**Hints on Investment Hedging**

BY MELCHIOR PALYI

Dr. Palyi, holding indications are overwhelming that global inflation has not run its course, and even most carefully managed boom is bound to come to an end, points out hedging policies of past inflations are futile. Sees possession of "substance" logical way of hedging, if conditions are satisfactory, but because gold is unavailable, contends common stocks in a limited hedging haven, along with real estate and one's own business.

The extraordinary uncertainties of our times raise the question, more forcefully than ever before, of hedging against them from the investor's point of view. They create more confusion, too, than ever before. At the risk of being platitudinous, a reminder of some "first principles" should be apropos.

Dr. Melchior Palyi

we are discussing, disregarding short-run hedging maneuvers on commodity and currency futures and generally speaking in current transactions are active, but are of the long-term character. It is needless to think in terms of hedging and to expect to set the hedge next morning at a profit. But that is exactly what many people do, or think of doing, especially in connection with common stocks. No one can tell how long the Long Run is. But he who has protection against the abnormal risks inherent in this kind of world, must distinguish that needs from the desire for quick capital gains. "Patience" is not just a virtue

(Continued on page 60)

**EDITORIAL**

**As We See It**

Confusion Still More Confounded

During the past national campaign one of the most frequently heard arguments of those promoting the candidacy of President Truman was to the effect that a "boom" was under way which would, if not controlled or checked, inevitably sooner or later end in a catastrophic "bust." Particular remedies proposed for dealing with the situation varied from doctor to doctor, but there was of course general agreement that the first step was to reelect President Truman. Whether this line of argument had anything in particular to do with it or not, President Truman now finds himself in the White House, to stay for another four years.

He has four years ahead of him, but he has his utterances and those of his supporters during the past four months or so immediately in front of his eyes. First of all, he can hardly forget the undertaking that he will keep business going strongly and smoothly, giving employment and high real wages. He has in effect given assurance that for the length of his service at all events

"This fact should not be lost sight of in any discussion of new investments, or in any consideration of 'stocks on the way up.'" (Continued on page 62)

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What Stocks to Own in 1949

By EDMUND W. TABELL
Partner, Walston, Hoffman & Goodwin Member, New York Stock Exchange

After describing methods, approaches and limitations in stock market analysis, Mr. Tabell traces probable effects of recent developments on stock price trends. Looks for corporate earnings to decline from 10% to 33% in 1949, but holds market has already discounted this. Predicts low point in stocks in first quarter of 1949, but looks for no serious business slump. Points out importance of switching and individual stocks, and places risks as best investments of all appreciation, followed by building and machinery industries.

Before going into our main topic, which is the outlook for the market and the outlook for individual stocks, perhaps it might be advisable to examine the background of the technical approach. There are are two approaches to the market: one, the fundamental approach and the other, the technical approach. They are both extremely valuable and used in conjunction with each other. Better results can be obtained either one by itself. The fundamental approach is the study of the causes of why security prices fluctuate. Its main interest is in the long-term interests of the investor. It recognizes many fundamental things such as income, dividend, price-earnings ratios, commodity prices, purchasing power and the number of international factors such as the foreign situation. It also recognizes the many factors relating to the management and operation of individual companies as revealed in the earnings statements and balance sheets. The fundamental approach is the field of the economist and the security analyst.

We are not so concerned with cause. We are more concerned with results that these causes may have on security values. The technical approach is based on the principle that the market is its own best barometer and that the supply and demand of stocks will govern the market’s future moves. The technical approach requires the study of a vast amount of technical data in order to evaluate the relative strength of the buying and selling pressures which are in the fluctuating willingness to buy or willingness to sell of a number of investors and speculators not only in this country but worldwide. Briefly, it is a study of supply and demand and the effect of the various factors which change the supply and demand of stocks. It is a study of the price trends of stocks. It requires extensive research and trained and competent technicians.

As I said before, both approaches are extremely useful. Both have their strong points and both have their weak points. Possibly the weakest point in the fundamental approach is the fact that it does not take into consideration the psychology of the investor. The technical approach will be earning $3 a share and will sell at $100 a share; and quite often, as is true today, $3 a share and be selling at $10 a share. Now, that was true because of the psychology of the investor or speculators and price speculation. Often, quite change in conditions are not timed to fundamentals. In many instances the market will anticipate a fundamental change and go to the other extreme; that is, the market will refuse to recognize a fundamental change until long after it has occurred. The most practical use of the technical approach, which is a study of the effect of fundamental factors plus the technical factors, will often result in obtaining the maximum appreciation of various fundamental studies suggested.

Use of Technical Approach

One reason for the increasing use of the technical approach is that it is more often directly related to fundamental approach. Without the compilation of broad economic and political landscape study of individual industries it is difficult to predict the direction of important changes in price trends. However, its relative simplicity, perhaps its greatest danger. If you believe that by the use of a few technical gadgets you are on the road to a life free of worry, you are making a mistake.

To do really a good job on a technical approach requires a great deal of work and a great deal of training to really properly evaluate different technical factors. Possibly the best way I can illustrate is to take to my office of Walston, Hoffman & Goodwin. We have roughly charts and graphs of almost every stock listed on the New York Stock Exchange, the more important speculative and the more active issues on the New York Stock Exchange. In addition, we also have charts on the various market averages such as the Dow-Jones, the New York “Herald Tribune” and the “Standard & Poor’s.” Also, we have data on the more active commodity futures.

This data is in the form of point and figure charts of which I will tell you personally. It will enable me to analyze the various charts of half price, one point and three point. We have plotted on the scale of charts of this type showing fluctuations over the past 10 years or more. In addition, we have available over 500 monthly range charts. We have various moving average studies together with changes and analysis of various so-called breadth of the market, both price and volume studies, volume, number of advances and declines, number and short interest, issues traded, odd lot purchases and sales. We also used charts showing the buying and selling pressures.

The physical labor of keeping this data up to date requires a full-time department. A study and interpretation of the graphs requires a lot more additional time and studies and study based upon one single indicator. Each graph relates against many others before buying or selling. All of this checking and double checking, I am very happy if we are able to accomplish our consideration that above average. I do not claim to guide you in doing technical work. But if you are going to be buying and selling stocks, you should go against this approach. If you believe that by the use of a few technical gadgets you are on the road to a life free of worry, you are making a mistake.

Prospects for Stock Price

For so much that. Our main topic is the stock market and what we have that will do the most for you in the year 1949.

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Our 16-BROADWAY both approaches are extremely useful. Both have their strong points and both have their weak points. Possibly the weakest point in the fundamental approach is the fact that it does not take into consideration the psychology of the investor. The technical approach will be earning $3 a share and will sell at $100

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Prospects for Stock Price

For so much that. Our main topic is the stock market and what we have that will do the most for you in the year 1949.
New Capital and Equities Market

By THEODORE PRINCE, L. L. M.

Commenting on business capital expenditures since end of war, Mr. Prince points out much of the funds were applied to war purposes, and therefore shortages of capital goods and labor cannot be made up for some time. Holds continued plant expansion and reduction of costs can mean difference between good and poor definition, and that importance of more equity financing is indicated. Stresses cheapness of common stocks in terms of commodities, wages, book values, and other factors and the absence of high optimistic note in general business.

There can be no question that the election did give a shock to business generally. But business, big state, small state governments and of the country, applying the major part of our capital goods is too big to be stopped or interfered with by an election which maintained the present government and a Congress and a majority of which (in number) voted against the continuance of the Taft-Hartley Act. The Key ston e Cust omd f n u d d

The study of the 50-year record of the Dow-Jones Industrial "Average" over the five year period 1947-1951 appears that the Republicans and Democrats have been of little use about the same number of months and during this period the stock market has not deviated substantially under both administrations. Without going into the details of the compilation it is sufficient to say that the four periods had an extraordinary consistent pattern of cyclical rise of bear and bull markets so that it will appear that neither the Democrats nor the Republicans can claim any particular credit for the bear markets or be particularly charged with the impact of bear markets.

During the last 19 years (since 1939) expenditures on plant and equipment have been abnormal low and in some years, not large enough to offset depreciation, on the authority of Slichter, eminent economist and professor of Harvard University. The tremendous shortage occurred by a great degree nationalized the flow of steel to expansion and improvement of machinery and reduction of labor cost. Since 1929 our labor force has increased by 12 million and the population by 20 million.

Professor Slichter states "there is now even less capital per worker in American industry than 20 years ago. In addition, many plants are far too small to meet economically the current demand for their product."

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Ever since the Election many economists and financial writers have been stating that the continuation of the pegs on government bonds is now a certainty. They point to the numerous pronouncements of the Treasury and the Federal Reserve authorities as well as to the implicit "ministrations'' of other financial bodies. But their main argument seems to be that with a debt of $250 billion, panic and economic disaster would result if the pegs were withdrawn. I am sure I agree. I am sure that the pegs were with

Dangers of Government Bond Pegging: Unpegging Exaggerated

By JULIAN G. BUCKLEY

On the basis of an analysis of U. S. Government obligations, together with their distribution among various groups, Mr. Buckley contends, if present pegs were removed, Federal Reserve problem of supporting market for bonds would be solved, and no market panic or ill-advised selling would ensue.

Ever since the Election many economists and financial writers have been stating that the continuation of the pegs on government bonds is now a certainty. They point to the numerous pronouncements of the Treasury and the Federal Reserve authorities as well as to the implicit "ministrations'' of other financial bodies. But their main argument seems to be that with a debt of $250 billion, panic and economic disaster would result if the pegs were withdrawn. I am sure I agree. I am sure that the pegs were withdrawn.

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THE COMMERCIAL & FINANCIAL CHRONICLE
Thursday, December 23, 1948

The New Bilateral System

By PAUL EINZIG

Dr. Einzig, in noting that despite its disapp"tion in international agreements, the practice of bilateralizing is gaining, sees Britain requiring imports of essential goods instead of luxuries, thus necessitating a bilateral trade and, presumably, regulating imports.

LONDON, England.—In theory the bilateral trade Mr. Einzig has in mind is a revitalization of the old reciprocal trade agreements, where both countries agree to mutually restrict or equalize their imports. What Mr. Einzig has in mind is not a free trade agreement to eliminate tariffs but a new form of bilateral trade where one country agrees to offer a limited volume of its exports to another country in exchange for a limited volume of the other country's imports. Mr. Einzig is aware of the purely theoretical nature of such an arrangement but suggests that it is an alternative to the more drastic forms of trade restrictions that have plagued international trade in the past.

Dr. Einzig, in noting that despite its disapp-
Observations

By A. WILFRED MAY

NOT EVEN THE TORIES SNUB SANTA
—CHRISTMAS STYLE NOTE—

No—it was not Dewey’s nostrils that caused our disaster; but rather his quill pen that added a J SIDE SHOW.

One important element in the growing adoption of socialist measures that are economically indefensible is being quite generally overlooked. It is the delegation of costs of soundness of moral issues to complete irrelevance, and their complete submergence in the voter’s psychology of self-interest.

Such correlation of the citizen’s “judgment” with the “public interest” and the “gold diggers’ behavior patterns is not at all confined to any particular segment of the population. This has been going on for years. Business interests ever since 1922. Many men of finance and politics, who believe that the time was unilaterally opposed to the New Deal platform, enthusiastically supported. Mr. Roosevelt’s candidacy in 1928 in the desperate hope that they might thus become bailed out of their difficulties. These same (self-conscious) interests similarly forgot their moral scruples over the security of contract when the abandoning of the gold standard promised them the manna of a few low prices level. But they were unable to rediscover the burning moral issue after their own “emergency” was over.

In somewhat similar vein, now, the financial community’s judgment over the real issues as disclosed by the recent election campaign is again subjectively warped by the relative inexorability of behavior of industrial activity and the stock market. Market and business surveys come by hand protest great satisfaction over the “good account of itself under different,” not that the stock market has been giving of itself, in its “countering of misgivings about the Administration’s tax and economic objectives.” Prima facie, a whopping market to a 250-Dow Jones Average would lead many to infer the takenlessness of all political and social fears.

Whose Ox Gets Gored by an Excess Profit Tax?

Currently again on the Washington scene the dominance of self-interest in the businessman’s legislative attitudes is being even more emotionally sensitized. This is seen in the manner of the steel industry’s expressed approval of the restoration of the wartime excess profit tax—in the face of the fact that the present condition of the stock industry must importantly contribute to the death of corporate capitalism and its eventual gradual capitulationary assumption by the state. This is not, because they do not agree with this broad conclusion as we have stated it, but because of the controlling realization that there will not be among the very small minority—estimated at 7,000 companies—who because of taxes of size or success would be directly affected by the tax.

Additionally, the immediate self-interest of any of the smaller and less successful enterprises will be affirmatively defeated by excess profit tax enactment through its displacement of the alternative course of a hike in the flat rate. As with so many other measures, are winners and the losers. From the point of view of the President in charge of its Munici-

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Points of Selling

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man’s Corner,” a regular feature in every Thursday’s issue of the

Chronicle.”

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The Job Before 81st Congress

BY HON. ALBEN W. BARKLEY

*In the United States* Dec. 16, 1948.

Reduced Business Profits Means Government Revenue Loss: Odum

President of Atlas Corporation affirms government has too great a stake in corporate profits to let them recede. Estimates 15% profit reduction would bring $2 billion loss in Federal revenue, and urges taxation relief of stockholders.

Speaking as treasurer at the Eighth Annual dinner symposium given on Dec. 15 at Town Hall in New York, Mr. Floyd B. Odum, President of Atlas Corporation, affirmed if proposals of Republicans to reduce corporate profits tax rate profiteers did infiltrate into the Federal budget, the Federal Treasury would suffer a serious loss of income. Mr. Odum: for example, "If one could show a way to make the group of farmers, by actually reducing rather than increasing their taxes, be able to show a net trick you must admit. I think I can do this and without the aid of the magic unfolding from itself...

Common Stocks Not Inflated

"The buying and selling of stocks is not inflationary," Odum says, "the only thing that has not respond to the price of such securities proportionately to the extreme degree they have been, known as inflation. Common stock is a proper investment since 1929 while everything else has been rising, and although stocks are selling so now today, because the large dividends that companies afford to issue more stock to get the money with which to meet requirements. In consequence, corporations in order to keep dividends and using the same for plant expansions. To the extent that earnings won't suffice, these corporations are to a large extent bearing the burden of carrying the costs of sales at such a discount!..."

The job before 81st Congress

In making public statements of pressures, the increase in prices to be brought about by the drop in personal incomes is not in any compre- hensive manner in any part of the country. In the public and no alternatives are attempted or could be considered prior to the 17-18 day, when the bill will be submitted. The job before the 81st Congress, I would like to say, is to make a member of the Senate Republ..."
Centralizing Stock Exchange Organizations

By FRANCIS ADAMS TRUSLOW* President, New York Stock Exchange

Curb exchange executive exits close relationships of New York Stock Exchange and Association of Stock Exchange Firms. Stresses mutual interests and strong bonds between these three great central organizations in securities marketing.

*Kilowatt Crisis

By FRANK McLAUGHLIN* President, Puget Sound Power & Light Company

Commenting on domination of electric supply in Pacific Northwest by Federal power, utility executives have been facing the "kilot watt crisis." It is said that present Federal power system, which is 75% coal fired, produces electric power more cheaply than can be done with alternative power sources on the Columbia and tributary rivers.

Plight of Pacific Power Companies
The private power companies in the Pacific area, the great public power systems...
A Revision of the SEC Laws Needed

Editor, The Commercial and Financial Chronicle

The United States has been existing under a cloud of political supervision for over 15 years. Its whole structure has been affected, first by a deliberate suspicion and lack of confidence on the part of the public, then by a drastic system of regulation which the Congress has permissively approved and placed over the activities of enterprise in this country. Originally it was intended to attempt to write financial control of corporate enterprise into the hereditary codes and to attempt to concentrate that control in the national government as the embodiment of the political policy in office. In view of the existence of the great mass of reports, arbitrary regulations and exercises of authority by men not thoroughly qualified for the management of business, the time is at hand to bring out in the open the results and ask whether other and more advanced suggestions be suggested as a means to have a complete overhaul of the present procedure in connection with the supervision of securities.

In enumerating the facts that are presented in its present costly and wasteful condition, I will not attempt to concentrate on the more important and more difficult problems of administering the law or to express my opinion on the subject of mind. It is sincerely hoped that no one will take arbitrary exception to any statements made in this communication, but will rather lend support to such changes as are found advisable to rectify conditions and establish a more necessary business to a sound, happy and honest profit-seeking existence.

What Is Wall Street?

The definition of which is generally called Wall Street, is any area to an area of four or five square blocks in the business district of New York City. It actually extends over every prominent city in the United States. In New York City it consists of investment banking firms, commodity firms, and agents spread over the entire country. Large numbers of its most active members are located in Chicago, Portland, Maine, San Francisco, Cleveland, Buffalo, Toronto, London, Paris, and other foreign countries.

When a person enters a department store to buy furniture the store is not compelled to tell him how much it paid for the furniture, whether or not the deal is a good one, and whether any of the officers of the store control the company's charter. In the commercial and industrial companies where the business was not manufactured in the United States and it was exceedingly difficult to operate a department store if the management was not very cooperative on the department store work itself not selling the product. The reason was that business depends quite largely on margin of profit, quick turnover of the stock, and the ability to make the market to sell goods at a loss to attract crowds of customers. The business simply could not be run at all if permitted to operate in the same manner as the department store. The first place it had to be obtained from the department store in the first place was done by department stores. Most people seem quite pleased with their purchases and few who do their buying from reputable concerns consider that they have been imposed upon or deceived by the creations of a government bureau to protect them.

The above example also applies among others to the automobile business. In this country the insurance, clothing, fur, meat and dairy business, to the extent of which they are not subject to the sale of securities. In respect to the securities business with the exception of stock exchanges, every concern has been and is absolutely necessary for the government. The sale of securities and the underwriting and issue of new securities. Such regulation, however, has not kept up with the demand. The purchasing of securities on the various stock exchanges during the past year and this year amounted to $400,024,000 collected in 1947. The SEC budget for the current fiscal year is $15,280,000 and registration fees on securities issued, the most recent estimate, has amounted to $1,000,000. Therefore taxpayers will be called on to put up about $5,200,000 this year for securities regulation.

SEC Responsibilities

In the course of its procedure which certainly seems to show a lack of public supervi¬sion. Everybody knows that an issuer could not get the release from the SEC until it has taken its own good time to ex¬amine the facts and raise any objections it pleases and has the power to decide for itself that a secu¬rity will be rated to highly-rated corpo¬rations that have been listed on the rec¬ords. However, the issuer is forced to print in a prominent place in a fair and substantial manner or in the following: These securities have not been approved or disapproved by the Securities Exchange Com¬mission, nor has the Commission passed upon the accuracy or ade¬quacy of any representation to the contrary. An issuer is now a criminal offense.

Evidently no other government is guilty of the mistake on this matter except that there is no law to prevent such a practice. The above clause is forced on the bankers in order to prevent suits which are obviously unfair. There is a loss in a new security issue. The SEC, according to the principles, is required to make an investigation of the bank which can sell the issuer, banker, officer or director of the issuer on the ground that it would over it seem that an effort is being made in the public that they have not run their investment own govern¬ment in any manner, or they have not been able to do with that loss.

Also familiar with the in¬

business can furnish numerous examples of new se¬curities for some time. These securities are not verry sharply since being released since the above statement, but they are not made in the same color as where stocks have sold down sub¬stantially on the prices. Some bonds have also lost at least

Airlines—Analysis of outlook with comments on 15 stocks—Eastman, Dillon & Co., 19 Broad Street, New York, N. Y.

Also available are analyses of the Mutual Savings Bank, Burlington Mills Corp., Chesapeake & Ohio Rail¬way, Dorchester & Northern Rail¬way, Mobile & Ohio Railroad, Maytag, Robertsons, and Zenith Radio Corporation. A bulletin on current developments in the Railroad industry.

Financial Survey—Discussion of outlook with data on several interesting situations—Pete F. Mc¬Dermott & Co., 44 Wall Street, New York, N. Y.

Is Television Here to Stay?—Study—Amott, Baker & Co., 150 Broadway, New York, N. Y.

Paper Manufacturer—Data on interesting 1st mortgage industrial bonds—Consumers Main¬Fig. 1 Business—Special Board of Trade Exchange Place, New York, N. Y.

Television—Circular—Tele¬vision Shares Management Co., 255 South La Salle Street, Chi¬cago, Ill.

Television Industry—Review—Sutro Bros. & Co., 120 Broadway, New York, N. Y.

United States Government Securities—Special Board of Trade Exchange Place, New York, N. Y.

Western Canada Oil Industry—Data—Charles King & Co., 61 Broadway, New York, N. Y.

Aetna Standard Engineering—Special Board of Trade Exchange Place, New York, N. Y.

American Airlines, Inc.—Memo¬randum—Buckley Securities Co., 165 Broadway, New York, N. Y.

Bulbo Gold Dredging—Anal¬ysis—Goodyear & Co., 115 Broadway, New York, N. Y.

Also available are analyses of Bannock, Maine, Ohio Oil Co., a bulletin of Public Utility Common Stock Suggestions, and bulletins on Consolidated Mining & Smelting, Gulf States Utilities, United Gas, Baltimore & Ohio Power and Philip¬lips Petroleum, Seco-Vacuum.


Continental Gas Corpora¬tion—Southwest Gas Producing Co.—Review and reappraisal—John V. West & Co., 25 Broad Street, New York, N. Y.

Continental Casualty Co.—Bul¬litt—Laird, Bassett & McEldown, 120 Broadway, New York, N. Y.

Eire—Study—Chemical Bank & Trust Co., 165 Broadway, New York, N. Y.

Hanford Works — Analysis—Carl N. Lock & Co., 61 Broadway, New York, N. Y.

Harriman & Co.—Analysis—Warren & Co., 61 Broadway, New York, N. Y.

Houston Oil Field Material Co.—Analysis—Dallas Rohe & Son, Kirby Building, Dallas 1, Tex.

Interstate Bakers Corp.—Card memorandum—Floyd A. Allen & get 103 Second Avenue and West, Los Angeles 14, Calif.

Interstate Bakers Corp.—Cir¬culation—H. M. Byelove & Co., 120 South La Salle Street, Chicago, III.


Marlinton Manufacturing Machine Co.—Memorandum—Kier, Cohn & Shumaker Inc., Circle Tower, Indianapolis, Indiana. Also available is a memorandum on Black, Sivalls & Bryson and a list of securities for suggestions for Indiana investors.

Midland Steel Products Co.—Analysis—Bennett, Upham & Co., 14 Wall Street, New York, N. Y.

Also available is a circular on National Malleable & Steel Castings Co.

Minneapolis Moline Power Im¬plementation Co.—Analysis—Bache & Co., 5 Wall Street, New York, N. Y.

Northern States Power Com¬pany, Minn.—Special write-up—Farley, 100 W. Monroe Street, Chicago, III.

Pacific Interstate Express Co.—Circular—Stone & Younger, Ross Building, San Fran¬cisco, Calif.

Public Publisher—Memorandum—Buckley Securities Co., 61 Broadway, New York, N. Y.

Schenley Industries, Inc.—Analysis—Alfred, Brown, 120 Broadway, New York, N. Y.

Southwest Airways Co.—Cir¬cular—Buckley Securities Co., 120 South Spring Street, Los Angeles 13, Calif.

Straits Exchange—Recommen¬dations—Herbert & Stowe, Ltd., 101 Broadway, New York, N. Y.

Rutte—Analysis—J. R. Rutte & Co., 120 Broadway, New York, N. Y.

Time, Incorporated—Analysis—William A. Fuller & Co., 209 South La Salle Street, Chicago 4, Ill.

United Kingdom—Analysis—Lippincott & Co., 209 South La Salle Street, Chicago 4, Ill.

Utah Power & Light—Write for data attention of R. H. Burton Edward L. Burton & Co., 100 West Main Street, Salt Lake City 1, Utah.

Winters & Crampson Corp.—Analysis—C. E. Underberg & Co., 61 Broadway, New York, N. Y.

Also available is an analysis of Miles Shoes, Inc.
Television Boom Is On!
By JEROME J. GUNTER

Pointing out billions of dollars are being injected into economic bloodstream of America by television, Mr. Gunter says it fast becoming the greatest of all advertising mediums and has been given great lift by television.主席说，它正在成为最大的广告媒介，并且得到了由电视带来的巨大推动。

The Television Industry is taking on the outward appearance of a gravy train. To the list of old established manufacturers of radio sets that possess the scientific, manufacturing, merchandising and over-all "know how" are being added new organizations at a rate that brings to mind the expansion meteor of the radio industry.

Progressive newspapers, radio stations and motion picture producers are naturally realizing that television is the most easily accomplished acceptance of television's future, and sees opportunities for profitable investment in selected television stocks.

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Indonesia’s Recovery

By HERMAN J. FRIEDRICHER
Head of the Economics Section, Southeast Asia Territories

Mr. Friedericher declares Indonesia’s economy has great recuperative powers; its agricultural and mineral raw materials’ export potential is great; and with reasonable political stability, balance of payments can be achieved. States Communists are no longer menace, but other Republican groups continue unnecessarily to block settlement.

Most questions about Indonesia’s economic future have such state profit motives behind them that when U.S. importers ask the outlook for exports of Indies tin, rubber or copra, or when U.S. owners of ships wonder whether their vessels can safely operate under the U.S. Ind. admin. government, the reply is always the same: it is the political situation.

In a nutshell, the situation is this: Indonesia’s economic history is marked by recurrent internal and exogenous perturbations — all of which have seriously undermined its economic potential and retarded development. The political instability that has been a feature of Indonesia’s political life for a number of years has been a significant restraint on its economy. In the mid-1920’s, Indonesia’s industrialization program virtually came to a standstill when the Dutch imposed a trade embargo against the East Indies, and much of the economic growth of the period from 1920-35 was offset by this action. Import substitution policies and the strong expansion of domestic capital goods industries which characterized Indonesia’s growth in the 1920’s were also disrupted, and the effects of these policies in the 1930’s were largely offset by the effects of the Great Depression.

After World War II, the political situation in Indonesia was uncertain. The Dutch administration was not sure how to handle the Indonesian territories. The Dutch were not sure whether to maintain their colonial rule or to seek some sort of political solution. The Indonesian people were not sure what form of government they wanted to have. The Indonesian economy was in a state of shock. The Dutch had to provide a large amount of aid to Indonesia in order to keep the economy running. This aid was provided in the form of grants and loans.

In the mid-1940’s, the Dutch began to show signs of giving up their colonial rule in Indonesia. They were not sure whether to give up control or to maintain it. The Indonesian people were not sure whether to accept Dutch rule or to seek some sort of political solution. The Indonesian economy was in a state of shock. The Dutch had to provide a large amount of aid to Indonesia in order to keep the economy running. This aid was provided in the form of grants and loans.

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Merrill Lynch Will Admit Three Partners

Merrill Lynch, Pierce, Fenner & Beane, 70 Pine Street, New York City, members of the New York Stock Exchange, announced yesterday partition, which will be admitted to the firm on Jan. 1. They are Francis C. Hunter, manager of the firm's Washington office, 815 15th Street, N.W.; Edwin O. Cortwright, manager of the Dallas office, First National Building, and Jack Wiggins, Jr., manager in Houston, Texas, office, Gulf Building.

Mr. Hunter started his brokerage career in his home town of Savannah, Ga., in 1922. He joined with John F. Clark & Co. in 1929, as assistant manager of the Savannah office and transferred to N. A. Pierce & Co. when that firm absorbed John F. Clark & Co. Before becoming Washington manager in 1947, Mr. Hunter was manager of the Oklahoma City office of Merrill Lynch.

Mr. Cortwright, a native of Anniston, Ark., left the Dallas office in the 1920s to enter the brokerage business. He joined Fenner & Beane in 1959 as manager of the Dallas office. Earl H. Hulsey, a life-long resident of Dallas, will be a limited partner on Jan. 1, and will be replaced by Mr. Cortwright as resident partner.

Mr. Wiggins joined E. A. Pierce & Co. as a customer's man in 1929 and was promoted to manager of the Houston office in 1932, coming over to Merrill Lynch in 1949 when the present firm was organized.

In addition to the three new partners and the change in status of Mr. Hulsey, Edward C. Benders of Philadelphia will resign as a general and become a limited partner and George B. Hyslop will resign.

N. Matthew Nilsen J. A. Hogue Partner

N. Matthew Nilsen will become a partner in J. A. Hogue & Co., Salt Lake City, members of the New York Stock Exchange, Jan. 1. Mr. Nilsen has been a partner of the Company since 1956.

V.P. of Jack M. Bass Co. NASHVILLE, TENN. H. F. Smith has been appointed a Vice-President of Jack M. Bass Co., Inc., 311 Fourth Avenue, North.
Sees Pegged Bonds Counteracting Higher Reserve Requirements

Dean Collins and Dr. Nadler, in bulletin of Institute of International Finance analyzing bond-pricing policy, maintain, however, monetary authorities by bond-pegging system, will not be discouraging their duties in best possible way. See no likelihood of abandonment of government bond support.

In the current bulletin of the Institute of International Finance, Mr. Collins and Dr. Nadler, chairman and vice-chairman respectively, of the Committee of Twenty, warned that monetary authorities by bond-pegging system, will not be discouraging their duties in best possible way. See no likelihood of abandonment of government bond support.

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Labor-Market Responsibility

By DAVID McCORD Wright

Professor of Economics, University of Virginia

Viewing economic situation as postponing a continued inflationary trend despite possible short-run setbacks, Senator Robert A. Taft recently made the potent charge that employers may be guilty of "anti-capitalist" feeling, behavior.

According to the program I am to "outline a picture of the future, covering such questions as workers and employers policies, the role of government, character of labor-management relations, cooperation of management and labor to increase productivity, and the public as a factor in union management relations." This is a large task to accomplish in 40 minutes, or indeed, for 40 years. However, one can easily give a tentative, superficial feeling of many elements both from the periphery of the public, that all the unpleasant things which ever occur are somehow attributed to labor. If we only had socialism or vari¬
ced medicine, we might still be in the need for unpleasant adjustment in our economic system. This is the most important at the present time than any specific labor issues. A great deal, I suggest, would remain. If labor and the public would realize that the economic situation which we are in is a part of the systemic friction which we have to live with in the modern system. Accordingly I shall con¬
centrate on broader issues of this sort. To be sure, I feel that if we repeat a good deal that has been said elsewhere, but it is the only shelter to read the superficial elements of a situation which remains fundamentally, the fundament¬
als do not.

One cannot, however, escape from certain facts. There has been, ever since V-J day, much talk of an imminent depression. For reasons to be touched on later, I do not rule out this possibility. But I am convinced that such a depression, if one will be very deep, very long last it very long, will destroy the possibility that a depression, however mild, may develop into the strong anti-capitalist feeling and such (concious or unconscious) as would automatically artificially prolonged even to the depression. The question is, what is this tendency and none of this has happened. The best I see is that the error of policy, seems to me very favorable to the problem of our generation, I believe, will be far different from unemployment and unem¬
ployment stagnation. Instead of Lord Keynes’s vision of an “economic way of living”—due to un¬
employment—I believe our long-range problem is going to be of the kind that is going to last years or will be a cause of recur¬
pent pressure toward labor em¬
ployment (if one may use such a word) and its evils by reducing demand.

That is to say that barring the temporary checks which labor, and indeed any dynamic and liberal system, the real situation will be unwavering and, in this case, will be upward. I do not base this prediction merely on the observation that everybody, probably, can be repaired; but on the following facts: (1) the likelihood of con¬
servative in consumption habits; (2) rapid production of capital goods; (3) general demand for government-provided welfare services; (4) steady increase in the deal of capital; (3) a general determina¬
tion of the "backward

*An address by Professor Wright at the annual meeting of the Personnel Conference, New York City, Sept. 23, 1948, and revised by author on Dec. 18, 1948.
Reasons for Higher Rail Rates

By JULES BACKMAN

Associate Professor of Economics, New York University

Calling attention to low earnings and declining profit margins of railroads, despite record peacetime traffic volume, Dr. Backman contends that in the period below the 1925-29 average. Points to need of higher earnings based on financial statements on railroad property valued at current prices.

The Profit Position of the Railroads

Although the volume of traffic is at near record levels (except for the war period), railroad profits have been markedly lower in the Twenties than in the Nineties. The reason for this is not a reduced traffic but a lower profit margin. While the traffic volume was substantially lower. Higher wage costs and higher material costs together with higher rates, the margin has been reflected in higher operating income. In 1929, the wartime margin was 24.1% of revenue, in 1948 it was 14.1%.

Railroad Operating Income:

Sales of sales for manufacturing industries usually is substantial, but for manufacturing industries, the net railway operating income exceeded 10% of gross operating income. In 1929, the margin was 24.1%, and in 1948, it was 14.1%. In other words, to show a profit, the net railway profits had to be considerably higher than the profits for other industries.

The contrast between railroad operating income and manufactoring industries is striking. In 1929, the net railway operating income was 24.1% of gross operating income, whereas the manufacturing industries had a net margin of only 10%. In 1948, the manufacturing industries had a net margin of only 5.8% of gross operating income. The contrast is even more striking when we compare the manufacturing industries that have a smaller volume of operations with those that have a larger volume of operations. In 1929, the margin was 15.8% of gross operating income for those with a larger volume of operations, whereas in 1948, the margin was only 5.8% of gross operating income for those with a smaller volume of operations.

The contrast between manufacturing and railroads is marked. In 1929, the net railway operating income exceeded 10% of gross operating income, whereas the manufacturing industries had a net margin of only 10%. In 1948, the margin was only 5.8% of gross operating income. The contrast is even more striking when we compare the manufacturing industries that have a smaller volume of operations with those that have a larger volume of operations. In 1929, the margin was 15.8% of gross operating income for those with a larger volume of operations, whereas in 1948, the margin was only 5.8% of gross operating income for those with a smaller volume of operations.

The reason for this is not a reduced traffic but a lower profit margin. While the traffic volume was substantially lower. Higher wage costs and higher material costs together with higher rates, the margin has been reflected in higher operating income. In 1929, the wartime margin was 24.1% of revenue, in 1948 it was 14.1%.
Sees Soft Spots in Midwest Business

December monthly review of Federal Reserve Bank of Chicago says weakness in many lines can be traced to decline in consumer spending relative to income. Says short-term outlook remains good.

The over-all strength of business in the Seventh Federal Reserve District in 1948, according to the monthly review, "Business Conditions in the Federal Reserve Bank of Chicago has tended to obscure some soft spots in the business picture because of the upward trend which has continued into the future. In recent months, the credit situation, more importantly, the relative values of goods and services have begun to experience declining values in demand. In the case of both soft goods and services, many of the losses, with some new rise in failure and unemployment, have been in the fields in which bond conditions have disappeared as a predisposing cause. The Depression has proceeded gradually, and now to be found in fields employing roughly 15-20% of total District workers. While not concentrated in industries for which the District is best known, nor in any specific industrial area, the present weaknesses do affect particular business, financial institutions, and individuals.

Continuing, the article states: "The time dimension seems to be returning when ability to cope with consumer price consciousness is the most important determinant of individual business success or failure. Most business managers, moreover, face new and, indeed, continuing, tests of their preparedness to compete successfully for consumer dollars. The over-all business level and short-run outlook remain favorable, but the period of "assured" sales for most products appears to be steadily nearing an end. Too frequently, however, this return to more normal sales conditions, including the recurrent seasonal declines, is being interpreted as the beginning of a badly depressed era for business. Rather, it seems more probable that these soft spot developments indicate that the almost inevitable and desirable, from an anti-inflationary standpoint—shift toward more "normal" market conditions as a getting under way after several years of inflationary boom.

Since 'marginal' business organizations are encountering increasing sales and financial problems generally, it cannot be said that the soft spots are confined to a single industrial or general category that most businesses have experienced during the past year or more. Some goods which can be classified only as necessities also are showing declining sales and glutted inventories. Pressure for price reductions has more than caught up with prev¬­­i­ously anticipated levels of demand. The two basic and interrelated causes under¬­­lying the soft spots, therefore, may be given as: (1) consumer budget stringencies and (2) the end of abnormal demand back¬­­logs.

