A. G. Becker & Co.
INVESTMENT BULLETIN

FOURTH QUARTER, 1932

Is This Recovery?

THE outstanding happening of the year thus far, from the investor's point of view, has been the extraordinary rise in the security market which got under way around the mid-year. It was the longest and sharpest rise since 1929. It ran for approximately sixty days without serious interruption, and thirty days of reaction that followed failed by a large margin to erase its gains. By some this advance was hailed as the immediate signal for a general business recovery. Some cynically laid it to politics. But back of it, in any event, and in a large degree coincident with it, developments were taking place in a number of quarters from which a profound influence is exercised upon business. The commodity price structure, the banking situation, foreign affairs, the gold situation and other phases of national or world economy were taking a turn which seemed to provide some solid basis for a rise in security prices. Not all the developments have been of convincing character. In the aggregate, however, they are of importance. Our purpose here is to examine some of the principal avenues by which the forces of recovery may be expected to arrive, and to see if the way is clear, or is being cleared, for an advance.

Commodity Prices

Declining commodity prices have presented one of the most disturbing of business problems during the depression. They create a vicious situation in which buyers retard trade by postponing their purchases in the expectation of being able to buy more cheaply later on, and in which dealers, fabricators and producers are obliged to reckon with almost inevitable losses on stocks of goods which they hold. Business concerns whose requirements call for large inventories were thrown into a virtually defenseless position by the steady downward movement of prices. The farm population has lost so enormously in purchasing power that this great consuming outlet for industry has been almost completely dried up. A reversal of the downward trend, or stabilization of prices at some level, even a low level, has been recognized as one of the first essentials to general business recovery.

In the summer of 1929, the commodity price index began to dip rather sharply. After the stock market collapse and the ensuing shocks to business the decline took on the proportions of a major movement. This continued during the greater part of the last three years, subject to almost no interruptions until 1932 was well advanced. The general price level fell this spring even below pre-war figures. In the case of certain commodities, prices fell to the lowest point since the turn of the century. According to the Annalist's composite index which takes the 1913 level as par, the bottom of the long movement was touched the middle of June when the index read 87.4.

Since that time there has been a substantial rise. By early September the reading had climbed to 96.3, the highest point of the year. Subsequently there has been a good deal of fluctuation, very substantial in some lines, with a generally declining trend which left the index at approximately 91 in mid-October.

The actual number of commodities which brought about the rise in the general price level has been relatively small. Several of them, however, are of basic importance in the nation's economy. Raw cotton, for example, gained almost 50 per cent in the sixty days to September 1. Hogs gained comparably, and cattle quite substantially. Hides gained 75 per cent in sixty days. Rubber, crude petroleum and gasoline, and silk, which had been depressed to almost ruinous levels, enjoyed good advances. Other commodities participated to some degree in the improvement. The full extent of these gains, however, as we pointed out, was not held through September.

Many important commodities, on the other hand, have shown little disposition to move forward. Grains, which account for a very large part of farm income have not shown strength. Iron and steel, which fell slowly and not so far as other commodities, are still near their low mark. The non-ferrous metals have not been strong.

The net gains actually registered, however, favorably affect a wide range of industry and a large volume of consuming power. If these gains can be held, there would appear to be strengthened prospects for extending them to other commodities. Thereby a fairly solid footing might be established, insofar as the commodity price structure is concerned, for a sustained betterment in a number of industries.

The Banking Situation

The record of bank failures showed marked improvement early this spring, after the Reconstruction Finance Corporation wheeled into operation with its huge reserves of credit. Bank closings in March fell to 47, the lowest figure in more than two years. A considerable number of strained situations still existed, however, which it was impossible for the Reconstruction corporation to cure. These reached a head during the summer and there was a substantial increase in failures in June and July. Thereafter the trend line again began to show improvement, and September failures fell to 56—the lowest since March.

With the decline in failures there has been a steady and substantial record of reopenings. Deposits of something over 560 million dollars which were tied up by bank suspensions during the first eight months of the year were in a very considerable degree offset by more than 200 millions of deposits in reopened or newly opened banks. In fact, in July the deposits of reopened banks substantially exceeded the deposits of those which closed.

