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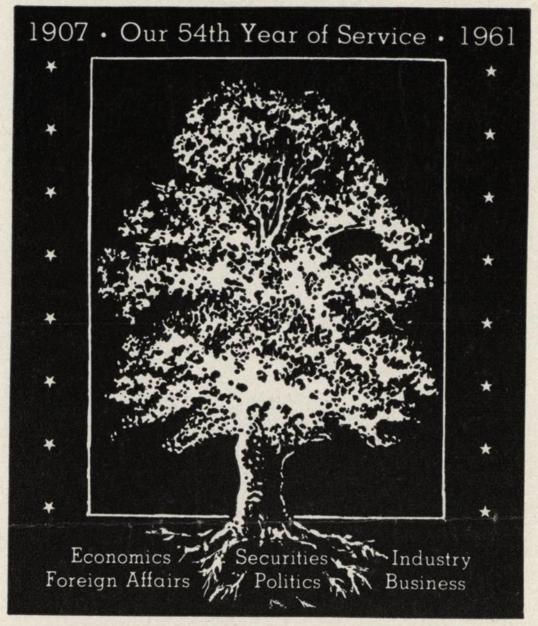


The Trend of Events

THE NEW DEAL AND THE NEW FRONTIER . . . In one of the most interesting phenomena of this age, the fledglings of the new generation, who usually want to try their own wings and relegate the ideas and experience of the "old man" to the junk heap, are not striking out along fresh paths. Instead, they are reverting to the philosophies that are a combination of the socialism of Karl Marx and the radical financial-economic theories of Lord Keynes, that were instituted by the New Deal "to spend ourselves out of the depression" in the '30's following World War I.

At the time these ideas were adopted it is well to remember, our country was in the throes of an economic convulsion, and the huge debt we piled up testifies to its cost. Yet the new Administration is today enforcing the same system in an economy operating at a peak level and in a totally different financial-economic setting at home, and at a time of severe tension and pressures from abroad, that would greatly multiply the sizeable cost of New Deal experimentation and innovation.

With their new-won power the Administration is setting forces in motion that they ultimately can not control, the astronomical cost of which will cause them to resort to continually increasing deficit spending which inevitably will compound their difficulties. Already they are seeking refuge in various types of control and we can expect that in the end they will be calling on the other "old man" they lean on—the long suffering taxpayer—to foot the bill for their mistakes.

So aroused is the thinking element in this country today that various rightist movements, both moderate and extreme, have sprung up in our colleges—among the Armed Forces—and the citizenry, which have quickly gained adherents in every facet of society across the country. And understandably so.

The business world, in frustration, has been aroused to vigorous protest by the reactivation of Franklin D. Roosevelt's experimental program at this time. They well know that the New Deal, which came to power at the bottom of the 1932 depression, gave this country merely a temporary lift, and that by 1937 we were again slipping into another serious depression when the industrial stimulation of World War II saved the New Deal.

The New Frontier, on the other hand, is taking hold at a very high level in our economy, and at a time of serious crisis in world affairs is instituting many of the same measures which did not work for the New Deal and which are even more out of gear with our economic position in the world today.

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and businessmen. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