The effects of consumer budget stringencies first began to be felt in the spring and summer of 1947, when it had been experienced abnormally high war and initial postwar demand be¬­cas¬­e of rising incomes amidst a relative scarcity of competing goods and services. Thus, jewelry stores, furriers, and night clubs, food stores, discount houses, and general stores were affected as far back as two years ago when other more essential goods and services began to become available again on a more permanent scale. Later, further rise in living costs brought about de¬­­­creased expenditures among the essential consumer fields, such as hotels and commercial services, eating and drinking places and, during the last few months, in bakeries and delicatessens.

Another problem is the fact that industries in many lines can be traced directly to recent changes in consumer expend¬­­itures relative to income. The war years clearly distorted the consumer buying pattern. Many durables which represented a substantial portion of prewar con¬­sumer budgets either were not produced at all for civilian use or were produced in limited numbers. This shortage of durable goods brought about sharply increased savings in all forms, but also caused a disproportionately ex¬­­pen¬­­diture for nondurables and available luxury items. The ac¬­quired wartime habit of preparedness necessarily has been altered as consumer durable goods produc¬­tion has increased and prices of essentials have continued to rise.

LION OIL COMPANY, with headquarters in El Dorado, Arkansas, already engaged in all of the principal phases of the oil industry, launched into the chemical industry on a large scale with the purchase of the 95-acre Or¬­­kane Or¬­­chard Works and the conversion of this war-time opera¬­tion into the peacetime production of chemical synthetics.

Using only natural gas, air and water as raw material, this chemical plant is currently producing anhydrous ammonium, aque ammonia, nitric acid, nitrogen fertilizer solutions, and ammonium nitrate fertilizers. Expansion plans are underway to add sulphuric acid and ammonium sulphate. Moreover, this division of Lion Oil has almost endless product possibilities, including such new, dry ice, formaldehyde, alcohol, dyestuffs, medicines, perfumes, insecticides, phosphates, fertilizers, and the spectacular new plastic syn¬­thetic.

Lion Oil today produces more than 5 million barrels of crude oil annually; 8,000,000 tons of chemicals annually; operates over 300 miles of pipelines; manufactures approximately 125,000 tons of synthetic nitrogen annually, plus 1,004 railroad tank cars, pays yearly taxes of $2 million dollars including tax exclu¬­sions on gasoline. employs more than 2,000 people, and pays them annually about $7,000,000, and dis¬­tributes its products through 3,500 retail service and bulk stations in Arkansas, Tennessee, Mississippi, Alabama, Mis¬­souri, Texas, Kentucky, and Oklahoma.

Net crude oil production for the first nine months of 1948 was 3,725,856 barrels, an increase of 28.2% over the like period in 1947. Drilling and exploration have been acceler¬­ated, as 216.4% more producing oil and gas wells were brought in during the first nine months of 1948 than were completed in the entire year of 1947.

Already one of the largest Southern industries, Lion Oil, with several $1,000,000 expansion programs featuring " Petro-Chemistry," is adding further to the general welfare and advancement of the South.
We Are Not Winning Against International Communism

By ERIC JOHNSTON

President, Motion Picture Association of America

Assuming roadblocks to direct Soviet expansion will not insure world peace, Mr. Johnston holds we are flying with disaster if we enter upon a war to blot out communism. Urges we acquire greater knowledge of the different types of communists, and points out Russia cannot create conditions under which communism can be repulsed. Proposes a direct road to peace.

Ten weeks ago I left New York by plane for a trip through western Europe, behind the Iron Curtain and into the Soviet Union. The experience talked to me again in the men in the professions, the labor leaders, journalists, and—I’m happy to report to you because they were helpful to me—think that this is the political number in the field of education. It was an experience with this country.

The demonstration that we have been flying with at the moment is not in the struggle against international communism, I wish I could have brought home better news. I can say that industrial and agricultural production has materially risen in western Europe. But I must also say that many of the basic causes of communism are not under control and that it would be dishonest if I gave you any other report. It would be total self-deception not to recognize facts, unpleasant though they are.

I have come home intensely aware that international communism is much too well entrenched. In the western democratic world! It means for us just this—that we do our business and lies vastly more important than what Russia does.

Do We Meet the Challenge?

That leads me to a large and vital question: Is our meeting in a sane and intelligent way the bold and audacious challenge of communism for world total domination? I don’t believe we have. In light of what I saw and heard, and in light of the method of meeting this challenge look suddenly heavy with age. We need to pause for a moment and take a fresh look at ourselves and our means—and our means.

Have we fully understood communism for exactly what it is? We have, of course, adopted the term as the "Russian experiment" which will somehow—some people still believe—blow away. Are we still pitching pennies in the sand believing that the people of Russia will rise up against their communist masters? Are we still chating that fairy tale? Are we still thinking of communism as the answer to the world’s problems? As a fly-by-night doctrine of unorganized and undisciplined crooks?

If we are, we are flying with disaster; for we are as naive as little Red Riding Hood. In a moment of courage, some of us have called for war with Communist Russia—the sooner the better and the bigger the better. We could “get it over with” and “be done with the menace of communism. But the blunt truth is that the issue is not black and white, and that wouldn’t destroy international communism. We should know by this time that war won’t blot out communism. Andraging against communism is juvenile and futile. We have and are publishing the dictionary for epithets and invective against communism, but we still have communism. In fact, and Soviets don’t even ruffle communist feathers. War talk and hystera are more than fallacious answers to communism. They are dangerous answers. These are for the communist propaganda. They are the weapons that the communists use to turn us against each other.

There is no use in war. It has erupted into such swaddling slen songs. It still uses all its old devices, but today it is being, for the intellectual, the disgruntled. It has been colored—culled as the hungry, the poor and the miserable.

Types of Communists

Brady says there are at least five types of communists, and there may have been subdivisions.

First, there is the Lenin type of communist, the revolutionaries, the radicals. They believe in any risk—any chance—to gain power. They believe in rule Russia—the members of the Politburo, their commissars and leaders. (Continued on page 67)

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Should Acquire Knowledge of Communism

The very first thing we need to do is agree to our own edge we can about communism. That first step is to get knowledge of others. In any kind of contest, we are at great advantage if we can get knowledge of everything all can one about one’s competitor, his strong points and his weak points. That is true as between individuals; it is true as between nations.

You in education know better than most of us how true that is. You go at a problem, you hunt for all the facts, line them up, analyze them. The same thing is true through the collander of cunning looking for all the facts about people’s nature, their concepts or pet prejudices so that you don’t let blind emotion lead you.

We know so little about communism that we don’t know so much. We need to know how it works and what is at stake. We can’t take roots in the minds of men that haven’t been turned to communism. We have not understood the communists in one all-embracing way and with sufficient knowledge to clear the evidence on every hand. We have not understood why men turn communist.

Our strategy must be to do this, and face up to the uncertainties of different kinds of people to which communism appeals. We must recognize that before we can get answers to questions such as these: Why, for instance, should any Swede be a communist? Is it a part of Switzerland’s democracy by nature? Have the Swiss lost their free, independent, and liberal order, and in peace and in relative prosperity, they are communists in Switzerland. We should know by this time that we won’t blot out communism. Andraging against communism is juvenile and futile. We have and are publishing the dictionary for epithets and invective against communism, but we still have communism. In fact, and Soviets don’t even ruffle communist feathers. War talk and hystera are more than fallacious answers to communism. They are dangerous answers. These are for the communist propaganda. They are the weapons that the communists use to turn us against each other.

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The election of Ernest H. Mell in the Advisory Board of the 46th Street and Madison Avenue office of the bank of the Bank of New York, was announced on Dec. 14. Mr. Mell, who has been with the bank for magnet years. He is a Trustee of his father’s estate and is a director of the New York Stock Exchange. Mr. Mell is a Trustee of the New York Stock Exchange.

Floyd W. Jefferson, Sr., President of Iselin-Jefferson Co., Inc., has been elected to the Advisory Board of the Bank of New York. Mr. Jefferson is a director of the bank of New York. He is a Trustee of the New York Stock Exchange. Mr. Jefferson is a Trustee of the New York Stock Exchange.

Charles S. McVeigh, senior partner of the law firm of Morris K. McVeigh & Co., and a director of the bank of New York, has been elected Chairmen of the Board of Directors of the bank of New York. Mr. McVeigh is a Trustee of the New York Stock Exchange. He is a Trustee of the New York Stock Exchange.

Charles S. McVeigh, President of the bank of New York, has been elected Chairman of the Board of Directors of the bank of New York, from November 1944, former member of the bank of New York. Mr. McVeigh is a Trustee of the New York Stock Exchange. He is a Trustee of the New York Stock Exchange.

DeCoursey P. Love, President of the Bank of Savings in the City of New York, has been appointed to the Board of Directors of the bank of New York. Mr. Love has been appointed to the Board of Directors of the bank of New York. He is a Trustee of the New York Stock Exchange. Mr. Love is a Trustee of the New York Stock Exchange.

Henry Bruce, President of the Bowery Savings Bank and Harris Trust & Savings Bank of the North River Savings Bank of New York announced on Dec. 20 the formation of the bank of New York. The bank of New York is a member of the Federal Reserve System and has deposits of $767,000,000. The bank of New York has been in existence since 1868. It was founded in 1868 and has deposits of $767,000,000. The bank of New York has been in existence since 1868. It was founded in 1868.
IBA President Scores Attacks on Wall Street

By HAL R. DEWAR

President, Investment Bankers Association of America
Partner, Dewar, Robertson & Pascoed, San Antonio, Texas

Hal H. Dewar, in inaugural address, says it is high
time President of the United States should know
Wall Street is not symbolic of investment industry,
and it is Main Street where securities go. Urges an
objective analysis of place of investment banking in
nation's economy and stresses importance of venture
capital. Points to loss of profits due to competitive
bidding requirements and death of equity financing.

The honor of being chosen for this office is one that I can share
only in part. I feel that it is primarily a recognition of the growing
importance of our Southwest Empire. So, as a member of that com-
Community, and not just an individual, I am very grateful.

I have made my first and last
Ten commandments, but I dare to
point out as evidence of the non-
controversial character of this Group
that it saw fit to nominate a
Texan for this office at a time
when everything pointed to a
swiping Republican victory in
the pending presidential election.

I may add here that many
Texans as well as the many
deciders throughout the nation
who are on the investing firing line
have rejected Mr. Truman's refer-
ces in his campaign to this business as "Wall Street." It
is high time that the President of the United States should know
that Wall Street is not symbolic of our industry. It is Main Street
where securities must go if we are to continue a free economy.

Before discussing the topics I have in mind, I should like to
state my personal feelings about the Anti-Trust suit. Last year,
Julien Collins said in entering his
7th year on the Board that he
had never seen any evidence of
domination or control of the ac-
tivities of the Association by any
firm or group of firms. This will
be my 7th year on the Board, too,
and I share his feelings precisely.
As I have traveled about and seen
the great distributing machinery
that has been set up by the invest-
ment dealers of this country, I
am impressed by the spirit of in-
dependence and competition that exists
everywhere.

As advisors to our customers, we
say, In investments, that the only
certainty is change. And yet, in
many phases of our activities, there
is great resistance to this only
certainty. You can call this being reactionary, conservative or
old-fashioned. But, whatever it is,
the financial world is studded with a remnant of its former
attitude. Our investment banking business is perhaps more pro-
gressive than some others of the fi-
nancial community. Still, I have
seen in battle many times for an
acquaintanceship rather than search out a new one which
is not as comfortable as the first, but which made more overall
sense.

It sounds like a vague gen-
erality, so I'll cite a specific ex-
ample:

The Federal Securities Statutes need considerable revision and more
emphasis should be placed on the rule of law rather than men
in their administration. There is a
thin border between regulation and
control, and many of our admin-
istrative agencies need to be re-
examined in that light. Still, the
basic principles behind the Fed-
eral Statutes are consistent with a
free society, and I think that most
of the investment bankers will now agree with this. I don't have
to tell you, however, what our at-
titude was before their enactment.

For many years, there was a
grandiose opportunity for the busi-
ness, and a constructive

"Inaugural address of Mr. De-
wars at the 87th Annual Conven-
tion of the Investment Bankers
Association of America, Holly-
wood, Fla., Dec, 10, 1948."

Hal Dewar, Incoming IBA President, Addressing Convention

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Points & Provisions

The financial world is studded with a remnant of its former
time. But, wherever I have traveled, I have seen evidence that
has been set up by the invest-
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An active capital market and a steady flow of capital to industry for modernization and enlargement of productive facilities are p a r a m o u n t if economic recovery and the d y n a m i c economy and a high level of b u s i n e s s activity. One of the major reasons for the prosperity of the postwar period has been the large capital expenditures of industry, which amounted to $6,860 million in 1945, $12,040 million in 1946, $16,180 million in 1947, and are estimated at $10,300 million for 1948. In fact, a high level of business activity, employment and national income is to a large extent dependent on a satisfactory balance between the production of capital goods, including housing and commercial and industrial construction, and that of consumer goods.

During the depression of the '30s too much reliance was placed on the theory that the economy of the United States was already matured, and that the need for capital expenditures was therefore not as great as formerly. Primary emphasis was placed on the necessity for increasing consumption. The result was that, in spite of the large expenditures by the Federal Government for recovery and relief, unemployment still remained high and the standard of living did not go up. The result of living of a nation is determined not only by the amount of disposable income expressed in terms of money but also by the quality of goods and services produced and made available for consumption. The production of goods and services is the basis of economic recovery. (Cont. on page 30)

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THE COMMERCIAL & FINANCIAL CHRONICLE

Thursday, December 23, 1948

The Outlook for the Capital Market

By Dr. Marcus Nadler

Professor of Finance New York University

Dr. Nadler refers to large current demand for new capital and predicts, as long as economy remains competitive and new inventions are made and new improvements perfected, demand will expand. Stresses lack of equity capital and sees solution in tax changes and removal of stock margin requirements.

and the rendering of services create the spending power which enables the population to absorb the goods and services produced. Looked at from this point of view, the demand for capital goods, and hence for capital, is limited only by the availability of labor, raw materials and productive facilities. The process of capital formation is both productive and destructive at the same time. New investments create new values but often destroy old ones. Every new machine that increases the productivity of its operator or the quality of the product handled is bound to be replaced and expanded. This is not the case in countries where the government has a monopoly over production or in countries where the cartel system protects the high-cost producer at the expense of the consumer. Public, but even in a competitive society the process of replacement and modernization of machinery is often retarded by featherbedding rules of unions of the government.

The high standard of living of the people of the United States is based on high productivity of labor and, to a large extent, on the turn over that the United States has made possible the output of commodities at a relatively low cost. The reason for the increase in productivity is the increased capital productivity of labor, since not only will more commodities be produced but the market for them will broaden.

Modernization, replacement and plant expansion requires new capital. Only if there is an adequate supply of capital at the disposal of industry. If this supply dries up for one reason or another, the process comes to an end, with definitely adverse effects on economic activity, employment and the standard of living.

The Demand for Capital

The American economy is in a constant state of flux created by the inventive genius of the people and by the willingness of consumers to accept new commodities and services and to discard old ones. This gives rise to a continuously new demand for new capital, supplementing that created by replacement and expansion needs. The investments of the last few years required that the Federal Government should assure a strong demand for capital for some time to come.

At the present time the demand for capital is particularly large. For example, large amounts of capital will have to be spent by the utilities to meet the increased demand for power. The construction of plants to liquify coal and shale to produce synthetically hundreds of billions of dollars. A recent survey by the American Gas Association indicated that new capital requirements of the gas utility industry alone may amount to over $3 billion during the five-year period 1948-52, or about 55% of the present investment in the industry. The expansion of capital demand for gas by public bodies for roads, hospitals, etc., as well as by other public works, further accentuates the situation. The Federal Government should be asked to consider the need for new housing, as well as the need for new and existing utilities.

According more stable international political conditions, the demand for American capital and capital goods from abroad is bound to be very large indeed. The United States today is the only large country capable of exporting capital and capital goods on the scale and at the rate at which the economy is expanding. With the return of more normal conditions, therefore, direct investments by American industry and capital flights by foreign countries to this country are bound to increase.

It is fairly certain that the International Bank for Reconstruction and Development will offer new securities sometime in the future. The obligations of the Bank are of high quality for they rest to a large extent on the good faith and credit of the United States, which is the largest stockholder. The fluctuation of these bonds during the past year was due primarily to their being new and the fact that some investors were not familiar with the security underlying the bonds.

One may therefore conclude that, so long as the American economy remains competitive and new inventions are made and new improvements perfected, the demand for capital will in all likelihood expand rather than decline.

The Supply of Capital

The supply of capital used by the United States is derived from two sources, which may be classified into the internal and external. The internal supply of capital represents the plowing back of earnings by corporations, the utilization of depreciation and depletion allowances and the internal sources consist primarily of the sale of securities—bonds or equities—and bank loans. During the last few years reinvested earnings constituted the principal source of new capital for corporations. Undoubtedly reinvested earnings alone constituted an amount of $7,500 million in 1941, $5,900 million in 1942, $7,600 million in 1943 and $9,000 million in 1944, while the figure for 1945 is considerably higher. The Federal Reserve Board of Trade contained a table giving estimated principal uses and sources of corporate funds during 1946-47. (See Appendix A) According to these figures, in 1947 funds retained from operations constituted 54% of total funds used by corporations for plant and equipment expenditures, inventory accumulation, and other purposes. In 1947 non-financial corporations paid out in cash dividends their total earnings in 1946, 1946, 50%; and in 1929, 65%. The retention of earnings which the Federal Reserve has enabled them to finance a considerable part of their needs without recourse to borrowing or the sale of securities. Since the total amount of earnings today constitutes the principal source of capital for expansion.

It is evident that any measures by Congress that reduce profitability or the imposition of an excess profits tax or the tax on corporate income will reduce tax rates on corporations, will reduce the supply of money available for capital expenditures. This, in turn, is bound to have an adverse effect on prices in the long run, on the revenues of the government as well.

External Sources of Capital

External sources may be either in the form of common or preferred stock, or in the form of long-term and short-term bonds and notes, as well as loans from commercial banks. During the last few years, as may be seen from paragraphs 9 and 10, the demand for capital to a considerable extent on bonds and preferred stocks, has been supplied by capital requirements from external sources.

The percentage of common stock in relationship to total new capital raised by corporations has tended to decrease in recent years and is now rather small. If one concludes that demand for capital by the bank indebtedness of corporations, the proportion becomes even much smaller. In some cases, particularly as regards term loans, bank loans are only con¬ sidered long-term capital indebtedness.

There does not seem to be any shortage of capital seeking an outlet only for business activity. The sources of capital have, however, undergone a marked change. The source of funds by individual investors has increased whereas that of individual investors has declined sharply.

The principal reasons for this shift are the business done by investment and brokerage houses was with individuals, at the present time the volume of securities sold to individuals is only a small percentage of the total amount sold. By the larger institutional investors, notably the insurance companies. The supply of funds at the disposal of individuals is bound to increase, chiefly because the volume of life insurance will continue to go up, with business activity.
It has been a long established custom to present at this time a "State of the Union" message on Association activities. I plan to depart from this practice today, however, because you will have full reports from our committees covering their separate fields, and I will, therefore, comment on only a few Association matters which have been fully reported elsewhere.

Following this, I will discuss some of the problems of our business and some of the things which concern us as citizens.

It has been a great privilege, as well as a great pleasure, to have served as your President for the past year; and I hope that I have been able to carry forward the work of the Association in your interest and in the tradition of our predecessors, who have occupied much of my time, even more of it than I had anticipated, certainly from my point of view, but well spent.

Following another custom established by my predecessors, our travel began early in February, with a trip to the Pacific Northwest and to California. With Allen Little and Murray Hanson as travelling companions, I have had the pleasure of visiting our members in 26 cities and of making as many appearances before groups of members meetings and other gatherings which were assembled to discuss various aspects of our business. Our travels included almost every section of the country and two trips to Canada as well.

We have been entertained at every stop in the best IBA tradition, and I thank you for your hospitality and your thoughtfulness.

Not only have we visited almost every Group in the Association, but, in addition, it has been my privilege to attend meetings of other representative national associations, including the annual convention of the Investment Dealers Association of Canada, which was held at Murray Bay, Quebec.

Accompanied by Murray Hanson, I attended the meeting of the National Association of Securities Administrators in Portland, Oregon, the Conference on National Organizations in Chicago, the Board of Governors meeting of the World Bank and Fund in Washington, and a special meeting of our newly formed Mexican Committee in New York; and I believe I have accepted every invitation to address college, civic, and other groups in an endeavor to bring about a better understanding of our business.

I have had occasion also to confer with the Association of Stock Exchange Firms, the American Bankers Association, the National Association of Securities Dealers, and, with the Executive Committee, I have met with the members of the Securities and Exchange Commission.

The Board of Governors has had two meetings during the past year, the first of which was held at Rye, New York, early in January, and the second at White Sulphur Springs, late last May.

The Education Committee this year, under the chairmanship of John Fennelly of Rye, N. Y., has provided a most useful service to our membership; and I would urge that all our efforts be continued to attract young men to this business and to train them in its fundamentals so that the membership may be continued on page 34

You are clearly committed to the investment banking business in Portland, Oregon, last August, we learned again, first hand, of the universal respect and affection which the state conventions have for the late Mr. Davis as a result of his work with these conventions over the years.

He is well known and his opinion is respected wherever there are discussions of laws affecting the sale of securities in the various states. He has not decided to retire from active full-time participation in this work, but he has been persuaded to continue with the Association in an advisory capacity. We wish him many more happy and fruitful years as we look forward to his continued advice and counsel.

Not Heartened by Election

Our conventions at the national election year have been held shortly after the ballots were counted without knowing in advance whether or not the meeting would be one of celebration or deliberation, or both.

For most of our members this year, it is one of deliberation, for it cannot be said that most people in the financial community have been heartened by the unexpected results. I hope you will have the patience to consider a few more brief observations on the vote of Nov. 2.

Having lived through both Republican and Democratic administrations of our national affairs, I am impressed with the realization that now in my adult life has there been a period during which we have been entirely free from worry or concern about the future. Sometimes our problems are national, sometimes international, sometimes both, but we always have problems.

Then, too, we should remember that all Republicans are not conservative nor are all Democrats liberal. This is a factor of strength, not weakness, and one which will become more and more apparent during the 81st Congress.

It is fortunate that the President and the Congress are of the same party. It is fortunate also that we now have an endorsement of our foreign policy which has been bi-partisan, and it is the kind of vote of confidence which people abroad are best able to understand.

We may expect labor to remain politically persuasive. We trust they will adhere to the accepted responsibilities of American citizenship.

Fear has been expressed that there will be new obstacles to orderly and profitable business. Yet, we should be reminded that the United States is the only really prosperous and healthy nation in the world today.

As stated by a newspaper friend of mine in Tucson, Ariz., recently: "Over a long period, we may continue the trend toward a social welfare state as distinguished from a socialist state, the distinction being that the social welfare state is one in which special consideration is given to the goose that lays the golden eggs, whereas a socialist state is one that prospers at the expense of the eggs itself.

And one more observation, quoted from the London "Times,"—"Socialism is more often a Pandora's box of promises, bred without hope, war, without victory and statistics without end. It takes the heart out of young men... and it is above all morally destructive."

If we are to face new hardships and difficulties in the years immediately ahead, they may present

(Continued on page 34)

JULIUS H. COLLINS

Retiring President, Investment Bankers Association of America

President, Julian Collins & Company

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The Railroad Securities Committee of the Interstate Commerce Commission has taken steps to curb What Exactly are the Committees "delaying" two key interest rate increases. The Economic Research Board's Policy and Technology Study, which is an advisory committee to the Interstate Commerce Commission, has issued a report. The report contains recommendations for addressing the problems of railroads and the economy. In particular, it highlights the need for improved financial planning and management by the railroads. The report also recommends actions to be taken by the government and other stakeholders to support the rail industry.

The report concludes that the railroads face several challenges, including:

1. Increasing operating costs and declining revenues.
2. Debt and financial instability.
3. Competition from other modes of transportation.
4. Inadequate infrastructure and maintenance.
5. Declining ridership and traffic volumes.

The report recommends the following actions:

1. Improved financial planning and management.
2. Investment in infrastructure and maintenance.
3. Collaboration with government agencies and other stakeholders.
4. Diversification of revenue sources.
5. Streamlining operations and reducing costs.

The report also notes that the rail industry is facing significant economic challenges and that the government should take action to support the industry.

In conclusion, the report highlights the need for concerted action by the government and other stakeholders to support the rail industry and ensure its continued viability.
Sees Bond Pegging Source of Inflation

The Governmental Securities Committee, headed by Delmont K. Pfeffer, views Treasury and Federal Reserve efforts to hold government securities at par. Cuts in the redemption of maturing Treasury bond purchases to keep Treasury's long-term interest rate at 2 1/2% and its effect on inflation. Sees no adverse effect in permitting bonds to recede slightly under par, but warns against major change in policy.

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The Defense of Par

During the 12 1/2 years our monetary authorities have thrown $7 billion into the defense of Par. The inauguration of the war and its stubborn perseverance, has resulted in the principal financial influence encouraging inflationary tendencies.

As reviewed in our report of June 1941, the Federal Reserve held its 90-day bill and one-year certificate rates at wartime levels to encourage banks to expand loans and extend credit to industrial enterprises. In July, 1947, a controlled rise of bill and certificate rates was the current record demands for bank credit exerted pressures toward higher interest rates generally. Heavier offerings of Treasury bonds to the market early in the Fall, and to meet the maturing of the Treasury bonds and the Federal Reserve, put bills in the market. They chose to hold bond purchases hastily adopted levels approximating those of mid-November, but the support was somewhat elasticity in that market.

On Christmas Eve the Federal Reserve announced lower buying price levels for taxable securities in fact entirely withdrew any fixed rate of support. The Treasury and the heavy capital needs of utilities and industry generally, in the early months of 1947, to March, 1948, dumped on the authorities $8 billion Treasury bonds and $8 billion worth of corporate bonds.

The announcement of abrupt price adjustment of Dec. 24, a Federal Reserve rediscount rate increase effective Jan. 13, higher bank re- serve requirements as of Feb. 27, and the heavy capital needs of utilities and industry generally, in the early months of 1947, to March 1948, dumped on the authorities $8 billion Treasury bonds and $8 billion worth of corporate bonds.

By early April the first rush of liquidation and refinancing surges of Treasury bonds were evident. There were some reasons—such as the abrupt drop of grain prices, a large Treasury sale of surplus com- modity, and the sloping down of the farm inflation index that inflationary pressures had become more subtle. Certainly, the Treasury was aware of the ability and determina- tion by the monetary authorities to hold the line and support bond prices at par or better.

But perhaps the deciding factor that the check on inflation was one of the government's greatest assets, was the absence of a boom along, bank loans began a seasonal rise in July, and the industrial argument against deficit spending with capital and mortgage loan applications for the heavy demands of utilities, industries and municipal- ities. Great emphasis on the stubbornly discouraging to equity capital needs. Official concern about loan expansion was sig-
Predicts Reduced Industrial Financing in '49

The report of the Industrial Securities Committee of the Business Association of America, composed of Frank A. Willard, Peter Reynolds & Co., New York City, and 18 other members, made to the 37th Annual Convention at Hollyblock, pointed to a recession in industrial plant expansion in current year, for which were obtained mainly from internal sources and senior securities, warned of reduced demand for new financing in '49, but predicted likelihood of capital replacement some existing senior securities. The complete text of the report follows:

The lack of a major trend in security prices has characterized the year just past, very much as the preceding year. We have had a record-breaking level of business and record high commodity prices in many industries, and record high prices of security securities, including common stocks, as well as fixed income securities, have matured a generally sideways pattern. There have been many important developments which have affected the demand for both stocks and bonds within this 12-month period. Toward the end of the first half there was a stabilization of the broad market and the demand for equity securities dwindled. More recently the unexpected outcome of the Presidential and Congressional elections has again caused a record dealing on the incidence of doubt about the inflation tax. Then the development of the Berlin crisis killed off that market and the demand for fixed income securities increased. It may be admitted that a Democratic administration means a relatively lower interest rate policy than a Republican administration, but that has also been recorded from time to time in the past. The year 1948 has also been a record-breaking year in regard to the volume of business expenditures for new plant and equipment. The figures of the figures by the Securities and Exchange Commission, such expenditures for 1948 will amount to $15.0 billion, as compared with $13.2 billion last year, and $5.3 billion in the prewar year of 1929. Included in these totals are expenditures by manufacturing concerns of some $8 billion in 1948, as against $7.5 billion in 1947, and $5.3 billion in 1929. The remainder of these expenditures is made up of outlays of enterprisers in the mining, transportation, public utility and commercial fields.

We have referred to expenditures of $15 billion for new plant and equipment in the current year. When this figure is supplemented by certain data from non-residential construction and the funds necessary for investment expansion, including a $6.4 billion increase in inventory during the year, then the outlay of funds by business enterprises in the earning end of the year is estimated at something over $23.4 billion. It has been the case that each of the last four years has shown a bulk of the funds necessary to meet business expenditures has been derived from internal sources, namely, depreciation charges and undistributed profits available after dividends. This situation has been even more true during 1948, and it is estimated that these sources amounted to almost $10 billion, leaving $5 to $6 billion to be met out of funds available. Of this amount which outside sources were called upon to supply, it is estimated that about $1.3 billion available, and the capital markets supplied $5.1 billion of new money. The increase in bank loans is only about $1.5 billion to one-half as great as the increase in 1947, while the new money supplied by the capital markets aggregated about 10%-large change in 1947 amounts.

It now appears that total 1948 offering of corporate securities, including private placements, will amount to $8 billion, as compared with $6.5 billion last year. It has been pointed out that the bulk of the issue is about $5.1 billion compared with $2.5 billion last year, by the public money supplied for industrial purposes. This means the amount of about $3.5 billion will be used in the year, a drop of about one-sixth.

Senior Securities Predominant

The bulk of the funds supplied for refunding medium-term purposes by the capital market has again been derived from the sale of senior securities, which accounted for almost 90% of the total. It is clear that we realize, since most of the recent offerings has been fixed interest-bearing securities, that the private placement of bonds and notes has accounted for about one-half of the total sales of securities, with the proportion of corporate bond offerings private placed. The latter has increased in the past three years, being 21% of the total in 1945, 39% in 1946 and 46% in 1947. In the first nine months of 1948 private placements had further jumped to 48% of total corporate bond offerings.

Private sales, computed on a similar, but not identical basis, show clearly that the percentage of new issues of industrial bonds and debentures is much higher, amounting to 8% in 1945 and the first 10 months of 1946. These figures contrast with about 15 to 20% of private placements for public utility and railroad bonds. In this case two points worthy of note in this contract, first, public utility and railroad bonds are subject to competitive bidding, and by reason of keen competition in these two fields, the sellers of private offerings are not accounted for the bulk of this business. Second, within the last 18 months, the amount of secondary private placements stepped up sharply from a little more than 6% in 1945 and 1946 to the 8.5% figure during the last two years. This may be that a part of this recent step-up can be ascribed to the arbitrarily high prices for U.S.

Underwriters and Distributors of Capital Issues

And Dealers in the Securities of
INDUSTRIAL CORPORATIONS
PUBLIC UTILITIES • RAILROADS
• STATES • MUNICIPALITIES
THE CANADIAN GOVERNMENT
PROVINCES • MUNICIPALITIES
FOREIGN GOVERNMENTS

Our Facilies are Available to
INSTITUTIONS • BANKS • CORPORATIONS
INDIVIDUALS

Harriman Ripley & Co.
63 Wall Street, New York 5, N. Y.
Boston Philadelphia Chicago
Reprcscntatives in other Cities

Goldman, Sachs & Co.
30 Pine Street, New York 5
Investment Securities
Commercial Paper
Commercial Paper & Travelers Letters of Credit
Foreign Exchange

The Commercial & Financial Chronicle
Reveals Heavy Utility Debt Financing

In reporting to the Thirty-Seventh Annual Convention of the Investment Bankers Association of America at Hollywood, Fla., Robert Mason, Vice-President of the Central R. E. O. Company and also Chairman of the Public Service Securities Committee, called attention to heavy financing by utilities in 1948, largely through issuance of bonds, debentures and notes. Of total new financing approximating $3.5 billion, more than 80% represented debt and about 7% constituted preferred stocks. It was noted that all American Telephone and Telegraph System financing, which constituted more than one-quarter of the total, was in form of long-term debt securities. Competitive bidding in the market was predominant, though private placement with insurance companies is still of little significance.

The text of the Report of the Committee follows:

Financing by public utility companies in 1948 has set new high records. The first 9 months of this year utility companies through sales of bonds, debentures, notes, and mortgages, publicly, privately and to their stockholders, have raised aggregate of $1.25 billion. Foremost financing agencies are noted for the total for the full year, close to the $3 billion mark. With major exceptions, which include new money financing.

Of the financing done in the first 11 months, over two billion, or 200 one hundred fifty million dollars or 86.3%, took the form of private or publicly, privately, and to their stockholders. The remaining $104 million, or only 6.6% of the total, was in the form of common stocks.

Most of the debt financing was through sales at competitive bidding, less than $40 million principal amount of debt securities loaned on a negotiated basis. There was no negotiated utility debt financing offered between late March and the end of November. An increasing amount of utility debt financing has been done through private placement, principally with insurance companies. Available records indicate that this form constitutes for approximately 12% of total financing during the first 11 months of the year. During the same period 67 issues were sold at competitive bidding and four through negotiation.

Robert Mason, Chairman of IBA Public Service Securities Committee, reports new high record in new utilities issues, bulk of which took form of bonds, debentures and notes sold under competitive bidding. A. T. & T. System financing comprised 37% of total debt issues sold competitively, while an increasing number of bond offerings have been placed privately with insurance companies.

In the Spring meeting we said that we thought it would be of interest to present figures on spreads since this is a subject of much discussion in our industry. Therefore, a few more statistics on this subject.

The average gross spread of the 117 million of debt financing sold competitively in the 11 months ended Nov., 30 was $0.067 per bond and the weighted average gross spread $0.484 per bond. If we exclude from the computation of the Consolidated Edison and Peoples Gas convertible debentures, where a fee was paid to the issuer for the privilege of underwriting, then the weighted average gross spread was $0.476 per bond. It is interesting to note that the gross spread was generally wider on the Telephone deals than on the average of all the deals, such average being $0.191 for the 10 issues issued by companies in the Bell System.

In preferred stocks the average gross spread on all issues has been an average of $0.70 per share and a weighted gross spread of only $0.35 per share. This result, however, was largely due to the fact that on three of the issues the success of the issue was dependent on the number of institutions who were interested in the issue. The 10 negotiated preferred deals produced an average gross spread of only $0.70 per share and a weighted gross spread of only $0.35 per share. This result, however, was largely due to the fact that on three of the issues the success of the issue was dependent on the number of institutions who were interested in the issue. The 10 negotiated preferred deals produced an average gross spread of only $0.70 per share and a weighted gross spread of only $0.35 per share. This result, however, was largely due to the fact that on three of the issues the success of the issue was dependent on the number of institutions who were interested in the issue. The 10 negotiated preferred deals produced an average gross spread of only $0.70 per share and a weighted gross spread of only $0.35 per share.

The three common stock issues were sold at average gross spread of 6.87% of par value, while the 10 negotiated common stock deals showed an average gross spread of 7.03% of the respective offering prices. The latter spread was significantly reduced by inclusion in the 10 deals of two issues in the $7 to $8 class where the spread percentage-wise ran 12%. The negotiated common stock offerings compensated on private- placed deals is not available. On issues offered to stockholders which were underwritten, compensation to the underwriters substantially and generally dependent on the number of shares taken up by the underwriters. An average of such spreads would be meaningless.

The committee has been asked to call to the attention of all of you interested in public utilities a booklet recently published by the Federal Power Commission in cooperation with the National Association of Railroad and Utility Commissioners. Copies of this booklet may be obtained at a cost of $1.00 each from the Federal Power Commission, Washington, D. C. It is a handy reference book for information concerning State Commission jurisdiction over and regulation of electric and gas utilities.