At the same time, a recovery in public confidence in the banks has been indicated by increasing deposits. The Federal Reserve's weekly reports on member banks in the country's leading cities show a moderate but steady increase in commercial deposits from the low point of $10,735,000,000 on July 20 to $11,229,000,000 on September 28. Bank reports issued in response to the call as of September 30 showed improvement to be general.

Closely related to the banking situation, and reflecting very clearly the public confidence or lack of confidence in the financial system, is the circulation of money. Circulation has been increasing more or less steadily during the past two years—at times, during that period, very rapidly. In part the increase has been due to loss of checking facilities by depositors in closed institutions; more particularly, however, it has been attributed to hoarding which was based on fear as to the safety of the country's banks. The circulation reached top figure in July at 5.785 billions. From that point it fell steadily to approximately 5.6 billions on September 28. The amount of money in use is still materially above normal. The fact, however, that a substantial reduction was accomplished at a season when the autumn pickup in trade ordinarily leads to a gain in circulation, offers encouragement.

The gains which have been made along the banking front are not spectacular, but they have been reasonably consistent, week by week, since midsummer, and appear to be based on strengthening of the public confidence, which is the very keynote of the country's financial structure. There is a very general sentiment that, barring new developments of an unfavorable nature, the banking crisis has passed.

Railroad Traffic and Earnings

Railroad traffic and railroad earnings reached new low levels of the depression this year. Among the major railroad systems of the country, the number which succeeded during the first six months in earning their fixed charges may be counted on the fingers. Financial troubles have become acute with many of the systems; only the emergency ministrations of the Reconstruction Finance Corporation have saved a number of them from wreck or receivership.

About midsummer, however, a substantial change for the better began to develop in the business of several of the lines, a change not merely seasonal but more than seasonal in character. Total operating revenues and net operating income of the Class 1 railroads (embracing the principal systems), though far below 1931, have shown, in the aggregate, a substantial improvement since July. August net operating income of $28,368,000 for the group was the best since March, and, except for March, the best of the year. September figures were not available as this was written.

The number of revenue freight cars loaded weekly has gained with fair consistency since the early part of July. This increase was carried on through September, and early October. Not only in comparison with last year, but in comparison with the five-year average there has been steady improvement in the trend, although actual volume is still very low. The low point was reached in the week of July 9 when loadings of revenue freight cars were more than 51 per cent below the five-year average. This discrepancy was reduced by October 8 to 39.7 per cent below the average. The peak of traffic is ordinarily reached in early October; the trend during the next few weeks will be watched with special interest.

The position of the railroads at this time can not possibly be called good, despite the improvement that has occurred since July. One should not, perhaps, say even that it is encouraging. But certainly it is less discouraging than heretofore, and recent developments warrant at least a definite glimmer of hope that has been wanting these many months.

Gold

Gold accumulated in unprecedented quantities in the United States during the years that followed the war. Monetary stocks of the metal, which stood at around three and a half billion dollars at the beginning of 1920, rose generally through the decade, and on through the first half of 1931 until, in September of that year, more than five billion dollars of gold had been concentrated in American vaults. This was by far the largest holding possessed by any nation. It represented, in fact, nearly half the world's entire stock of monetary gold.

Following the monetary crisis in Europe during the summer of 1931, which culminated in the suspension of gold payments by Great Britain, attention turned to the swollen stocks on this side of the Atlantic. During the latter part of September heavy withdrawals began to be made for foreign account. During the next six weeks a veritable flood of gold poured back east across the Atlantic, chiefly to France. By the end of October the American stock was less than $4,300,000,000.

The gold run had spent its force by the first of November, however, and there was little change in the situation during the balance of the year or during the first four months of 1932. But again in May the withdrawals, chiefly by France, were resumed. The movement rapidly took on major proportions, and reached its climax in the first week of June when gold exports rose to 129 million dollars. The very apparent lack of foreign confidence in our reserve position both mystified and alarmed the public, and added materially to the fears and uncertainty which have constituted one of the most unsettling factors in the business situation. Even withdrawal of earmarked gold was looked at askance by many, though this is gold already credited to foreign account, whose movement does not affect our own reserves in any degree.