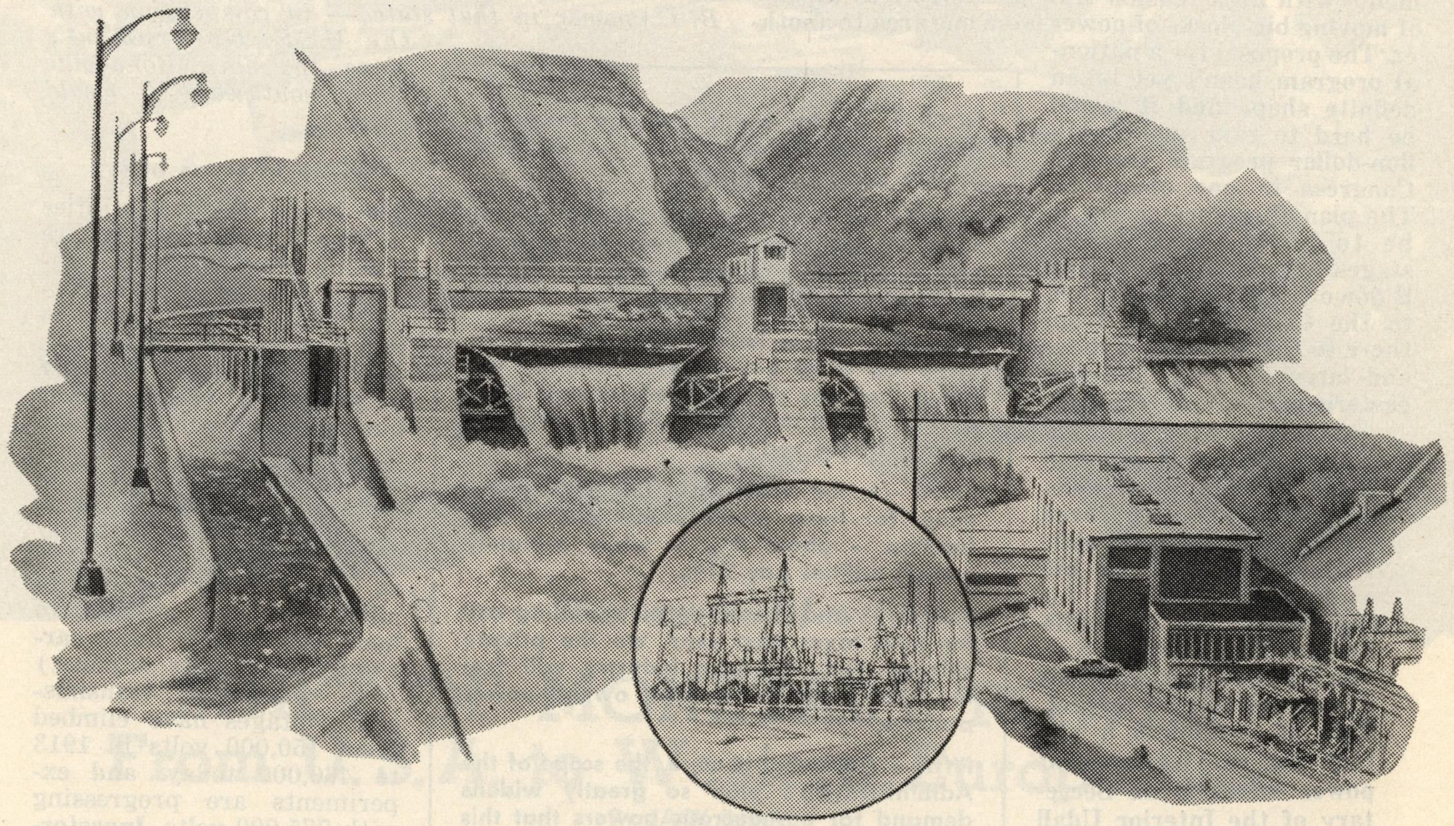
That conservatism will be forced upon us from the outside too, is clearly evidenced in our feature story in this issue, the "Shift of Monetary Power from U.S.A. to Western Europe Bloc", which we recommend as essential reading to our subscribers. The rebirth of last year's gold scare would be a severe shock in our current unsettled state, but that is exactly what appears to be building up.

In the meantime, we are actually heading toward the socialist state prophesied by Nikita Khrushchev. As a step in that direction, we call attention to the huge billion dollar power program in the works (editorially covered in this issue), which is to be set up in competition with investor-owned utilities that must be paid for by new taxes or deficit spending.

It will be well for the New Team to remember that the captains they have replaced are those who tried to put our house in order after the wreckage caused by the architects of the New Deal, that left us with an overwhelming debt that is a back-breaking burden today and a mortgage on the living standards of future generations.

With this thought in mind there should be a greater readiness to use the logic of reason rather than the expedience and innovation practiced by the New Deal. And we earnestly urge them to do so now—today.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: 1907 — *"Our 54th Year of Service"* — 1961



PUBLIC POWER ADVANCING WITH LONG STRIDES IN UNITED STATES AND CANADA

By Owen Ely

PUBLIC power flourished during the Roosevelt and Truman regimes, but lagged during Eisenhower's second term when the policy of "no new starts" came into effect. Public power in its various forms now approximates one-quarter of our national power system — hydro plants built by Federal agencies, state ownership in Nebraska, county PUD's in the Pacific Northwest, municipal ownership across the country, and Federally financed REA's (the latest development being the super-co-ops which plan to build big generating plants).

Favored by Administration

The Kennedy Administration has appointed a number of public power advocates to important posts in Washington, and new and grandiose plans are under development. One of these is the proposal to make the plutonium-production plant at Hanford, Washington, also a big atomic power plant. The power would be merged with that from Bonneville, the nearby Federal hydro plant. Fortunately, the House of Representatives vetoed the proposal after the Senate had voted for it; but the House seems

to have been influenced more by the powerful coal lobby than by anti-public power sentiment.