During the past year there have been the many bond issues of utility debt issues issued in 1948, both directly by the issuing utilities and through investment bankers. In most cases the bonds constituted additional issuances under existing indentures. It is possible to tell whether or not the issuing companies obtained a better net price for their bonds than they would have if the bonds had been offered and sold publicly, but certainly in the latter months of the year there has been a tendency of additional companies to pay less for bonds purchased privately than for equivalent bonds purchased in public offerings. Many of these sales probably would have been made publicly if the issuing utilities could have avoided the long and costly registration process. The suggestion is made, therefore, that it goes where additional bonds are issued under an indenture under which a registered issue has been sold in a limited period of time, such lines, the SEC work out a simplified form for registration of the additional bonds. The nature of the utility business is such that it seems to your Committee that a simple supplement to the previous prospectus, setting forth more recent earnings and balance sheet figures and data as to property additions, rate changes, etc., should suffice. If such a simplified form were available to the utilities, additional issuances under existing indentures would seem more likely to come into being where there were investment bankers.

In the present procedure many of those who purchased part of the register and particularly the small and smaller insurance companies, do not have an opportunity to purchase the additional bonds and, as the market has been going over the last several months, do not get the

(Continued on page 28)
IBA Municipal Securities Committee headed by Emil C. Williams, notes, despite increased output, market has been relatively steady but with rising yield tendency. Calls attention to work of special Committee on Revenue Bonds in bringing about appreciation merits of these issues and in developing uniform patterns. Explains status of bills in Congress regarding water pollution and tidelands ownership.

Two general objectives are being pursued:

1. To bring about in the minds of bank officials and supervisory banking authorities a more realistic appreciation and fuller understanding of the merits of the class of investment securities generally known as "municipal revenue bonds" which would entitle them to recognition as a suitable investment for banking institutions of all kinds, especially commercial.

2. To do what it can to create in the minds of prudent investors everywhere an appreciation of the true investment value of municipal revenue bonds.

The Special Committee in its study of the situation felt that among the first steps to be undertaken should be the development of a pattern for bond report forms, for the purpose of broad use by dealers, investors and bank examiners. A great deal of time and thought has been devoted to the arrangement of such forms with an eye throughout of endeavoring to have them as real and serious to the analyst as it is possible. In the opinion of the committee such forms should be compiled with by municipal officials and at the same time adequate in the character of information requested to permit of an analysis of the securities which would reflect their intrinsic value. Of course, each issue has to stand on its own merits.

A recent Progress Report of this Special Committee has been released. In addition to the pattern for such forms, the Committee has greatly appreciated the extensive thought and work of the Special Committee.

New Orleans

It will be recalled that it was litigation that occasioned cancellations on July 2 of the sale where the City of New Orleans made April 28 at $15,000,000 of its Union Pacific Railroad Revenue Bonds. Bond counsel was unable to give an approving legal opinion without mention of the litigation.

Two suits were filed against the city, one by the bank functioning with the construction of its Union Pacific Terminal. One suit was brought in the state court of Hoped, et al. v. City of New Orleans. The lower court and the State Supreme Court upheld the action of the city.

The other suit, Joseph Invest¬
ments, was brought in the Fed¬
eral District Court for the State District Circuit Court of Appeals. In this case, the city's right to construct the Union Terminal was upheld.

This suit is terminated unless the plaintiff should apply to the United States Supreme Court for writ of certiorari. As above noted, however, the Federal Court re¬
cently dismissed an appeal from the State Supreme Court in favor of the City of New Orleans.

Texas

At the general election on Nov, 2, Section 1-4 of Article VIII of the new Constitution was amended to read as follows:

"The State, by increasing the rate of state ad valorem tax shall be levied upon any property within this State for general revenue purposes. From and after the first December of each year, all taxable property of the counties of the State are authorized to levy state ad valorem taxes upon all property within their respective boundaries for county purposes, except that the first Three Thousand Dollars ($3,000) valuation of residential investment, not to exceed thirty (30) cents (30¢) on each Hundred Dollars ($100) valuation, in addition to all other ad valorem taxes authorized by law, including those taxes levied, except as herein otherwise provided, on real estate and personal property, shall be used for construction and maintenance of Farm to Market Roads or for flood Control, except as herein otherwise provided."

The law provided that in those counties or political subdivisions where no tax or special tax had heretofore been granted, the State Automatic Tax Board, in its discretion, shall levy the full amount of the State ad va¬
ominal tax for the payment of such donation, or until all legal oblig¬
ations incurred by the law granting such donation or donations shall have been fully discharged, whichever shall first occur; provided that if such do¬
nation or special tax in any county or po¬

1. It will be noted that while the amendment eliminates, beginning Jan. 1, 1951, the state ad valorem tax on any property for general revenue purposes, provision is made that the State Automatic Tax Board continue to levy the full amount of the State ad valorem taxes in those counties or political subdivisions in which tax donations have hereetofore been granted.
Advocates 50% Ceiling on Income Tax

Malon C. Courts, partner of Courts & Co., Atlanta, Ga., in presenting the proposal for a ceiling on income tax to the recent Federal Taxation Committee to the Eighty-first Congress and Senate, said that the current system of taxation leaves much to be desired and that a 50% ceiling would be a good start.

"The current system of taxation leaves much to be desired," Courts said. "A 50% ceiling would be a good start." Courts was accompanied by his partner, Malon C. Courts, Jr., who presented the proposal for a ceiling on income tax to the recent Federal Taxation Committee to the Eighty-first Congress and Senate.

The proposal was presented to the committee as a means of reducing the burden of taxation on individuals and corporations. Courts argued that the current system of taxation is too complex and that a 50% ceiling would simplify the system and make it more equitable.

Courts also mentioned that the proposal was supported by a number of organizations, including the American Bar Association, the National Tax Association, and the American Chamber of Commerce.

The proposal was received with enthusiasm by the committee and was referred to a subcommittee for further consideration.

(Continued on page 25)
In Attendance at IBA Convention

ABRAMS, J. JAMES S.  
Allen & Co., New York

AGEE, Rucker  
Sterne, Agee & Leach,  
Birmingham

ALFRED, WALTER W.  
Metropolitan St. Louis Co.,  
St. Louis

ALLEN, F. F.  
Fed. Res. Bank St. Louis

ALLEMAN, F. MONROE  
Leedy, Wheeler & Allenman,  
Orlando

ALLEN, E. RAY  
Strasahan, Harris & Co.,  
Chicago

ALLEN, SIDNEY  
San Francisco "Chronicler,"  
San Francisco

ALLEY, WILLIAM M.  
A. E. Ames & Co., New York

ALVIN, ARTHUR C.  
Journal of Commerce,  
Chicago

ALTIGT, JR., E. J.  
Harris Trust & Savings Bank,  
New York

AMAZEN, EDWARD S.  
Coffin & Burr, Boston

ANDERSON, C. K.  
Kidder, Peabody & Co.,  
New York

ANDERSON, JOHN D.  
Journal of Commerce,  
Chicago

ANDERSON, JONAS C.  
Blais & Co., New York

ANDERSON, K.  
Journal of Commerce,  
Chicago

ANDERSON, HERBERT E.  
Distributors Group, New York

ANDERSON, JR., WILLIAM J.  
Equitable Securities Corp.,  
Nashville

ARMITAGE, ALBERT T.  
& Barr, Boston

ARNOLD, HAIZE S.  
Braun, Bosworth & Co.,  
Toledo

ARNOLD, H. WILSON  
Weall & Arnold, New Orleans

ARSTEDT, ADONN W.  
Arthus, Lestrage & Klima,  
Pittsburgh

ASHMUN, CLIFFORD S.  
C. S. Ashmun Co., Minneapolis

ASHPLANT, FREDERICK B.  
F. B. Ashplant & Co., New York

ASPBURY, HOWARD M.  
Source of revenue which would be used for the purpose of compensation.

BARTON, W. MANNING  
Barr Brothers & Co., New York

BARROW, WM. RUSSELL  
Barrow, Leary & Co., Shreveport

BARRY, EUGENE F.  
Shields & Co., New York

BARTOW, CLARENCE W.  
Drexel & Co., New York

BASSETT, K.  
W. E. Mattoon & Co.,  
New York

BATEMAN, HENRY M.  
Bateman, Eichler & Co.,  
Los Angeles

BAXTER, DANA F.  
Hayden, Miller & Co.,  
Chicago

BECKERS, W. K.  
Spencer Trust Co.,  
New York

BECKETT, JR., THOMAS  
First Southwest Company,  
Dallas

BELL, RUSSELL D.  
Greenfield & Co., Montreal

BENDER, ROBERT F.  
Wachob-Bender Corp., Omaha

BIGGER, RICHARD A.  
Hansen & Co., Charlotte

BISCOE, JR., HOWARD M.  
Whiting, Weeks & Stubs,  
Boston

BIVENS, ROBERT A.  
Chase National Bank,  
New York

BLACK, EUGENE E.  
International Bank Washington

BLAKE, JOHN L.  
Eaton & Howard, Boston

BLAKE, SIDNEY S.  
H. M. Bylesley & Co., Philadelphia

BLUNT, JOHN E.  
3rd Blunt, Ellis & Simmons,  
Chicago

BLYTH, ROBERT B.  
National City Bank, Cleveland

BOEHMLER, ERWIN W.  
Investment Bankers Assn., Chicago

BOGERT, JR., H. J.  
Leeds, Urwick & Co.,  
New York

BOLES, EWIN T.  
Ohio Co., Columbus

BOLTON, FREDERICK J.  
H. V. Styr & Co., Detroit

BOOTHBY, WILLARD S.  
E. B. Dollins & Sons,  
Philadelphia

BOWMAN, FRANCIS R.  
Chase National Bank, New York

BRADLEY, MAHLON O.  
Paul H. Davis & Co., Chicago

BRADLEY, S. WHITNEY  
Eaton & Howard, St. Louis

BRENNER, R. M.  
Investment Bankers Assn.,  
Washington

BRATSHAW, DONALD B.  
Distributors Group, Atlanta

BREWER, ORLANDO S.  
Phillips, Penn & Co., New York

BROOKS, SPRINGER H.  
Piper, Errey & Hipwood,  
St. Paul

BROOME, ROBERT E.  
Hollingsworth & Co., New York

BROWN, WILLIAM P.  
Baker, Simons & Co., Detroit

BRYANT, EMMONS  
New York

BRYCE, T. JERROLD  
Clark, Dodge & Co., New York

BUCKNER, ERROL E.  
Nat. Bank of Commerce, New Orleans

BULLOCK, HUGH  
New York

Burdens, William A. M.  
Smith, Barney & Co., New York

BURNS, JR., JAMES F.  
Harriman & Co., New York

BUTLER, WILLIAM E.  
Banks & Co., New York

BAUER, W.  
W. A. Meurer & Co., New York

BUTTENWEISER, BENJ. J.  
Kuhn, Loeb & Co., New York

BUZZBY, JR., WILLIAM D.  
Downtown & Harrer, Philadelphia

BYRNE, WILLIAM D.  
Byrne & Phillips, New York

"Cahn, Jr., William M.  
Henderson & Co., New York

Caldwell, Donald  
J. Bar & Co., New York

Caldwell, James G.  
Caldwell Phillips Co., St. Paul

CALLEGHAN, JOHN W.  
Goldsmiths & Co.,  
New York

CALLOWAY, JR., DAVID H.  
First of Michigan Corp.,  
New York

CALVERT, GORDON L.  
Investment Bankers Assn.,  
Washington

CAPEL, CHARLES A.  
L. H. Higgins & Co.,  
Chicago

CABBERY, PATRICK  
"Wall Street Journal,"  
New York

CARDWELL, MARION H.  
J. B. Harris & Son,  
Louisville

CARPENTER, FREDERICK R.  
John Nuveen & Co., Chicago

"Dealers" (Continued on page 42)
Recommends New Uniform State Securities Act

George F. Noyes, Vice-President and Secretary of The Illinois Commerce Company, Chicago, and chairman of the State Legislation Committee of the National Association of Security Dealers, has made the following statement:

"The recommendation of the New Uniform State Securities Act is a welcome step towards the improvement of our securities laws. It is important that the states adopt such a law, not only to protect the investor, but also to facilitate the proper functioning of the securities market. The New Uniform State Securities Act is a significant step in this direction. It provides a uniform framework for the regulation of securities, thereby eliminating the competitive advantages that states with less stringent regulations may have.

The proposed Act includes provisions for registration, continuous disclosure, and the protection of the investor. It also includes provisions for the enforcement of these provisions, including the power to take action against violators. The Act is designed to be flexible, allowing for the adaptation to changing market conditions.

In conclusion, the New Uniform State Securities Act is a significant step towards the modernization of our securities laws. It is hoped that all states will adopt this Act, thereby creating a uniform market for securities, and ensuring the protection of investors."
Safe Havens in Case Of World War III

By ROGER W. RABSON

This week's column is not written for optimists, as I know nothing about farming. Nor am I written about those who live in small self-sustaining cities or rural communities. Rather, I am writing for my business friends in New York. 

The topography of the United States contains three miles of highways. Now, I want to buy a new old house. Three miles is quite a long way, but I am told that the property is in a good location. I am interested in purchasing a house, and I have been offered a $30,000 price for a house located about six miles from the center of the city. I am considering this offer, and I am inclined to accept it.

My city, New York, is the largest in the United States. It is located in the eastern part of the country, and it is a major financial center. However, it is also subject to various risks, such as war and terrorism. Therefore, I am considering the possibility of investing in a house in a more remote location, such as the one offered to me.

There are several reasons why I am interested in purchasing a house in this location. First, it is located in a more rural area, away from the hustle and bustle of the city. Second, it is a well-built house, and it has been recently renovated. Third, it is located in a secure and private area, away from the dangers of war and terrorism.

In conclusion, I am considering the purchase of a house in a location that is remote from the city. I believe that this is a wise investment, and I am hopeful that it will provide me with the peace and security that I desire. Thank you for reading my column.
their billions for expansion in the 1920's. The basis of compensation to
underwriters and participating
demur, however, except that
of 1948 and recent years, if
we as an industry are to maintain
the machinery necessary to raise
the hundreds of millions of equity
dollars the utilities will need in
1949 and following years. The
utilities and the regulatory bodies
must recognize that the invest¬
ment bankers cannot longer be
expected to live and perform ef¬
ficiently on starvation wages.
Respectfully submitted,
Public Service Securities
Committee
Robert Mason (Chairman): Rob¬
est, W. H. Briggs; Carl H. Doerge; Leslie J. Fabyck;
R. R. Heywood; Edgar J. Lottus; Franklin T. McClintock;
Wallace M. McCurdy; George L. Peth; William M. Rex; Donald
Royce.

The reduction in the revenue
loss from $1,025,000 to $535
million is due primarily to two
factors. First, the rate reduction
provided in the Revenue Act of
1948 increased from $10,000 to
$22,000 the point where the 50%
limitation would become effective;
and second, the split income pro¬
vision of the Act provided in ef¬
tect a much lower marginal rate
for those taxpayers filing joint
returns, thereby reducing their
benefit from the 50% limitation.

If there are any further ques¬
tions concerning these estimates,
please let me know.

Sincerely yours,
(aps.) Colin F. Stamt
Chief of Staff

Exhibit "B"
Congress of the United States
Joint Committee on Internal Re¬
venue Taxation, Washington
Colin F. Stamt, Chief of Staff
G. D. Chesten, Asst. Chief
November 10, 1948

Mr. Malon Courts
Courts & Company
11 Marietta Street, N. W.
Atlanta, Georgia
Dear Mr. Courts:

In accordance with your tele¬
phone request I am enclosing herewith
a copy of an Internal Revenue
tax report on capital gains for the period
1935-1945 inclusive. The figures for 1945 is preliminary and all
were prepared by the Treasury
Department.

Sincerely yours,
(aps.) Colin F. Stamt
Chief of Staff

Enc.

Estimated Taxes on Capital Gains
and Losses of Individuals
1935-1945

(In thousands of dollars)

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Mr. Hanson:

With reference to your tele¬
phone inquiry of Oct. 25, 1948, the total corporation receipts for fiscal
year 1948 amount to $10,
$44 million. This figure was taken from the "Comparative
Statement of Internal Revenue
Receipts for June 1948 and 1947,
and for the Fiscal Years 1946 and 1947," issued by the Bureau of
Internal Revenue. The figure is broken down as follows:

<table>
<thead>
<tr>
<th>Millions</th>
<th>Corporation:</th>
<th>of Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current</td>
<td>$8,994.2</td>
</tr>
<tr>
<td></td>
<td>Back</td>
<td>$87.2</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>$10,081.4</td>
</tr>
</tbody>
</table>

Sincerely yours,
(aps.) Colin F. Stamt
Chief of Staff

Exhibit "C"
Congress of the United States
Joint Committee on Internal Re¬
venue Taxation, Washington
Colin F. Stamt, Chief of Staff
G. D. Chesten, Asst. Chief
November 10, 1948

Mr. Murray Hanson
Investment Bankers Association
252 K Street, N. W.
Washington, D. C.

Dear Mr. Hanson:

The revenue loss under
present law from this limita¬
tion is $655 million and would
affect all taxable incomes in ex¬
cess of $22,000.

Mr. President, I know that if
we want a dollar to run we must
give it gasoline; if we want a
mule to plow we must feed him:
and if we want the men and
women of America who have the
greatest ability to produce to con¬
tribute their utmost to the econ¬
omy of the Nation, we must let
them know that every dollar left
which they can call their own.

"A few days ago a man engaged
in business said to me, 'If I make
$100,000 I get $55,000 residue for
myself. If I make $100,000 I make $5,000, and for the third $100,000
another $5,000.' He said, 'Why
should I risk losing my invest¬
ment when I have no hope of
reward of any appreciable charac¬
ter coming back to me from my
business?""

"I believe in the private-enter¬
prise system. I want the tax¬
payer to pay according to his abil¬
ity, but there is a point of di¬
nishing returns, and if we do
not recognize it, we thwart the
principal incentive we have, the
incentive which carries us all on
in our private-enterprise econ¬
omy.

Advocates 50% Ceiling
On Income Tax

(Continued from page 25)

public opinion. There are millions of
you and I would like to get a
respective hearing. Summing
up, your Committee is of the
same opinion as the House;
namely, that the 50% ceiling on
individual rates and a 12½% margin tax on long-term capi¬
tal gains represents the two most
feasible and constructive reforms
that could be written into the
law at this time and that we ask your
whole-hearted support of the at¬
tempts to accomplish these
changes in the tax law. We also
believe that everything possible
should be done to accomplish the
longer term objective of remov¬
ing the present unfair and eco¬
nomically dangerous double tax¬
atation of corporate earnings.

Your Committee wishes to thank
the official of your Association,
its counsel, the members of the
Administrative Committee, and
other individual members of the
Association for their generous
support to our plans and program
throughout.

Respectfully submitted,
Federal Taxation Committee
Malon C. Courts (Chairman):
Amras Ames, M. M. Cox, John
H. Crago; Richard M. Delafilde;
Richard F. Doty; Sherman Ellis¬
worth; Sumner B. Emerson;
Hardin H. Hawes; James M.
Hutton, Jr; Robert L. John;
Newell S. Knight; James H.
Lemn; Herman L. Lind; James
R. Rodkey; W. W. Simonides;
Darnall Wallace.

Exhibit "A"
Congress of the United States
Joint Committee on Internal Re¬
venue Taxation, Washington
Colin F. Stamt, Chief of Staff
G. D. Chesten, Asst. Chief
October 29, 1948

Mr. Malon Courts
Courts & Company
11 Marietta Street, N. W.
Atlanta, Georgia
Dear Mr. Courts:

Reference is made to our recent
discussion concerning the revenue
loss from providing that no tax¬
taxpayer should have to pay more
than 50% of any of his taxable income.

Before enactment of the Re¬
venue Act of 1948 we estimated a
revenue loss of $1,025 million if the
then present law was amended to provide that no tax¬
taxpayer should have to pay any dollar of his taxable income
in excess of 50%. This would have af¬
ected all taxpayers with taxable
income in excess of $18,800. The
combined rate at that time was
77% on income between $18,800
and $20,000.

The estimated revenue loss un¬
der present law from this limita¬
tion is $655 million and would
affect all taxable incomes in ex¬
cess of $22,000.
sions funds is spreading rapidly. It is becoming evident that the de- preciation of the dollar is permanent in character and that a reversion to the price level of the '30s or the '20s is virtually out of the question. Under these circumstances, to protect their families, many people will be forced to carry more insurance than they did when the purchasing power of the dollar was higher. Furthermore, because of the high prices and taxes and the inability of individuals to accumulate an independent income for their old age, many corporations have realized the necessity for establishing pension funds.

The funds accumulated by insurance companies and by admin- istrators of pension funds seek outlets primarily in bonds and other fixed-income-bearing obligations. The large amount of government obligations and other contractual obligations issued by institutions also gives them the opportunity of investing part of these obligations into cash and investing the proceeds in new securities, particularly when the latter yields a higher return. It may be expected that whenever business activity is high and the government agencies of the government, such as the Old Age Insurance Fund and the Employment Trust Fund, will buy outstanding government obligations, thus furnishing sellers of these securities with cash with which to make new investments. Similarly, when busi- ness activity is down the surplus will return to investors and the agencies will sell government obligations which are in the hands of pension funds and insur- ance companies with securities.

The policy of the Federal Reserve authorities to maintain an orderly government bond market has provided institutional investors, notably life insurance companies, with a ready outlet for their long-term government securities. During the past year the Reserve Banks have acquired a large amount of long-term government bonds, thus placing funds at the disposal of insurance companies with which to obtain new securities.

Commercial banks are also large buyers of short- and medium-term government obligations, municipal securities, and corporate securities and state and municipal bonds. Their ability to buy new securities depends upon their re- serve position, which in turn is greatly influenced by the policies of the Reserve authorities. A reduction in reserve requirements by the Reserve Banks would automatically increase the demand for short- and medium-term government securities and put these bonds on the market. Whether or not legislation will be passed giving the Board of Governors of the Federal Reserve System the power to regulate the investments of insurance companies and other institutional investors, in addition to those of the member banks, is as yet unknown.

It is, therefore, clear that the supply of capital seeking an outlet is not large and can be increased by the policies of the Reserve authorities and the agencies and trust funds operated by the Federal Government. Corporations seeking capital through the sale of fixed-income-bearing obligations will find that, therefore, be able to find an adequate source of funds.

There is, however, a limit to which a corporation is able or willing to increase its indebtedness. While the ratio of indebtedness to total capital varies from industry to industry, yet, it is evident that every increase in the cost of utilities there is a point beyond which the corporation is not willing to go. Hence, the ability and willingness of any individual corpora- tion to expand does not depend upon being able to obtain long-term capital represented by bonds and mortgages, but rather on obtaining equity capital. When equity capital is limited, the corporation will become willing and able to increase their long-term capital through savings. The lack of equity capital created the shortage of new sources of funds which resulted in the development of the past few years. It is a problem of the utmost importance to the banks and to industry but to the economy of the country as a whole.

Reasons for the Lack of Equity Capital

As is evidenced by the constant growth of retained profits by corporations from equity capital, new equity capital from internal sources has increased during the last few years. There has, however, been a decided decline in the external sources of equity capital. This is not due, as is generally believed, to the lack of retained earnings. On the contrary the liquidation of accumulated losses is much larger than before the war, but the reason for this is more apparent than real. This may be seen from Appendix III.

The lack has taken place, however, is a striking change in the type of capital and in the character of savings. Before income taxes be- came burdensome, the principal buyers of equities were individuals in the higher income brackets. They were in position to save a portion of their earnings, and much of their savings were put for the purchase of equities. At present, however, there is little left after paying taxes, contributions to pension funds and insurance premiums, and hence not as able to form capital to buy equities. This is probably the principal reason for the lack of equity capital from external sources.

The large savings indicated in the attached table are to a large extent owned by those individuals or groups who have been hurt by the high prices of commodities. Farmers, highly skilled workers and individual inventors and manufacturers. So long as these groups refrain from buying equities or from increasing the amounts, there is bound to be a lack of overall capital from external sources.

An analysis of the type of liquid savings is also of considerable in- terest. The figures show that the owners of these savings prefer to hold mainly cash or bank deposits. In past, this situation probably represented an effort to avoid taxes. On the whole, however, it reflects the uncertainty of the investor concerning, the results of a temporary rise in the price level and the possibility of reductions in personal income. The substantial in- crease in the life insurance policies, including more and more institutional policies, is characteristic of a desire to spend. On the other hand, whether or not there will be a continuation of the moderate rate of national growth and expansion, the need for new capital to be invested in bonds and mortgages will undoubtedly continue, thereby furnishing the same stimulus to the capital to be invested in bonds and mortgages which has, in the past, revealed that many individuals are using more of their savings to purchase stocks and shares of stock. This is done to accumulate savings which will be used to purchase houses and durable goods. For the future, this may be made evident in the years to come. The change in the type of capital and the character of investments preferred by individuals has had a pronounced effect on the capital market. It has accentuated the demand for bonds and mortgages and contributed to the prevailing low money rate, although the principal factor making for low money is the open-market operations of the Federal Reserve Banks and the liquidation of governmental investments. The change in saving habits has also accentuated the lack of funds available to the industry to rely increasingly on internal sources of funds. The distribution of dividends common stock and a considerable increase in the use of preferred stocks and common stock.

The consequences of the change in savings may be briefly summarized as follows:

(1) To a considerable extent it is responsible for the failure of the equity market to respond to the earnings of corporations and to reflect the permanent depre- ciation of the purchasing power of the dollar. When a decline in the purchasing power of the currency is con- sidered permanent, there is a favorable effect on the prices of equities. Many individuals look upon equities as a hedge against infla- tion, particularly because of the long run higher income taxes on business expressed in dollar terms, and hence are more willing to buy equities. Because many individuals who formerly bought equities do not have the necessary funds, however, the market has failed to reflect this favorable effect.

(2) The lack of equity capital also contributes to an abnormal spread between the rates of interest and the discount rate today is higher than before.

(3) The shortage of venture capital has led to a considerable increase in the indebtedness of business concerns, as regards not only long-term bond indebtedness but also short-term indebtedness to the banks. It is in part also responsible for the extremely low rate of growth of term loans by banks.

The elimination of the internal sources of equity capital, the dry—liquor industry, and the uncertainty of the population has undoubtedly been a marked influence of dividend income. On the contrary, the dry—liquor industry, and the uncertainty of the population has undoubtedly been an influence of dividend income. The uncertainty of the population has undoubtedly been an influence of dividend income. The uncertainty of the population has undoubtedly been an influence of dividend income. The uncertainty of the population has undoubtedly been an influence of dividend income. The uncertainty of the population has undoubtedly been an influence of dividend income.

In other words, because of the rise in the price level, there are two additional factors which must be considered in determining the willingness of investors to buy equity capital:

(1) The elimination of double taxation of corporate earnings. Such a measure would make equi- tities attractive to wealthy individuals who are at present strongly buyers of tax- exempt securities.

(2) The change in the present income tax laws which make it difficult for the individual to retain more of the cash dividends. A rise in the tax rate, however, that either of these measures will be taken in the immediate future. There is an in- crease in the supply of equity capital may be expected,

It might be advisable for the Investment Bankers Associa- tion of New York to investigate the question of the saving of the savings of the short-term debtors. The high volatility of liquidated amounts of liquid assets could be tapped for the equity market. The market might be expected to be a more stable one with consistent dividend policy would be difficult to obtain the necessary divi- dends of equities among these per- sons who are already interested in a steady income. Their hesitation to buy equities may be due to the fear of fluctuations in the price level. The market might be expected to be a more stable one if the operation of the Federal Reserve System would be more or less constant. The present salary and dividend policy would be difficult to obtain the necessary dividends of equities among these persons who are already interested in a steady income. Their hesitation to buy equities may be due to the fear of fluctuations in the price level. The market might be expected to be a more stable one if the operation of the Federal Reserve System would be more or less constant. The present salary and dividend policy would be difficult to obtain the necessary dividends of equities among these persons who are already interested in a steady income. Their hesitation to buy equities may be due to the fear of fluctuations in the price level. The market might be expected to be a more stable one if the operation of the Federal Reserve System would be more or less constant. The present salary and dividend policy would be difficult to obtain the necessary dividends of equities among these persons who are already interested in a steady income. Their hesitation to buy equities may be due to the fear of fluctuations in the price level. The market might be expected to be a more stable one if the operation of the Federal Reserve System would be more or less constant. The present salary and dividend policy would be difficult to obtain the necessary dividends of equities among these persons who are already interested in a steady income.
the savings of the new savers might involve considerable en-
largement of the personnel of the institutions engaged in the dis-
bution of securities.

(5) Finally, considerable study and thought have been given to means of tapping or retap-
ing the resources of the insurance companies for the purpose of equity financing. Since the assets administered by life ins-
urance companies are bound to increase considerably in the fut-
ture and since, once the pressing need for housing and industrial ex-
pansion has been met, a situation may arise where the supply of capital might exceed the demand and mortgage capital, it is evident that both companies in need of additional capital as well as the executives of life insurance companies have been vitally interested in this problem. In order, however, to make available a portion of the resources of large life insurance companies for the purchase of equities, it would be necessary not only to make im-
portant legal changes in the United States but also to alter consider-
ably the valuation system which life insurance companies have fol-
lowed.

In addition, the purchase of equities by life insurance com-
panies raises a great number of other problems which, to my
knowledge, have so far not been solved.

One may therefore state that the solution of the problem of equities from external sources de-
pend largely on Congress, which has the power to alter the tax
laws. It is not likely, how-
ever, that any remedial tax legis-
lacion will be passed in the near
future. The only thing the invest-
ment banking profession can do is to broaden the market and to increase the supply of equity capital to tap the resources of the new savers which, admittedly, is not an easy task. However, it
is possible that with the right policies the rates of the interest rates by the investment banking fraternity.

Increasing Equity Capital from
Internal Sources

Internal sources of equity cap-
ital could be increased primarily by the following section of Con-
gress:

(1) Modification of the Rev-
enue Act to liberalize depreciation
allowances. As is well known, the current depreciation reserves are, based on original cost. However, to replace obsolete equipment and
 Pay-as-you-go income taxes. When

While there is ample supply of capital, primarily owned by in-
stitutional investors such as ins-
urance companies, selling out-
lets in bonds and mortgages, there is a definite lack of funds seeking out-
lets in equities.

During the past few years the principal source of equity capital has been the issuing of bank-
ings by corporations. The impor-
tant question is whether a tax on corporate equity or a tax on corpo-
rate earnings would be preferable.

Since it is evident that the formation of equity capital plays a very important role in the eco-
nomic development of the country, it is of the utmost importance that the Congress study this problem care-
fully, with a view of stimulating capital expenditures not only at present, when the demand for

gold is great, but par-
ticularly in the future, when the most pressing capital demands for capital goods have already been met and the country depends more on current demand.

Summary and Conclusion

There is a definite relationship between the availability of equity capital and a dynamic economy. Whenever the supply of equity capital is stagnant, the expansion of industry is retarded, and eventu-
ally the result is a decline in business activity and an increase in unemployment. The demand for capital in the United States is very small, and it is quite possible for our economy to continue to be so for some time.

APPENDIX I

Estimated Principal Uses and Sources of Corporate Funds

(in Millions of Dollars)

<table>
<thead>
<tr>
<th>Type of Use</th>
<th>1940</th>
<th>1941</th>
<th>1942</th>
<th>1943</th>
<th>1944</th>
<th>1945</th>
<th>1946</th>
<th>1947</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Capital Securities</td>
<td>2.3</td>
<td>4.4</td>
<td>6.7</td>
<td>2.7</td>
<td>5.2</td>
<td>7.2</td>
<td>2.4</td>
<td>1.0</td>
</tr>
<tr>
<td>Repairs and additions</td>
<td>9.5</td>
<td>10.9</td>
<td>15.8</td>
<td>20.0</td>
<td>15.5</td>
<td>18.6</td>
<td>15.3</td>
<td>13.2</td>
</tr>
<tr>
<td>Inventories</td>
<td>11.3</td>
<td>11.9</td>
<td>13.7</td>
<td>19.7</td>
<td>24.4</td>
<td>26.0</td>
<td>24.3</td>
<td>23.2</td>
</tr>
<tr>
<td>Intangibles</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Total</td>
<td>31.5</td>
<td>35.7</td>
<td>47.8</td>
<td>56.2</td>
<td>59.8</td>
<td>62.8</td>
<td>59.3</td>
<td>52.8</td>
</tr>
</tbody>
</table>

APPENDIX II

Business Financing Through External Sources of Funds

(in Millions of Dollars)

<table>
<thead>
<tr>
<th>Type of Source</th>
<th>1940</th>
<th>1941</th>
<th>1942</th>
<th>1943</th>
<th>1944</th>
<th>1945</th>
<th>1946</th>
<th>1947</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Capital Securities</td>
<td>2.3</td>
<td>4.4</td>
<td>6.7</td>
<td>2.7</td>
<td>5.2</td>
<td>7.2</td>
<td>2.4</td>
<td>1.0</td>
</tr>
<tr>
<td>Repairs and additions</td>
<td>9.5</td>
<td>10.9</td>
<td>15.8</td>
<td>20.0</td>
<td>15.5</td>
<td>18.6</td>
<td>15.3</td>
<td>13.2</td>
</tr>
<tr>
<td>Inventories</td>
<td>11.3</td>
<td>11.9</td>
<td>13.7</td>
<td>19.7</td>
<td>24.4</td>
<td>26.0</td>
<td>24.3</td>
<td>23.2</td>
</tr>
<tr>
<td>Intangibles</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Total</td>
<td>31.5</td>
<td>35.7</td>
<td>47.8</td>
<td>56.2</td>
<td>59.8</td>
<td>62.8</td>
<td>59.3</td>
<td>52.8</td>
</tr>
</tbody>
</table>

APPENDIX III

Saving by Individuals in the United States

(1940-1947)

(Billions of Dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>1940</th>
<th>1941</th>
<th>1942</th>
<th>1943</th>
<th>1944</th>
<th>1945</th>
<th>1946</th>
<th>1947</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Savings</td>
<td>23.2</td>
<td>23.9</td>
<td>29.0</td>
<td>31.0</td>
<td>32.0</td>
<td>33.0</td>
<td>34.0</td>
<td>35.0</td>
</tr>
<tr>
<td>Savings by Individuals</td>
<td>16.2</td>
<td>17.2</td>
<td>20.2</td>
<td>22.2</td>
<td>23.2</td>
<td>24.2</td>
<td>25.2</td>
<td>26.2</td>
</tr>
<tr>
<td>Savings by Non-Incorporated Individuals</td>
<td>11.3</td>
<td>12.4</td>
<td>16.1</td>
<td>17.4</td>
<td>18.2</td>
<td>19.2</td>
<td>20.3</td>
<td>21.3</td>
</tr>
<tr>
<td>Savings by Incorporated Individuals</td>
<td>4.9</td>
<td>4.8</td>
<td>4.1</td>
<td>4.8</td>
<td>4.6</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Savings by Individuals, all categories</td>
<td>16.2</td>
<td>17.2</td>
<td>20.2</td>
<td>22.2</td>
<td>23.2</td>
<td>24.2</td>
<td>25.2</td>
<td>26.2</td>
</tr>
</tbody>
</table>
BOND PEGGING SOURCE OF INFLATION

(Continued from page 21)
that our national banking system might be suddenly undermined by the shock to confidence, unaccustomed to the bond market, and a consequence of opening the floodgates to speculation. Since no one seriously proposes such complete withdrawal of support as to create chaos in the bond market, this fear of the effect of a change in the support level must be regarded as a "psychological argument." Of the several arguments that diagnose itself by long repetition and pell-mell way of the scarecrow argument, the one primary consideration. A collateral argument is that if a sharp drop in support prices must make the public look for a real public estimate and conceivably cause confusion among holders of savings bonds, discouraging further purchases and possibly precipitating a large scale of cashing of savings bonds. The refusal for continuing support prices is unchanged becomes very compelling when it is draped in robes of State, as has been done repeatedly by stressing the need for keeping a market for long-term credit in a way to be distorted so long as we are closer to war than to real peace. Underlying all these arguments is that the Government, in the market farm price supports, liberal mortgage and other building credits, and high Government purchase for long, generally, are inflating much more directly than any present pegging policy.