The 1932 gold run spent itself as rapidly, however, as that of 1931. It ended abruptly in the week of June 15, foreign balances having been reduced at that time to a point where only reasonable working funds remained in the country to take care of ordinary commercial requirements. The country's gold stock at that time reached low ebb with a total of approximately $3,900,000,000—the lowest since November, 1922, and a billion dollars, or 20 per cent below the 1931 high. Promptly in the following week a return flow set in. The upward trend in gold balances has continued steadily since that time, and at October 19 the gold stocks had risen to more than 4.2 billions. This is still, by a very large margin, the largest gold stock held by any nation.

Europe's raid on the dollar, therefore, if deliberate raid it were, was beaten back in June. Effective demonstration was given to our own people and to the world at large that the dollar was sound.

The Foreign Situation

The overshadowing cloud on international trade for the last few years has been the war debts—both the German reparations and the inter-allied obligations. Not only are they formidable in themselves, but the transfer problem involved in the discharge of such huge obligations has borne a dismal crop of difficulty of working out a practical adjustment of the problem, great enough under the most favorable auspices, has been immeasurably enhanced by the fact that the negotiations involved political as well as economic considerations. European jealousies, in particular French distrust of the central powers, have for years worked to prevent consideration of the reparations question on strictly economic grounds.

The incessant and alarming decline in business, however, and the industrial paralysis which kept extending its encroachments, eventually brought European statesmen to a forced realization this spring that economic rehabilitation depended largely on a definite and final disposition of reparations. It was in a new spirit of fact-facing, therefore, that the conference of powers assembled at Lausanne in June. The result of that meeting was an agreement to reduce German reparations to 3 billion reichsmarks (about $714,000,000) — as against the figure of nearly 37 billion reichsmarks (capital value) at which the Young Plan left them.

Informed opinion regards the Lausanne agreement as the most important move that has been made since the war, in the direction of political and economic co-operation in Europe. Actual ratification of the agreement by the interested powers may hinge upon an adjustment of the inter-allied debts to the United States. The psychological good effect, however, was immediate and general. It was quickly reflected in the security markets, notably in the American market for German obligations.

Aside from the Lausanne agreement, there have been other developments of a moderately favorable nature. The success of the huge British debt-conversion plan strengthened the financial position of that government to a point where there begins to be discussion of a return to the gold standard. The decision of some hope for better trade conditions in China and Japan. The compromise by which a truce is reached in the Indian strife offers encouragement with respect to that vast market. South American affairs have not greatly changed.

Various Indicators

On account of the vital part which steel plays in present day industry, the rate of activity in the country's steel mills is a particularly important clue to the actual situation and the nearby outlook in business. Operation of the steel mills at full capacity occurs of course only under conditions of very great prosperity. The use, therefore, of percentage figures based on full capacity is somewhat misleading since it expresses a relationship not with normal but with a base much above normal. Nevertheless, the steady fall in activity during the first eight months of the year to a point where, at the end of August, operations were at only about 13 per cent of capacity, was a profoundly discouraging fact. At the opening of September the downward trend halted, and a slow improvement began which, added to each following week, brought operations up to 19 per cent of normal by the second week of October. Reversal of the downward trend is undeniably a good sign. Its importance should not yet be too much emphasized, however, for the actual volume of production is still too small to have much bearing.

With the increasing use of electric power in industry, considerable index value has been attached in recent years to figures showing power production. This guide to the situation was at its most depressed level about the middle of July when the output was approximately 14 per cent below the same period of 1931. A fairly steady improvement took place from that time on, however, and by the week ending October 15 the output was but 9 per cent under the corresponding week of 1931.

Business indexes based on reports derived from many sources and which are presumed to be a reflection of the composite state of affairs show a modest gain since midsummer. Their most encouraging disclosure is that, at least, the long downward trend has been arrested. The New York Times index of business activity, compiled weekly, reached its low point about the middle of August, when activity was indicated to be 52.2 per cent of the estimated normal. Small weekly gains thereafter carried the index to over 56 per cent by October 15. The Annalist's monthly index gained from 52 in July to 59 in September. A relatively small number of industries has accounted for the improvement — notably the textile industry and others which supply consumer goods of relatively short life. Changes in the heavy industries are less significant.