In any event, Bonneville already has more interruptible power than it can sell in its area and as a result is losing money. Hence the public power planners, headed by Secretary Udall, propose to build a 500,000 volt transmission line from Bonneville to Los Angeles. While they would like to sell power to Pacific Gas & Electric in northern California, they would doubtless get a warmer welcome in Los Angeles, where the city operates the local power plants and could obtain Federal power on a "preference" basis.

This would be the first stage of a nationwide Federal power grid connecting major public power developments with high tension transmission wires capable of moving big blocks of power from one area to another. The proposal for a national program hasn't yet taken definite shape and it would be hard to ram such a billion-dollar program through Congress in one operation. The plan therefore seems to be to build the grid by stages, gradually extending it down the West Coast, then to the Colorado area, from there to the Missouri Valley, and later to TVA and the eastern part of the country.

Congress hasn't appropriated more than nominal funds for the Bonneville-line. Congress approved the $3.9 billion Public Works Appropriation bill which provides funds for the construction of an all-Federal Transmission System for the Colorado River Power Storage project. This is considered a victory for the Government power interests as Secretary of the Interior Udall is no longer under any compulsion to negotiate with the private companies.

The Trend Toward Public Ownership in Canada

Public power has made big strides recently in Canada. Premier Bennett of British Columbia expropriated British Columbia Electric, a $700 million utility combining electric, gas and transit operations. Mr. Bennett promised stockholders of the holding company, B. C. Power, that they would get $38 a share in the liquidation of the holding company, but thus far only about $23.50 has been made available and payment of the remaining $14.50 seems quite indefinite.

How It Was Done

It now develops that the Province of British Columbia didn't have to put up a nickel of public money to swing the deal. B. C. Electric itself conveniently sold enough bonds to provide the cash, which it transferred to the holding company to buy back its own common stock; B. C. Power put the money into short-term securities until such time as they could decide whether to give the money to stockholders or "go into new ventures." B. C. Power's stockholders are now left holding the bag and the price of the stock dropped to 31½ (recently 32¾) after selling as high as 39½ earlier this year and 55½ several years ago.

Mr. Bennett's coup apparently reflected his personal ambitions, and a quarrel with Ottawa over taxes, and over the development of big hydro projects on the Peace River (Ottawa favored the Columbia River).

Emissaries of Bennett are said to have been in California recently negotiating for the sale of future B. C. power in that state — in competition with the U. S. Government's plans to move Bonneville power southward, it would seem.

Utility Investors In U.S.

► Investor-owned utilities in the United States are making every effort to counteract the threat of a Federal grid. Most utilities in the country are already interconnected with their neighbors to obtain power during emergencies. We now have 364,000 miles of transmission line of 22,000 volts and over, compared with 155,000 in 1930; and by 1970 the figure is expected to reach nearly 500,000 miles. (Russia is said to have only 62,000 miles carrying 35,000 volts or more.) Also, maximum transmission voltages have climbed from 150,000 volts in 1913 to 460,000 today, and experiments are progressing with 775,000 volts. **Investor-owned utilities have announced that they plan to spend over $7 billion in transmission facilities between 1960 and 1970—more than the amount now invested.**

► In reply, Secretary Udall has called for an overall plan to interconnect and pool the facilities of *both* public and private utilities, and has expressed hopes that the ten-year program announced by the Edison Electric Institute would open the way for "cooperative planning". He said: *"It is timely that both public and private sectors of the power field are looking beyond mere interconnection of lines and are considering the mutual advantages of extra-high voltage transmissions . . . The logical next step is a cooperative industry-governmental effort to plan for the full utilization of the present and future facilities of private industry, consumer-owned utilities and the Federal Government."* **Obviously, Mr. Udall wants to join the game — but can the investor-owned utilities trust him not to run away with the ball?** END

NOTE—I wonder if the average taxpayer realizes what a drain public ownership of utilities is on his pocket?

First of all **— he must pay for the billions spent for the erection of these power projects in any part of the country — whether he lives in that area or not.**

Second **— where losses in operation occur, these too come out of taxes whether the citizen has any direct benefit or not. (Bonneville, one of the biggest Federal projects, is now in the red.)**

Third **— is the tremendous loss of tax revenue, for these public plants pay a tiny fraction — about 3% — while privately owned utilities pay 21%.**

Fourth **— And should deficit spending call for new taxes next year, we the private citizens and American industry will feel the bite — not Government owned power projects.**

Fifth **— And what is more, the scope of the Administration's plan so greatly widens demand for bureaucratic powers that this can lead to a change in our form of government.**

— EDITOR

The former imperial palace in Vienna is scene of annual meeting of financial experts of the non-Communist world.