Senator Hattie Speer of Nebraska
Venturing beyond mere review and summation of the argument, one can tentatively state the Federal Reserve System would do if as officials of the Government if the Reserve System were faced with the responsibility of deciding debt management policies for the best interests of the nation. This is a dependent on the conclusions. However, the recent revival of buying interest in Government securities means that another opportunity as in June to retain just a little support on our promises, because we again face the question of the liquidity of the Treasury Allequipped. 

As of the second week of November, we are nearly unanimous in holding that current debt management policies should take into account the anticipation of continued inflationary pressures in our economy. To that purpose, it is indispensable to have the other important factor in containing inflation, although necessarily supplemented by quantitative controls still further moderate increases of rates on Treasury bills and certificates, continuing the trend begun 18 months ago; because these increases have been a fact in stiffening bank credit to a very helpful degree.

An almost inescapable corollary of the Government's repeated statements is that actual and optional maturities of Those who are reaping benefits are being returned into very short term items. This may take the form of a one-year certificate. So long as the yields on these certificates remain low, those on obligations may be a little better than the existing free market conditions. The interest rate is difficult to scale in middle-term obligations without creating new problems of its own. Nevertheless, the present proportion of very short maturities is quite high. In my opinion, we do believe that as soon as possible, preferable the pegs, or vice versa, the earliest possible start should be made upon refunding bond options especially into longer notes and bonds. For such offerings the Treasury can help to hold the bond and stable investments in interest which is one goal of debt management policy. It should be mentioned that the Treasury Commission without greatly exceeding the yields of the bond will not view the long term rates on which the war has been.

TREASURY SAVINGS BONDS
While attention has been focused on the pros and cons of various aspects of Treasury bonds, the savings bond itself has been pretty well neglected. This is not at all parently unaffected by the controversy. Last July's successful bond issue raised just over $1 billion in 18 months. The bonds may have been helped by the desire of the public for any kind of purchase of the marketable savings bonds at a time when the yield on savings bonds bar any large funds from such a refuge, and the interest. The Treasury has, of course, pegs and savings bond notes, even after the August adjustment of yields on the savings bonds. It has been feared that the pegs and savings bond notes would cause a widespread and perhaps dramatically decline in the price of the long term notes. On the contrary, some savings bond notes are pegged to the market as well as by the Federal Reserve. It is hard to get a straight statement by the Federal Reserve of a rate No more than $1 billion in savings bonds thus far this year have exceeded redemptions by a one-third greater margin than in the past year. After slipping to a billion dollar net redemption in 1946, Series E redeemed almost $14 million in 1947, and in the first 10 months of this year has netted $64 million. Sales of Series E fell off in 1946, but have continued to show a sizable net. Series G held its wartime sale level almost undiminished away in 1946, slipping 20% in 1947 and has almost recovered this year. A very important credit in this connection is that the Federal Reserve is managing the market for them by pegging. A majority of users now believe that the pegging has been too stubborn, that there was a time back in June whereas the pressure was off the pegs, when it would have been a good thing to knock away a little lower support prices in order to penalize the second round of switching out of long Governments into other investments.

UNWRITERS AND DISTRIBUTORS OF INVESTMENT SECURITIES
Public Utility Railroad Industrial Municipal

Schoellkopf, Hutton & Pomeroy, Inc.,
70 Niagara Street, Buffalo 2
63 Wall Street, New York 5
Washington 3066
Boiling Green 25070
Teletype BU 122
Teletype NY 1-5227
Private Wire Between Offices

DEALERS IN
Revenues and General Obligation Municipal Bonds

Municipal Department
Allen & Company
Established 1922

30 Broad Street
New York 4

Bell System Teletype NY 1-571
Telegraph Hanover 2-3600
Secretary Snyder Says Bond Support Program Helps Municipalities

Points to Treasury's interest rate control as maintaining stability in municipal bond market, as well as keeping up value of $8 billion on account of Federal Reserve Board's bond price policy.

In a talk before the American Municipal Association in Washington on Dec. 15, Secretary of the Treasury John W. Snyder called attention to the Treasury's firm support of government bond prices in stabilizing the market for municipal issues. The Treasury Secretary pointed out that in view of large holdings of Federal and municipal and corporate bond issues by public bodies, "they have grown in importance in the past, and are a means of controlling and maintaining market stability in the bond market."
Investment Banking
And the Future

(Continued)

vent us from decaying in the midst of our good fortune.

The present administration has repeatedly expressed itself in favor of reducing the national debt.

Finally, the vote is an expression in a free economy between representatives of two major political parties which have espoused many of the same fundamental theories. A third party, representing views which were unfriendly to our basic concepts of good government, was hopelessly defeated.

Anti-Trust Suit

More than a year has passed since the Department of Justice brought action against 17 of its member firms and against the Association itself. The passage of time, however, has not diminished the force of this action, nor has it provided a decision. Those of you who are not directly involved in a member of the firm's uniform, only as a member of the IBA, should be informed of this suit.

Most of you know that we and the 17 defendant firms served Interrogatories on the Government, which accompanied our answers to their complaint, and our replies were designed to secure from the Government any specific information about the alleged conspiracy. On June 18, Judge Medina directed the Government to answer about 50 of these interrogatories within 60 days. After an extension of time, the Government on Sept. 14 filed partial answers.

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We have now had enough experience, however, with competitive bidding, to make an examination of our methods—the

So much for competitive bidding.

What of the Future

Now, an appraisal of the future. Our estimate is that during the year, many favorable opportunities and obstacles. We are likely to see too much money in the economy today. Never before in the history of the United States have we was childbirth in such abundance. Why, it’s a wonder you ever got birth of the ancient prosperity?

The outlook for this business has been diminished by the prospect of high taxes, reducing both spendable and investable income. It has been dimmed also by the trend toward profit margins which do not adequately compensate investment firms for the risks they undertake. We are likely to see an increase in the price of goods of a 17% or higher in order to compensate sales effort in the current year.

This, we hope, is only an indication of our growing desire to see our returns be in the form of investments in the stock market. It has already met a heartbreak because of the growing discount houses, and it can be difficult for them to service to the investor's interest.

Investment Capital

We have heard a great deal lately of expanding the flow of capital into the stock market. It is not unreasonable to assume that the abundance of supply is not a reason to be earning or paying more than they are. Our investment capital is really to expand market for new capital than the sale of equities. It is to be hoped that the investment capital in the stock market does not come from its own capital.

The shortage of venture capital is widely discussed. An increasing number of businesses have been told that the fund, being thereby forced either to reduce prices of another expansion through bloated stock issues. The mechanism of a stock issue is a device that will make a capital business with debt has tremendous disadvantages expection in the world of today, which experience wide fluctuations in its ability.

While a complete overhauling of our existing system would be too long overdue for the investor would be most encouraged by the introduction of a reform for the present duplication of taxes on capital. Capital and the policy of the individual.

The urgent need and despite impressive statistical comparisons equities capital remain for a long time. It is an encouragement for the investor to be in one sense of the world's productive wealth lies within our own hands. Our success is not shared. We work in the world dominated by the national credit, our state, and national debt is not a burden.
In considering the federal budget for the next year or two, there is general agreement about the necessity of large military outlays and substantial expenditures for foreign aid. These factors, together with the service on our own national debt and the benefits to veterans, mean that we must be prepared for large federal expenditures and the continuation of taxation at a level which is pretty high.

In addition to this, the administration has been reelected on a program of expanded social welfare, programs which will require additional expenditures. Admitting the desirability of a sound social program, we must pause to consider carefully whether our economy will be able to stand additional strain, or whether, if expenditures are increased substantially, they must come through the sacrifice of other vital governmental services. Otherwise one of two things will happen: there will be huge deficits that will disrupt our economy and finally affect our credit and the value of our currency. Or, if taxes are raised substantially, they will endanger the continuation of our business prosperity.

It will be no easy task to balance our budget. Today, more than a century ago, an atmosphere of high industrial prosperity and a considerable volume of tax collections will be required to balance our present expenditures. There is no reason to believe that the trend can be reversed. On the contrary, increases in our taxes indefinitely without inviting disaster.

We are content to consider the problem of reestablishing and expanding our sales efforts to reach to-day’s broader market. It can be none too soon, for we should begin now the methods of business solicitation which will be certain to benefit the thousands of individuals who hold themselves in conservative portfolios of liquid assets. Many of them may be found in agricultural communes in every section of the country, on the main roads of our cities and towns, accustomed to investment responsibilities. These markets can only be reached at greater unit cost and more generous profit margins.

For more than 20 years business men have preached the merits of the free enterprise system, mostly among themselves. It has had more effectual treatment than anything except the Declaration of Independence. I believe that the free enterprise system is the best product in the nation today there is ample evidence that it has not worked to the public good.

Meanwhile, through accepted democratic methods, drift toward socialism in this country persists in an orderly way and the nation continues prosperous and unsustainably free, despite the growing dependence of our citizens upon the State and Federal government.

An Education Program
There are endless opportunities to attract our citizens, especially those of high school and college, with the plain facts about business and government. If men are really in earnest, they will take upon themselves the task of providing sound economic education that everyone can understand.

It is no longer mysterious about the investment banking business, though some apparently believe that the use of mirrors or by sleight of hand. In the underwriting and distributing functions are comparatively simple operations through which savings and other capital accumulations are transferred and investments distributed, and in the ownership of these assets is identified with the individual.

An individual’s wealth is transferred from democratic methods, which is not hard to understand. Yet, because our industry is somewhat larger than many others and because our functions are not really lived by most of our citizens, the essential need of a fundamental supply by our members is little understood and little appreciated.

Since the profit results from our business have been somewhat distorted in recent years and since many changes have taken place in the conduct of our business more difficultly is the case against our future prospects. I feel reasonably safe in predicting that, if the firms, large or small, who recognize the many changes in this business and who are resourceful and aggressive in their advertising and merchandising, will report good results notwithstanding these discommodments.

Let us remember that the facilities offered by the banking business have been considerable in a free economy. And let us find a way to meet the demands which will be made upon us to raise the capital from private sources may well exceed our ability to perform unless we prepare for the opportunities and keep alert and flexible to meet changing conditions. We must make our plans with confidence and with the full knowledge that investment banking is one of the essential wheels of industry.

Meanwhile, the story of America must be told to the world. The fundamentals of the American system should be made known to greater numbers of our citizens. There must be constant reminders of the individual opportunities and individual freedom peculiar to our nation, where the incentive system and the profit motive nourish a virile and highly productive economic order which today is the hope of the world.
Predicts Reduced Industrial Financing in '49

(Continued from page 22) expected to cut back by more than 30%, and other enterprises in the mining, railroad, public utilities and commercial fields may well hold their budgets at a high level, so that total business expenditures may be down only 10%.

This would mean a decline in business capital spending of $2 to $3 billion. Now it is necessary to make a few assumptions about the ability of business to generate funds from earnings power next year. If a decline of 8 to 10% in net profits, before taxes, is projected and a moderately higher tax rate is assumed in the already burdensome tax structure, then business earnings would decline about 15 to 20%, or $3 to $4 billion.

On the assumption that business earnings next year can hold up to within about 15% below 1948, the internal generation of funds would be approximately adequate to meet this spending program and continue dividends at the 1946 level. Demand for new capital would then hinge on inventory and working capital requirements. Increased inventory requirements would be $7.8 billion in 1947, and about $6.4 billion in 1948. If no new money is needed for building up 1948 inventory, then business might be able to supply most of its own capital needs.

The question arises whether the results of the election will have an even more adverse effect on earnings than has been assumed. We know that the Democratic program has included promises of higher wages, price restrictions and increased corporate taxes. Sweeping accomplishment of these objectives would make it very difficult for business to generate sufficient funds for capital needs, either internally or externally, from the capital markets. Unexpectedly low earning power would of course have its effect in further reducing capital expenditures, establish a vicious circle in which a decline in available funds would be promptly followed by curtailment of new spending. An excess profit tax or other punitive tax burdens would cause an unjustifiable shrinkage in business expenditures, confronting our economy with a slowdown in durable goods production which would inevitably mean reduced payrolls and mass unemployment. Efforts to offset such a decline in business spending by increasing government outlays would face a losing battle since business expenditures on the plant have a definite reproductive power in contrast to the sterility of Federal spending.

Patterns of Financing in 1949

It is too early to lay down a hard and fast pattern for financing next year, but it does appear that:

(1) The need by business for new money will be considerably reduced.

(2) Strength in the fixed income security market may permit working out delayed refunding operations.

(3) Bank loan formation may slow down; there could be substantial payoffs on loans if inventory requirements are not much reduced by further price rises.

A recent survey made by the Federal Reserve Bank of Philadelphia of projected capital expenditures in the Philadelphia district indicates an expected 16% decline, and further points out that the firms involved in these programs expect to rely on banks for only 2% of their requirements, as against 13% a year ago. This survey was made prior to the election.

(4) If the net demand for new capital does indeed dwindle, the stage might be set for refinancing a certain amount of senior capital with equity capital.

The actual development of these possibilities would be generally constructive. The period of high capital needs in 1948 created preconditions of inflation which has been a time of many strains. Relaxation of the capital require¬ments in 1949 is expected to relieve some of these strains, resulting in balance sheet improvement, loan pay downs and ultimately a more nearly adequate flow of dividends to those who have furnished the risk capital to "American business.

In previous remarks this Committee has called attention to problems connected with the shortage and timeliness of venture capital, problems which rendered it necessary to substitute senior financing for equity financing in instances in which the latter was clearly desirable. From the beginning of 1949 to date, about 26% of the new money has been raised through the medium of common stock, 15% preferred stock and 65% bonds and notes. Clearly, the direction of this trend has been unsatisfactory from the point of view of a balanced capital structure.

It had earlier been hoped that a certain structural change might be on the 1949 calendar, a tax structure favoring relief from crippling double taxation. This would have tended to improve the tax front, look for improving the ratio of equity capital to debt, in new and existing issues. This type of relief does not appear bright for the next building up of this type of relief is still a requisite to sound economic planning.

The picture we have sketched in is that debt will actually slow in widespread use in the near future. We are not certain of which but business has picked up a dangerously high debt structure.

The answer is a definite "no." The direction of the postwar trend was not sound, but it has not proceeded far enough to weaken the financial strength built up in earlier years. A few brief facts bear this out. Today business sales volume is running two and one-half times as high as it was in 1939, and yet corporate debt is only about one-fifth greater than it was then. This data show that corporate working capital, excluding banks and insurance companies, is at an all-time high, as much as $2.5 billion in 1939 and about $4 billion in the middle of 1948. Comparable figures are not available for net worth, but other data indicate that working capital today is at least twice the prewar levels, while corporate debt has increased only moderately. The peak in capital requirements has not been reached and is clearly nowhere in sight. Finally, the peak in capital requirements finds the larger American business enterprise in a position to meet the manifold problems confronting us. Ingenuity and resourcefulness have prevented the development of corporate deterioration.

Respectfully submitted,
Industrial Research Committee
Frank A. Willard (Chairman);
Walter W. Alonsworth; Wilbur G. B. Smith; W. T. K. Collier; Milton C. Craig; Harry C. Granger; Henry R. Herrmann; Matthew J. Hickey; R. J. Jane, Parker; John N. Quail; Wictliffe Shreve; Wil¬ lenburg; Joseph A. Thomas; Murray Ward.

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Reports High Record of Municipal Issues

(Continued from page 24) fully discharged. This could appear to give full consideration to the state’s tax remission agreements.

Tax Exempt Discount—Municipal Bonds

In May of this year the City of Chicago sold a block of $66,500,000 of bonds for various purposes. The rate on these $66,500,000 of bonds was specified as 1 1/2%. Some of the bonds are serials and some term bonds. The term bonds are revenue bearers at a par prior to maturity. The bid for these $66,500,000 of bonds was at a discount, specifying a specific price for each maturity and where the bonds are optional a separate price for each optional date. The Department of Internal Revenue issued a ruling on these bonds, holding that such discount is additional interest and exempt from Federal income taxes.

The principle of this ruling is the same as that referred to in our Annual Report of last December, issued in connection with the sale of $30,000,000 Fulton County, Georgia 1 1/2% serial bonds sold by the County in March, 1947 at a specified separate price for each maturity, the value of such separate prices being at discounts. Both of these rulings simply reaffirm the long-established holdings of the Department as to the status of income to come tax purposes, of interest on bonds sold by a municipality at a discount and held to maturity. The optional feature was not involved in the Fulton County issue.

For the purpose of general reference the following statement of the decision of Chapman and Cutler of Chicago as to the effect of the Treasury Department’s rulings of April 30, 1948 and May 4, 1948, relating to $33,500,000 1 1/2% bonds of the City of Chicago sold by the City last December.

"The discount at which a bond is issued is by the City is regarded as constituting additional interest accruing daily over the entire period from the date of issuance to the date of maturity of the bond. An original purchaser who holds such bond to the final maturity date is entitled to treat the entire discount as interest received by him when the bond is sold. This is contrary to the City’s par at maturity. Where an original purchaser sells the bond before maturity, the discount is to be allowed as interest from the date of purchase at a discount to the time of sale, and bears to the entire number of days from issuance to maturity of the bond. Similarly each successive purchaser is entitled to the portion of the discount at which the City originally sold the bond, allocable to the number of days he holds the bond. Each successive purchaser selling the bond figures his share of the discount with respect to the number of days he held the bond out of the total number of days from issuance to the maturity date of the bond. The only difference in treatment occurs in the case of the purchaser who holds the bond when it is redeemed as par on the earlier call date: he is entitled to treat the entire discount as interest received by him when the bond is sold. This is the situation in the remaining discount, that is the portion of the discount which the number of days from his date of purchase to the date of fixed maturity bears to the total number of days from date of issuance to date of fixed maturity."

These rulings, of course, have no bearing on bonds sold by a municipality at par on the earlier call and later acquired in the market at a discount. Such cases held the declaration as a capital gain of the difference between the cost of the bonds and the price of disposition if above the cost.

Reconstruction Finance Corporation

In May, the Congress passed S. 2287, effective June 30, 1948, extending the life of the Reconstruction Finance Corporation (which would have expired June 30, 1948). According to the powers of the Corporation to purchase obligations to make loans to businesses, enterprises, financial institutions and municipal bonds, etc., as provided by Sec. 4 of the Act, or to purchase at the close of business June 30, 1948, the bonds, notes and other obligations of the Corporation would be continued up to that time.

"It is in the public interest to aid in financing projects authorized under federal, state or municipal law, the Act authorizes the RFC to purchase the securities and obligations of, and to make loans to, states, municipalities and political subdivisions of states; public agencies and instrumentalities of one or more states, municipalities, and political subdivisions of states; public corporations, boards and commissions.

No such financial assistance shall be extended, unless the financial assistance is for or otherwise available on reasonable terms. For brief summary of the various features of the new Act see our Interim Report of last May.

Water Pollution Control

In our previous reports we covered the Water Pollution Control Bills in the 80th Congress. During the closing days of the session last June, Congress passed S. 418 in the form recomposed by Sen. H. S. Givens of West Virginia. Public Law 845, 80th Congress, effectuated June 30, 1948. The states have for some time past done a great deal of constructive work and extended the abatement of water pollution. The Water Pollution Control Law, combining federal and state assistance, should greatly stimulate these important health undertakings.

In a joint statement of the Federal Security Agency, Public Health Service and the Federal Works Agency, as to Water Pollution, it is pointed out that the national program is to assist States, municipalities, inter-agencies and industries in the control of water pollution caused by sewage and industrial wastes.

"Water pollution abatement is primarily a State responsibility, although Federal efforts aid to the States. States and municipalities have discovered the problems of pollution extend beyond State boundaries. Public Law 845 is the result of a bill drafted by a bi-partisan congressional committee whose purpose was to develop an effective, coordinated national pollution control program. The Act provides for State water pollution control agencies, and from the Public Health Service.

The Federal Works Administrators are authorized to make grants to States, municipalities, inter-agencies and interstate agencies for studies, surveys, and other action preliminary to the construction of projects, and to make loans at 2% interest for the planning and construction of sewage treatment facilities.

"Grants for plan preparation for any one project cannot exceed $25,000, or one-third of the cost of such work, whichever is the smaller. The Act authorizes an appropriation not to exceed $1,000,000 annually for five years for the making of grants for plan preparation."

"Loans on any one project cannot exceed $250,000, or one-third of the cost of the project, whichever is the smaller. The Act authorizes an appropriation not to exceed $25,000,000 a year for five years for the making of grants for plan planning and construction."

"It is specifically provided in the Act that Federal funds may be used to assist in the pollution control to other obligations issued or to be issued for the project and to other obligations then outstanding as well."

"The passage of Public Law 845 has provided for the first time a national program for the elimination of water pollution. The program is a challenge to States, municipalities, communities and industries and general cooperation is essential in order to achieve success."

"The approach to pollution control is to proceed on a federal-state-local partnership. The program presents its own problems in each case. Whatever the result, the greatest number of people will be the conscious sponsor and the beneficiaries of the objectives of the program."

"It is a long range plan and immediate action is required of all levels of government. But over a period of years the improvements must be brought about, in recreational facilities, and in the general air of health and welfare will be immeasurable."

The Tidelands Situation

"For the past two years we have reported regularly in our Independent Annual Reports respecting developments on the so-called tidelands matter—the claim of the Federal Government, presented legislation, recent Supreme Court decisions, etc. and the further legislation this session intended to establish the law for the future so that the rights and powers of the States may be protected. Attention has been directed to these decisions and enactments—court decisions, Ap-
Progress Report of the Special Committee on Revenue Bonds

At the White Spring Surplus Meetings in May, Emil Williams, Chairman of the Municipal Securities Committee appointed a Special Committee on Revenue Bonds, which is made up of the following members:


The general objectives of the Committee are to:

1. Consider, in the minds of bank officials and supervisory banking authorities, the nature and importance of these bonds as a more realistic appreciation and fuller understanding of the merits of the class of investment securities generally known as "municipal bonds" and to entitle them to recognition as a suitable investment, for banking institutions, and especially commercial banks, and to create in the minds of prudent investors everywhere an understanding of the true investment value of municipal revenue bonds.

2. To the extent that the record which these bonds have made, particularly since the depression, there are still those who look upon them as a bit of a disfavour because they are not supported by the taxing power. Although many of these companies, banks, trust companies and individual "investors" have been buying them for years, the supervisory banking officials, as a rule, still hesitate to include revenue bonds among those investments they consider suitable for bank portfolio.

3. Therefore, one of our chief aims is to create a better feeling, and ideally to prepare and make known these bonds in the minds of the bank officials and supervisory banking authorities, to lend some supervision over the commercial banking system.

The report which has been proposed and which is being developed, although not yet formally adopted, by the Committee, is based on the conviction that revenue bonds when well conceived and properly designed are good bonds, and that they can be found in places against which there is due to lack of knowledge about their past record and potential value, rather than to any inherent weaknesses in the principles upon which they are based. It is hoped that the report will be essentially educational, and to that end we are directing our efforts.

As each revenue bond must be judged on its merits and cannot be accepted blindly simply because it has been issued for some popular purpose, certain pertinent information must be had regarding it in order to determine its true investment value. Among the questions which at once come to mind when we approached the problem were:

1. Exactly what information is required by the Federal or state agencies?

2. How do we get that information?

3. How do we make it available to those who want it?

4. Are we justified in giving the information when they have available any information on the true investment value of the bond under consideration?

The general answers to the first question was that the Federal and state agencies have no information for each of the purposes for which revenue bonds are generally issued, and are interested in information which would enable them to have a clear understanding of the purpose and intention of the revenue bonds and to determine whether they may be otherwise entitled.

From time to time insurance companies, particularly the many sophisticated individuals who inquire of the agencies the information about certain income regarding which they are interested, who have the funds available, and maintain their position on investment alone, they do not seem to know what it is or how it is that these bonds may or may not be used.

There was considerable interest among the agents, and although the agencies at times have shown certain interest in the bonds, they seem to be interested in the details of the bonds, the interest, and the status of the bonds, rather than the details of the bond. They are interested in the financial position of the issuers in the Electric Light, Water, Sewer, Toll Bridge and Highway bonds. Those for other purposes may be prepared to give a different opinion on the same bond, that was prepared for one.

A sample of these reports would be the report issued by the Committee on the Bond Buyer, thanks to the thoughtfulness and energetic work of the Editor and Publisher. They are in two parts. Form No. 1 may be used for any or all purposes for which revenue bonds are currently issued, whereas Form No. 2 has been especially designed for the specific purpose for which it is to be used. They are designated I.B.A. Revenue Bond Report Form No. 1 and I.B.A. Revenue Bond Report Form No. 2, Electric Light, etc.

The work has been prepared in the course of the interest and to collect and distribute these reports and which would be amply compensated for its efforts, one of the first moves we made when starting on this work was to propose to some of the reporting agencies, and to publish at regular intervals financial reports on municipalities and industries, the publication of a manual solely devoted to revenue bonds and liabilities. We are still working those we are all familiar with such agencies are well-equipped to do the work and through the sale of the manual they would be well paid for their efforts because undoubtedly such manuals would be in wide demand.

The idea interested them and we have reason to believe that at least one is seriously considering devoting more space to revenue bonds projects if not in the publication of a separate manual.

Obviously it will be the interest of everyone and the writers of revenue bond reports, for which wide distribution is desired to cooperate and publicize this publication when it becomes a reality, in making more widespread the desired and believe it will be natural, we think that the manual is issued and circulated it will be a matter of time until it will receive a great advantage such a volume may have for all revenue bond issuers and revenue bonds. We believe it should be as a long step forward on the part of any local banking authorities and others in these bonds.

It is the intention of the leading bond attorneys who are most active in negotiating transactions and indentures for revenue bonds to include a covenant requiring the issuer to make available annually or as is usual, information regarding the financial position of the issuer in the financial reports of the project under their direction and the Committee hopes that these I.B.A. report forms may be followed in detail or as a pattern in supplying such information. In any event as it goes on a standard pattern will probably evolve which will be followed by all.

The Committee intends to report all municipal authorities to include those in all revenue bonds which they issue and which we would favorably respond to. Some attorneys may go even further and encourage issuers to agree to publish a report of operations at regular intervals in some paper agencies. This is a great general circulation among municipal dealers. The cumulative value of such advertising would be great if the reports were good and would give the issuers an opportunity to explain the reason if they were poor. The cost of the audit and other expense necessary to prepare the information requested together with that of the attendant advertising, if any, should be included in operating expenses and so provided for in the indenture.

Many of the large revenue bond issuers would make a practice of mailing to those who request it regular reports regarding their operations and we believe that this practice could not in the future be obvious to all that it is.

The Committee expects to seek the cooperation of such organizations as the Municipal Finance Officers Assn., American Public Finance Officers Assn., Municipal Finance Officers Assn., and other similar character and hopes that through the cooperation of these bodies sufficient attention will be attracted to the subject of the depression and broaden the interest in revenue bonds and that it will prove to have been well conceived and sound.

The publishers of the "Bond Buyer" are already cooperating in operating a most effective and comprehensive mailing of the I.B.A. publications to a large portion of the Annual Convention Number to this subject and will follow these publications (Continued on page 40)

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(Continued)
Reports High Record Of Municipal Issues

(Continued from page 38)
also will cooperate with the Committee in any campaign of publicity which may be determined upon.

We are going to make a sincere effort to have the bond buyers in Wall Street, the banking officials in Washington endorse our program and have reason to believe that we will be successful.

If addresses such as those made recently by Bobie Mitchell before the American Toll Bridge Assn. and by R. E. McDonnell before the American Public Power Assn. regarding certain constructive features of revenue financing both of which appeared in the "Bond Buyer," were to be distributed by dealers among their bank customers, the banking authorities, and others in an effort to spread the gospel about these bonds as much as practical, we believe it would do much to aid our progress.

It is hoped that the Committee may interest the Governors of our Association in our plans to the point that they may be induced to finance the cost of preparing reprints of such addresses as those mentioned and articles on the subject and that the Association may be reimbursed later by the dealers who use them. We hope to handle the cost of preparing the reports in the same way.

Now this program as above outlined doubtless will not satisfy the dealer who asks: "how will it help me sell a new revenue issue which I am offering today?" The Committee's answer to that query is: Work harder and smarter, except indirectly, to sell your bonds. As stated above, the program sets the tone, offers a basis, essentially educational and these report forms and speeches are but another way of getting out the kind of information the average buyer should have to determine the investment features of these bonds. Insurance companies want a great deal of information and such information may be satisfied with less. We have tried to kill as many birds at once as possible. By having this or similar information compiled in a separate annual manual, the reports will be more effectively attracted to revenue bonds as a class and enable people to more easily compare the results of various issues.

By this means one can become better informed about them and therefore better able to determine their value and desirability as investments for his particular purpose.

We can consult engineers' estimates galore, but unless they are presented to some one who is familiar with the record of those making the estimates, they will contain more nonsense than the merest little more than guesses and therefore speculative in the eyes of the bond buyer. And of course, speculative issues are not suitable for bond investment.

Finally, and this comment is perhaps the last to better express it, the most constructive idea which this Committee can present is a report for public and revenue bonds, set an example by using these forms at least as a pattern, in making as available annually, if not oftener, information regarding the projects which have been written. We believe they would find the effort well directed if they should see that this information is placed in the hands of the supervisory banking authorities, including the officers who supervise in each of the Federal Reserve districts, in which bonds have been bought, as well as to the members of their syndicates and those to whom they have sold these bonds.

They can go even farther, and that is to place the knowledge that the bankers in the area in which the expense of the project is to be borne is available to the public, and the knowledge is not limited to what the newspapers have published, or the syndicate holders know. Often times we are quick to criticize these officials for failure to look favorably on some pet issue. However, we who know all about it seldom have made any effort, at least any organized effort, to see

out that these same officials who can do so much to help or hinder its distribution are fully informed as to its character and merits.

If this Committee does nothing more than help to educate the investment fraternity and its customers as to what information should be had to aid in properly judging the investment value of revenue bonds and make them more desirable and able to cheapen the debt from the goals it will have spent its time well. If, in addition, we can arouse their interest in informing the banking officials about their war, we will have taken an important step toward reaching the goal for which we have set out.

The Committee earnestly urges all municipal dealers who are anxious to extend their field of operations and their volume of business to get together and familiarize themselves with these facilities so that they may induce their bank customers as well as others to form the habit of ordering the expense of the bonds the facilities who bonds they hold with and in turn to use the information that they should pay hand 

In concluding, the Committee believe that it has become a means of broadening the market for these bonds which we believe are destined to play a greater part in the future, and it is time to give the matter serious thought and effort.

PHILLIPS BARBOUR,
Chairman, Special Committee.

SEC Announces Amendments to Rules

The Securities and Exchange Commission announced on Dec. 17 amendments to certain rules under the Securities Acts of 1933 and 1934. These amendments, it is pointed out, have been under consideration since last summer, during which time comment.s and suggestions were received regarding the proposals.

In conclusion, the SEC rules made under the Securities Act of 1933 the Commission has changed its policy of granting extensions of time for filing annual and other periodic reports. These amendments also provide that the extension of time is based on "specialized grounds." In addition, the SEC stated that it now requires the filing of Form 20F (and corresponding reports of significant developments, and (3) quarterly reports of sales and operating revenues by those companies which have registered new securities in underwriters and dealers, including outstanding securities of the same class, not less than $5,000,000.

As to amendments in the prospectus requirements (Form S-1), the SEC has made the following changes:

1. "Information" is to be included as to the securities, other than those owned by the registrant, of all subsidiaries whose financial statements are filed with the registration statement on either a consolidated or individual basis.

2. Under the so-called "disclosure" requirements (Items 25 and 28), the Commission now provides that information regarding remuneration of directors and officers.

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Kentucky Utilities Company

Middle West Corporation, now in the final stages of dissolution, is distributing its holdings of Kentucky Utilities Company stock on the basis of one share for each share currently owned. The distribution will take place on Dec. 15, 1948, and the stock will be traded on the New York Stock Exchange thereafter.

Kentucky Utilities now has revenues of nearly $20 million per annum, and its earnings are much above the usual rapid recent growth, 1948 being the third year in a row that earnings have been $1.20 per share or more, which is superior to that in 1947 and the last of the ice properties are being currently disposed of. Some gas interests were also sold this year, the remaining properties being located in Paducah and Shelbyville.

The utility served by the company includes a large part of the blue grass region in central Kentucky, and parts of the biminous coal areas in southern Kentucky. The distribution of revenue is as follows: 30% to the state and 70% to the cities. The area is not an industrial center and the share of each city varies.

 Middle West Corporation is currently purchasing an additional 125,000 shares of Kentucky Utilities at $10 a share. Following this transaction the latter's capital structure will consist of preferred stock, 21% preferred, and 79 common stock. Middle West is an authorized corporation, but it is argued that the company possesses a lien on the bonds in the near future of which $1,500,000 will reduce bank loans and the balance be used for construction. After these transactions, the pro forma capital structure will be $54 debt, 19% preferred, and 27% common stock.

The company's fixed charges and preferred dividend requirements have been substantially reduced by the low interest rates on refundings, and several cash investments by Middle West in the common stock of the Kentucky Utilities have improved the financial structure. The company is now engaged in a substantial construction program, and its new power plants are expected to reduce operating costs substantially. In the 12 months ended Oct. 31 the kw. cost of purchased power average about .76 per kw. while fixed cost of generated power was .61 per kw. For the 12 months ended Oct. 31, 1948, earnings were equivalent to 41.37 on the 1,095,000 shares of common stock which will be outstanding after the sale of the additional shares to Middle West. (Based on the current number of shares, earnings are $1.48.) Earnings for the October period were $102,000, which exceeded those for the same month of 1947.

As a result of the improved earnings resulting from new generation facilities, and that installed in 1948 which will begin operation in the year 1949, the new company now expects to pass the $1.20 per share mark once again in 1949. Some time in the near future a dividend of $1.20 will appear reasonable as the earnings projections are borne out.
Recommends New Uniform State Securities Act

(Continued from page 41)

purchase of such security is to be made by such broker.

(ii) The time within which delivery of such security shall be made. [after such deposit.]

(iii) The conditions, if any under which calls for additional [matures] payment may be made.

(iv) Any other provision which the commissioner may deem necessary for the protection of the parties to the purchase of such security.

(b) An 'installment purchase contract' as referred to in this section shall be deemed to be any contract for the purchase of a security sold by a broker in which the purchaser agrees to pay for the securities in designated periods or installments on specified dates.

(c) A 'margin' contract, 'when issued' contract or 'when distributed' contract, as generally known in brokerage practice or securities business, or any contract involving the purchase or sale of securities used by a broker, shall not be deemed to be an 'installment purchase contract' as referred to in the making of this section merely because such contract involves a deposit or prepayment of an acknowledged, or an implied or express agreement for the payment or balance or any part thereof upon demand by the broker when the security purchased for or sold to the customer becomes ready for delivery, or when the deposit or portion of payment by the customer, in the judgment of the broker, becomes impaired or insufficient.

(d) Any contract referred to in subdivision (c) of this section need not be submitted to or approved by the commissioner, unless, in the discretion of the commissioner, he shall require the filing of a certificate, referred to in subdivision (c) of this section in which event such certificate shall be made unless and until the commissioner shall have approved said use thereof.

(e) The term 'installment purchase contract' as used here had not been the meaning provided for in this section, but the amendment of this provision in 1944 clearly delimits any transaction or other matter which is not contemplated or excluded, and is not understood to be included in any legal proceeding, proceeding and understanding that the time such amendment takes effect.

Appendix B

New York

The following section was added to the Fraudulent Practices

TRADING CENTER

for Southwestern

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of Southwestern
Corporate and Municipal Issues

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L. D. 604
Los Angeles B. 8871
Western Union 643

Dewar, Robertson & Pancoast
SAN ANTONIO 5

11.