The Security Market

The security market not only reflects the state of public confidence with respect to investments and to the business outlook but, indirectly, it affects to a considerable degree the state of business itself. The bond market is particularly an object of scrutiny, for continued strength in this quarter is ordinarily one of the early signs of approaching recovery, and one of the indispensable elements in such a recovery. Most investors are familiar, of course, with what happened to security prices in recent months. Bonds, following new lows in May and June, began to rise early in July. The movement seemed to gain momentum as it went along. For two months practically every day marked a new gain. By the last week in August the bond averages were substantially above the previous high for the year. In September the market became irregular again, but the level still remained at mid-October, well above the point from which the long rise had started. The scope of the movement is suggested by the New York Times average of forty bonds. This average stood at 56.22 on July 1, at 72.61 in the last week of August, and at 67.36 on October 19.

The advance in stocks, which began a little later than that in bonds, had at times the aspect of a veritable bull market. From July to

September the industrial averages doubled and the railroad averages tripled. The gains, relative to the starting point, were, for so short a period, the greatest in the history of the stock exchange. As the advance was more extreme than that of the bond market, so was the following reaction more severe, net losses cancelling a substantial part of the previous advance. The importance of the movement, from the point of view of investors, is suggested by the aggregate market value of the stocks listed on the New York Stock Exchange. This figure was 15.635 billion dollars on July 1, 26.735 billion on October 1.

Summary

These brief reviews deal with only certain of the more important influences underlying business. The evidence they offer is confused, and the portents are not clear. Obviously there has been no decisive advance along the whole business front. Nevertheless, important gains have been made in certain sectors. The fact that the most advanced positions reached have not all been held is neither surprising nor, in itself, cause for discouragement. An unbroken rise is not to be expected; temporary setbacks are a part of the pattern of recovery. The substantial gains that have been registered in the prices of numerous basic commodities, the strengthening of the banking situation, the passing of the gold panic, the improvement in railroad traffic, the more wholesome political atmosphere in Europe, the net gains in security prices, adding billions to the countable wealth of private and institutional investors — these developments, so far as they go, are solid cause for encouragement. To be sure, the heavy industries are slow to respond to that encouragement, agriculture continues in a critical state, and domestic politics contributes more than its ordinary share of uncertainty to the situation. But the summer clearly marked a change for the better. Whether we have definitely entered upon the period of permanent recovery the next few months should tell.

Position of the Utility Holding Companies

PUBLIC utility operating companies, as a whole, have made a remarkably good showing during the depression. Their earnings have, of course, been reduced, in certain cases rather sharply, and this reduction has a clear bearing on the position of parent company securities. Inasmuch as these holding company securities are very widely distributed, a general review of the situation with respect to some of the larger groups is thought to be of some interest. The data which follow show, for a number of the larger groups, the principal subsidiaries and communities served, and two tables, one setting forth the debt structure of the system, the other summarizing fixed charges and earnings. Two large systems which might properly be thought to belong in such a compilation—Niagara Hudson Power Corporation and United Gas Improvement company — are omitted because the parent companies have no funded debt and their records are, therefore, not pertinent to this presentation.

Associated Gas & Electric Co. Group

Population served, about 5,200,000

Principal subsidiaries: American Utilities, Associated Electric, Indiana Gas Utilities, Metropolitan Edison, New Jersey Power & Light, Pennsylvania Electric, Manila Electric, New York State Electric & Gas, New York Central Electric, General Gas & Electric, Broad River Power, Florida Public Service, Rochester Gas & Electric.

Principal cities served: Rochester, Binghamton, Elmira, Reading, Erie, Terre Haute, Columbia (S. C.), Manila.

Cities Service Co. Group

Population served, about 4,500,000

Principal utility subsidiaries: Arkansas Nat-

Investment Suggestions

We recommend the following issues for investment, subject to prior sale and change in price. Details about any of these issues, and additional offerings, will be furnished on request.