The Money Managers' Meeting in Vienna

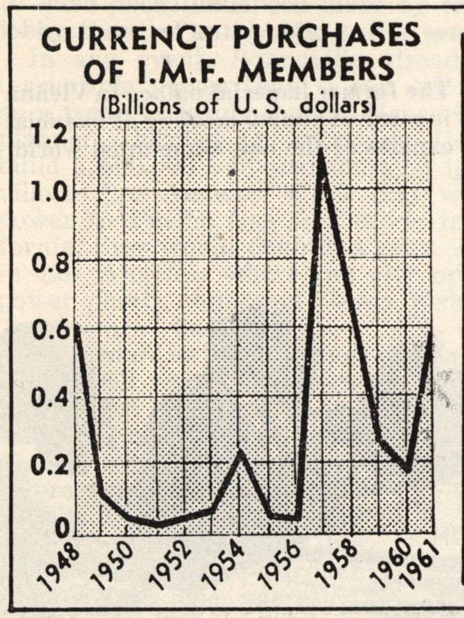
SHIFT OF MONETARY POWER
From U.S.A. to Western Europe Bloc

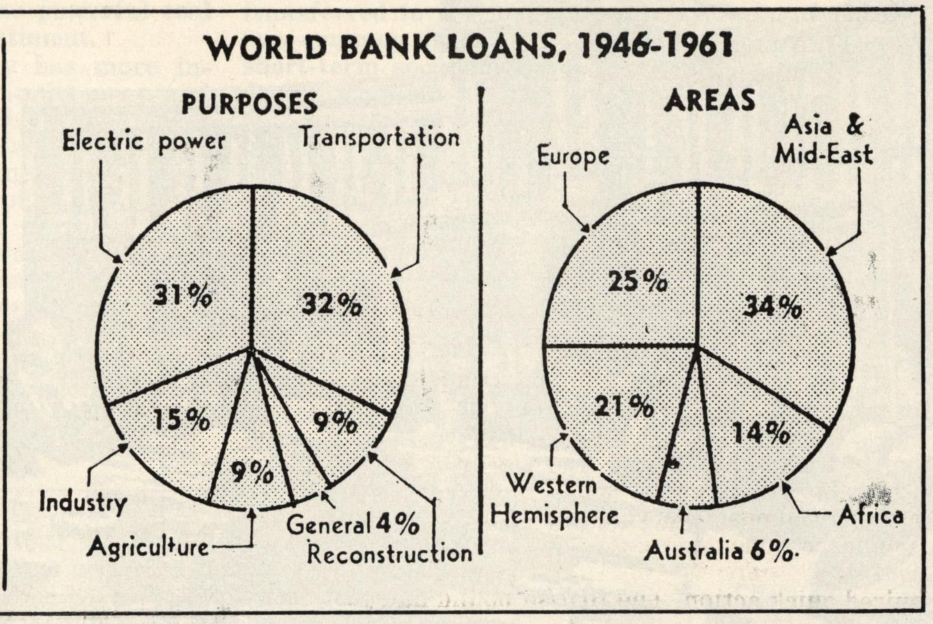
By JACK BAME

- **IMF Conference marked by clash of opposing viewpoints on dangers in inadequate or excessive international liquidity**
- **Views expressed by the 4 monetary leaders . . . Sir Roy Harrod of Britain — Professor Robert Triffin of U.S.A. — Jacques Rueff of France — and Dr. M. W. Holtrop of Holland . . . with concise descriptions of their individual plans . . . and proposals by heads of Central Banks**
- **Where France takes the lead in expounding the handling of loans — stressing exercising of collective judgment by lending countries in defining merit and so-called emergencies**
- **Where $2 billion loan to Britain depleted lending resources of the Fund — necessity for new arrangements under possible new dollar problems — the Jacobsson-Dillon position on the United States.**
- **Underdeveloped countries' serious financial, administrative and trade problems — danger of falling commodity prices**
- **What accomplishments by the IMF in Vienna.**

THE annual conference of the International Monetary Fund, International Bank for Reconstruction and Development and several other international financial agencies, has just come to a close. The meeting was held this year in the Hofburg Palace in Vienna, a symbol of the glories of the past, which posed silent but nevertheless relentless questions to the delegates of 73 countries of the non-Soviet world . . . ***Is the present structure of international finance built upon a worn and out-dated mechanism? . . . If not, what revisions are necesary to make the existing set-up work better and more effectively? . . . Or, is the fault not with the system itself, but with the actions of some individual countries (mainly the U.S. and U.K.) themselves, and their unwillingness to take doses of the same medicine they have prescribed for others in the past?***

These are but a few of the problems confronting the world's financial and monetary leaders convened in Vienna. The *symptoms* of malfunctioning were





accepted without much contradiction—such as last October's run-away gold price in London . . . the run on the dollar and the U.S. loss of gold . . . the speculation in German marks . . . and the upsetting of exchange markets after Bonn's revaluation in March . . . the subsequent run on sterling . . . the constant large-scale and disquieting movements of short term capital from one money center to another . . . and the recent mild rise of the gold price in London.