In Attendance at IBA Convention

(Continued from page 26)

CARR, FRANK C.
John Nuveen & Co., Chicago

CARTER, JR., HUGH D.
Court & Co., Atlanta

CASEY, DOUGLAS
A. C. Alyn & Co., Chicago

CASSELL, CLAIR F.
K. F. Cassell & Co., Charlottesville

CHAPMAN, RALPH
Farwell, Chapman & Co., Chicago

CHAPMAN, R. C.
Maynard H. Murch & Co., Chicago

CHAPPLE, WILLIAM B.
First Boston Corp., New York

CHILDRESS, FRANCIS B.
Childress & Co., Jacksonville

CHRISTOPHER, WILLIAM
R. W. Pressprich & Co., New York

CLAPP, JR., JOHN R.
R. W. Pressprich & Co., New York

CLARK, GEORGE E.
Advances Securities Corp., New York

CLARK, ROBERT E.
Calvin & Co., New York

CLARK, WILLIAM H.
Merrill, Turbin & Co., Cleveland

CLARK, HAGOOD
Johnson, Lane, Space & Co., Atlanta

CLARKE, JOHN W.
John W. Clarke, Inc., Chicago

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Clayton Securities Corp., Boston

CLIFFORD, HARRY G.
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School & Pomeroy & Pomeroy, New York

COHEN, MORTIMER A.
Sterne, Agee & Lehach, Montgomery

POH, HENRY W.
Cohu & Co., New York

COLLIER, W. T. K.
Collier, Norris & Quintin, Montreal

COLLINS, JULIEN H.
Julien Collins & Co., Chicago

*Denotes Mr. and Mrs.

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Cook & Co., New York

COOK, HAROLD H.
Spencer Trask & Co., New York

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B. J. Van Ingen & Co., Miami

COOPER, WALTER W.
F. S. Smithers & Co., New York

COUSSEY, JAMES G.
B. J. Van Ingen & Co., New York

COUG, J. DALTON
Hirsch & Co., New York

CURTIS, MALON C.
Courts & Co., Atlanta

COX, M. J. M.
Cox, Kimm & Co., Cleveland

COXON, THOMAS T.
Hallgarten & Co., New York

CRABB, ROBERT H.
Crawford & Co., New York

CRAIGE, WALTER W.
F. W. Craigie & Co., Richmond

CREASEY, WALTER J.
Goldman Sachs & Co., St. Louis

CUNNINGHAM, REX
Dallas Rupe & Son, Dallas

CROSS, LOUIS J.
Paul H. Davis & Co., Chicago

CROUSE, CHARLES B.
Crouse & Co., Louisville

CRUTER, GORDON.
De Haven & Townsend, Crouter & Bedine, Philadelphia

CROWELL, WERNER H.
Crowell, Weeden & Co., Los Angeles

CUNNINGHAM, JOHN F.
Mercantile Trust Co., Baltimore

CURREY, Brownlee O.
Equitable Securities Corp., New York

DAIN, JAMES M.
J. M. Dain & Co., Minneapolis

DALENZ, JOHN M.
Calvin Bullock, New York

DAVIDS, HENRY L.
Demen & Co., Los Angeles

DAVIS, ARTHUR G.
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DAVIS, DEWITT
Welsh, Davis & Co., Chicago

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First Boston Corp., Chicago

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Weil & Arnold, New Orleans

DEMPSEY, DUMONT G.
Newhard, Cook & Co., St. Louis

DeSTAEIOER, EUGENE
F. S. Mosely & Co., New York

DeSWARTE, FRANCIS J.
Commercial & Financial Chronicle, Chicago

DETMER, HOWARD F.
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MASON, WILLIAM S. Scott, Horner & Mason, New York
MATTHEWS, ROBERT H. G. H. Walker & Co., St. Louis
MAXWELL, JOHN M. NationsBank, New York
MAY, J. DENNY Parker Corporation, Boston
MCNAIRY, NATHAN D. McCormick & Co., Chicago
MCNAUGHEY, ROBERT K. Securities & Exchange Comm., Washington
McCORMICK, G. DEAN Keeton, McCormick & Co., Chicago
MCGRADY, WALLACE M. Thayer, Baker & Co., Philadelphia
MCDONALD, CHARLES B. McDonald & Co., Cleveland
MC DONALD, HARRY A. Securities & Exchange Comm., Washington
MC DONELL, DONALD N. Blyth & Co., New York
MEWAN, GEORGE S. Paul H. Davis & Co., Chicago
MEFARLAND, DONALD R. & Co., Minneapolis
MCGREGOR, EDWARD D. Northern Trust Co., New York
McGUIRE, WILLIAM M. Kuba, Laidlaw & Co., New York
MAHON, EUGENE G. Heller, Bruce & Co., New York
*MC MILLAN, JOHN S. Dempsey & Tierney & Co., St. Louis
MEANS, J. W. Courts & Co., Atlanta
MERRIT, J. R. R. & Co., Minneapolis
MERRITT, WILBUR M. First Boston Corp., New York
MEYER, JR., LOUIS Stern, Frank & Meyer, Los Angeles
MEYERS, EDWARD J. Laidlaw & Co., New York
MIDDLEMIST, JOHN H. Northwestern National Bank, Minneapolis
MILLER, JAMES K. Dominion Securities Corp., New York
MINOR, STANLEY N. Pacific Northwest Co., Seattle
MITCHELL, BYRON R. Society for Savings, Cleveland
MITCHELL, EARLY F. First National Bank, Minneapolis
MONTGOMERY, HARRY T. Associated Press, New York
MOORE, JAMES A. Welsh, Davis & Co., Chicago
MOORE, RODERICK D. Bowne, Cabell & Co., Richmond
*MORELAND, J. MARVIN Rotan, Mosle & Moreland, Galveston

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In Attendance at IBA Convention
(Continued from page 43)

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JOHNSON, JOSEPH T. Milwaukee Co., Milwaukee

JOHNSON, THOMAS M. Johnson, Lane, Space & Co., Savannah

JOHNSON, WILLIAM A. Mason, Morgan & Co., Milwaukee

JOHNSTON, EDWARD S. Wood, Gundy & Co., New York

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NOOK, JOHN T. Federal Land Banks, New York

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LATHAM, SIDNEY Rockwell Publishing Corp., New York

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LECLAIR, CLAUDET Shields & Co., New York

LEACH, ORIN T. Estabrook & Co., New York


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LEES, LEON L. Ira Haupt & Co., New York

LEHMAN, ORIN Lehman Brothers, New York

LEMEAT, HUSSEY B. Morgan Stanley & Co., New York

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LEWIS, DAVID J. Paine, Webber, Jackson & Curtis, New York

LEWIS, JR., ED. S. Lewis & Co., Jackson

LEWIS, MEAD A. Dick & Merriam-Smith, New York

LEWIS, SALIM L. Bear, Stearns & Co., New York


LINCOLN, MARY R. Investors Bankers Assn., Chicago

LIND, HERMAN L. Camp & Co., Portland

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LINE, EARL R. Chase Natl. Bank, New York

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MALICK, JOHN S. Fidelity—Philadelphia Trust Co., Philadelphia

MALLORY, WALDO W. Clement A. Evans & Co., Atlanta


MARKUS, NOBERT W. Smith, Barney & Co., Philadelphia

MARTIN, BENNETT S. First National Bank, Lincoln

MARTIN, GEORGE L. Martin, Burns & Corbett, Chicago
Thursday, December 23, 1948

Railroad Securities

Up to the time of this writing neither railroad management nor the representatives of the nonsupervisory unions have definitely committed themselves as to whether they will accept or reject the recommendations of the Fact Finding Board. There has been some grumbling in the ranks of both labor leaders and some management representatives that they have expressed dissatisfaction with the proposals. This was to be expected. It is a very rare occasion when labor leaders are not disappointed in some respect with any rail management union.

The Board has listened patiently to the demands of both labor leaders and management representatives, and has been very reasonable in its handling of the situation. The recommendations of the Board are not the final word, but they are a step in the right direction. The railroads are facing a difficult time, and any progress toward a settlement is welcome.

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Private Wire to Carl M. Leopold & Co.
Labor-Management Responsibility

(Continued from page 13.)

ways he knows of any private fig-
ure by control schemes. But the
American people, by not requiring
want lower prices—even though
that is what they think they want—
they pay for the product more
more goods. Does Senator Morse
realize that if the public raises a
official price tag on everything
would be better. Enough of the
materials, made the supply of new
houses any larger, or eliminated
the restrictive practices which
now hamper production? Does he
believe that the nation will
achieve what we did in the way
of bottlenecks and why we
observe regulations which did not
have popular support? With more
people seeking the purchase of
immediate new demand, the people
we would have operated a black market
of unprecedented proportions.

It sounds trite to say so, but it
cannot be stressed too much. Our
problem is one of production. But
we should not simply stop there.
If we want to understand our
needs must go far further. Bar-
ing the temporary checks to ac-
active production, the real problem
is not merely one of pro-
duction but also one of saving.
Again, the lesson from overseas
in England: Keynes: "The object of saving is to
produce goods over a longer period by
producing goods as such, houses,
factories, etc., and not to use
money as a medium of exchange." We
could hardly have a better list of our present
needs. Through the future the
problem is not merely production that is
needed, but that the money to finance
the production of capital goods—
and people—must be there. But I
am sure Lord Keynes would be the first to say that this
situation can be met only with
more saving. Yet Mr. Philip
Morris, in his article in
"Atlantic" still speaks as if con-
sumption and more consumption
were the chief thing needed to
solve our problem. Let us
remember that Mr. Morris
Missed the point entirely.

Our present condition, which
attack profits, and, once we recog-
nize that the profit and the saving
are the same case for profits becomes much
stronger. Yet even what the
outlook for economic stability at the
present stage of the recovery is
bright until the following idea is
somewhat gloomy: Without sav-
ing, with our present economic
Without capital we can not sup-
ply the workers with the products. If the lower
income groups are not willing to buy the
higher claims somewhat today, they will never
get the higher living standards they want tomorrow. This
remains true as a long run propor-
tion even if there should now be a
temporary check to activity. Labor's responsibility may
not only to the
the nation at itself to not
demand a fourth round of wage
increases.

- My time is limited. There is
so much I would like to say to you.
The mass of vilification and mis-
representation that I read and
hear today presses upon me almost
with a physical weight and
sticks to the high spots and
ruthlessly curtail explanation.
The logic of growth of the
The growth of the right-wing
economists has not failed to be brought
home to the responsible left-
wing economists, and they have
joined in the cry of the labeled
"right wing." This is the difference. For while
right-wing economists talk of in-
creased individual freedom to save and
invest, the more responsible left-wing
economists believe much more in
taking consumption. In other
words all intelligent economists
today, which includes many
reckon that a fourth round of wage
increases in the present time
will do no good. All of them
know that a further increase in mass
purchasing power and
consumption is likely to be dis-
trustful. If any economist denies
this he is either unintelligent or
disenst. But many left-wing

economists wish to handle the
matter solely by stasis action....
Now it cannot be denied that
inflation of consumption, by re-
moving excess mass purchasing
power, will relieve the pressure on
prices—so far as direct money
outlay is concerned. But it won't
free people more goods and
therefore it is not likely to halt social
wants. It is precisely because I
think that the lower income
groups want to have many
goods as soon as possible that I am
not follower of the left-wing pro-
gram. In order to have more
goods we must have more produc-
tion. This brings us to the real
point.

Barring those mistakes, misin-
formed, or dishonest individuals
who maintain that mere price
control will be a better producer than private
enterprise. In other words they
intend to tax consumption, trans-
fer the funds to government, and
remark on a huge scale of gov-
ernment outlays in housing, steel,
state, to meet the shortage. The
point we have got to ask ourselves
would this really be the better

In the debate between socialism and capitalism there is one thing
constantly "plugged" by the left-
wing. It is the idea that "capital-
imism, or planlessness, brings de-
pression. And should a recession
occur, the possibility the future the
country will immediately be raised that
has been attributed to the Italian "due
to repeal of the OPA" there
would have been a great
in the summer. Consumers, it is said,
were "priced out of the market by avareous business
conditions and that
cause of depression. Plausible
that the economy is
sound, I believe to be almost
entirely mistaken.

If we draw up a table
listing the advantages and the dis-
advantages of capitalism the
score would look something like
this: On the credit side for
capitalism we would list its
tremendous long-run productive

tivity, the positive freedom of choice which it gives to
different propositions to people
also not absolute but relative to
other systems. After all it gives it
independence of the new idea.
On the bad side one would list depres-
sions and insecurity. Few of us
could be believers in the funda-
amentals of the socialist order if
we did not feel that a great deal could be done to recognize these
conflicts, and to make society
more stable. We shall talk about
some of these stabilizing measures
in the next article. But what can
people today either do not realize,
or do not want to realize, is that
in production and in living stand-
sards, it cannot give absolute
security. Furthermore, and even
more important, neither socialists,
or comprehensive planning could
do either. In other words any
system which grows and any sys-

tem which tries to give the con-
sumers more of what they
wants but when he wants it must have some insecurity.

The fundamental clue to the
misunderstandings which are now
danger of wrecking our society
lies in the recognition of one basic
fact: Growth comes through
change, and it entails change. It
is not by the endless repetition
of the same that output can be
increased. It is not by the expansion of things as if
we that the wants of the poor are to be
met only by constant, re-
peated, and energetic use of new
innovations which are making
living standards
ential efforts is not to be
judged by the extent to which
it makes a tidy best bet
zoning of its present techniques,
and see what is possible
be to further changes?

Yet here lies the basic conflict in
our modern society. For even
we have had no new inventions, the
market has been shown to
constantly change wants in
and in methods of production.
There is no way of making all
industries equally prosperous
at the same time, without
changing stop and expansion.
Consider what is kept the horse
and buggy industry, and the new
automobile industry equally prosperous?
Can we keep the electric
light industry and the kerzenump
industry equally prosperous?
Socialism, or general planning,
does not avoid this job of shifting
outward. It only changes the
way we handle it.

But he has the technique.
For the constant reorganization and
redistribution of the factors of
growth and the satisfaction of
the consumer alike require under
any system, cannot be carried
through without some insecurity.
Many people write as if the only
insecurity must be afraid of are not
a matter of money. After first
painting a Utopian picture of
socialism in which everyone gets
same equal money income, they pro-
cceed to argue that in that case no
one would be insecure—for no one
would ever have a reduction in
first salary. This is absurd. What of
the desire for power and fame,
what of the simple love of one's
wealth?

(Continued on page 48)
Labor-Management Responsibility

(Continued from page 47)

Work? By the time a man gets to be 35 he is usually committed, not merely occupationally, but emotionally, to a given line of work. And it follows that when men are thus committed to regions and occupations, they are also committed to a given pattern of resource use. By unemployment benefits, too, we are sanctioning the use of ordinary tacit and considered, by making it profitable to introduce change, a great deal can be done to reduce conflict. But there will always be an inevitable minimum of strife and insecurity, even under socialism. Many a man will be left stranded as a back数者 and no man's salve is ever likely entirely to relieve his hurt.

Yet many trade unionists, and many left-wingers write as if "vested interests" were to be a capitalist phenomenon. They seem to imagine that the more the introduction of socialism, and general planning, will make everybody subject to change, the more it will abolish the instinct of workmen to resist change. The other would be necessary to give a condition to which they might try to be moved to take pride in their work, they would tend to resist change. Whatever the outcome, they are likely to try to prevent it. The best we can do is, so to educate the public in such a manner that minority groups acting in an anti-social fashion will be persuaded to yield to the general welfare. Those UNESCO sociologists who are today calling for an avoidance of conflict by giving every man a chance for "personal growth" will have to realize that even on the higher runs of the common development (for instance introducing new methods) may involve another's insecurity.

Growth then comes through change — and underlines the change involves an inevitable minimum of insecurity. But that is where we are to try to anticipate the wants of consumers so as to give them what they want when they want it, are inevitably involved in the possible departure from the standard of comfort, for first of all, even under planned economies, must be kept in mind, and secondly even if the planners

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makes no mistakes, one cannot al¬
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sumers want always to add up to full employment. Full employment, under any system will come spontaneously only if the number and the importance of the industries which are expand¬
ing and the importance of the industries on the decline. We may tend to on the one hand and on the other hand stability. This is the back¬

change involves another's will abolish the instinct of workmen to resist change. Whatever the outcome, they are likely to try to prevent it. The best we can do is, so to educate the public in such a manner that minority groups acting in an anti-social fashion will be persuaded to yield to the general welfare. Those UNESCO sociologists who are today calling for an avoidance of conflict by giving every man a chance for "personal growth" will have to realize that even on the higher runs of the common development (for instance introducing new methods) may involve another's insecurity.

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But you will say, "If central planning is ruled out, what are we to do?" I believe lies in these two things. First, so far as welfare and the growth of output are concerned, we should take steps to give the small men a chance. Second, so far as stabiliza-

tion is our aim, major depend-

ece must be on a policy of growth ing in" rather than a policy of advance planning or "lengthening the steps at times we must use deficit finance.

Senator Taft has remarked, and quite correctly, that what people really fear of today is not inflation but deflation. Yet, speaking as an impartial observer with virtually no political judgment, it seems to me that the outstanding thing which conservative groups in this country have so far been twitting about is to give an ade-
quate assurance concerning what policy they would follow in a slump. Unwillingness to accept the residual principle of compensa-

tory finance is now to me to doom

the extreme right wing to a species of intellectual starvation.

I do not believe that deficit finance and public works are in-

discriminate cures-all. Everything

should grab from the shelf at the

time. It is not enough for us to say if we shall have to rely upon this recovery nearly to the extent that some people think. But

I cannot escape the conclusion that this will be to the future of every industry; that would be merely another method of stabilization.

But there are certain basic industries, for instance, steel, for whose products we cannot be quite sure there will be recurrent demand, and whose basic price we should therefore undertake. But whether an all, or to me far too prone to underestimate the future desire for their services.

I have done so myself at times. I greatly doubt whether, in the light of home and world needs, the backlog problem for steel is as great as it is often said but we cannot ask so unsuccess an industry to take such a risk at artificially low prices, and with tremendous construction costs, without offering something in return. Thus I feel that the first step toward relative industrial stability will be taken when the risks are reduced by

placing of floor under demand.

There is another principle which the right wing accepts and I ac-
cept. What is sauce for the goose,
is sauce for the gander. If busi-

ness complaints about union sabot-
geage and union insistence to change its has got to put its own house in order as well. The outstanding
case of business sabotage is the

strike. It is easier to even a peaceful and a free world, I be-

lieve that America and American business must increasingly partic-

ipate in the capital development of

foreign nations. But if we have no

time of living up to our own standards, we are no longer in the same game. If we intend to put up tariff barriers whenever

the foreigner has a better idea, then all our efforts are doomed to frustration and to

So much for right-wing policies. What of the left? I have spoken

of giving the new man the new idea a chance. I purposely did not speak of redistribution or of "pure competition," for it seems to me that the left-wing is hopelessly confused as to its aims on this point. Instead of giving

little ones a chance to get big, it has concentrated its fire on making the big ones little. A jealous resentment of any expan-

sion takes the place of a demo-

cratic stress upon opportunity. Let

me give you some examples.

In his debate with Professor Slichter in the July "Atlantic" Mr. Murray speaks of expansion from internal funds and the "ploughing

tariff of profits" as creating mon-

opoly. Nothing could be more misleading. I do not doubt that it is convenient for our large well-

established corporations to expand from internal funds. But if we have no

time to easily borrow from banks and float new issues. That

to be sure would be more expen-

sive (and hence retard saving

stands) and cut down the profits on which Mr. Murray ha

his eye, but for the most part it could be done. It is the middle-

sized not-so-well-known business men upon expansion from private funds is vital. It is they who will

suffer most from Mr. Murray's program. The results of labor

jealousy of profit helps monopolize

for it makes it harder for the new

firm to get started.

Again the left-wing policy of high income taxes can be shown to back-fire in the direction of increasing pressure.

For

the income tax, as I have elsewhere pointed out in detail, falls with dis propor-

tions the weight against the new man and new enterprisers.

Thus, to sum up, it seems to me that if we do have a depression in the near future we should not take it as a signal for renewed and more violent attacks on saving, for increased planning, whether from right or left, for further money

which will increase the setters;

If the depression shows signs of becoming severe we should bolster

the public and give the economy a little time to work out some course of action. And I believe that if this is done the crisis will prove relatively short-lived, and the business outlook quite soon, if anything, once more in-

fationary.

It is time for me to stop. I realize that I have left technical labor problems almost entirely to one side, but I have done this ad-

viced. Psychological techniques cannot do much if the whole sys-

tem is regarded as a gry. Mr. Toynbee, the historian, says that social progress is to be judged by the function through persuasion. And sociologists agree that persuasion is impossible without a community of values. Let me outline the way I think I management ought to talk to labor.

We must not try to smother all hopes of making industry work;

we must be willing to add the only difficulties of the situation.

Even if prices in your own indus-

try do not rise as a result of in-

creases, your increased money

spending will push up other prices — for instance those of food. By

unsalvages on saving and on in-

vestment you still further delay the increased production which you want. Those readjustments of techniques and methods which you dislike will occur in any system trying to expand. Neither of us can wholly avoid the dangers of some depression which inhere in any free and rapidly growing society. But if once we come to accept the idea that by

measures to stabilize demand.

If labor is so prejudiced that it will not act in this way, then I

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Outlook for Real Estate
And Construction

(Continued from page 12)

flation this time and again foreclosures went up uneventfully high.

Many of you, I am sure, have read the book published last year by Dewey and Dakin, on cycles, and you remember in that book that Dewey and Dakin point out that these various cycles which are operating in different types of business in the United States, are sometimes going up at a particular time, one cycle will be going up while another cycle is going down, but, after a study of the various types of cycles that are operating in different business, they arrived at the fact that in their opinion, all of these cycles will be in their downswing in the period about 1932, they therefore assume that we are going to head into major economic trouble in the United States about that time.

Now, I don't follow that exactly. It seems to me that there is still enough reality in the picture to carry us much beyond that date. It seems to me that we couldn't expect the bottom of our next big depression before 1935, and, in my own thinking, I wouldn't be at all surprised to see it as late as 1937 or 1939, because all of the cycles in the past have averaged out at 1935, I am assuming that we will have many of the same conditions that are working out for 1935.

Now, if only the reason that I have for being pessimistic on the long pull were these recurring cycles, I would be a little bit afraid of my pessimism, but I have many other supporting reasons which, to me seem more or less conclusive.

Long-Term Factors

I should like to talk for a minute about the long-term factors that are operating and how those long-term factors affect the safety of real estate mortgages. The first of these long-term factors I would call construction cost; this is, replacement costs. Regardless of whether we have inflation or deflation, in the last analysis this inflation or deflation gets over to real estate through changes in replacement cost. Over the long period as we have charted it, and we have charted it from 1890 to the present time, we find that the actual selling prices of typical pieces of real estate will vary more nearly as a line showing the percentage fluctuations of their replacement cost than anything else. And this is true, in the case of one of the reasons, of course, for the present inflation of real estate prices is the tremendous increase we have had in the cost of replacing existing buildings.

In our organization in St. Louis we have seven buildings which we refurnish every month. We try to take every item of cost, and let me give you some examples of what has happened, at the cost, you will remember I always like to go back quite a distance and give you a little perspective on this particular building. We have charted here and that I want to talk about a building that we built on a particular lot, but in this particular series of figures I am giving the figures only on the replacement cost of the building, and 25% of when the First World War started, to build this building cost $3,638. In 1920, to build the same building to the same specifications cost $7,675. In 1922, at the bottom of the decline in our prices, we ever had in the United States, to build the same building cost $4,490, and I should like to point out that at the bottom of the depression in 1922 it was costing $400 more to build this building than it cost. We think it was in 1914, before the First World War started; in other words, a part of the inflation that accompanied the First World War became permanent and even that tremendous depression couldn't carry construction costs back to the point that they left.

When the second World War started in 1939, to build this building one year ago cost $10,532, to build the same building that cost $14,632, now, that is an increase of 39% above pre-war 1939, an increase of 149% above pre-war 1919, an increase of 460% above the building cost in 1900, the year before the pre-war period.

In my opinion, if we go into a depression, the most likely thing to happen is that the very ordinary building, if we got cycled down to the point, that the price of the lumber, the price of the stone, wages of labor, everything that goes to make up the cost of the building, will go down to the point where you will have a building that is going to cost a little bit more money than it did the day before, but it won't be much more.

In the chart that I have here, and let's see whether that looks reasonable in view of the figures that I have given you. Let's say that we assume that at the low point of the cycle we are going to build this house for about $6,500. If you compare that, I think you will be surprised to see how close it is in 1959 or 1960, if it goes any higher, I am going to be quite pessimistic.

I think it is quite significant, however, that at the present time prices of lumber are down very low. Whether we have another drop or not, the future can tell but certainly we are not likely to get a very, very close to the present level. It is quite surprising to see how low the present levels of lumber are for another drop that we have noticed during the period of the 20's. Now, in contrast with that first world war cycle, you will notice that the peak period we have just come through in 1948 is far above the other cycle lines on our chart. These real estate lines take the period from 1941 to 1948, which is drawn in such a way that this present period of our World War cycle is unlike the end of the First World War also perhaps the depression 1920-1921, and again you will notice about six months after the end of the World War some of the lumber started skyrocketing in price. It reached a point here, had a false drop, went up very high and dropped, and the present time it is right here. If it goes any higher, I am going to be quite pessimistic.

We think that we are going to repeat this experience of 1920 and 1921, that we are not going to get another major drop in lumber prices in 16 months, but it is still possible that it may be off a drop of 33½%. In other words, think that it is entirely possible that we are going to get a drop from about 45% from one of this present heights, and then how it will be when we are through, and when it does, I think the drop is going to have very little effect on other lines of building materials. It is largely by taking charts of the past and assuming an unusual severity of this, one that looks odd to us, we can work out what seemed probable in the past. We are enabled to work on the value of existing properties. When prices in lumber have gone up tremendously, it is just turned around, and that does have a tremendous effect on values, and it is the same with other materials. We have seen the way that it has worked out, and the way that it has worked out in other cases which enabled a tremendous amount of business to go forward, and very little after the drop couldn't have been done.

Low in Interest Rates Passed

I think I would be in agreement with practically all economists when I say that the low in interest

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is and, of course, this has been forecasting for a number of years that there was only one way prices could go. Those of you who take our reports remember our chart, "Save the City," and you remember our forecasts that we were in for a period of sharply rising real estate taxes and that has started. All city governments and state governments need money. They have been trying to do all the difficult jobs of taxation. Their bodies have to be paid more, they have to pay more for all they buy.

The value of real estate has been rising, and, because of assessments, and clearly these governments need money, many of the increases in assessments were in more than line with present values. In New York City, I realize that in the last three years we have been starting to catch up with assessments, and, of course, that is true in many cities of the United States on the downtown properties, but at least we have the small residential properties.

The only difficulty with taxes going up--I am only using the word "difficulty"--is that they don't come when they are wanted. They are going to go through the same situation that we have been talking about, probably, that you have gone through in the last 30%

Short-Range Factors

Now let's take a look at one of our short-range factors. In the short period we are talking about here, any particular time the price for which an apartment or a house will change hands will depend almost entirely on the relationship of the supply of such property to the demand for property in that community to that demand.

But if we thought that it was just that simple, we must realize that a part of the price for which at least residential property will change hands in the recent past, is a scarcity premium--the amount that the average person is willing to pay for shelter because he couldn't get shelter in any other way, or the real part of the price, is an increase in the scarcity of the price, but if we thoroughly understand this whole thing, we must stand this, that the scarcity premium will only be paid so long as the scarcity continues. In other words, suppose that overnight we found ourselves with a surplus of apartments, or that the way was so open that the supply was 5% of the amount. Overweight the scarcity premium will disappear. It is a very volatile thing and it will change many times in your economy and disappear at other times.

On this chart you will notice that we have a red line, and the red line attempts to show the amount of existing comparable housing in comparison with the cost of new buildings. You notice that in 1938 and '39, the red line is below our black line. In other words, at that time we had a negative scarcity premium, or the price of the building was below its true value. At that time, as long as our vacancies were high, the Federal census of 1940 showed 7% of all the urban dwelling units was vacant, and for rent for that amount of time, and because we had more housing than the market was able to absorb, we have a scarcity premium at that time, but what we call a surplus discount.

Then you will notice as we went into our war activity, our housing shortage developed, and in this period our red line goes above our black line and on an distress basis you could buy this building for $6,000 in 1938, a considerable peak. Our inflation went up to $18,000, and you doubled, that, is pretty much over, you have plenty of examples of things that have been done and I know you can see too from your own experience.

And as a result of this scarcity premium on this building ram about 1938, Various estimates have made here that the scarcity premium has been between 25 and 30% of its cost. Is this going to disappear entirely by 1950, and I think not. I think that housing shortage as a result of the war is going to be over by 1950. That may be a quite a surmise, but there is a lot of people who have spent most of their time trying to find a place to live, and who have not been putting money into the money market. They can't put a lot of money into the money market and get a change in economic conditions.

We Are Building at a Rapid Rate

Remember this: We have been building at a pretty rapid rate, but we are not going to build at fast in 1949 as we built in 1948. We are going to build fewer dwelling units than we built this year. In fact, at this moment in time we are already running considerably below the corresponding monthly figures of 1947. Now how high that drop is going to be, I think it may be, on the number of dwelling units, as great as 25%, although I rather doubt whether it will be quite that great. We are going to run at a lttle short of "one-family" houses in the United States in 1949. I think they will be quite that great. We are going to run at a lttle short of "one-family" houses in the United States in 1949. I think they will be quite that great. We are going to run at a lttle short of "one-family" houses in the United States in 1949. I think they will be quite that great.

Mortgage Testing

Now, my way of testing a mortgage to see what might happen is this: Let us assume that the mortgage amount still owed on the principal in any year, in the past, and in my judgment gets very far below the amount still owed on the principal, it is your opinion you are going back to the old policy. I am only testing it with that general type of mortgage.

I know most of us at the present time are hesitating between two general ideas. On the one hand, we have a very much greater amount of foreclosures. On the other hand, we have seen the notion that deflation is actually setting in. One reason that I give the person in my introductory remarks a bigger percentage at the present time is because it is one almost impossible now to tell which way the balance will swing in 1950. It is my opinion that you will see more deflation later on, and a very much more, many of the owners of these buildings are going to find that they could build a new building for less than they owe on the old one.

I have often said if you want to keep your inflation from going back up to rise rapidly, you don't have to subscribe to my reports. Whenever the building is built and going to be used or to sell one, you are going to have a very much more deflationary effect on the mortgage. Foreclosures at the present time are dropping along the bottom of our chart. In the last three years they have averaged lower than average and have gone up, or at least in other period of the history of the United States, you have not seen anything at all, start one of these down spirals. That organization is quite worried about the outlook.

Now, I make this statement that I think the deflationary factors are starting to get into the ascendancy in full realization of the fact that practically every policy that President Truman announced in his election speeches would be inflationary in character, and that every one of the inflation controls that he announced, and with possibly one exception, were attempts to correct great symptoms rather than causes. In other words, the one exception, I think, is higher taxes. I think we are going to go into higher federal budgets, but I think that you are going to see the increase in the federal budget finite.

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Outlook for Real Estate And Construction

(Continued from page 51)

I have been following the various real estate factors for many months. Some of these factors have been favorably influenced by higher wages, increased confidence, and other causes. However, I believe that the general trend is now starting to turn down. The real estate market is not likely to drop as sharply as it did in the early 1920s, but it will probably experience a period of decline.

The reason for this is that the economic situation is now different from what it was in the early 1920s. In those days, the United States was in a severe depression, and the real estate market was affected by this. Now, the economy is much stronger, and the real estate market is likely to be more stable.

I believe that the real estate market will improve in the future, but it will not be as strong as it was in the past. The real estate market is a very complex thing, and there are many factors that can affect it. However, I believe that the general trend is likely to be downward in the near future.

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Kilowatt Crisis

(Continued from page 7)

This crisis is a result of the lack of adequate power supply. The Federal Government has been unable to provide enough power to meet the needs of the country. This is due to the fact that the Federal Government has not been able to build enough power plants.

The result of this crisis is that there is a shortage of power. This means that people are unable to use electricity for a variety of purposes. The Federal Government must take action to solve this problem. It is important that the Federal Government take steps to ensure that there is enough power for everyone.

How to Alleviate Present Electric Crises

Now, as to what can be done to alleviate the present power shortage and to help assure an adequate and continuous supply of electricity, I make the following observations: First: During the peak hours from 4:30 to 8:30 p.m., the Winter all classes of customers can help avoid drastic curtailment measures by restricting the use of electricity to a minimum during such hours.

Second: It is imperative that the Electric Power Development proceed as rapidly as possible with the construction of such storage projects as the Roosevelt Dam. By putting up the additional capacity to be installed at Coulée in the next few years. There should also be an extension of the present Federal work on such authorized projects, as well as quickly reduce the number of hours of blackouts.

An important contributing factor to the increasing power deficiency in the years 1940-1943, is that the one million kilowatts of additional capacity scheduled to be installed at Grand Coulee now and in 1942, is the most part represents peaking capacity only and any substantial extension of the 1945 program that is, power which will be available on a year-round basis, cannot
be obtained atCoulee until addi-
tional upstream storage dams are built.

Vaults: There should be created a framework of Federal govern-
ment policy, procedure and ad-
ministration with a maximum of
Home Rule, which will seek to
secure the Pacific Northwest of
an adequate power supply. There
must be prepared at the earliest
possible moment a long range re-
gional program or blueprint
which all interested parties will
agree upon and which will provide
for the most economic develop-
ment of the region's water re-
sources. Some changes will be re-
quired in procedures and methods
as to legislation, administration
and financing in order to put power development on a firm
schedule. Some machinery must
be established whereby the people
of the region have a definite say
so in the preparation and carry-
ning out of such a program. The
Federal Government should not
be because the death dealt grip
on the economy of this region.

These are basic requirements
not only because of the crucial
importance of adequate electric
power to the industrial development
of the Pacific Northwest, but also in
view of the major role that this
region may play in the Ameri-
can economy.

Adequate electric power supply is
probably the most needed part of the nation's mobilization
program and in the interests of
national security.

Seattle Situation

Now not only do we have a re-
gional power shortage, which
make matters worse a very men-
acing growth in the power costs
in the electric distribution field in
Seattle.

Briefly, the facts are these: In
1943 the City Council passed a
resolution that if the company
out of business in 1952 when its
franchise expired, Seattle will not
be growing and if our electric
load were not increasing, no new
expansion would be needed for
enlarged facilities and there
would be no immediate crisis.

However, the electrical require-
ments of six hundred thousand
people in Seattle are increasing substan-
tially year by year. New capital is, there-
fore, needed annually for increas-
ning the capacity of existing sta-
stations, underground transformer
vaults, feeder lines and the like.
Certainly, the capacity of the company's dis-
bution system, because the in-
crease in load is just about everywhere and our facilities are
becoming crowded at the pres-
ent time. Unless this work is
done, serious interruptions to service are bound to occur involv-
ing substantial economic loss to
thousands of customers.

The death sentence imposed upon it by the City, new
capital is not available to Puget
for the expansion of its distri-
bution facilities in Seattle. With
money as tight and risk capital as
scarce as it is today, it stands to
reason that investors are not go-

ng to put millions of dollars into a
situation where there is no as-
surance of getting their money
back.

A growing electric utility must
make plans and commitments years ahead especially under ex-
isting conditions when needed
equipment and material can only
e be obtained on long-term deliv-
eries. This cannot be done when
you are under a death sentence.

While the existing situation is
an intolerable and impossible one
from Puget's standpoint, it should
also be an extremely difficult one
for the City. In the present state
of uncertainty, it is not clear to
me how City Light can intelligi-
ably, and economically plan a
future program which will assure
the people of adequate distribu-
tion service at the lowest cost.

The City cannot take care of the
present demands of Puget's cus-
tomers from its existing system.

Any way you look at it, a con-
tinuance of the building of duplic-
cate facilities at present day soar-
ing prices for labor and materials
and with increasing money costs,
would be the height of folly. It
would cause an appalling waste of
critical materials now in short
supply; it would mean that the
customers paid through the nose
a rate of higher electric rates
than would otherwise be the case;
and it would put the City at a
saving of these facilities in this
region than as future de-
velopments are concerned.