Municipal Bonds

	Approximate Yield
SPRINGFIELD, ILL., 4½s, due July 1, 1940-1941	3.90%
CITY OF BOSTON, MASS, 4½s, due Sept. 1, 1952	4.05%
QUINCY, ILL., SCHOOL DISTRICT NO. 172, 4½s, due July 1, 1943-48	4.10%
ST. JOSEPH, MO., 4½s, due Sept. 1, 1946-1951	4.05%
ST. PAUL, MINN., 4¼s, due May 1, 1946-1954	3.90%

Short Term Issues

	Approximate Price	Approximate Yield
CHESAPEAKE & OHIO RY., 6% Gold Notes, due Jan. 31, 1934	100	6.00%
IOWA ELECTRIC LIGHT & POWER CO., 7% Gold Notes, due February 1, 1934	100	7.00%
GENERAL MOTORS ACCEPTANCE CORP., Serial 5s, due March 1, 1933	101	2.90%
EDISON ELECTRIC ILLUM. CO. OF BOSTON, 5% Notes, due July 16, 1934	102⅞	3.70%

Corporate Obligations of Longer Term

AMERICAN TELEPHONE & TELEGRAPH CO., Debenture 5s, due 1965	102¾	4.85%
ATCHISON, TOPEKA & SANTA FE RR., Gen. Mtg. 4s, due 1995	93	4.30%
COMMONWEALTH EDISON CO., 1st Mtg. 5½s, due 1962	103½	5.25%
COMMONWEALTH SUBSIDIARY CORP., Debenture 5½s, due 1948	77½	8.00%
COMMERCIAL INVESTMENT TRUST CORP., Conv. 5½s, due 1949	95	5.97%
DAYTON POWER & LIGHT CO., 1st & Ref. Mtg. 5s, due 1941	103	4.50%
GENERAL AMERICAN TRANSPORTATION CO., Equip. Trust 4½s, due 1939	84	7.45%
INDIANA ASSOCIATED TELEPHONE CO., 1st & Ref., 6s, due 1962	77	8.00%
KANSAS POWER & LIGHT CO., 1st & Ref. Mtg. 6s, due 1947	97	6.30%
NEW YORK STATE ELECTRIC & GAS CO., 1st Mtg. 4½s, due 1960	91	5.10%
NORTH AMERICAN EDISON CO., Debenture 5s, due due 1969	82	6.25%
PENNSYLVANIA RAILROAD, General 4¼s, due 1981	76	5.70%
PEOPLES GAS LIGHT & COKE CO., 1st & Ref. Mtg. 6s, due 1957	101⅞	5.85%
PUBLIC SERVICE CO. OF COLORADO, 1st & Ref. Mtg. 6s, due 1961	90	6.80%
SOUTHERN CALIFORNIA EDISON CO., Ref. Mtg. 5s, due 1954	102	4.80%
STANDARD OIL COMPANY (New Jersey), Debenture 5s, due 1946	104	4.60%
UNION PACIFIC RR., 1st Mtg. 4s, due 1947	96½	4.30%

ural Gas, Cities Service Power & Light, East Tennessee Light & Power, Empire District Electric, Federal Light & Traction, Ohio Public Service, Public Service Co. of Colorado, Toledo Light & Power, Toledo Edison, Cities Service Gas, Kansas City Gas.

Principal cities served: Kansas City, Toledo, Denver, Spokane, Little Rock, Hot Springs, Wichita, St. Joseph, Joplin, Topeka, Shreveport, Lorain, Sandusky.

COLUMBIA GAS & ELECTRIC CORP. GROUP

Population served, about 5,000,000

Principal subsidiaries: Cincinnati Gas & Electric, Dayton Power & Light, Columbia Oil & Gasoline, Manufacturers Light & Heat, Ohio Fuel Gas.

Principal cities served: Pittsburgh, Cincinnati, Columbus, Dayton, Binghamton, Covington, Hamilton, Xenia, Sandusky, Charleston (W. Va.), Huntington.

COMMONWEALTH & SOUTHERN CORP. GROUP

Population served, about 9,000,000

Principal subsidiaries: Alabama Power Central Illinois Light, Consumers Power, Georgia Power, Illinois Power, Mississippi Power, Ohio Edison, Pennsylvania Power, Southern Indiana Gas & Electric, Tennessee Electric Power, Iowa Southern Utilities.