But Few Areas of Agreement

But the *diagnoses* of causes of the troubles and *potential remedies* for them showed remarkable differences of opinion. The monetary field, unfortunately, has again shown itself not to be an exception to the characteristic lack of Western unity on important global problems. Views ranged from that of a dangerous *lack* of international liquidity, as seen by Sir Roy Harrod and Prof. Robert Triffin, to that concerned with the dangers of *excessive* international liquidity, according to the opinion of such men as Jacques Rueff, the architect of the last French monetary reform, and Dr. M. W. Holtrop, the head of the Netherlands Central Bank.

► **When it was evident that such widely respected authorities as these disagreed so violently, it became somewhat of a foregone conclusion (just before the start of the meeting) that opposing viewpoints would be aired, that no radical changes would be instituted at the meeting and, at best, some sort of compromise would be accepted on new global borrowing plans.**

In this respect, the results of the assembly gave no one cause for surprise. But what was said and done, the alignment of opposing viewpoints as to the methods for meeting now short term difficulties—the significance of such divergent opinions—and finally, the sins of omission, all make for interesting analyses.

► **The undeniable fact was that with the recent \$2 billion credit facility made available to the U.K., the Fund's resources were inadequate to meet any major crisis of the dollar or sterling which might arise.**

The Scope of Considerations

Long before this year's gathering, many new plans for changes in the structure of the Monetary Fund and the world payments system were devised and discussed. These programs (a number of which have been analyzed in previous issues of The Magazine of Wall Street by this writer) included:

► **The Triffin Plan, for effectively creating a world central bank and internationalizing currency reserves.**

► **The Bernstein Plan, which would supplement present IMF resources by about \$8 billion and create an automatic Reserve Settlement Account System under which a deficit country could temporarily borrow, through the IMF mechanism, a surplus country's funds in the form of gold-guaranteed Fund notes.**

► **The Stamp Plan, which would authorize \$3 billion of new IMF certificates, to be used by underdeveloped nations, the latter then counting the certificates as part of their reserves.**

► **The proposal by Professor Zolotas (Governor of the Central Bank of Greece) involving:**

(1) The widespread use of all major convertible currencies by reserve countries, to be used in the foreign exchange market.

(2) The provision of a gold guarantee for convertible currency balances held by foreign central banks.

(3) The creation of differential interest rates for domestically-held balances and those of foreign holders.

► The Jacques Rueff analysis of our present gold-exchange monetary system, which sees the seeds of collapse in the pyramiding of credit balances arising from the utilization of reserve currencies by other countries and an undue expansion of credit.

Other proposals include:

(1) A plan by Jean Monnet, a leading European integrationist, who envisions a super-European central bank.

(2) The system of Professor Heilperin of Geneva, involving a semi-automatic gold standard, the establishment of international accounts (and ultimately reserves) in gold, the elimination of all exchange restrictions, and a rise in the price of gold.

Effect of the Shift of Monetary Power from the U.S.A. to Western Europe

With this plethora of new programs on hand and the many differences of opinion regarding what had to be done—and how—the background for the meeting was anything but conducive to any definite new program. In the first place, it should be noted that, although almost everyone did agree that something should be done, there was a lack of urgency in the fact that there was no *immediate* crisis that required quick action. The British pound had just been bailed out and the exchange markets were relatively quiet.

► **Net result—no urgency, no effective action. Second, there has been a marked shift on monetary power from the U.S. to Western Europe as a bloc, and it was now the turn of some of these countries—especially France—to start imposing "conditions" upon others, which they formerly had to accept in order to receive financial help.**

The Point of View of French Leadership

It quickly became evident that there would be a running battle between two sharply defined points of view. The severity of the 1958 year-end French austerity program is still much in the minds of French financial leaders, especially the present Minister of Finance, Wilfrid Baumgartner. He was a leading spokesman at the meeting for the group espousing the view that future drawings of surplus-country hard currencies by others—namely the U.S. and Britain—with balance of payments troubles, should be subject to the approval of the lending or surplus country itself, on a case-to-case basis, or to the joint approval of a group of West European central banks.