That government has assumed
mained of power in this area,
but there presently exists no
means of assurance that a power supply adequate to meet the needs of the re-
region will be provided,

That the City has said that
Puget is through doing busi-

ness in Seattle, and because
of this action there is no as-
surance that adequate dis-
tribution facilities will be provided in the City.

Certainly, gentlemen, this all
adds up to a real "killowatt crisis." This is NOT something
that people can be pathetic or com-
 plaint about. This community
and this region needs to be thor-
oughly aroused to the extent the sit-
uation and to take vigorous action so that out

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OF INVESTMENT SECURITIES

CENTRAL REPUBLIC COMPANY

(Incorporated)

CHICAGO

NEW YORK MICHIGAN

MINNEAPOLIS CHICAGO STOCK EXCHANGE

Member of Chicago Stock Exchange
IBA President Scores Attacks on Wall Street

(Continued from page 17)

Mason, Moran & Co.
CHICAGO

WEBBER-SIMPSON & CO.
Investment Securities

208 South La Salle Street
CHICAGO 4

InvestMENT
SECURITIES

Welsh, Davis and Company
135 SOUTH LA SALLE STREET
CHICAGO 3

Thursday, December 23, 1948

A Revision of the SEC Laws Needed

(Continued from page 8)

widest interest in the project is furnished by those from the securities business. I have asked Yost to recognize the information that came from the NASD Committee to take charge of a committee of this association to handle the preparation of a report and recommendations to the membership, as to the part they can play. He will be aided by a committee appointed by him, which I hope have had experience with the problem and I urge you to give them the support you have given us. There is a corollary advantage in such research that it will develop and bring to us in an unattended and unarticulated form how our present systems and practices need to be changed and how we will realize to what extent some of the problems that have been discounted in a negative fashion.

INVESTMENT SECURITIES

WE MAINTAIN MARKETS IN LOCAL SECURITIES

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Investments

Milwaukee 2, Wis.
762 NORTH WATER STREET
MARQUETTE 8-4103
TELETYPE MI 461

work of underwriters Undone

Some underwriters have gone to the trouble and expense of laying the ground work for a new bond issue, only to find that their efforts have been wasted, their hopes disappointed into the unsuccessful bidder and their efforts largely wasted. Lately, the fear has been raised that underwriters who are not members of the Association for the ruling on the status of firms making bids for loans may be penalized, and lose them on the whole. The exclusion of all this is apt to be quite large and not compensated for by the result. The underwriters in the interval are expenses, and may be as small a sum as a few hundred dollars.
In the real estate business for example, standard margins of profit are usually established for each trade. The commission for placing a mortgage loan is generally stated in many States and averages about 1%. Most mortgage

Any special advantage over others in placing orders for the new securities.

PART III

Directed Business, Prospectus, Office Memo, Remedies

More or less recently a new method of placing orders for securities has gradually become accepted by a number of banks and trust companies. This innovation is generally referred to as "advertised business." The practice has developed in connection with the struggle to get deposits, loans and trust accounts. Years ago banks used to buy most of their securities from men whom they recognized as experts, men of long experience and wide knowledge of mortgage indentures, traffic density and earnings ratios. If a salesman had a block of bonds and actually understood and could explain all of the figures, prospects, advantages and disadvantages of the security, there was an excellent chance that his knowledge, experience and ability would be rewarded with an order. Moreover it was quite usual for a salesman to call on a bank or institution with complete information on a certain bond, although he actually had none of such information on hand for selling. Being convinced of the desirability of the purchase, the buyer would suggest that the salesman's firm quietly accumulate, for example, a half million of the bonds and when the block was assembled to offer them to the customer. Such verbal indications of an order were rarely altogether alone. Nowadays, however, another factor enters the picture. The buyer may discover, after furnishing all the necessary knowledge and figures on an investment that the resulting order has been directed to some other broker who has a loan, deposit or has his name on the dossier of the trust account for which the investment is intended. That broker undoubtedly receives a pleasant surprise but it is doubtful if he is actually entitled to that particular piece of business.

This policy of directing business may seem beneficial to the bank because it believes that salaried men will send them trust accounts of customers and rely on the recipient to give them first chance at all future orders. Actually it does not always work that way in the long run, because investment men of broad experience will be hesitant to impart their knowledge of a choice situation to someone buyer where this is to believe that they probably would not receive the order anyway. Regardless of their desire to get in new accounts, banks may eventually find that the old fashioned policy of cooperating with investment salesmen is the best. These men, through contacts with their customers, experience and personal ability not only are apt to know of some highly desirable investment situations but in many cases are able to point out serious objections to an investment which would save the buyer from making what might turn out to be a serious mistake.

In these days when an underwriting firm prepares to put out a new issue of securities, naturally every effort is made to frame the prospectus so as to give as favorable a view of the securities as possible. At the same time the law requires that any unfavorable factors known to the underwriters must be clearly stated. Lawyers assist in preparing the papers and attempt to protect the underwriter and the issuer from making any mistakes. Also they try to protect against any future law suit, and in the event that the investment should result in a loss to a customer. Consequently many figures and facts are left out of the prospectus unless they would withstand a legal suit. Future prospects, and pro forma calculations of earnings are shunned and favorable data on the position of competitors is usually not included. Only the unfavorable competitive conditions are apt to be mentioned.

The Office Memorandum

In order to furnish favorable information not to be found in the prospectus the device of issuing an "Office Memorandum" has developed. This paper is apt to contain valuable information on trade relations, conditions, comparisons with other similar investments, pro formas figures on balance sheets, income accounts and estimates of future operations.

The paper is clearly marked that it is for use only and under no circumstances is it to be mailed or even shown to anyone outside the underwriters immediate employees. Now it may, very clearly, at the start of each prospectus that no one is to furnish a customer with any information whatsoever except that which is to be found in the prospectus. Consequently it is really admitted that any data in the office memorandum, but not in the prospectus, must not be passed along to customers.

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Members Chicago Stock Exchange

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CHICAGO 4

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MUNICIPAL BONDS • REVENUE BONDS

Telephone: DEB 2-6963

Teletype: CG 385

IBM PAST PRESIDENTS

1930-31

1930-39

1927-28

Henry T. Ferriss

Toowbridge Callaway

Henry R. Hayne

PART III

Directed Business, Prospectus, Office Memo, Remedies

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(Continued on page 50)
A Revision of the SEC Laws Needed

(Continued from page 55)

tomers. Nevertheless these papers actually are apt to be widely circulated.

Now at this point it should be made clear that there could be no valid reason for objecting to the preparation of an office memorandum. The trouble is that it actually is unlawful under present regulations. Such papers are very useful and often contain valuable information, but they really are forbidden. An underwriting firm may have been actively conducting a high-grade business for many years and have an excellent reputation for honesty and fair business dealing, but the law does not permit this kind of discreet and unpublicized information. This information is commonly taken by manufacturers, department stores, insurance concerns or almost any other kind of enterprise that has been the backbone of building up American business to its supreme status in the world of today. Consequently, it is apparent that there is need for a change in this regard.

Review of Laws Needed

There is need for a complete revision of the law relating to the issue, purchase and sale of securities. The whole Securities Act of 1933 and also the Securities Exchange Act of 1934 should be reviewed. There has never been a really drastic decline in securities or a truly severe depression since the creation of the SEC. Consequently its usefulness as a means of preventing the investment of funds in enterprises from whose causes has never been tested. Certainly it has not been particularly successful in preventing the issue of securities which later declined drastically in price on the open market. All restrictions on the raising of capital for corporations of unquestionable standing should be so modified as to present a minimum of interference with their right to solicit funds for their needs. There has gradually developed entirely too much bureaucratic control over the business of United States citizens and this control is at hand when a halt should be called on the expanding powers of government agencies in this regard.

In order to make a start and provide a basis for discussion of changes in the Securities Act the following procedure is suggested for consideration of members of the investment profession, bankers, members of Congress and all those interested.

It is suggested that a commission would be appointed by the President of the United States to frame proposals for changes in the Securities Acts. Qualifications of preventing losses to investors: this commission should preclude the inclusion of any but the most experienced men in the investment field. This would prevent the appointment of politicians, college professors and others not thoroughly qualified by years of active investment training. An excellent commission would seem to include the investment officers of three large insurance concerns and three large trust companies, also three senior officers of leading investment concerns. The duties of the commission should include the study and recommendation of a series of qualifications for new issues of securities which, if met, would exempt from the SEC obligation of registering with some government agency and be subjected to the expense and delays now required under present laws. Supervision of security trading should be returned to the executives of the various stock exchanges where experience and care could be used to prevent abuses to the orderly conduct of the business of trading in securities. It is not regarded as necessary that the police search the home of every citizen so that they may be prepared to apprehend the occasional criminal. Neither is it necessary to examine, interfere with and delay the orderly operations of the investment business in order to sometimes discover some possible irregularity in the conduct of so vital a part of our economy.

Curtis Ter Kule

Dec. 22, 1948
New York City, N. Y.

Over-the-Counter Securities Now Cleared Through N. Y. Stock Exchange

Central delivery system, established Nov. 1 by New York Stock Clearing Corporation, reported successful, saving participating over-the-counter dealers considerable expense, in addition to convenience

New York securities dealers, members of the National Association of Securities Dealers, are now making deliveries of over-the-counter securities through the central delivery system of the New York Stock Exchange. It is announced by George E. Bieber, Secretary of District No. 13 of the National Association of Securities Dealers, Inc. The making of the central delivery system available to over-the-counter dealers in the New York area resulted from conferences between the New York Stock Clearing Corporation, the procedure committee of the Cashiers Section, Association of Stock Exchange Firms, and the Secretary of the Uniform Practice Committee of District No. 13 (New York and New Jersey) and the National Association of Securities Dealers.

Central delivery started with nine over-the-counter dealers and clearing agents for over-the-counter houses participating, but actual number of firms benefiting from this plan is much greater. One of the clearing agents clears for over 60 dealers. Other clearance agents participate on behalf of their clients and it is possible for over-the-counter dealers who participate in the plan to make Central Delivery to 182 firms which were among members of the New York Clearing Corporation, and to receive deliveries from them through the same channels. They may also make deliveries to 13 participating New York banks.

The participation of the over-the-counter dealers becomes effective on Nov. 1 and has proven successful. Even during the dull period which Wall Street has experienced since Nov. 1 there has been an average of over 400 envelopes a day delivered during the central delivery system and there is every likelihood that the present system will expand.

Briefly deliveries of over-the-counter securities are made about as follows:

Deliveries of securities are prepared at the office of the seller, who places them in a sealed envelope bearing the clearing house number of the dealer to whom they are consigned. Envelopes may contain more than one delivery for one consignee and the same consignee. The only restriction which is placed on a sender is that deliveries shall not aggregate more than $50,000 per delivery. The Central Delivery limitation was imposed mainly as an insurer of the system and is not of immediate concern to the Clearing Corporation.

Repeated deliveries may be made through the central system only once a week. As a messenger delivers securities, he places each in a sealed envelope which has been consigned to his principal.

Fees for use of the delivery system are a flat compensation charge of $25 per month, plus 5c for each envelope assessed against the dealer who is not the seller of the security. A minimum charge of $50 a month is made so that, for such a minimum, there will be delivered each month in any combination of receipts or deliveries for at least a few hundred dollars - a very convenient. Deliveries in excess of $50 are charged for additionally in keeping with the scale of fees.


H. L. Froy Joins Abraham & Co.

H. L. Froy joined Abraham & Co., 63 Walker Street, New York City, members of the New York Stock Exchange, and will admit Allan H. McAlpin, Jr., and James F. McLintock, Jr., to partnership on Jan. 1. Mr. Froy has been connected with that firm as a member of the London Stock Exchange, for many years.

Kneiss Appointed to IBA Committee

George B. Kneiss, Vice-President of the Philadelphia National Bank, has been appointed by Stephen J. Kneiss, chairman of the National Securities Committee of the Investment Bankers Association.

Drexel to Admit

PHILADELPHIA, PA.—William F. Machtold will be admitted to Drexel & Co., 1000 Walnut Street, member of the New York and Philadelphia Stock Exchanges on Jan. 1.

J. & W. Seligman to Admit

J. & W. Seligman & Co., 65 Broadway, New York City, members of the New York Stock Exchange, will admit Charles P. Seligman, Jr., to partnership on Jan. 1.

Vilas & Hickey to Admit

Vilas & Hickey, 115 Broadway, New York City, members of the New York Stock Exchange, will admit Charles P. Hickey, Jr., to partnership on Jan. 1.

Buckley in New Location

Buckley Brothers, members New York Stock Exchange, and Buckley Securities Corporation, announces the removal of their New York office to 3 Broadway.
New Capital and Equities Market

(Continued from page 3)

The importance on our national economy of continued expan-
dition for plant expansion and re-

tions is not far from present-
ages, notwithstanding the in-
termediate gyrations. Not least of-
these conflicting and confusing

tenses were over two years

Mystery Market

It will thus be observed that

while we have had a terrific rise

in other important factors, equi-

ties have not followed average.

This has been underlined by the

Federal Reserve System in its unac-

cessarily severe imposed restric-
tions on stock market.

The rise of margins to 75% which

was formerly 50% has im-

paired the availability of equity

purchases and this raise to 75% did

not mean an increase of 50% in the

amounts or three-quarters of the amount pur-

chased and amount loaned out

quarter or three to one. Formerly,

50% mean one-half cash and one-

half loaned or one to one. This has

unfortunately the market.

as evidenced by the crash of 10.44

points in the Dow-Jones average from

the opening of Nov. 3 to the close of

the 18th of November, during which time 15,120,000

shares were traded on the N.Y. Stock Ex-

change; this would be de-

crued from what has been above

forth.

Mr. Dewey was nominated June

34; Mr. Truman July 5, The Dow-
New Capital and Equities Markets

(Continued from page 57)

In effect, common stocks really are cheap in terms of commodities, production, income, value of enterprises, wages and salaries and other factors that make up our national plan of production. The present lack of balance in our economy would be indicated by the following table which indicates that $1 can buy more in stock equities than it can in anything else and that common stocks take precedence at present over the least inflated elements of our whole economy. For while the stock index is 30% above the prevailing rate of all other factors therein set forth of national production have appreciated from 100% to 50%.

However, taking up more special comparisons let us make a comparison in terms of actual specie realization. For instance, the same division of $100

<table>
<thead>
<tr>
<th>PER CENT RISE SINCE PRE-WAR</th>
<th>%</th>
<th>Date of Dividend Averaged</th>
<th>Date of Exchange Averaged</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal debt</td>
<td>535</td>
<td>35%</td>
<td>1941-1943</td>
</tr>
<tr>
<td>Money in circulation</td>
<td>300</td>
<td>43%</td>
<td>1941-1945</td>
</tr>
<tr>
<td>National income</td>
<td>190</td>
<td>93%</td>
<td>1941-1947</td>
</tr>
<tr>
<td>Farm commodity prices</td>
<td>175</td>
<td>175%</td>
<td>1941-1947</td>
</tr>
<tr>
<td>Bank deposits</td>
<td>130</td>
<td>147%</td>
<td>1941-1947</td>
</tr>
<tr>
<td>New residential building</td>
<td>66</td>
<td>117%</td>
<td>1941-1947</td>
</tr>
<tr>
<td>Wholesale commodity prices</td>
<td>95</td>
<td>38%</td>
<td>1941-1947</td>
</tr>
<tr>
<td>Weekly wages of factory workers</td>
<td>105</td>
<td>139%</td>
<td>1941-1947</td>
</tr>
<tr>
<td>Railroad stocks (Dow Jones)</td>
<td>44</td>
<td>43%</td>
<td>1941-1947</td>
</tr>
<tr>
<td>Utility stocks (Dow Jones)</td>
<td>25</td>
<td>25%</td>
<td>1941-1947</td>
</tr>
<tr>
<td>Industrial stocks (Dow Jones)</td>
<td>31</td>
<td>3%</td>
<td>1941-1947</td>
</tr>
</tbody>
</table>

*Indicates % relationship in money expended, 1929-39-41.†First 6 days of July, 1941.

The runoff from the second half of 1946 is quite in the manner which we expected of the railroad in bankruptcy or reorganization.

Buckley Brothers

MEMBERS OF
New York Stock Exchange
New York Coffee Exchange
Philadelphia Stock Exchange

530 W. 6th Street, Los Angeles 11

Buckley Securities Corporation
Underwriters—Directors—Dealers
Primary Trading Markets

Private Wire System from Coast to Coast

530 W. 6th Street, Los Angeles 14
That the need for production as an antidote to inflation is evident, yet it is probable that price, output, and employment will continue to increase at the present time. This is in part due to the fact that the Fed has let it patch up inadequate defenses by increasing the price level. Common stocks are the logical vehicle of carrying out a program of supplying equity which has been denied to that particular economic system that has needed it most.

That common stocks are more attractive in price, yield, and underlying value in relation to the heavy capital outlay required for our national production, including the defense.

That inventories in relation to sales are not excessive. That there is a high degree of optimistic note in business generally as well as an absence of speculative commitments on thin margins, in business generally and in the stock market which does not spell trouble in the event of a temporary slowdown. This is in part due to the healthy and considerable period of time to come. That the new Administration could through poor judgment vitally affect the national course of affairs to which the past three years do not particularly give confirmation of deflationary or harmful policies.

That the present Administration including Congress must be fully aware that prosperity wise elections and is "good politics." However, there remains an important factor about which it is difficult to reach a definite conclusion before the new Congress "gets into action," namely, what will the economic policy of the new strongly enforced democratic administration involve? Specifically, will it cautiously analyze corporate profits in terms of the labor element, it seeks to incorporate by reason of the so-called "labor policy" mandates. Accordingly, will it cautiously evaluate corporate profits in terms of the labor element, it seeks to incorporate by reason of the so-called "labor policy" mandates. Accordingly, will it cautiously evaluate corporate profits in terms of the labor element, it seeks to incorporate by reason of the so-called "labor policy" mandates. Accordingly, will it cautious

This discussion, investment analysis, and analysis of corporate profits is "already on" and appears based on an accelerated method of accounting, involving inventories, depreciation, dividends, return on investment and a devalued dollar. In 1950 this supplement forecast on a program of inventory and profit analysis of the competitive and free markets made and determined.

Investment Bankers Association
Holds 37th Annual Convention

(Specialized in the General Obligations of the State of California and Its Political Subdivisions)
Hints on Investment Hedging

(Continued from first page)

under these circumstances; it is an insoluble necessity.

Hedging—Against What?

Moreover—just what is to be hedged against? Almost anything might happen, and no exact listing is possible. No one knows the future with any degree of exactitude, but everyone should arm himself that dangers, and prepare to face them.

That much is clear: This is an inflationary period even for the United States and Canada, to say nothing of the rest of the world. The international inflation has not yet run its course.

Given the prospect of a case less gold inflow, as well as of in- creased monetization at cheap money rates, of a colonial national debt, given also the vast accumulation of liquid funds on which to draw, plus the practical certainty of a new Federal deficit to arise sooner or later (to be financed by the printing press), recurrent waves of wage and price rises continue the number one hazard. The liberal welfare state that entertains the number two hazard, that is, the generous subsidies and at the same time the burden of the Western World's economic deficits and rearmaments, may tax capitalism into semi-socialistic regimentation, but it must live up to its role of full employment. And the price of full employment is inflation. War preparations or actual war may carry it into a runaway fever.

Briefly, in view of these United States have been behind us 15 years on the road which it took France only 12 years to travel (referring to the collapse of the franc in 1926). History has its roundabout manner of repeating itself.

On the other hand, even the most carefully managed or "super- pressed" boom is bound to come to an end. An "intermediary" recession, if any, should be over quickly, by paper-shot-insurance. But this inflationary medicine to which we owe a virtually uninterupted prosperity spell of nine years, cannot last forever. Not sooner than the date at which the national credit is exhausted—when an ever-stretched currency reaches the end of the confidence rope.

This double prospect, inflation and deflation, is greatly compli- cated and confused by discriminative interferences. They include taxes against business and the saver, political interferences which reduce profits one way or another, be it by controls, regulations and restrictions, confiscatory measures of the type of capital levies, the withholding of labor or raw materials, nationalizations, and similar means to stymie enterprise, to violate property rights, to prevent contract relations.

Economic reason presupposes a fairly large number of individuals and corporations, but also the policy-making public authorities act ra- tionally, if at all. Hence the economic game. When the rules can be changed while the game is on, bet- ter the game becomes extremely hazard- ous.

Learning From History?

In the past, even as late as in the 1880s, "the end of the boom" was an easy escape at hand. One could own gold and reliable foreign assets. If one country went haywire, the door was open for investment in others. Tax rates were comparatively moderate even in Europe. If French insurance companies were free to hedge through investing in gold assets, Swiss companies often lagged behind commodities, but they sky-rocketed with an inflation that was not driven undergound temporarily by governmental manipulations, foreign exchanges were permitted to seek their own levels. Profiting was only treated upon. In Germany's runaway inflation, public utility stocks, as an example, held their own because the system was one of comparatively free enterprise, much free-er than any of this age.

In short, it would be futile to try to copy mechanically the Hamilton policies and inflationary game of the 1880s. Nevertheless, they may serve as guide posts of a policy in inflationary times. Not to mention inflation, of course. Short of assuming a catastrophe in the main literal sense of the word—that this country may not have actually verified physical gold, or morally by bolshevism—the basic laws of economics are the same, as well as the propensity to long pull, long pull under advanced capitalistic conditions, or in a Garrison Economy.

Problem of Hedging

The problem of hedging is to decide on the most extraneous forces superimposed upon the regular course of business.

Whether the threat is to stem the running away of money, in a permanent fashion, or the purchasing power of (paper) claims by deflation, or the two, the weapons may be extricated directly and indirectly, or physically damaged: the hedging operation may be needed on a form in which these risks are offset, in part at least.

Therefore, the problem of deciding on nothing more than proper financing. Inflation means the perversion of all sound financial procedure. The more debt and the less equity, the stronger is the latter's position during the inflation. (The creditors will hold the bag.) To rely on customary standards or ratios of orthodox financing is to ignore the realities of such a situation. But even during a sharp inflation, underrating profit shares only as long as money rates remain low compared with the tempo of inflation. Therefore, when the inflation starts, the present rates is far preferable to borrowing on a short-term basis. However, two considerations should dampen the propensity of hedging with borrowed money. One is the slow character of the current inflation. Suppose it does not accelerate much during the next five years: it may turn out that one has over-hedged—unless one has taken out insurance against this risk, so to speak, through maintaining proper liquidity.

Even more significant is a sec- ond consideration. What about the status of a financial setup, private or corporate, which is caught with a short leverage when the inflation starts? It may have been fortunate enough to liquidate its position in inflation and enter the deflation in a sound position, to say nothing of his portfolio of depression hedges is a strong one, he might find himself, under a crushing debt burden.

This maneuvering between too much and too little leverage works out as one of the difficulties involved in long-term hedging. A simple process of offsetting debts altogether: a more realistic answer is to take substantial risks course to outside funds, but to do so preferably on a long-term basis, at the prevailing low interest rates, and on an amortization schedule with the option of early repayment at the debtor's choice. Against that, the "true" gold—math—which imply the destruc- tion of paper liquidity—the controls or possessions of substance is, as it now, as it always has been, the logical way of hedging provided (a) That the owner can "wait" long enough for liquidation, if necessary, to get and has enough current income from the same or other sources to hold through; (b) That it is not undertaken as a substitute for some other activity, to, what is the sensible way of investing in each individual in- stance.

(c) That the substance will not be expropriated, or taxed away, or expropriated in any way.

(d) That the cost of the hedging procedure is less than the savings and (e) That it has been undertaken in a well diversified and well thought through manner.

No single investment outlet ex- isting in this inflationary period. Gold comes nearest to being the haven of investment security. In fact, it—because it is bound to rise in the subsequent depression, one may say—also has claims but even most commodities other claimants are subject to ultimate, ubiquitous, and inde- structible liquidity, it emerges un- harmed, as usual, from the present situation.

In a controlled economy, deriva- tives might serve a useful purpose until the inflation ends—when, of course (as already, or again, is the case in France). In the meantime, gold is available, but only at exhor- bitant prices, on black markets which are not to everybody's taste. There still remains the legal currency of buying (usually in 100 units or less) a certain amount of the franc, or, gold, at prices some 15% to 20% higher than the open market rate. Needless to say that the franc is to be hoarded, so long as it can be outlawed, too, so as to lengthen a tottering paper money's hold on us. And out of that we have to make the best of a bad job, without taking a beating.

Since almost the entire world is caught in foreign economic re- strictions, we must learn to do without it. Some Latin American countries, and the United States and Uruguay have not yet clamped down on gold exports, but may do so in the future. Mexico did not so long ago. Presently in the United States of Tangier is the safest haven and Mexico the most convenient one. It stays under international rule.

Gold shares are a substitute for foreign currency, but gold re- ceived instead of storage of real value are still far off. In fact, it is one of the reasons for the forthcoming. In spite of the like- lihood that the managed inflation may last several more years, and that gold shares may not have their buying day for some time (caused as they are between a fixed relative value and the variable fiscal strains; 66% is the rate in Britain).

Purchasing the "perfect" liquidity of gold is the shortcoming of dia- monds and other precious metals. It spares the owners the kind of headaches which are the due to the public interest in its mone- tary function. And while wider, larger use could come some day and elsewhere and time again ... let's hope it never will happen here.

Common Stocks

Be that as it may, the average investor should not sink much money into them, if he has 10% of his fortune into gold—or gold shares—plus diamonds. They are last-ditch hedges, so to
matters is
• (which is, corporate
depreciation
present
question)?

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As We See It

(Continued from first page)

he intends to abolish the business cycle. He has, moreover, in his files copies of his campaign promises which offered varied and often quite inconsistent suggestions as to how the world should be run.

High prices were one of his important "talking points" during his tours through the country. He was definitely going to do something about them. Low prices threatened the farmer — and he was going to do something about them. There were a great many poor people who could not manage to live as they thought they should be able to live, he said, and he was going to do something about that. There were any number of things which should be done with public funds, which doubtless he would keep busy persons going, he thought, at least. He would see to that, too, and at the same time in some unexpected way public finances would be managed so that no inflation would be generated from that quarter. And so on more or less indefinitely.

Must Now Get Down to Earth

Now he had under the necessity of really getting down to earth on some of these questions, and his task is immensely complicated at the very outset by the fact that he finds it difficult to determine whether it is a continuation of the boom or the preparation of a substantial recession that he has to combat. He has his "experts" at work on the question, but one need scarcely be a prophet to guess that they at this moment at least are having their troubles, too. It would require relatively small reductions in volume in most instances under existing conditions to turn the profits about which the President and his advisers are so fond of talking into losses, so low a parity so long as wages and so high are what are known as break-even points.

For a good while past, the Administration and most of the labor leaders supporting it have been counting on high profits to take them over many a good political hurdle; and it would seem he demands for higher wages. They constituted one of the hopes, doubtless, of the Administration for a source of "painless" taxes. If presently these profits disappear or threaten to vanish, an excess profits tax would have little meaning, and steeply raised corporate income tax rates could hardly be defended by any of the stock arguments now brought to bear. Prices, meanwhile, have been hesitating for a good while past — even during the campaign for that matter — and though they continue to furnish a good means of stirring the emotions of the people, it could be that increasing unemployment will presently be politically more dangerous.

Must Not "Stall"

Yet the Administration would run very considerable risk in "stalling." Business is at this moment hesitating, so far as it is threatened. It is, he said, because it feels a deep uncertainty as to what the new Truman administration will do. It is beginning to feel that the President and his advisers are showing some indication of wincing and retrenching in the face of adverse business news. This apparent prospect has tended to take off some of the edge of nervousness about the situation, but it has as yet had no definitive effect. If the President is to remove himself entirely at cause of any substantial setback in business during the next few months he must make it reasonably clear in the relatively near future that he has no intention of "implementing" a number of his campaign promises at least as the present. For him to proceed with excess profits taxes or a substantially increased corporate income tax; for him to go to work in earnest for a repeal of the Taft-Hartley Act and a substitution thereof of the old Wagner Act; for him to insist upon even the standby power to ration or to control prices; or for him to do any of a number of other things he was constantly talking about during the campaign would be to invite a recession not at all to his liking. To leave the whole matter in a state of great uncertainty would be only a little less troublesome.

Yet if the President were presently to reach the conclusion that a serious recession threatened, and that accordingly the Administration must proceed at once and with vigor to induce a return to or a continuation of the high rate of business activity which has been obtained the outlook for a sound growth of industry and trade in this country would certainly not be greatly improved. It could hardly be otherwise in view of the fact that — if such indeed is called — of the current ills of business. Most of the New Deal school of thinking insists that depressions are caused by mal-distribution of income from current production, too much saving, too little government and the multitude of miseries which constitute the market for most of the consumer goods and services. This, naturally, makes for an argument in favor of higher government expenditures and the like else to recommend it. Any hesitancy at this time definitely originates from no such cause. In real ability to buy consumer goods and services the wage earner never was so well off. Output per hour may have been as well off or possibly better off for short periods of time during the war and immediately after, but this was all more apparent than real.

No Back Seat Drivers!

If a real recession were to develop in the early future or if one is threatening now, it has other causes, and any steps taken by a Washington Government based on this philosophy of higher and ever higher wages could not fail to have an adverse effect upon the situation. Business needs no tips from government and it certainly is not in want of a back seat driver from the national capital. What it does want and need is an Administration which would give up the idea that it must run the business of the country as well as its government. Such an attitude on the part of the present Administration is admittedly unlikely. It is too deeply committed and its thinking is too involved with foolish notions about economies. Yet it is precisely this that the country most needs at this time.

If only post-election developments were to lead the President to make a clear and unequivocal statement that conditions at present do not require action on his part herefore contemplated at least at this time! It would be no solution, but it would help.

George Cooper Dead

George Cooper, partner in Cooper Cox & Co., died at his home of a heart attack at the age of 48.

Paul Andersen Dead

Paul C. Andersen, partner in Cyrus J. Lawrence & Sons, New York, died at his home at the age of 44.

Dangers of Bond Unpegging Terms Exaggerated

(Continued from page 4)

ever, that large selling will de¬

crease in the foreign exchange markets. It must be remembered that foreign banks not only have relatively low operating expenses but maintaining a suitable level for foreign exchange transactions. The life insurance companies hold the largest portion of the 8% bonds and have been substantial purchasers of the state and municipal bonds and real estate mortgages. In other words, there has been no drastic reduction in the amount of foreign exchange securities but a gradual shift in their character. The Governments to corporate securities in their purchases have been substantially increased corporate and real es¬
tate paper. The other side of the pic¬
ture is that it has frequently been the case that when a foreign ex¬
change System has ample power at its disposal to support the bond market. For example, as of Dec. 1, 1949, the Federal Reserve System held 31% of all commercial bills, certificates and notes and the proceeds used to support the large long-term bond market. The Fed¬
eral Reserve held gold certificate reserves of 32,260,000,000. Under the present gold standard 25% reserve be held against money. So the Federal Reserve System could buy $2,425,000,000 of foreign exchange. Government Bonds without reduc¬
ing this gold reserve ratio below the present 25%. This would seem to be ample to sup¬
port the foreign exchange market which might be offered in the market and, of course, avoid any panic.

It is not meant to imply by the above that the problem of sup¬
porting the market is not serious. On the other hand, it is believed that the seriousness has been over¬
rated. The capacity of the foreign exchange market to continue and rigid support of the gold standard is not believed that the Federal Re¬
serve should entirely withdraw all support if at all during the foreign exchange market is concerned. It is felt that the Federal Reserve should stand ready at any time to act so that no panic does develop by ill-ad¬
svised selling and that the liquidation is orderly.

Conning & Co., Ballard To Admit Partners

HARTFORD, CONN.—Conning & Company and Ballard, 50 Lewis Street, members of the New York Stock Exchange, have announced the death of Basil F. Austin and John H. Beardsley to the firm which have been with the firm for some time.
The Job Before 31st Congress

(Continued from page 6) today, the American people are confronted with the necessity of our finanaces and the reduction of our public debt.

Question of Taxation

On the question of taxation, the commitment of our party went only to the extent of a reduction in the volume of taxes. It was decided by all of us to support a move to reduce the Federal Income Tax, and, as a result, many people believe that it is now necessary to go forward with a move to repeal the Income Tax Act.

Whether the repeal of this Act will automatically re-establish the Wagner Act, a matter of legislative and political concerns. The repeal of this law does not mean that some modification of the Wagner Act is not possible. Experience makes us wiser, if we are wise men, and it may be that there ought to be modifications in the administrative details of the Wagner Act. Growing out of the last decade during which it has been administered, such modifications should be made with the conviction that the fundamental rights of collective bargaining, guarantee in that law, shall not be decreased or weakened by any act the Congress may pass.

When the Labor Department and the President have been dealing with the question of the wages of the producers, they have been able to work out a plan of conditions by which they can be convinced of the necessity of such a movement. Whether the re-enactment of the Wagner Act will be re-enacted in this new condition will be determined by the course of events.

In recent years it has been multi¬pled to this society by all its essential properties. We propose, and it was one plank of our plat¬form, to make the Department as original as is possible under the circumstances.

Largely in the development of the American worker and the whole American industrial system, which will be crystallized around the individual worker.

When the minimum wages and the laws are passed, it was something of an experiment to see how it would work. The new minimum wage is pitifully inadequate and you will be surprised to know the number of workers in the U.S. who receive no more than 40 cents per hour.

We have pledged ourselves to the idea that the number of workers in the U.S. who receive no more than 40 cents per hour and the President has recommended and we will do nothing will work against the enactment of the Agricultural Adjustment Act, the Soil Conservation Act, the Price Sup¬port Act, and the increase in the national programs, helped to create a prosperous agriculture, which has reflected itself in the increase in the purchasing power of our people. Farmers buy about 64% of American manufactured products as a whole. This 25% purchase power means employment for labor and profits for industry. In turn, a prosperous and growing farm sector offers a wide market for agricultural products, thereby making us a practical partner in the economy with both the indispensable and the indispensable, while we are in the country. We have not proposed and shall carry out our plans to continue and make more effective

The President vetoed this Act, and the Committee to aid, the same, to the extension of social security and the increase of its benefits. The President vetoed this Act, and the Committee to aid, the same, to the extension of social security and the increase of its benefits. The President vetoed this Act, and the Committee to aid, the same, to the extension of social security and the increase of its benefits. The President vetoed this Act, and the Committee to aid, the same, to the extension of social security and the increase of its benefits.
The Job Before 81st Congress

(Continued from page 63)

recent campaign and election. We have been able to reaffirm more than ever the theory that politics should end at the water's edge. Our foreign policy has been non-partisan, because we recognized, even before the termination of the war, that its conclusion and aftermath would present to us problems that could not be solved by any single political party. We have been happy in the attainment of that form of unity and cooperation among all political groups, which has presented to the world a picture of accord and understanding among the American people, even of some of the more intricate problems that dwell in the field of diplomacy. We shall continue this program.

We are committed to the maintenance and the strengthening of the United Nations. If this great agency shall not succeed, man may lose his hope of the future of civilization, its difficulties are apparent, and are made more acute by the intransigence of totalitarian nations seeking an aggression, and seeking to destroy our conception of democracy. We shall, to the utmost of our ability, preserve, strengthen, and perpetuate this United Nations means of settling international controversies, in the hope that ultimately all nations and all peoples will accept it as the tribunal of world peace.

E. M. ADAMS & CO.
AMERICAN BANK BUILDING
PORTLAND 5, OREGON

Television Boom Is On!

(Continued from page 9)

upon which this aid is being re¬
ceived and which are full of dif¬
ficulties, and no doubt some dis¬
appointments. However, we must believe that the nations which we are seeking to aid will repudiate their part of the program, but we must undertake the faith¬
fully our assistance, in order that they may stabilize their political and economic situa¬tions, resist encroachments of totalitarianism, and build a firm foundation for future peace and prosperity.

We shall continue to maintain the dignity and the right of the American nation in its dealings with all the nations of the world. We shall continue to foster the agencies of peace and the principles upon which our domestic order is secured. We shall continue to strive for good relations, to overcome interference or ignorance among the peoples of the world, and to serve as the arbitrators among the nations which attempt to undermine that approach.