Principal cities served: Atlanta, Augusta, Columbus, Macon, Rome, Ga., Birmingham, Montgomery, Mobile, Ala.; Charleston, S. C.; Nashville, Chattannoga, Tenn.; Pensacola, Fla., Peoria, Springfield, Ill.; Akron, Springfield, Youngstown, O.; Grand Rapids, Battle Creek, Kalamazoo, Jackson, Mich.

ELECTRIC BOND & SHARE COMPANIES

1. AMERICAN & FOREIGN POWER CO. GROUP.

Population served, about 11,000,000

Principal cities served: Cordoba, Tucuman, Santa Fe, Argentina; Pernambuco, Bahia, Porto Alegre, Brazil; Santiago, Valparaiso, Chile; Havana, Santiago, Cuba; Caracas, Venezuela, Panama, Colon, Panama; Shanghai, Chapei, China.

2. AMERICAN GAS & ELECTRIC CO. GROUP

Population served, about 2,900,000

Principal subsidiaries: Appalachian Electric Power, Atlantic City Electric, Indiana General Service, Ohio Power, Scranton Electric.

Principal cities served: Atlantic City, Scranton, Canton, Lima, South Bend, Muncie, Elkhart, Wheeling, Huntington, Charleston, (W. Va.).

3. AMERICAN POWER & LIGHT CO. GROUP.

Population served, about 3,300,000

Principal subsidiaries: Florida Power & Light, Kansas Gas & Electric, Minnesota Power & Light, Montana Power, Nebraska Power, Northwestern Electric, Pacific Power & Light, Portland Gas & Coke, Texas Electric Service, Texas Power & Light, Washington Water Power, Central Arizona Light & Power.

Principal cities served: Omaha, Duluth, Spokane, Portland, (Ore.), Vancouver, (Wash.), Fort Worth, Miami, Palm Beach, Butte, Helena, Superior, Yakima, Walla Walla.

4. ELECTRIC POWER & LIGHT CORP. GROUP.

Population served, about 3,500,000

Principal subsidiaries: Arkansas Power & Light, Dallas Power & Light, Dallas Railway & Terminal, Louisiana Power & Light, Mississippi Power & Light, New Orleans Public Service, Idaho Power, United Gas, Utah Power & Light.

Principal cities served: New Orleans, Dallas, San Antonio, Houston, Salt Lake City, Boise, Little Rock, Mobile, Pensacola.

5. NATIONAL POWER & LIGHT CO. GROUP.

Population served, about 3,400,000

UTILITY SYSTEM DEBT STRUCTURES

The table appearing on page 9 of the Investment Bulletin deals with funded debt of the systems listed. Other notes, loans or bills payable (chiefly bank loans) were shown as follows on the December 31, 1931 consolidated statements - this date being taken so that figures will be in line with those of the printed table.

Associated Gas & Electric	$ 9,343,928
Cities Service	73,287,888
Columbia Gas & Electric	44,176,185
Commonwealth & Southern	---
ELECTRIC BOND & SHARE CO'S.	
American & Foreign Power	81,010,956*
American Gas & Electric	---
American Power & Light	97,331
Electric Power & Light	47,206,116**
National Power & Light	232,671
North American	11,028,410
Pacific Gas & Electric	---
Standard Gas & Electric	6,584,542
Utilities Power & Light	21,265,401

* Of which $30,000,000 due to Electric Bond & Share Co. was funded this year by 7% Two-Year Notes maturing April 15, 1934

** Of which $25,925,000 was due to Electric Bond & Share Co.

Errata. The subsidiary debt of North American company should read 289,826 instead of 89,826; the correct sum is included in the total in the last two columns. (2) Iowa Southern Utilities should not appear in the list of Commonwealth & Southern subsidiaries on page 8.

4. Electric Power & Light	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
5. National Power & Light	31,179	20,374	1.53	1.66	1.71
North American	49,700	25,427	1.95	2.02	1.92
Pacific Gas & Electric	40,159	16,981	2.36	2.39	2.52
Standard Gas & Electric	63,393	48,120	1.32	1.42	1.28
Utilities Power & Light	19,474	14,828	1.31	1.49	1.51

*After depreciation.
†Including minority interest.
‡Minority interest for 1931 estimated. Depreciation in 1929 estimated.