This was practically in direct opposition to the Anglo-Saxon plans for the setting-up of an automatic stand-by borrowing mechanism, *within* and not *outside* the general jurisdiction of the Monetary Fund. M. Baumgartner made this clear both in a speech before the Fund and in a special press conference, where he pulled no punches, demanding that potential borrowers be subject to strict disciplines as to domestic fiscal and monetary policies. **He opposed the possibility of using the resources of his country and others to prolong the existence of what could be a "fundamentally weak" payments position of the U.S. and/or the U.K.**

Dr. M. W. Holtrop, President of the Netherlands Central Bank, aligned himself, in general, with the French position. His speech, acclaimed as a brilliant analysis of the existing global exchange network, even by those who disagree with his point of view, pointed the finger at excess liquidity as one of the basic causes of world monetary troubles, as opposed to the more often pronounced lack of liquidity. Holtrop, too, stressed the angle of "collective judgment" to be exercised on the part of lending countries as to whether or not a so-called emergency situation actually merited new borrowing. *This school of thought would effectively diminish the power of the management of the International Monetary Fund.*

Dr. Kamitz of Austria threw his weight behind this philosophy, which raised serious doubts as to the acceptability of any eventual revision in the Monetary Fund structure by posing questions as to limitations of loans, as to who has the final say on under what conditions a credit should be granted, the time limit on specific loans, and as to the right of a country presently in surplus position (such as France) to withdraw its credit facilities if and when its own balance of payments situation deteriorated.

► **On the latter question, the Governor of the Bank of Italy, Guido Carli, made it clear that any agreement would have to recognize the right of a lending country to set aside funds for this purpose, if necessary.**

► Serving as a sort of a *buffer* between the opposing attitudes was **Dr. Karl Blessing**, head of the **West German Bundesbank.** While he too stressed the need for potential borrowers to toe the line and make required domestic economic and monetary adjustments, Blessing apparently supported a system of definite commitments to the Fund on the part of lending countries, which, however, he believed should be "consulted." Borrowings would be available for the key currencies—the dollar and the pound sterling —but also for other purposes, if needed.

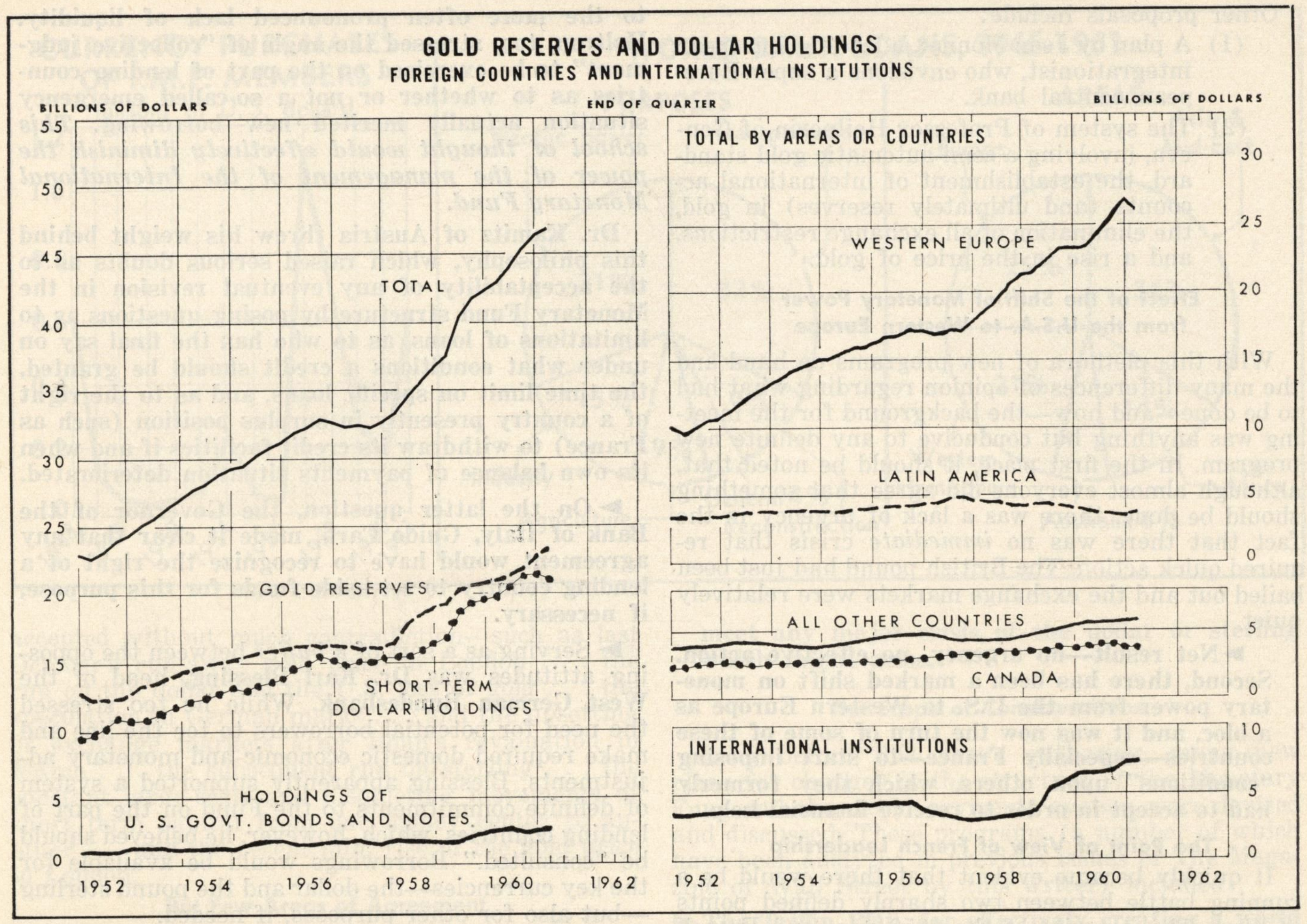
► **The British** understandably remained in the background throughout the week's discussions, as they only recently were the recipients of a \$1.5 billion IMF credit, plus an additional \$500 million in stand-by form. **These huge credits—in addition to another \$1 billion disbursed to various nations in the past year—depleted the lending resources of the Fund to the point where some new arrangement of expansion of funds was made necessary, especially in the eventuality of a possible new round of troubles for the dollar.**

