 b.	
Rockefeller	6	
Kuhn - Loeb	10	
Chicago	4	
Mellon	3	
DuPont	2	
Boston	1.7	
Cleveland	1.4	

Jacob Schiff, head of K-Loeb. Eschewed controlling borrowers, but guided them to protect investments, by personal conference & advice.

George F. Baker, head & founder of 1st Nat NY, personal alliance with Morgan, now institutionalized. Baker was big holder in ATT, Parr. They put directors in many corps, to advise.

Pullman, USS, Kenn, Phelps Dodge, Am rad, Conoco, Mont W, Baldwin, Chem Alden, many others. St Regis paper.

ATT, ITT, Cons Gas NY, United Corp (H.C. utility: holds Com'l Sec'th, Unit Gas, Niag. Hudson Power, Colum Gas El,) Electric Bond & Share, holds 4 H.C., which hold Am Pr & Lite, Am gas el, etc

5 r.r. systems: probly 2 more: NYC, Alleghany, Northern System, ATSF, Southern, WP

Alleghany built up by Van Sweringens, of Cleveland a large H.C. '36, Young vs. Guaranty Trust (Morgan int.) fought for control, when V. Sw bros died.

Gu. Tr., Bankers Trust, NY Trust. $4b total of Banks

Rockefeller Grp. only ind & banks.

6 oil co.s, minority control.

SO NJ
Soc. Vac
Ind. - 16% here, e.g.
Cal
Atl Ref.
Ohio Oil

Chase Nat. Bank. (Winthrop Aldrich). $2.3b assets. (gross? Net?)

p. 311, Structure of Am ec.

Kuhn-Loeb is r.r. C NW, Pa, etc ----

Chic. group defined on interl. directorate basis.

Du Pont: Du Pont Co., GM, (25% by Du P. co.) U S Rubber, Nat Bank Detroit.

Mellon: best integrated. Gulf, Koppers, Alcoa, Pitt Coal, West El, Jones Law, Pitt Glass --- etc. Va rr. Mellon Nat Banks, Union Trust, etc. --

The groups overlap. Morgan Chicago Mellon on Pullman. Morg on Texas Gulf Sulfur, & Mellon. Chic. grp on Montg W, which Morgan has. etc.

Kuhn Loeb banks for Cleve. steel, which is the group's backbone.

Ethyl Corp controls 80% gasoline sold, all hi-octane gas.

1935 reports only time govt ever gave money to do this research. TNEC. So no comparable added studies.

Send home for smaller War Plants report?

If a bank has loans outstanding to certain industries, or stores, and an interloper wants a loan to compete and has a plan to lower prices drastically (or just a little bit) , bank hesitates to lend, as it will jeopardize its other loans. This is only where bank is monop., or, at most, oligop. Otherwise he would figure if he didn't make the loan, someone else would, and he would make it even tho it ruined him. But for all marginal decisions -- marginal because of risk of failure, or because of monop., etc --- this might swing balance. So bank monop. is mother of monops.

SCANNED

AS

FOUND

diff mns & Concentr

p11: "Bankers liked invs close to home, wherethey cd wtch over thm,..."

p14: Manchester Boddy, pblshr LA News, "It is time to state openly that our colossal aggregations of capital are not examples of free enterprise or private initiative. ... our gallant generals, Gen Petrol, Gen Foods, GE, GM" for them says Mezerik, p15, "financial problems are easy to solve, for this Eastern army of aristos controls the biggest banks, ins co.s & fdtns."

p16-7, table cfg values of big corps with s&w states. e.g. Metrop Life, 4.23b$; Texas, 3.2b$ -- only Cal has more than Met Life.

Of course these state assets values are assessments, which of course are way below true values; & who knows how the corps assets are valued. But still gives startling food for thought

[redacted]

Mezerik, 2

Sources: Fig.s on state assets, ass. values, from Bur of Fn & Dom Commerce;
Corp figures from Hrgs, Sen Judiciary Comm, 75th Cong, 3d sess, on S LO, pt 4, pp 768-73.

Concentr., prop more than all inc.

p18 States, no source, 1927-37, 35% all corp net dividends went to 25,000 persons.

Work on that, showing income from prop more concentr. than inc in general. Then, further, show that ownership of prop more conc than inc from it, since the more conc it is, the less well used. Conclude: what we are trying to do with our income tax cd better be done taxing prop.

S 103

Nuclei of grt wealth then attract others, & come to control much more cap than they themselves own.

p20: 5 largest ins co.s, over 15b$ assets. (get dope on conc frm more reliable src, throw it in appropriately.)

Cap. flows uphill, regionally

p20 M saved in s & w is invested in NY, thru ins co.s etc, who invest more in ne: so 10% country's area there has 65%"mfr facilities".

p21: "If the govt of the US today wanted to take over the r.r.s of this ctry, they wd have to see only one man, just one, JPMorgan."

Under this control, discrim frt rates.

Mont Pwr

Montana, dom by Anaconda, & local pwr co. Ala., by USS, & Ala Pwr. etc etc, p 22

Lawson

Frenzied Finance

McWms, Facts in Field, emphasizes bank control of fruit exch.s, coops, use credit whip on small non-joiners.

Ass. Fmrs, banks & utilities behind.