Principal cities served: Birmingham, Memphis, Harrisburg, Wilkes-Barre, Bethlehem, Lancaster, Raleigh, Asheville.

NORTH AMERICAN COMPANY GROUP
Population served, about 4,800,000

Principal subsidiaries: North American Edison, Cleveland Electric Illuminating, Milwaukee Electric Railway & Light, Wisconsin Electric Power, Union Electric Light & Power, East St. Louis & Suburban, Mississippi River Power, Wisconsin Gas & Electric, Wisconsin-Michigan Power, Washington Railway & Light, Potomac Electric Power, West Kentucky Coal.

Principal cities served: St. Louis, Cleveland, Milwaukee, Washington, D. C., East St. Louis, Racine, Kenosha, Keokuk.

PACIFIC GAS & ELECTRIC CO. GROUP
Population served, about 2,700,000

Principal subsidiaries: Great Western Power, California Electric Generating, San Joaquin Light & Power, Pacific Public Service.

Principal cities served: San Francisco, Oakland, Berkeley, Sacramento, Fresno, Stockton, Bakersfield.

STANDARD GAS & ELECTRIC CO. GROUP
Population served, about 6,000,000

Principal subsidiaries: California-Oregon Power, Deep Rock Oil, Louisville Gas & Electric, Market Street Railway, Mountain States Power, Northern States Power, Oklahoma Gas & Electric, Philadelphia Co., Duquesne Light, Equitable Gas, Pittsburgh Railways, Pittsburgh & West Virginia Gas, San Diego Consolidated Gas, Wisconsin Public Service.

Principal cities served: Pittsburgh, Louisville, San Francisco, San Diego, Minneapolis, St. Paul, Oklahoma City, Muskogee, El Reno, Pueblo, Sioux Falls, Oshkosh, Green Bay, Fargo, Grand Forks.

UTILITIES POWER & LIGHT CORP. GROUP
American population served, about 2,000,000;
English, about 6,400,000

Principal subsidiaries: Indianapolis Power & Light, Interstate Power, Laclede Gas Light, Central States Utilities, Newport Electric, Greater London & Counties Trust.

Principal cities served: St. Louis, Indianapolis, Newport, Dubuque, Derby, (Conn.); in England: Salisbury, Reading, Oxford, Cambridge, Andover, Hereford.

The Problem of War Debts

THE constant recurrence of discussion about the allied war debts to the United States and their effect on the present condition of the world's affairs, as well as on the prospects for recovery, makes it of some interest at this time to review the character and amount of these obligations.

The United States government began lending money to its war associates on April 25, 1917, less than a month after it entered the conflict. On that date an advance of 200 million dollars was made to Great Britain. The loans continued in frequent and heavy amounts throughout the hostilities, and thereafter in dwindling sums (not only to our co-belligerents but to new nations carved out of Europe by the peace treaty) until the final transaction on May 29, 1922, when an advance of $717,-000 was made to the new republic of Czechoslovakia.

At the time the funding settlements were concluded with the various powers that had become indebted to us, the principal amount owing was $9,811,094,000. (See the accompanying table for details, by nations.) Our actual advances, either by way of cash or supplies, had been somewhat in excess of this figure, but repayments in a total amount of 281 millions had been made prior to the funding. There was, too, at the time of funding, accumulated interest of more than 1.7 billions, so that the principal amount as embodied in the

The Allied War Debts to the United States

(In Thousands of Dollars)