This possibility was really the number one subject in the minds of those at the meeting. This was readily apparent in many of the discussions.

► **Dr. Per Jacobsson,** the Fund's energetic Managing Director, led the drive to gain acceptance for some form of workable resource-increasing arrangement, under the auspices and control of the Fund itself. He had not favored, in the past, any radical change in the IMF structure, such as **Prof. Triffin** has offered, but had leaned towards the general outlines of Bernstein's proposals, working within the existing structure of the Fund.

► Aligned with him in his activities was the U.S., represented by Douglas Dillon, Secretary of the Treasury, who worked very hard to put across the American point of view. Dr. Jacobsson, aware of the strong opposition of the French and others, introduced the so-called Jacobsson Plan.

► **This would involve: 1) individual countries ob-**



GOLD RESERVES AND DOLLAR HOLDINGS
FOREIGN COUNTRIES AND INTERNATIONAL INSTITUTIONS

taining the power to lend to the Fund, if they do not already possess it, from their own national legislatures; and 2) the institution of a *firm*, new borrowing arrangement, involving the facility of available stand-by credits. These were originally scaled to be based on the provision of about $2-$3 billion by Western European countries, $2 billion from the U.S. and $1 billion from the U.K. But the vehement opposition to the plan led to a scaling down of the total from $5-$6 billion to $4 billion of added resources. Any new commitments of such standby funds were proposed to take place under Article 7 of the Fund, which allows for such borrowing of member currencies. But the conditions of the extra lending of such funds initially is, as France has made clear, up to the member country itself.

For the most part, the Jacobsson-Dillon activities were oriented towards compromise and accommodation, in order to get any workable plan discussed in concrete form, and with a chance of actually being instituted in the near future. But no definite arrangement was evident as the meeting ended. *It was somewhat ironic that press reports of virtual agreement were issued as the meeting began, finally being converted to reports of skepticism and wide areas of disagreement at the conclusion of the sessions.*

Mr. Garner's Outspoken Criticism of the Incompetence and Lack of Honesty of the New "Poor" Lands

As usual, the financial and trade problems of the underdeveloped countries came to the forefront during the sessions. A noteworthy speech was made by **Robert Garner**, the retiring President of the International Finance Corporation, an affiliate of the World Bank. ***He warned that many of the poorer countries perpetuated their plight by refusing to change their entrenched, but often archaic and feudalistic, social structures.***

Mr. Garner outspokenly criticized inefficient governmental direction and administration in such areas, the lack of adequate tax systems, and the reliance on foreign aid as a substitute for effectively organizing a country's resources and removing domestic developmental bottlenecks. He emphasized private initiative, the private profit motive, and the fact that governmental aid cannot serve as a method of obtaining political advantage for the fund-supplying country. Garner said that large injections of capital into developing nations can do more harm than good if there is a lack of experience, competence, honesty and organization.

► The President of the International Bank of Reconstruction and Development (World Bank), **Eugene Black**, criticized by some in the past for applying overly strict banking principles to loans, asked for an increase in longer-term, low-interest loans to underdeveloped countries. He noted the dangers of debt burdens in many such areas rising to excessive levels, a fact which itself might hinder further developmental

Shift Of Monetary Power From U.S. To Western Europe Bloc

breakthroughs.