We shall continue to press for solutions to the problems of the current political and social issues in our world. Our commercial and trade agreements nations has increased during the last 14 years by nearly twenty the percentage of increases with non-trade agree¬ment nations. We know that men must work in order to live. They must sell what they produce. In order that they may be employed. We shall undertake to continue this great program, because its only alternative is a return to the log-rolling, back-scratching, intransigence of the past days when partition politics was the chief motive be¬hind the enactment of tariffs, and the essentially political in nature, to deal with special interests.

We are committed to the con¬tinuance of the Marshall Plan for the recovery of Europe, and we believe that the continued policy, of that, of course, expect the bene¬ficiary nations to carry out their agreements as a condition of their continued support.

that of any previous television program.

Opinions of Experts

Mark Woods, President of the American Broadcasting Co., during the Opening of the Air" broadcast stated:

"Television is the most dynamic, constantly growing vital industry that the world has ever known. This industry looks to the motion picture field to provide it with a great part of the entertainment which we need.

If the motion picture industry continues to help out in entering this new industry ... then my com¬panions and I are most certainly prepared to do so."

On this same broadcast, James Corp., stated: "Television is the greatest country with the United States. Its progress in the last 18 months has surpassed even the early days of the automobile, the motion picture, and yes, even ra¬dio itself, in terms of what is being accomplished in this industry, but television is a far greater opportunity than anything in the industrial history of our Country."" We think of this..."

"In March of 1947, there were only 25,000 video receivers in the United States. Today, there are over 600,000 television receivers and they are going into the American homes at the rate of several thousand per day... The motion picture industry has a great opportunity in television and television has a great opportunity in television. Television is not shown over the air. It has been estimated that the success of the tele¬vision broadcasting industries will require three or four times as many motion pictures as Hollywood can produce, and the motion picture industry is..."

Rogers Mariner, who directed "Oklahoma", "C a r o s e l", "Porgy and Bess" and many outstanding screen and television productions, has in the past two weeks been working on the "Oklahoma" tele¬vision program. He is seeking to bring to television the beauty and vitality of his stage productions, through the use of special effects, and with a creative imagination. Mariner believes that television offers the greatest opportunity to bring to the American people its most power¬ful and meaningful experiences, and that television offers the greatest opportunity ever conceived by the mind of man."

"In the past 12 months, television has been broadcast by every major industry ever to appeal to the American people. And this growth has been smooth and steady and has been an example of the business," stated R. C. Cosgrove, Executive Vice President of Radio Telecasting Co., in an address at the 37th annual convention, which was held in Chicago, October 25, 1949.

"Our Avco Telecasting Station in Cincinnati is growing rapidly. At the same time, we are building additional stations in Dayton and Columbus and have applied for a permit in Indianapolis. And this growth has been shown to be smooth and steady in every phase of the business," stated R. C. Cosgrove, Executive Vice President of Radio Telecasting Co., in an address at the 37th annual convention, which was held in Chicago, October 25, 1949.

"As a business that is fairly certain to have a billion-dollar proportion in another 12 months, television offers a great opportunity to turn the industrial elite. On whatever subject and in whatever form, television will be the answer to the growing influence and growing power of television."

Frank Butchart & Co.

Frank Butchart & Co.
INVESTMENT SECURITIES

AMERICAN BANK BUILDING
PORTLAND 5, OREGON

Bell System Teletype PD 239

Pacific Northwest Securities

BLANKENSHIP, GOULD & BLAKELY
INCORPORATED

WILCOX BUILDING
PORTLAND 4, OREGON

CONCLUSION

The executives quoted in this Bulletin are not, vis-a-vis, Con-
Sees Pegged Bonds Countering Higher Reserve Requirements

Continued from page 12

The world is being forced to decide whether the present pegged rate of government bonds is adequate to draw investors other than commercial banks. In that case the transaction results in an increase in deposits of the commercial banks, which are accompanied by an increase in reserve balances. As far as the Reserve Banks are concerned, it leads in either case to an increase in member-bank reserves and in their holdings of government securities.

"Purchases of government securities by the Reserve Banks from other banks and from the commercial banks thus nullifies the effects of raising the reserve requirements for they supply the banks with the needed reserves and at the same time create excess deposits. Because these purchases do not reduce the amount of government securities and by member banks, the latter's potential demand for new reserves remains undiminished. Since during the last few months investors other than commercial banks have been the largest sellers of government securities, the high interest rates on such securities absorbed the nearly created excess reserve balances. Hence, so long as the Federal Reserve authorities consider it necessary to maintain orderly and stable conditions in the government bond market, the reserve requirements do not afford such a means to control credit and the policy is ineffective. If these banks have exercised a psychological influence on the lending and investment activities of the public, they will lead to higher interest rates since a larger amount of the banks' available funds will be tied up in non-government securities. Because of the scale of government securities and the utilization of proceeds for macrolending, the monetary obligations of political subdivisions and commercial banks and the holding of riskless assets, if held to majority, for assets involving risks in varying degrees, the banks will have to increase their capital to be able to absorb potential losses."

John H. Garrett Opening Own Offices in Zanesville

ZANESVILLE, OHIO—John H. Garrett opened offices in the Masonic Temple Building here yesterday in a securities business. He is formerly an officer of Garrett-Talley, Inc.

With First Securities

SPECIAL TO THE COMMERCIAL & FINANCIAL CHRONICLE

DURHAM, N. C. — Harry M. Boyd is with First Securities Corporation, 111 Corcoran Street.

With Hess & Mculloch

PORTLAND, ORE. — Edward G. Daniel has been added to the staff of Hess & Mculloch, American Bank Building.

Hemphill, Fenton & Campbell

The United States National Bank Blvd.
Portland, Oregon

Bell System Teletype No. 328

Golf & Tennis Winners at IBA Convention

The following are the winners in the golf and tennis tournaments at the Investment Bankers Association Convention held in Hollywood, Fl.:

GOLF

Women's Medal Play Tournament, Low Net: Mrs. Roy W. Doole (Doole & Co.,) of Buffalo, and Mrs. Thompson W. Wakeley (A. C. Allay & Co. of Chicago), tied. Mrs. Wakeley winner on the draw.

Women's Medal Play Tournament, Low Gross: Mrs. Sewell C. Watts, Jr., (Baker, Watts & Co.) of Baltimore; Mrs. Leonard F. Pizdar (Goodybouy & Co.) Chicago, runner-up.

Women's Blind Bogey Tournament, Miss N. S. Hughes (Wagstaffer & Durand) of La. and Miss Allen C. Dubois of N. Y. tied; on draw Miss Hughes wins 1st prize.


With First Securities

Incorporated

Investment Securities

STATE AND MUNICIPAL BONDS

Hemphill, Fenton & Campbell

Humphrey, Fenton & Campbell

Incorporated

Investment Securities

First National Bank of Portland, Oregon

Bond Department

Pacific States Bank

Robert T. Knighl opens

PITTSBURGH, PA.—Robert T. Knight is engaging in a securities business from offices in the Union Trust Building.
Reasons for Higher Rail Rates

(Continued from page 14) the increasing total operating income from railroad rates had maintained unchanged. The sharp decline in total operating revenue from 1946 as compared with the immediately preceding years could result from substantial increases in wages and other costs reflected in the rate change for the entire period shown with one exception (1950).

In 1946, although railroad gross revenues were greater than in any year prior to 1940, the margin of net railway operating income plus income taxes at 12.4% was one of the lowest for the entire period, despite the rate increases granted during that year. In other words, instead of the high ratio which would have been anticipated during a period of prosperity, we find a very low ratio. For 1948, as a result of further rate increases and the full realization of increases granted late in 1947, the margin showed some improvement, before allowance is made for the new cost increases already assured. But, it appears as if the margin is still very low as compared with prosperous periods of the past.

This low margin or high break even point is one of significant importance in terms of the future of this industry. Declines in total operating revenue, when they take place, are bound to be reflected in sharp shrinkage in railway operating income before taxes. This means that relatively small decreases in volume would reduce substantially or even wipe out the present inadequate profits. This points to the necessity for the industry to obtain a normal margin of 15% or more as compared with serious difficulties in the future.

In the past, industries, margins have not only been maintained but there are cases they have been increased. During periods of declining activity, many other industries are able to adjust their costs more rapidly to meet periods of reduced activity. In addition, their large earnings under today's circumstances must make it possible to accumulate substantial undistributed profits which will provide a cushion for periods of adversity. In contrast, the railroads, which are subject to violent fluctuations, have not been able to accumulate surplus earnings at the same rate, nor have their expansion and rehabilitation programs been able to keep up with their working capital. This has been true not only because of the low returns from the business dollar, but because of the delays between increases in rates and returns.

Thus, the railroads are more vulnerable because of the decline in the margin and they will have less accumulated reserves to meet the difficulties which are engendered by that vulnerability than is the case in other industries. This point is well brought out in the Survey of Current Business of the U.S. Department of Commerce, that:

"Somewhat fewer than half of the 131 Class I railways are currently making regular dividend payments to stockholders. The number has increased since the war, since some of the roads which have come out of receivership or trusteeship have begun to pay dividends, but the percentage amount paid out has moved fractionally lower.

"Recent dividend payments by railroad companies have been less liberal than in the past. As a percentage of the average for the years 1925-29 and of the amount of retained net income, there has been running substantially below that of the years 1925-29. In all industries combined both dividend payments and retained income ranged above the level of the late Twenties. (See May 31, 1948, p. 20, italics added.)"

It is imperative that a more adequate margin be established for the railroads. When it is remembered that the current low margin of profit is an overstatement of actual profits because of the higher cost of replacement at the present time, the dangers inherent in this situation become even clearer. This is true for all industries in which capital investment and replacement is large. As a matter of fact, in few industries in which the necessity for continued replacements is most pronounced as for railroads.

Purchasing Power of Railroad Profits

It is frequently emphasized that the rise in prices has resulted in a reduction of purchasing power of the wage-earner. Of equal importance is the fact that this price rise has also meant a reduction in the purchasing power of the business dollar. This is particularly important to the railroads, which must continuously add and replacements to their plant—expenditures which are financed to some extent out of current earnings. The years 1925-29 represented a depressed period by any standard that may be used. On a national basis, prices ranged from 8 to 10 million billion dollars, in 1923 29 and the average of the railroad mileage was in one Third the railroad rate, was in one half. This rate of rail net revenue operating income was less than half as large as during the sales of 25 and only moderately higher than in the years 1910 to 1914. For example, for all corporations the profit in years 25-29 was 5% of earning, 25 to 32% of 18, to 7 years 1922-29. For railroads, 1939-39 average net railway operating income was 5% of 5. This evidence could be multiplied in other ways (e.g. prices level, industrial profits, business failures, etc.). The fact that real net railway income in 1947 and 1939 fell below the level prevailing in the years 1922-29 is a sufficient commentary on the present situation.

One other point may be noted in connection with these changes in prices and costs and their effect upon the purchasing power of business dollars. For years the emphasis has been placed upon the desirability of a return of 6% for the railroads of this country. With prices generally at 75% higher than in the prewar period, it is important to keep in mind that a 6% return today has the real purchasing power of about 4%. Such a return is a return of 5% which has been previously stated, even a major railroad is expected to obj 5% will leave the general price level in the near future relatively unchanged from the historic level. Thus, over the next few years, the attainment of a 6% return today would leave the industry with less real net income than it had before, and such a return would have yielded larger dividends in the past half century.

Basically, the return on net working capital applied to net worth based upon current costs is a low percentage, involving original cost, which is substantially below 3%. As a result of the inevitable declines below that average in poor years, the average return over several years would be substantially below 3% to 6% of a property account based on original cost.

The New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has made the following firm changes:

Louis A. Winnenthal & Co. will dissolve Dec. 31.

Roy S. Dunham & Philip Illustr as an exchange member, Dec. 31.

Howard Stebbins, limited partner in DeCoppet & Doremus, died Dec. 15.

Kutch & Co. will dissolve Dec. 31.


Daniel T. Lehane, member of the Stock Exchange, will withdraw as partner in H. A. Moh- nell & Co. Dec. 31.

Frederick Winthrop, Jr., limited partner, will retire from H. C. W. Wright & Co. Jan. 1.

Endicott J. King will retire from partnership in Walton, Hoffman & Goodman Dec. 31.

William D. Winchell of Buffalo, a general partner in the firm of Struthers & Co., will become a general and limited partner Jan. 1.

Richard L. Morris, general partner, will become a limited partner in W. M. Stone & Co., effective Jan. 1.

Robert Struthers, general partner in Wood, Struthers & Co., will become a limited partner Dec. 31.
We Are Not Winning Against Communism

(Continued from page 16) factors are financial, philosophical, political, intellectual, and personal. Communism, he says, is the logical conclusion of historical materialism. It is based on the idea that the economic system is the driving force behind all society. The root cause of all problems is money, and the solution is to redistribute wealth equally among all people. This is why socialism is the necessary precursor to communism.

The key to winning against communism is to understand its philosophy and then counteract it at every level. We must fight for free markets, individualism, and freedom of speech. We must also support policies that promote economic growth and create jobs. If we can do this, we can begin to turn the tide against communism.

However, we must also be aware of the dangers of communism. It is a totalitarian ideology that seeks to control every aspect of our lives. It is a dangerous ideology that must be fought against at all costs.

I'm sure you understand the importance of this issue. Let's work together to ensure that communism is not allowed to take hold here in the United States.
We Are Not Winning Against Communism

(Continued from page 67)

vast extension of "partnership" concepts among governments. Ownership and control capital and business genius is among those in the American business world who have thought about the stock market. He spoke for a moment and then the others seemed to listen to his remarks. As a result of the meeting, the others had stopped talking and were listening to his remarks and then the others seemed to listen to his remarks. But as a result of the other remarks he was asked to make an address before an open meeting of the club on "Investment Policy." This club is composed of professional and business men. They are interested in building a "sound investment," they are men that have possibilities of development. They were interested in the man in which he presents his ideas, the way be builds up this subject of investment has possibilities for the creation of new accounts. Here is a new field of prospecting wide open to investors men all over the country.

How about your town? There are Rotary Clubs, Lions, Men's Clubs in the churches, Chambers of Commerce, Fraternal Orders, Women's organizations by the hundreds. Can you talk on your feet, can you make it interesting? The subject is teeming with possibilities. What to talk about? Talk about this:

Why we have a Wall Street—the Corporation—what are the functions of our business—supplying capital—creating markets—how to invest successfully—how to plan an investment program—how to pick a sound investment. Here are the people that can talk about this. Here are the new Wall Street—how we try to help our clients to do a better job by supplying facts and services—our vast sources of information which we have available to us, why we don't have to ask our clients to guess when they can get the facts—the list is endless. WE HAVE A WONDERFUL BUSINESS TODAY—SO FEW PEOPLE KNOW IT.

HANDY WORKING ARE MOST OF THE PEOPLE WHO ARE ENGAGED IN THE SECURITIES BUSINESS. A short talk along these lines could build good will for you—make you known in your town—help you to obtain more business. If you can talk to a group of people about this in an OBJECTIVE MANNER, and MEANWHILE INDIRECTLY SHOW OTHERS BY WHAT YOU SAY: THAT YOU KNOW YOUR JOB, this medium of building a business has much to recommend it. HERE YOU ARE PROSPECTING WITH A TWELVE FOOT BATEAU.

How to go about it? Why not offer your services to some club? Pick an interesting subject—where there will be no possibility of anyone thinking that you are after a direct grab for business. Investment Policy—The Wall New Street—How to Invest More Successfully?—What Is Behind the Stock Market?—These are the things that could be talked on. Many people who do not care to talk about this want to know more about investment—ABOUT MAKING MONEY.

The trouble is we haven't told them. What an opportunity there is for many of our BROKERAGE DEALERS of this country to sell our business to the people in their own communities. Why isn't somebody doing it? What is holding us back? Look at this and ask yourself, HAVE WE DONE A GOOD JOB?

Out of the 48,400,000 holding units in:

THE UNITED STATES:

39% owned checking accounts
45% owned their own house or farm
48% owned savings accounts
48% owned U. S. Government Bonds
79% owned life insurance

BUT ONLY

9% owned stocks or bonds, exclusively of U. S. governments.


We have got a market? What do you think? Why not be the first one in your town to start telling your frigids and neighbors about this great business we have and how they can live better by becoming investors in American Industry. Is there anything, anywhere, that is a better investment? What do you think?

Over-the-Counter Quotation Services For 35 Years

NATIONAL QUOTATION BUREAU, Inc.

Established 1913

46 Front Street, New York 4, N. Y.

Chicago

San Francisco

Our Reporter Government

By JOHN T. CHIPPENDALE, JR.

Firm to advancing prices, with increased volume give a con- tribution to the government bond market. Openings appear to be largely monopolized by commercial and savings banks with dealers coming into their own as activity expands. The banks, however, are busy with other business—buying with savings banks now letting off the near-term maturities to take the pressure off the short term. There appears to be more confidence in the market that prices of eligible Treasuries will tend to go higher than we expected, because of the better demand from deposit institutions.

The 2½s due 1956/60 have well taken with the demand widespread. The longest taxable bond issue is also under especially good demand. There is a growing demand for the pressure of selling by savings banks, which seem to be about their switches out of this bond. In the tax-exempt market interest in all of the bonds with the 2½s coming in for buying from some of the savings banks.

GOOD MARKET DEMAND

More money market followers are going over to the side of those who believe that the postwar rise in interest rates has reached peak levels. It is being pointed out that capital expenditures for new industrial expansion will not be needed, and that capital requirements will probably decrease with stable or receding commodity prices. Housing, according to indications, will require less capital than thought. The demand for money for real estate is expected to decline, and the demand for mortgage money, which absorbed the lion's share of savings in 1948. Commercial loans appear to be slowing down, and the downward trend of the uptrend is looked for in the not distant future.

With the supply of investable funds still very substantial, and not as many outlets into which it can be channeled, there should be a fairly good demand. This demand will be reflected in a better demand for government securities.

MONEY RATES

If the demand for funds is to decline in 1949, as many now believe, then any further rise in short-term money rates would seem to be a matter of question. The 1½% certificate rate should hold and reserve requirements should be unchanged. A continued need would not be that need to tighten the money markets in order to restrict inflationary forces, which would be passing with the lessened demand for money. The demand for commercial loans to get funds that would be used to finance industrial expansion would also be eliminated and this should virtually mean the end of liquidation of securities by non-bank investors. Commercial banks with a lessened demand for loans and no need of higher reserve requirements would not only cease to be sellers of Treasuries but might turn out to be sizable buyers because of the need to maintain their liquid assets.

Easier money market conditions, it is believed in some quarters, would also result in no demands being made by the monetary authorities for greater power over the money markets and the institutional demand for gold may have implications on future legislation, however, are about evenly divided since there are many who support the belief that new controls will be asked for and many who believe that there is no need for controls to meet whatever conditions that might arise in the future.

Legislation to bring non-bank investors under regulation of the authorities is believed to be among the most likely to be obtained.

TREND REVERSAL

With the movement on, which many believe will take us from an allocation economy to a competitive economy, there is developing a changed attitude in the government bond market. The fear of pegged prices not holding up disappearing. In the matter of inflationary pressures, as quotations move away from support levels, the talk is not about floors being maintained but how far will Federal jet prices rise. As soon as there is the realization in the minds of bank investors as to how many of the longs should be bought now and should more of the shorts be sold to make way for larger commitments in the distant maturities?

Under competitive economic conditions and with the inflationary pressure relieved, the money markets might even display some softness, which would mean that present positions in the eligible issues would solidify. This time the only important factor would be Federal Reserve policy and the position that the Central Banks have been in recently.

SMALL BANKS ACTIVE

The decline in demand for mortgage money, which has been rather pronounced in some sections of the country, according to reports from deposit institutions, is bringing in buying into the eligible 2½s due 1956/72. Demand is steady, although the size of individual buying orders that have been appearing has not been large. This would seem to indicate the accumulating institutions for the most part are smaller deposit banks, which have not been too active in this bond of late.
Centralizing Stock Exchange Organizations

(Continued from page 7)

my post— the Senior Margin Clerks’ Division. Up to recently my membership in this hard-working and useful organization has been limited to Senior Margin Clerks in the New York Stock Exchange, and I have no profound understanding of the business. My membership is open to those who handle the same responsibilities in member firms of the New York Stock Exchange and other exchanges. I believe that we have made a wide and constructive arrangement. We are all business people, and not only your membership, but the business within which you can assist and influence the securities business.

Securities Business Scattered Among Many

We are each an active part of a most important business. I know of no business which contains so high a percentage of honest and upright individual human beings. The individual, independent group is what the people in our business must rest on. The fundamental condition of our business is that it remain broken up into hundreds, perhaps into thousands, or relatively small businesses scattered over the length and breadth of our country and in foreign lands.

Without the independence of judgment and the conflict of opinion which is obtained by each of the thousands of small business organizations, I don’t believe the securities business would be properly handled or organized. We are not centralized, so as to perform the function of service agent to the free capital markets. We know that no firm and no small group of individuals can engage in any collective opinion which will substantially affect the trend of values in the open market.

So long as our business is organized, it will remain free. But these individualistic, small business virtues of our securities industry would make a chaotic Tower of Babel of our business, if some over-all arrangements were not voluntarily accepted by the thousands of otherwise independent parts. There are several such centralizing organizations. There are, for instance, the New York Stock Exchange and the New York Curb Exchange—each one merely a very large partnership in which all the individual members have joined to obtain common facilities which they all need and to impose uniform standards of conduct and business methods which all respect.

There are the various Regional Stock Exchanges, the association of Stock Exchange Firms, the Investment Bankers Association, the National Association of Securities Dealers and many other centralizing agencies. Each serves in its own field to tie together the thousands of independent firms and individual enterprises which carry the real responsibilities of the job that is known as the Securities Industry.

Need of Centralized Authority

We all know that this balance between widely dispersed judgment and authority is the key to the success of our business. We know that to maintain this balance and keep the freedom of our business we must meet this difficulty.

But today it seems to me that it is of great importance to the over-all health of our business, and of our country, that closer association be developed between those central agencies which give mutual interest. It is my hope that the healthy, long stride toward centralizing the similar but scattered parts of our business which we have added one more bridge to the many that now join the New York Stock Exchange, the Association and New York Curb Exchange together.

Our mutual interests were already very great. A few indications of the extent of these mutual interests are easily presented: regulators and associates members of the Curb are partners in Stock Exchange firms; 80% of our Regular Member Firms and 95% of our Associate Member Firms are Stock Exchange Members as well. In the matter of Stock Exchange listings, I am interested to remember that about 46% of the issues now dealing in Stock Exchange were transferred to it from the Curb and about 50% of all new shares listed by the Stock Exchange in the last 15 years came from the Curb. Yet the Curb has maintained and, in fact, increased the average percentage of its volume of transactions to the total volume of the two exchanges during those years.

All of these indica of mutual interest make for strong bonds, both ways, between these three great central organizations in our business. Your action is to be commended for providing an ad
ditional link.

Beyond the areas of our three organizations lies the work of still other organizations in our business to which we are also, although more loosely, joined.
**The State of Trade and Industry**

(Continued from page 5)

of this week the operating rate of steel companies having 94% of the crude capacity of the nation will be 86% of the capacity for the week beginning Dec. 18, 1946, as against 78.0% in the preceding week, representing a decrease of 11.4 points, or 11.5%, from the market index.

The decline is due to the fact that most steel mills will not operate more than 86% of capacity in Christmas week.

This week’s operating rate is equivalent to 1,557,000 tons of steel production, compared with 1,977,000 tons in the previous week.

The weekly average output for the preceding two years was 1,785,100 tons a month ago and 1,515,400 tons, or 86.6% of the old capacity one year ago and 1,583,216 tons for the average week in 1946, highest output for the year.

**ELECTRIC OUTPUT ESTABLISHES FRESH ALL-TIME RECORD**

The amount of electrical energy distributed by the electric light and power companies of the United States for the week ended Dec. 19, 1946, was 5,296,191,000 kw-hr., according to the Edison Electric Institute. This was an increase of 1.4% above the previous week’s output of 5,226,000,000 kw-hr., or 7.9% higher than the figure reported for the same week in 1945.

It was 185,750,000 kw-hr. higher than the output reported for the corresponding period two years ago.

**CARLOADINGS FALL 11.3% BELOW 1947 LEVEL**

Loadings of freight revenue for the week ended Dec. 11, 1946, totaled 783,276 cars, according to the Association of American Railroads. This was a decrease of 30,007 cars, or 3.9% below the previous week’s output.

The previous week’s output was 783,276 cars, which is 14% below the corresponding week in 1947 and 45,475 cars, or 5.5% below the similar period in 1946.

**AUTO OUTPUT AGAIN BREAKS THROUGH TO A NEW RECORD LEVEL IN LATEST WEEK**

Production of cars and trucks in the United States and Canada rose to 125,452 units from 124,041 (revised) units the previous week, according to the Department of Commerce.

The fire at Ford’s Rouge plant, which idled the Ford and Mercury assembly lines on Wednesday of last week, knocked out 1,400 units, and the total output for the week reached its best volume since the war, and Packard continued at its peak post-war rate, the agency reported.

Output in the similar period a year ago was 120,067 units and in the comparable period in 1946, 85,875 units.

This week’s output consisted of 85,783 cars and 25,389 trucks built in the United States and 4,046 cars and 2,224 trucks in Canada.

**BUSINESS FAILURES DROP FURTHER IN LATEST WEEK**

Commercial and industrial failures decreased to 95 in the week ended Dec. 18 from 122 in the corresponding period in 1946. The increase, however, was far less than the 233 in the preceding week and 300 in the corresponding week last year. It was 17% less than the 113 failures reported in the corresponding week in 1945.

The Middle Atlantic and East South Central states were highest in failure rate, followed by the East North Central, Pacific and New England states. They showed a decline.

**FOOD PRICE INDEX OFF SHARPLY TO RECORD LOW LEVEL FOR 18 MONTHS**

The general food price index in food prices last week. With 19 of the 31 items included in the Dun & Bradstreet wholesale food price index moving lower against only 3 advances, the index dropped for the second consecutive week.

The index, which had 102.5 in August and 103.6 in September, dropped to 103.0 in October, 102.9 in November and 102.5 in December, 1946, when it stood at 86.12. The latest index showed a drop of 31.3 since the beginning of the year.

**COMMODITY PRICE INDEX UNCHANGED BY FOOD STRIKES NEW LOW YEAR IN LATEST WEEK**

Led mostly by foods, the general level of prices moved steadily downward in the past week to reach a new low for the year. The Dun & Bradstreet daily wholesale commodity price index registered 268.20 on Dec. 14, down from 271.12 a week previous, and compared with 302.36 on the like date a year ago.

The food index moved lower, registering a drop of 1.9% for the week, and 3.6% for the year. It stood at 212.8, down 7.1 points from the year ago level.

The condition of the new winter wheat crop was reported generally satisfactory with adequate moisture in most parts of the main wheat-growing area, according to reports from the Chicago Board of Trade. Futures in good volume, trading in the domestic flour market was extremely cautious, with demand for flour fairly good although there was some easing of prices.

Spout butter prices at New York were off 1 1/2 cents a pound, reflecting the demand for a large shipment of heavy receipt. The market for eggs was slow and unsettled, with a heavier demand for eggs for the week under heavier receipts. Liberal offerings and lagging demand were the cause of the decline in the market. Manufacturers were still hesitant in making commitments, reportedly due to a disappointing demand for their products. The market was inactive and lower early in the week but displayed a firmer tone during the last two days of the week.

The cotton market was slow and spotty. There was good demand for secured carded cotton. Little interest was shown in staple woolen goods. Foreign wool markets were steady and offered little competition for domestic product. textile industries.

**RETAIL AND WHOLESALE TRADE CONTINUES TO GAIN STIMULATED BY HOLIDAY PURCHASES**

Retail and wholesale trade continues to gain momentum in most parts of the country, moderate to large increases in market dollar volume suggested that of the comparable week a year ago.

Retail trade for the ten spot markets decreased moderately during the week but entries of the staple into the government decreased for the second successive week. Total entries for the week included 398,944, compared with 403,300 and 388,064 two weeks ago. The Dec. 1 estimate of the Crop Reporting Board placed the crop at 14,870,567 bales, or slightly below the forecast a month ago.

Retail trade was slow and spotty. There was good demand for secured carded cotton. Little interest was shown in staple woolen goods. Foreign wool markets were steady and offered little competition for domestic product. textile industries.

**RETAIL TRADE IN NEW YORK the past week advanced with sales volume reflecting a gain over last year for the first time during the past year. The gain was due to a recovery in department store volume, which was 11% above the like period in 1946, while the volume for other stores was still below the year ago period.**

**Over the Past Year**

**RETAIL TRADE IN NEW YORK the past week advanced with sales volume reflecting a gain over last year for the first time during the past year. The gain was due to a recovery in department store volume, which was 11% above the like period in 1946, while the volume for other stores was still below the year ago period.**

**Regional states varied from the corresponding 1948 levels by the following percentages: New England .4 up to 1. East and Southeast up to 3, South up to 1, Midwest up to 2 up 6. Northwestern unchanged to up 3, and Pacific Coast down to 1, South east, According to the Federal Reserve Board's index, department store sales 11 in the New England cities for the week ending Dec. 11, 1946, declined by 4% for the year to date increased by 5% . Retail trade in New York the past week was up, reflecting the demand for a large shipment of heavy receipt. The market for eggs was slow and unsettled, with a heavier demand for eggs for the week under heavier receipts. Liberal offerings and lagging demand were the cause of the decline in the market. Manufactures were still hesitant in making commitments, reportedly due to a disappointing demand for their products. The market was inactive and lower early in the week but displayed a firmer tone during the last two days of the week.**
News About Banks and Bankers

(Continued from page 10)

banks will be consolidated and will consist of 30 members. In addition, no person will hold the maximum limit of 30 members, three trustees retired, one from the National Bank of North River. The expressed intention of the President of the Bowery will continue to be the right of the chairman of the Board of the consolidated bank, which will be known as The Bowery Savings Bank. Dunn will occupy the office of Vice-Chairman of the Executive Vice-President of The Bank of the Nineteen, while the position next held by Mr. Brule will remain as Chairman of the Board of New York. Mr. Schwitka, it is ex-
pected, will be appointed Assistant to the President and Chief Administrative Officer. Mr. Dunn will continue under this plan as Vice-Chairman of the Board, Robert W. Sparks will also stated that the present directors of the bank, as a general Adviser to the Committee of the Trust company and that all the officers and per-
sonnel of the bank would be re-
mainder.

At the Ninth Annual Banquet of the Twenty-Five Year Manufacturers Trust Company, New York, on Monday evening, the Hotel, the following officers were elected for the coming year: Chairman, Col. J. A. mortar, Vice-President, Col. J. C. Knieriem; Treasurer, Harvey D. Gibson, President of Manufacturers Trust Co., and secretary, David W. Knieriem, and honorary member of the Club, addressed the gathering and presen-
ted on the list of employees who became members this year, will then become President of the club in 349.

Instead of the usual Christmas dead past or calendar, Colonial Trust Company, New York, sent, as a Yule tide remembrance to its depos- itors, a bi-lingual dictionary in English and Spanish, containing hun-

dreds of words. English-Spanish diction-
aries have also been sent corre-
sponding to the number of clients in Mexico and other Latin American countries. The diction-
aries were sent to 300 correspondents in 24 countries.

At a regular meeting of the Executive Committee of the Board of City Bank Farmers Trust Company of New York, on Dec. 21, Alroy B. Howell was ap-
pointed Assistant Trust Officer.

Announcement of the sale of 1,000 shares of the stock of the First National Bank of Portland, Oregon, was made on Dec. 21, by the First National Bank of Pennsylvania, at a price of $1,170 per share to sell 6.45.

It is announced by Harvey L. Sutro, President of the Na-

tional Bronx Bank of New York, that the bank will make a transfer $250,000 to surplus ac-
count, from undivided profits, thereby increasing the surplus account to $1,000,000. Herman Ring, a founder and President of the Ridgewood Sav-

ings Bank of the Borough of Queens, died on Dec. 13. Mr. Ring was President of the bank, which he also founded the real estate firm of Herman Ringe & Son and was also President at the time of his death.

The Board of Directors of the Worcester County Trust Company of Worcester, Mass., at a special meeting held on Dec. 15, voted to buy assets and assume deposit and certain other liabilities of the National Bank of Southbridge, Mass., and in accordance with an agreement that was pre-

posed take-over date, Jan. 15, 1804, the Board of Directors of the Southbridge National Bank, stated that a special stock is expected to be issued on Jan. 15, to act on.

W. D. Ireland, President of the Worcester County Trust Com-
y

A merger of the Liberty Trust Company and the Peoples Bank of Cumberland, Md., which is expected to be completed at the end of the year, will result in an institution with resources of more than $50,000,000. Aresting, Financial Editor of the Baltimore Sun, has written that the banks have been identified with the trust department since 1940.

The Union Trust Company of Milwaukee, Wis., on Dec. 13, that Howard M. Michel, Treasurer, Mr. Aiken, Special Assistant, Mr. R. M. Schaefer, Mr. Aiken, and Mr. R. M. Schaefer, assistant Trust Officer, is elected Trust Officer, by the board of directors.

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The combined capital accounts of the two banks will bear the name of Liberty Trust Company and the Peoples Bank of Cumberland, Md., which is expected to be completed at the end of the year, will result in an institution with resources of more than $50,000,000. Aresting, Financial Editor of the Baltimore Sun, has written that the banks have been identified with the trust department since 1940.

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### Indications of Business Current Activity

The following statistical tabulations cover production and other figures for the latest week or month ended available (dates shown in first column are either for the week or month ended or, in cases of quotations, as of that date):

#### AMERICAN IRON AND STEEL INSTITUTE:
- **Index of steel operations (percent of capacity):**
  - Dec 26: 103.6
  - Previous: 100.0
  - Month: 99.2
  - Year: 98.0

#### AMERICAN PETROLEUM INSTITUTE:
- **Crude runs to refineries—Daily average (tons):**
  - Dec 11: 15,060,000
  - Previous: 15,060,000
  - Month: 15,060,000
  - Year: 15,060,000

#### CEMENT INDUSTRY:
- **Reserves of Portland Cement:**
  - Mar 1: 25,400,000
  - Previous: 25,400,000
  - Month: 25,400,000
  - Year: 25,400,000

#### ELECTRICITY:
- **Electric power and light:**
  - Dec 11: 15,400,000
  - Previous: 15,400,000
  - Month: 15,400,000
  - Year: 15,400,000

#### INDUSTRIAL PRODUCERS’ INCOME:
- **Net income—Month of Oct:**
  - Manufacturing: $107,240,000
  - Construction: $9,940,000

#### SURPLUS FUNDS:
- **Amounts outstanding:**
  - Dec 11: $107,240,000
  - Previous: $107,240,000
  - Month: $107,240,000
  - Year: $107,240,000

#### CIVIL ENGINEERING CONSTRUCTION—ENGINEERING NEWS:
- **Total U. & constr. work:**
  - Dec 11: $150,030,000
  - Previous: $150,030,000
  - Month: $150,030,000
  - Year: $150,030,000

#### DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM:
- **Dec 11: 106.0**

#### RESIDUAL FUEL OIL:
- **Dec 11:**
  - Residual fuel oil (tons rec’d): 1,382,000
  - Rec’ved: 1,382,000

#### SLUDGE OIL:
- **Dec 11:**
  - Recovered: 854,183
  - Rec’ved: 854,183

#### NATIONAL FERTILIZER ASSOCIATION—WHOLESALE:
- **Wholesale prices new series—C. S. DEPT. OF LABOR:**
  - Oct 14: 133.7
  - Previous: 133.7
  - Month: 133.7
  - Year: 133.7

#### AMERICAN TRUCKING ASSOCIATION—MARKET OF OCTHER:
- **Truck freight rates:**
  - Last 30 days: 2,086,513
  - Previous: 2,086,513
  - Month: 2,086,513
  - Year: 2,086,513

#### BUSINESS FAILURES—B & B DREDGE:
- **Number of failures:**
  - Manufacturing: 129
  - Retail: 295
  - Commercial service: 23

#### BONDS INVESTMENT IN THE UNITED STATES:
- **Total:**
  - Dec 11: $48,400,000
  - Previous: $48,400,000
  - Month: $48,400,000
  - Year: $48,400,000

#### CANADIAN CANAL ASSOCIATION:
- **Shipping: 135,000:**
  - Dec 11: 135,000
  - Previous: 135,000
  - Month: 135,000
  - Year: 135,000

#### OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36:
- **AVERAGE—1926:**
  - Dec 11: 133.7
  - Previous: 133.7
  - Month: 133.7
  - Year: 133.7

#### SOFTWOOD Plywood (Dept. of Commerce):
- **Market of Oct:**
  - Production of (net tons): 184,000
  - Production of (net tons): 184,000
  - Month: 184,000
  - Year: 184,000

#### TRANSPORTATION—REVENUE AND GUARANTEED SECURITIES:
- **Net sales:**
  - Dec 11: $99,000,000
  - Previous: $99,000,000
  - Month: $99,000,000
  - Year: $99,000,000

#### TRUCK TRAILERS (DEPT. OF COMMERCE):
- **Production of (net units):**
  - Dec 11: 3,725
  - Previous: 3,725
  - Month: 3,725
  - Year: 3,725

#### IVORY TRADE:
- **For sale:**
  - Dec 11: 11,092,000

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**Note:**
- Prices are in dollars.
- Volume of freight transport (tons)
- Bank Reserve Requirements (1927)
- Volume of Newsletters (1927)
- Revenue and Guaranteed Securities (1927)
- Net Sales (1927)
- Shipments (net units of)
- Shipment (net units of)
- Shipment (net units of) in dollars.
What Stocks to Own in 1949

(Continued from page 2)

level in the Dow-Jones industrials, as was supposed to be followed by a further rise, was not considered. The rise in the high of the year—close to or above the high of 1923—to be reached in the spring. The reaction came along according to expectation, but the market has the sharpest upward movement registered since 1929 are going to fall, for short of revision of the daily high of 213 1/2 by the end of the year.