	Original Principal	Accrued Int. Funded at Time of Settlement	Total Principal Debt as Funded	Total Amt. To Be Paid Including Interest	Payments Made to Nov. 15, 1931
BELGIUM	$ 377,030	$ 40,750	$ 417,780	$ 727,830	$ 31,590
CZECHOSLOVAKIA	91,880	23,120	115,000	312,811	18,000
ESTONIA	12,066	1,764	13,830	33,331	1,246
FINLAND	8,282	718	9,000	21,695	2,645
FRANCE	3,340,576	684,484	4,025,000	6,847,674	200,000
GREAT BRITAIN	4,074,818	525,182	4,600,000	11,105,965	1,351,720
HUNGARY	1,686	253	1,939	4,693	468
ITALY	1,647,869	394,131	2,042,000	2,407,677	39,621
LATVIA	5,132	643	5,775	13,959	503
LITHUANIA	4,982	1,048	6,030	14,532	1,127
POLAND	159,667	18,893	178,560	435,688	20,598
RUMANIA	36,128	8,462	44,590	122,506	2,700
YUGOSLAVIA	51,038	11,812	62,850	95,178	1,225
TOTAL	$9,811,094	$1,711,260	$11,522,354	$22,143,540	$1,671,446

funding settlements, was fixed at $11,522,354-000. Payments were spread over a 62 year period and provided for an aggregate (principal and interest) of more than 22 billion dollars to be paid into the United States treasury.

Payments began in 1926. Up to the period when the Hoover moratorium brought them to a halt a total of $1,671,446,000 had been remitted by the various debtors. Of this, $441,467,000 applied on principal, leaving the unpaid balance at $11,080,887,000.

Settlement of the debts was reached through separate negotiations with each of the various debtor nations. The American government was represented in the discussions by a special bi-partisan World War Foreign Debt Commission created by act of congress and headed by Secretary Mellon. The negotiations covered a period of approximately four years.

It will be noted on examination of the accompanying table that the terms of settlement with the debtors were not uniform. Throughout the negotiations the American commission took into account not only the actual amount of the obligations for which each debtor had become liable, but also its capacity to pay. It will be seen, for example, that Great Britain's schedule calls for aggregate interest payments of nearly one and one-half times the principal amount of its debt. The interest payments set for France, on the other hand, total only about 70 per cent of the principal; Italy's total scheduled interest payments amount to only about 20 per cent of the principal. Moreover, in view of Italy's difficult economic and financial position, its payments for the first few years were fixed at only $5,000,000 annually, as compared for instance, to around $160,000-000 annually by Great Britain, whose debt was only a little more than twice the Italian debt.

Reference is often made to the fact that the United States continued, long after the armistice, to advance funds to its allies, and the statement is sometimes heard that these post-war advances were as great as those which were made during the progress of actual hostilities. The table of Post-Armistice Debts which is shown herewith will be of interest in this connection. It discloses that the aggregate advances for this period comprise about a third of the total which the United States government loaned to its associates. A substantial part of these post-war loans were not in cash but in the form of credits against which relief supplies or surplus war supplies were delivered.

Post Armistice Debts

	Cash Loans	War Supplies and Relief Supplies	Total
	(In Thousands of Dollars)		
Belgium	$ 177,434	$ 29,873	$ 207,307
Czechoslovakia	61,974	29,906	91,880
Estonia		13,999	13,999
Finland		8,282	8,282
France	1,027,478	407,341	1,434,829
Great Britain	581,000		581,000
Hungary		1,686	1,686
Italy	617,034		617,034
Latvia		5,132	5,132
Lithuania		4,982	4,982
Poland		159,667	159,667
Rumania	25,000	12,923	37,923
Yugoslavia	16,175	24,978	41,153
Total	$2,506,095	$698,769	$3,204,864

Such credits constituted, in fact, the whole of the debt incurred by Estonia, Finland, Hungary, Latvia, Lithuania and Poland, and a substantial portion of the post-war debt of France Czechoslovakia, Rumania and Yugoslavia.

While it is not the purpose to enter here into a discussion of the collectibility of these debts, it may be pointed out, as a matter of interest, that their principal amount is approximately equal to the world's total reserves of monetary gold—well over twice the total reserves of the thirteen nations involved. Not even France, with its huge store of gold, has an amount equal to the principal of its debt. Most of the nations now possess scanty stocks of gold, and any substantial withdrawal of metal might well cause a collapse of their fiscal systems. But assuming that it were possible to drain out their last ounce of gold (and this is not only impossible but, from an economic standpoint, unthinkable), provision still would have been made for less than half their debts. The facts plainly suggest the perplexing nature of the problem which collection involves.

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