► **The International Development Association (IDA), the soft-loan affiliate of the World Bank, was the object of special pleas by less developed areas for more of this type aid. This often involves 50-year loans, free from interest charges.**

The World Bank itself considered the possibility of expansion of its activities as an arbitrator in international disputes, similar to the capacity in which it acted successfully in the India-Pakistan Indus River controversy, and in the field of insuring private investments overseas against noncommercial risks.

Trade and Prices Trouble The Have-Nots

New requests were made for the achievement of some degree of price stability in basic world commodity markets, so as to cut the foreign exchange drain and reduced export earnings of those less developed countries which depend upon one or two commodities for the major part of their income. Recent commodity price declines represented another major source of concern for the underdeveloped, as well as their shrinking share of commercial markets overseas, as compared to industrialized countries.

No really new departures from the present system of international trade and payments were instituted or were even considered during this year's Vienna convention.

► The *Jacobsson* proposal, itself representing some expansion of Fund operations within its present framework, was subjected to vehement criticism by France and the Netherlands. The objections to borrowings under the Fund's say-so were an obvious slap in the face to the Fund's authority and the U.S. in particular, showing some lack of confidence in American monetary management and its ability to practice fiscal discipline.

►It seems as if the French in particular now seem to question the wisdom of the Fund in approving and/or disapproving drawings by members and want to have such borrowings approved *outside* the Fund first, thus effectively transferring some of the international authority back to national hands. *Despite the understandable position taken by the French in their relatively new position of currency stability, this represents a backward step in global financial cooperation and is not a very heartening development.*

► **None of the basic problems of international finance or trade was solved in Vienna.** However, the meeting was valuable in that it provided a sounding board for the serious and thought-provoking points of view on the global **exchange mechanism. *In contrast to a number of the annual conclaves of the past, the speeches really meant something this time and formed the basis for future realistic discussions.***

► **It has become evident that the U.K., and especially the U.S., although they still function as the "key" or leading reserve currencies of the globe, no longer are the only dominant influences on Fund policy. The Common Market group now has assumed a considerable degree of monetary power, and along with it, more of a voice in the Fund's operations and policies.**

► *The problems of the underdeveloped nations are still without any practical economic solution, unless political and social reforms are instituted.*

► The thrashing out of views at Vienna will undoubtedly lead to some form of supplementary borrowing arrangement, which should be agreed upon before year-end after further deliberations in Washington.

The year 1961 has already been marked by positive new steps in international monetary cooperation on an informal "ad hoc" basis and by the successful utilization of the existing IMF mechanism, especially in the case of Britain. These steps included;

The "Basle Arrangement" of European central banks, who refrained from converting their sterling balances;

The increased used of Exchange Stabilization Funds and official interventions in the forward exchange markets to help control such rates (including operations by the U.S. Treasury in U.S. Treasury bills);

The introduction of differential rates of interest, short term U.S. Treasury paper for foreign held balances, as opposed to those held domestically (introduced for a recent large British investment in U.S. Treasury bills);

And an informal working arrangement between the U.S. and the Bank of England concerning the control of the "free" gold price in London.

The above are all examples of new ideas. *But their makeshift nature and often hurried introduction classify them as only temporary arrangements.*

In Sum

► The IMF meeting, in this observer's opinion, certainly did not result in a victory for internationally-minded money men in any sense. When even watered-down and rather moderate reform proposals are subject to haggling, when any far-reaching reforms are not even considered, the world's financial leaders as a group are not demonstrating that they are as yet struck by any sense of urgency concerning the global payments system. The official French attitude was very much lacking in Jean Monnet-type, internationally-oriented thinking.

A current of uneasiness and fears about future speculation and runs on the dollar and/or **sterling, remains in financial circles abroad. The London gold price level of about $35.19 is testimony to this, at least as far as the dollar is concerned.**

The very introduction of a comprehensive new monetary plan to meet the needs of the times would have served as a deterrent to future damaging actions against the key currencies. This is not to imply that responsible fiscal discipline should not be adhered to by deficit countries (the U.S. and the U.K.). At the same time, it is not very encouraging to see that we are still a long way from a truly integrated free world monetary system—not to mention the equally necessary, but lacking, unity in other economic and political matters.

Thus, within the imposed framework of the intensified Cold War, the IMF meeting in Vienna was a rather disillusioning experience. No plans were made, except temporary ones. Certainly, despite lack of agreement on the necessity for action, no new plan was set up to meet today's problems. Must we, at this crisis in world affairs, resort to improvising at the last moment? END