This failure of prediction on my part, and the sudden and unexpected turn of the tide in the market, is a reminder that even this way the technical pattern has been working out since mid-May, when the president of the market has made an great many predictions of the ultimate destination of the market other than in the range of a sharp drop in the trend of the next few months. If the inflationary factor of increased government spending continues, there will be higher taxes and a lesser demand for money. This probably would have been more than neutralized if the President's election had been held. If, as is more probable, the deflationary forces become more pronounced, the result might be much the same as that in the period leading up to the war. This becomes even more unlikely with the increased population over the last 20 years and the greatly increased personal income of the people, thus greatly enlarging the consumer market.

Another thing, I think, is that our debt situation is quite different if you look at the war debt after the Civil War. The debt that existed in 1929 in war, was of the same proportion, as the debt of almost any other country. The one difference, I think, is that if a five-year-old boy, want to get a new bicycle and he decided to sell his yardstick that had been sharpened to a scale where he had a small fence in the yard, he would be eight years old. It would appear that the height of the boy is normal in relation to the changed scale of the yardstick.

I think that is true in our entire economy, and that is why I have said that that we are in a new era like that envisioned in 1920. Certainly not in the stock market with brokers' loans less than half a billion dollars, as against nearly $2 billion in 1929. It is quite different from the situation in the 1920s when the turnover of the listed stocks on the New York Stock Exchange was 130% of the national income, and today the turnover is about 45% of the national income. In my opinion, this figure shows the possibilities of growth. I think, in the financial field.

Why are prices low today? The collapse of earnings and dividends is expected, and there are a number of reasons and the most obvious reason is our present tax laws. The majority opinion is that the change is going to be very little change in the tax laws in 1949. I think that is a fact that if you go beyond that and say that in my opinion, the administration there will never be a change in the tax laws, I don't believe it.

I think you might look into some of the recent statements of the SEC relative to the taxation question and quite a number of other things pertaining to our financial business. You would be amazed to know that the SEC has a lot more faith in our business than some of us have who are in it.

Low Prices Partially Fault of the Businessmen

Another reason why stock prices have not, in my opinion, think, partially the fault of the investment business, the broker's, and the whole business. If you think that most of us are about 20 years behind the market and other people's results. We are operating on the basis of no change in the same way for risk capital. Strangely enough, in a sense, they earned the same money that they had 10 or 15 years ago. There is an entirely different attitude on the part of people who have investing funds and we are not doing our job of selling them in the investment and speculative possibilities in today's low prices.

Today there are 15 million to 20 million potential customers for securities that were not here in 1946. There are 100 million potential customers for telephones. There were 8 million houses that were not here in 1946.

But, whether you are an advocate of New Deal policies or not, and I have been in this country in the past 13 years, and you have to face the fact that people that we should be out trying to sell today are the farmers and the war industries of the men of the North and the West as well as the people on the farm in other parts.

This is the dynamic upswing with every speculation and heavy public participation. The pattern that we have not comes as regards to the ultimate price objective for this last advance phenomenon. But the Dow-Jones industrials should sell above the 1929 high of 260, not the 220 of the present phase, and above 1929 highs for the ultimate advance, seem fantastic now, but only because we are in a deflationary state. Percentagewise, the advances are quite in line with the moves of the market over the past 60 years. It must be remembered that this country is still in a long-term upward growth channel. My prediction may eventually turn out to be quite conservative.

Prospects of Individual Stocks

Let us now discuss individual stocks, three of my favorite topics of our meeting. What groups or what parts of the market are going to be the most profitable to own in 1949?

I think it is the one that is most collective and will not include all groups. After selecting the best groups, I find it has a more complex and complex way of many things, which is made up of the group and the group's market strategy. The pattern here is to be cautious and we are in a deflationary state. Percentagewise, the advances are quite in line with the moves of the market over the past 60 years. It must be remembered that this country is still in a long-term upward growth channel. My prediction may eventually turn out to be quite conservative.

Addressograph Service

We have a metal stencil in our Addressograph department, for which we have an accumulated and brokerage firm in the country, arranged alphabetically by States and cities. This list is a complete and detailed list of every address in the United States.

This list is revised daily and offers you the best and most up-to-the-minute service available.

Our charge for advertising envelopes for the complete list (United States or Canada) is $0.05 per thousand.

All addressing completed within 24 hours.

We can also supply labels on gummed roll labels at a small additional charge.

Mail your Annual Report to the Investment HUDSON CITY, INVESTORS LOOK TO
then for information on your company.

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The Marital Deduction and Split Gift Under Revenue Act of 1948

(Continued from page 14)

The Marital Deduction

The general rule of the new law is that, to the extent to which a decedent's non-community property is held by a surviving spouse, the property is included in the assessable estate. The only exceptions to this rule are those cases where the property was held by the surviving spouse in the capacity of a spouse or in the capacity of a co-owner. The only way to avoid these exceptions is to make a separate will or to provide for the surviving spouse in the decedent's will. However, if the decedent's will fails to make any provision for the surviving spouse, the property will be included in the assessable estate of the surviving spouse.

The Marital Deduction in Estate Taxation

The general rule of the new law is that, to the extent to which a decedent's non-community property is held by a surviving spouse, the property is included in the assessable estate. The only exceptions to this rule are those cases where the property was held by the surviving spouse in the capacity of a spouse or in the capacity of a co-owner. The only way to avoid these exceptions is to make a separate will or to provide for the surviving spouse in the decedent's will. However, if the decedent's will fails to make any provision for the surviving spouse, the property will be included in the assessable estate of the surviving spouse.

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sive interest is considered to exist in any other person. The exception is confined to trusts; a legal life insurance policy, on the other hand, is coupled with a general power of appointment, and is hence a non-discretionary one, and is therefore not deductible.

The exception speaks of income. While this means net income, as opposed to gross income, it is not clear whether the phrase should be understood as meaning income as distinguished from capital, or income in the income tax sense, or both. In either case, however, there is no doubt that if a trust is to be deductible it must be a trust of the true community type, as the term is used by statute, and in the usual sense of the word, and not an express discretionary trust, even though the declaration of distribution be made as an afterthought.

The deduction in Estate Planning

The estate tax marital deduction has brought with it other changes as well. The tax rate on a liability estate has been wholly eliminated, as long as it is held in the name of the surviving spouse and subject to the right of survivorship, and the requirement of the fixed annuity and the marital deduction trust has been eliminated.

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Securities Now in Registration

- **Indicates Additions Since Previous Issue**

**Central Illinois Electric & Gas Co.**
Dec. 3 filed 80,000 shares of common stock (par $10). The offer will be made to preferred stockholders for subscription at par in proportion of one-sixth of a share for each share of common held. Underwriting. Proceeds—For construction costs.

**Central Maine Power Co.**
Nov. 1 filed 303,520 shares (par) common stock. Underwriting—Coffin & Co., Inc.—Offering. To be offered initially to existing stockholders both preferred and common. The company will offer share purchase contracts in April, 1949, but the SEC on July 27, 1949, found that financing the proposed preferred stock issue is not necessary.

**Christina Mines Inc., New York**
Aug. 29 (letter of notification) 54,000,000 shares of capital stock. Price—$2.50 per share. Underwriting—None. Complete development program.

**Colo.**
Dec. 16 (letter of notification) 250,000 shares of common stock (par $1). Price, par. No underwriting. For drilling and development program.

**American Steel & Tube Corp.**

**Arcata (Calif.) Timber Products Co.**
Dec. 9 (letter of notification) 1,707,717 shares of preferred stock (par $100) and 300,000 shares of common stock (par $5,000). Offering—To be offered in exchange for subscription to holders at par $1,000 per share. Proceeds—To complete company's purchase of Eureka-Maryland Assurance Co., of Baltimore, and to keep company in operation.

**American Petroleum Co. of Colo., Delta, Colorado**
Dec. 14 (letter of notification) 250,000 shares of common stock (par $1). Price, par. No underwriter. For drilling and development program.

**Argus, Inc., Ann Arbor, Mich.**
Nov. 1 filed 115,315 shares (par) 5½% cumulative preferred stock (par $100). Price—$10 per share. To be issued initially for sale to stockholders at the rate of one preferred share for each 1,000 shares of common stock held. With each share of preferred purchased will be issued a warrant entitling the holder of the preferred stock to buy 100 shares of the company's (par $1) common stock on or before Dec. 31, 1950. Underwriting—None. Proceeds—To retire outstanding common stock and to ejecute new plan.

**Atkinson Co. (Guy F.), South San Francisco, Calif.**
Dec. 17 (letter of notification) 7,000 shares (par $100) capital stock. Price—30 cents per share. Proceeds—To renovate and repair mine and to relieve indebtedness.

**States Manufacturing Co., Lewiston, Me.**
Dec. 8 (letter of notification) 1,000 shares of common stock (par $10). Price—About $2.50 per share. To be sold through Baker, Weeks & Harden, for account of president.

**Bradshaw Mining Co., Tonopah, Nev.**
Oct. 8 (letter of notification) 1,500,000 shares (5¢ par) common stock. Price—20 cents per share. Underwriting—Bakin & Co., New York. To repair and renovate mine and to exercise option to purchase processing mill and move and erect each mill on the company's property and for working capital.

**Cambridge Calldex Corp.**
Dec. 17 (letter of notification) 3,000 shares of 6% cumulative preferred (par $25). Price, par. No underwriter. For operating capital.

**Cauble's Hatchery, Inc., Pekin, Ind.**
Dec. 9 (letter of notification) 15,000,000 shares of common stock (par $1). Price—5% cumulative preferred (par $100). Price, par. No underwriter. For operating capital.

**Fulmer Brush Co., Hartford, Conn.**
Nov. 8 filed 11,606 shares of 4½% cumulative nonvoting preferred stock (par $100). Price, par. Proceeds—To increase working capital.

**Gulf States Utilities Co. (1/11/49)**

**H. L. & L. Development Co., New York, N. Y.**
Dec. 8 (letter of notification) 75,000 shares (no par) preferred stock (par $10). Price—Par. No underwriter. For working capital and gas lands by drilling wells for oil and natural gas.

**Hamilton (Ohio) Metal Products Co.**
Dec. 13 (letter of notification) 500 shares of 5% preferred stock (par $100). Price—Par. No underwriter. For working capital.

**Harman (William H.) Corp., Wilmington, Del.**

**Harman (William H.) Corp., Wilmington, Del.**
Dec. 14 (letter of notification) 27,500 shares of class B capital stock to be sold at auction by Adrian H. Muller & Son.

**Harwil, Inc., St. Charles, Mich.**
Oct. 27 (letter of notification) 125,000 shares of common stock. Price, par. No underwriter. Proceeds—To be used to purchase land and to segregate and balance for related purposes.

**Healdsburg Sports Enterprises, Inc.**
June 25 filed 5,000 shares of class B common stock (par $100). Price—$2 per share. Proceeds—To be accumulated in a trust fund to be used for entertainment purposes.

**Hotelevision, Inc., L. I. City, N. Y. (1/3/49)**
Nov. 6 filed 75,000 shares (1/2 par) class A stock. Underwriter—Cantor, Fitzgerald & Co., New York. Proceeds—To be used to develop, exploit and distribute a television innovation.

**Idaho-Montana Pulp & Paper Co., Polson, Mont.**

**Interstate Chemicals Co., Seattle, Wash.**
Dec. 13 (letter of notification) 15,000 shares of preferred stock (10% par and 15,000 shares (par) common stock. To be sold in units of one share preferred and one common at $1 per unit. Separately, the preferred would be sold at par and the common at $1.50 per share. No underwriter. For working capital.

**Intra-World Sales Inc., Fort Smith, Ark.**

**Kingsburg (Calif.) Cotton Oil Co.**
Nov. 17 (letter of notification) 76,362 shares of common stock. Offering—Warrants will be issued to common shareholders entitling them to purchase one share of common stock for each of the two shares of preferred held. Record on Nov. 30, at 2:50 per share. Underwriting, none. To reimburse the treasury for account spent for capital improvements.
NEW ISSUE CALENDAR

December 28, 1949

Chicago Mercury Pipe & Cable Co., Ill. — $100 common. Underwriter — The First Boston Corporation. Shares to be listed for sale on the balance of the company's 4% purchase money mortgage, 6% bonds, due Aug. 15, 1950, on a blast furnace coke plant. Part will be used to expand plants and reduce indebtedness.


Mississippi River Fuel Corp., Dec. 31 filed 10,000 shares of common stock (par $1). Underwriter — Union Securities Corp., Inc. — Proceeds — To selling stockholders.


National Battery Co., July 14 filed 175,000 shares of common stock ($50 par) convertible preferred stock. Proceeds — For dividend, and for development. Underwriter — Lehman Brothers. Proceeds — To selling stockholders.

National Tuna Clippers, Inc., San Diego, Calif. Nov. 30 (letter of notification) 30,000 shares ($10 par) common stock, of which 2,000 were sold previously. Proceeds — To retire $5,000,000 of bank loans and general corporate purposes. Underwriter — C. B. M. Bronner & Co., San Francisco.

Ocean Downs Racing Association, Inc., Baltimore, Md. Dec. 8 (letter of notification) 50,000 income debentures due Jan. 1, 1974, and 60,000 shares (500 par) common. Offering — To be offered in units of $100 of debentures and 10 shares of common stock, of which 10,000 are to be sold by the company and 200,000 by the underwriters, First Boston Corp.; Harriman Ripley & Co.; Glere, Forgan & Co.; Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co.; and Lehman Brothers. Proceeds — For construction costs.


Public Service Electric & Gas Co., June 11 filed 200,000 shares ($100 par) cumulative preferred stock. Underwriters — None. Proceeds — For property additions and improvements. Underwriters — The company rejected the bids submitted Aug. 4. The SEC on Aug. 23 exempted the permit all bids on public utility bidding rule. Said on agency basis being discussed.


Robinson Plywood & Timber Co., Everett, Wash., Nov. 17 filed 27,025 shares ($1) common stock, of which 10,000 are to be sold by the company, and 166,025 shares of 15% preferred, by selling stockholders. Underwriter — Blyth & Co., Inc. — Proceeds — To company from the sale of 15,000,000 shares filed Aug. 10. Proceeds — Indefinitely postponed.

Roehm & Haas Co., Philadelphia — (11/17/49) Dec. 2 filed 15,816 shares of 4% cumulative preferred stock (par $20). Underwriting — U. S. Artificial Silk Co. and American Textile Corp., for property Custodian. Underwriters — Names to be determined as a result of competitive bidding. Probable underwriters — Kuhn, Loeb & Co. and C. F. Beekman & Co., with assistance from Kidder, Peabody & Co. and Dreux, of (J. A. G., Inc.). A total of 10% of the shares are to be selected by subscription, and 90% of preferred stock are to be sold at the option purchase price of one-half of the stock of the Conference participating in the offer. Proceeds — Indefinitely postponed.

Shawnees Gas Co., Nov. 20 filed 3,000 shares, $100 par, of common stock. Proceeds — To retire part of the company's 4% mortgage trust. Proceeds — Indefinitely postponed.

Upper Peninsula Power Co., Sept. 27 filed 200,000 shares of common stock (par $5). Underwriters — Names to be determined as a result of competitive bidding. Probable underwriters — Keeping, Peabody, Nye & Co., and这对卡斯伯父子; naming of the bond. Underwriter — Private, underwriter. Proceeds — To carry possible increase in plant size and facilities and to provide for plant improvement.

Upper Peninsula Finance Co., Cleveland, O. Dec. 16 (letter of notification) 50,000 shares of common stock (par $10) preferred and 2,000 shares (no par) common stock. Proceeds — To retire part of the company's 8% mortgage trust. Proceeds — Indefinitely postponed. Underwriter — To increase capital.

Waukesha Motor Co., Dec. 31 filed 12,000 shares of common stock ($5 par). Offering — To be offered to stockholders of record on Jan. 9 at $6 per share, for approximately $72,000. Underwriter — J. F. Barnum & Co., Inc., Chicago. Proceeds — To be dealer-manager. Proceeds — To carry possible increase in plant size and facilities and to provide for plant improvement.

Waukesha (Wis.) Motor Co., Dec. 31 filed 12,000 shares of common stock ($5 par). Proceeds — To be offered to stockholders of record on Jan. 9 at $6 per share, for approximately $72,000. Underwriter — J. F. Barnum & Co., Inc., Chicago. Proceeds — To be dealer-manager. Proceeds — To carry possible increase in plant size and facilities and to provide for plant improvement.

Prospective Offerings

Chee'seapke & Ohio Ry. (1.5-6/49) Company expected to sell $8,000,000 equipment trust certificate. Probable underwriters — Halsey, Stuart & Co., Inc., Harriman Ripley & Co., and Lehman Brothers (jointly); Salomon Bros., Harriman Ripley & Co., and Lehman Brothers (jointly). Offerings indefinitely postponed.

Chicago Burlington & Quincy RR. (11/14) Company expected to sell $4,000,000 equipment trust certificate. Probable underwriters — Halsey, Stuart & Co., Inc., Harriman Ripley & Co., and Lehman Brothers (jointly); Salomon Bros., Harriman Ripley & Co., and Lehman Brothers (jointly). Offerings indefinitely postponed.


Illinois Central RR. (1/4/49) Dec. 9 company asked ICG for authority to issue $6,400,000 of its 6% mortgage trust, of which $3,800,000 would be sold to Halsey, Stuart & Co., Inc., Harriman Ripley & Co., and Lehman Brothers (jointly); Salomon Bros., Harriman Ripley & Co., and Lehman Brothers (jointly). Offerings indefinitely postponed.

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Special Offers

Public Offering

The Commercial & Financial Chronicle

Volume 108 Number 4762

THE COMMERCIAL & FINANCIAL CHRONICLE

(2673) 77
Importance of the Interest Rate

(Continued from page 14)

The level of interest rates is an important factor in calculating the profitability of large-scale constructions, such as the building of new factories, requiring much initial capital outlay. The rate of interest generally considered will often absorb part of the cost of current savings.

Another important question concerns the shift in investments between government bonds and private industrial securities. Government debt on their present scale, being a complex of questions which cannot be considered in a short article, a particular venture would give a yield of (say) 5% while government bonds at the rate of 4%, the difference between the two rates may outweigh the risk involved in starting the business in question, but if the yield of government bonds were only at the rate of 3%, business ventures would be more likely to appear to be attractive from government bonds—a very different result.

In general, account must be taken of the influence which the rate of interest has on capital values (i.e. a "capitalization" process). Between the years 1914 and 1924, a period of two years the Sveriges Riksbank, by its purchases, supported the price of its supplies at a yield of 3%, savings banks and other financial agents could not call out a great part of their holdings in order to meet the increases in the proceeds largely in mortgages which would give a yield of 4.5% or 5%. Had the Riksbank withdrawn its support from the market, resulting in a quotation that the quotations dropped to 2.5%, the savings banks and the other financial agents would have been much less inclined to sell out, since they would have had to accept a yield of 5% 1/2 years time, when the business conditions were not as favorable as they were. When such a situation the authorities are likely to rely partly on quantitative restrictions and will, therefore, only gradually abolish their controls.

When, in the period immediately following the second World War, the authorities first asked, in a questionnaire prepared by the Riksbank and directed to the economists, whether considerations as to the possibility of such a question, in their own decisions regarding enlargement of their activities, etc., they concluded that they usually attached little importance to the rate of interest. But this seems to have been a fallacy. It may be that in more normal circumstances even moderate changes in the interest rates may have a substantial effect.

There are, in fact, certain fields of activity sensitive to alterations in the interest rate is, if, for instance, generally admitted that the interest level exerts an influence (and that of the large amounts of capital involved and the relatively long life of houses), but it is not so certain that a relatively small proportion of present capital investments is generally accounted for by interest rate changes. This peak of the railway construction in the United States in the latter half of the century brought to light for the building of houses represented about one-half of the value of all capital investments resulting from the increase of 1% in interest rate, saving and of resources borrowed abroad.

Facet in Calculating Profitability

The level of interest rates is also a determining factor in calculating the profitability of capital investments and of new businesses. In an inflationary period, interest rates in the public so bitterly dislikes.

Diverse Effects of Interest Rates

In considering the question of the influence of interest rates, it must be acknowledged that there are certain situations (listed below) in which high interest rates will be of relatively little effect, especially in the case of underdeveloped countries in the Western World.

(1) Whenever there is a large build-up of an industrial capacity in the form of central-bank money and thus causing direct inflation, it is not to be expected that an increase in the interest rate will have any material effect. In such a situation people will be willing to pay a high rate for money simply in order to acquire goods and other real assets (the things which in German are called "Schufa-rate"), this being the only way to avoid losses from inflation. If, moreover, at a time of budget deficits, the authorities have to print a certain amount of liquid funds from other sources, then such interest increases were to be made in money which is not needed, and an attempt to increase monetary stability by an increase in interest rates would be based on a fallacy.

(2) In the case of an inflationary policy, etc., is revolutionized by shifting the burden of the costs of inflation to exploit at almost any rate of interest.

(3) When stocks of raw materials have run down or plant and equipment are insufficiently maintained (as is the case after a long war), every business must become anxious to re-establish and reequip his enterprise at an adequate rate of speed, and high interest will then not prevent an increase in the rate of business activity, since with such a situation the authorities are likely to rely partly on quantitative restrictions and will, therefore, only gradually abolish their controls.

In the present period immediately following the second World War, the authorities first asked, in a questionnaire prepared by the Riksbank and directed to the economists, whether considerations as to the possibility of such a question, in their own decisions regarding enlargement of their activities, etc., they concluded that they usually attached little importance to the rate of interest. But this seems to have been a fallacy. It may be that in more normal circumstances even moderate changes in the interest rates may have a substantial effect.

There are, in fact, certain fields of activity sensitive to alterations in the interest rate is, if, for instance, generally admitted that the interest level exerts an influence (and that of the large amounts of capital involved and the relatively long life of houses), but it is not so certain that a relatively small proportion of present capital investments is generally accounted for by interest rate changes. This peak of the railway construction in the United States in the latter half of the century brought to light for the building of houses represented about one-half of the value of all capital investments resulting from the increase of 1% in interest rate, saving and of resources borrowed abroad.
Observations
(Continued from page 5)
to the proposal for pending steel nationalization—all clearly appealing
to the material self-interest of the majority.

Wigs, Monocles, and Steel Nationalization
Take this example of steel nationalization. Consider the possibility, as charged, the result of the Act is "To make organization and adminis-
tration serve the purpose of creating the machinery of our philosophy of
democracy and development—initiate and degrade the profession,
and spread the self-righteous spirit," or even the creation of absolute
powers under the General Superintendents of the United States and New
Zealand; possibly outward in the voter's emotions the bait of something for
the present and for the future. In the latter, from three pairs of free eyeglasses to two wigs per citizen (voter), the initial
judgment is that the latter incurring an annual cost to the
government of $4,500,000.

Significantly, the potential efficacy—shading the face of the nationalization
project—will be the double-edged sword of the relatively vague connection between Sir Stafford Cripps' basic aim to
private "cartelization" and the self-realized interest of the elector-
ate.

Monopoly is not the live issue for the voters that are free monopolies not.

Typically, even our investment banking fraternity has evidenced the
forsaking of broad basic political implications for the immediate
self-interest of the public ownership and socialization. The Public Service
Service Committee of the Investment Bankers is just issuing an official
statement of its return as buyers in this issue of the "Chronicile"
(in which it is contended that further Federal Power Policies would be
"good ... in so far as concerns, but not in so far as regards the importance
to their customers on the vast field of energy policy"
"

American Telephone & Tele-
gram issue added a real touch of
Christmas cheer.

Yields Hold the Answer
The pickup in yields offered by top-grade investments of rating
in America have been completed. The savings from the bond
is in savings bonds provides the
explanationENERGY POLICY.

The yields noted, were disposed
not necessarily willing, to keep
their large cash balances. The
mortgage loans until the return
is only modest, therefore, that
is Double and Triple A
ratings pushed above the 3% level

Well just that came to pass as
the year progress, with the yields
on top-grade utility issues rising
from 3 to 30 basis points in the year
and on good roads as much as 50
basis points.

Offers Diversification
While longer-term investments have
had little to say about the shift
of their investment policies, it is
known that the change in direc-
tion was not to their liking.

They are concerned nationally with
the element of diversification
just as much as the large
institutional investors. But in re-
cent years the temptation for
acquiring corporates of the type
suitable for their purposes on the
stock market yield basis have been
opposite the corporate
investment picture.

Their reliance need not fur-
tunately be more than
yields offered by the type of returns
are permitted by law to acquire.

So there was no little cheery
narrative of the yield in the closing
months of the year. And concerning
expectations of reviving interest on the
part of this important in-
vester segment. The materials in which such banks in New
York, Boston and Philadelphia subscribed for the last big
ding in the closing months of the year, will be continued.

Such business throughout the
country did not particularly well with those who
marketable issues are. And capital spreads were too thin, and the
market were later given a "hitting"
were great.

Underwriters naturally have been
operating in the operating in the
field of the market where the institutional
investment bankers are the principal
outlet, but with yields missing up a bit, they have begun to
hang some that individual investors
may be found showing a bit more
interest.

Building New Backing
That the new year holds promise
for corporate financing appears
indicated by the maturing of plans
for new public issues and much
will depend on tax changes.

But several utilities have in-
vested in the operating in the
the new year.

State Debt at New High

Debt of State governments has
been increasing for the past two
years, according to a report
dated December 17 by the Bureau of the
Census.

After declining each year from 1946 to 1948, gross debt of the 48 States has risen by more than
600,000,000 in the past two years, according to a report
dated December 17 by the Bureau of the
Census.

Of gross State debt totaling $3,2-
62,000,000, the debt has increased more than
365,000,000 in the past two years, according to a report
dated December 17 by the Bureau of the
Census.

Most debt of the State govern-
ments is backed by their full cash
balances. In addition to the bond
commitments, the 48 States at the end of fiscal 1946
had $2,107,000,000 of "non-
guaranteed" obligations, payable only from State
revenue, in addition to the State debts.

Large-scale borrowing by nu-
merous States, especially to fi-
nance veterans' benefits, has ac-
counted for most of the growth
of State debt in the past two years
according to the Census report.

For 22 States, increased, and for 25 States, it was reduced, during the fiscal year ending in
December 1948, except in 7 States with earlier
closing dates, the 12 months end-
ing December 1947.

With Buckley Securities
Chartered to Pay Dividends
LOS ANGELES, CAL.—Charles E. M. Buckley, Jr., with
the Buckley Securities Corp., 530 West Sixth
Street, Los Angeles, has been appointed
Secretary and Treasurer.

With Uhlmann & Benjamin
3rd Consecutive Quarterly Dividend
CHICAGO, Ill.—Frank J. Uhlmann, Jr., and A. Ben-
jamin Board of Trade Bidg.

The Chase National Bank of the City of New York has declared a dividend of 40 cents per share on the 7,400,000 shares of the capital
stock of the Bank, payable February 1, 1949, to stockholders of record at the close of business January 15, 1949.

The transfer books will not be closed in connection with the payment of this dividend.

The Chace National Bank of the City of New York
A. J. Fager
Vice President and Cashier

PACIFIC GAS AND ELECTRIC CO.
DIVIDEND NOTICE
Common Stock Dividend No. 132
The Board of Directors on the outstanding Preferred Stock of this Company, payable January 19, 1949, to stockholders of record at the close of business January 3, 1949.

SOUTHERN CALIFORNIA EDISON COMPANY
DIVIDEND NOTICE
Common Stock Dividend No. 3
The Board of Directors has declared a dividend of 40 cents per share on the Preferred Stock of this Company, payable January 19, 1949, to stockholders of record at the close of business January 5, 1949.
WASHINGTON, D. C.—President Truman, when he appears in person before Congress in less than two weeks, "will ask for all." This is the burden of reports coming from all persons who have talked recently with the President and his official family. They anticipate that the "State of the Union" message will call upon Congress to meet all the legislation pertaining to the President's numerous campaign promises.

Whether these reports of Mr. Truman's plans are accurate cannot be confirmed, of course, until the President delivers his message on Jan. 5. On the other hand, it is evident that he is seemingly asking Congress to approve all his campaign programs, and this request has one definite significance.

This significance is that the White House is aware that there is no yet, and will not by Jan. 5, be able to make up its mind. It is, however, working out the web of events that it has in mind, and will present the House with a realistic policy. It has, therefore, been announced that the Senate will meet on Jan. 6, when necessary, in its private conversations with its leadership, the Capitol. Often the President may escape making an appearance in the House, and perhaps the throng of promises ever-present in Congress will be so great that the House may grind to a halt in one session's operation.

The President has, in a speech to the nation, shown how much the President stresses objectives that are attainable. The last year, sure that Congress would give him nearly nothing, the President endorsed a host of specific legislative proposals, each of which is highlighted by one of the White House's own medical aids, the Taft-Warner-Ellender housing bill, and so on.

In the private opinion of one of the Senators who has had a good deal to do with the subject, what turns out in the way of labor regulation legislation will be fairly typical of how far the Congress will go to the Left in 1949. It was pointed out that although the White House visitors have announced that the President has promised a simple repeal of the Taft-Hartley law (as if such a thing is technologically possible), there will be 50 members of the Senate in the 81st Congress who voted to override the veto of the Taft-Hartley act. Four additional Senators now in the Senate, who were members of the House who voted to override. Of the new House, 225 members voted to override.

"So I would say that if the Republican leaders make a determined fight to save as much of the Taft-Hartley law as they can, and I personally think they will, they will not be able to override the veto of it. The law is going down the drain.

On the other hand, if Mr. Truman makes a good campaign promise, this would pretty near get away with it," said this informant.

Public housing, whose mouths are fairly drooling at the prospect, which seemed to be the chance of a seemingly getting through a public housing and slum clearance bill early in the year and have one big. That is that even if some northern Democratic "civil righters" don't do it, some Republicans will — that is, introduce on the floor an amendment to permit all the tenure of the public housing constructed under the program shall be open freely to persons of all races, and with no segregation.

House rules would probably preclude the offering of such an amendment on the Senate the rules will permit it. It probably can be done. Several of the most ardent lefties of both parties could not avoid voting for it. This would immediately alienate Senator Burnet R. Maybank, the prospective acting chairman of the Banking Committee, and Senator John J. Sparkman of Alabama, two ardent advocates of public housing. Even Senator Allen J. Ellender of Louisiana, co-author of the program, would throw a fit. If Republicans who oppose public housing remain firm in opposition, and were an anti-segregation amendment added, Southern Democrats, in a say, would probably be carried.

The storm of reaction will whip with great force during 1949 upon "monopolistic big business," Texan, who works harder at this anti-business campaign of the Senate. He is a Texan, even if he is the Senate majority whip head the House Small Business Committee, if it is recreated. The charge that both House and Senate special committees on the "Small Business" will again set up, despite the Democratic-sponsored Legislative Reorganization Act of 1946, which condemns special committees. The "small business" racket is now too profitable to be shut off. Senator Murray's bill is reported to be planning to turn the Joint Committee on Small Business into a forum for propaganda against "big business" in favor of his proposal to require Federal incorporation (and rigid Federal regulation) of small businesses.

On the other hand, the best guessing of business observers in Washington is that the Kefauver bill will pass. This is the pet project of the Federal Trade Commission to prohibit the acquisition by one company of the assets of another (as well as stock control, now prohibited) without the Minister's approval, which is likely to be a great deal to lessen competition.

It is not predicted, however, whether this proposition is likely to pass in 1949 or go over until next year.

Besides increasing the network of Federal regulations of business, the Kefauver bill would have a hardship upon the owners and creditors of a business in difficulty. They would be forced to sell to the littlest buyer, a competitor. If they could not sell to a new owner or bring in new capital, a public company could be purchased with a list of assets that would include such a law in existence.

Experts in the field of farm legislation anticipate that Congress will open up the whole subject of price supports and farm control legislation to consideration again in 1949. This seems to be one of the results of the corn bill jitters over falling prices and the danger the government would not protect farm income, which was voted in defeat for Republican candidates in the result of the enormous vote on farmer amendments provided.

Under the Kefauver law revising farm supports and farm legislation, price supports beginning in 1950 would vary between 65% and 68% of parity. The farmers continued to pile up surpluses as they seemed headed for doing in wheat, the lower would be the percentage of "parity" at which the price support would operate.

Until the election most farm groups, the White House, and the public opinion leaders, favored the flexible supports on the theory that if the law required many of the high supports in the face of continually mounting surpluses, public indignation eventually would threaten to wipe out all supports. As a result of the farm jitters over falling prices, there is now back and forth for the flexible supports, as was evidenced in the meeting several days ago of the American Farm Bureau Federation.

On the other hand, it is not anticipated that surpluses will be maintained indefinitely as high as the 95% of parity sought by the chairman of the Senate and House committees on agriculture.

Those who have warned the legislative situation closely say that, in short, they are convinced that Congress will write a more liberal definition of "parity." The bill is a bit of a bill, even the Senate, and the price would also boost the supports. On the other hand, Congress probably will not be able to raise the average supports somewhat less than 95% of parity.

The net outcome, hence, will be a government commitment to support farm prosperity (1) higher than the 95-60 ratio varying inversely with the size of surpluses, as written into the Kefauver bill based upon that law's concept of parity, but (2) lower than the present 90% supports, indefiniteness of this method is advocated by the committee chairman.

Secretary Anence's qualified optimism for a high volume of business continuing perhaps for many years is to reflect a consensus of the American Bankers Association and the economic experts, who talk about the economic outlook. On the other hand, there is little evidence that the government will be able to taper somewhat the downturn in business.

This column is intended to reflect the "behind the scenes" interpretation of the nation's Capital, and may or may not coincide with the "Chronicle's" own views.

A Merry Christmas to all

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Dr. Marcus Nadler, addressing Convention

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December 5 to December 10, 1948


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We Lost in 1865 And Also in 1948
BUT WE STILL THINK WE WERE RIGHT


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Work and Play Order of Day


The St. Louis Room

Press conference

IBA Staff: (standing) Edwin W. Winter, 2nd; Alden H. Little; Gordon L. Calvert; Murray Hanson; Robert Stevenson, 3rd; Erwin Boehmier; (seated) Mary Lincoln; Judith Rosen; Ellen M. Branson
